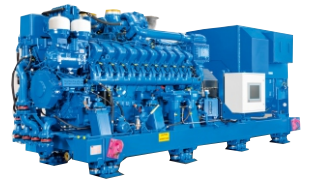
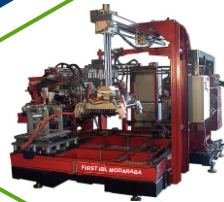


# First IBL Modaraba

## ANNUAL REPORT 2016









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## CORPORATE INFORMATION

MODARABA MANAGEMENT COMPANY	IBL Modaraba Management (Pvt.) Ltd.	
BOARD OF DIRECTORS	Dr. Hasan Sohaib Murad Shaheen Rashid Arslan Khan Khakwani Naveed Amin	Chairman & CEO Director Director Director
CHIEF OPERATING OFFICER	Shiraz Butt	
COMPANY SECRETARY	M. Sohail A. Sheikh	
CHIEF FINANCIAL OFFICER	Zeeshan Ahmed	
INTERNAL AUDITOR	Muhammad Ilyas	
AUDIT COMMITTEE	Naveed Amin Shaheen Rashid Arslan Khan Khakwani Muhammad Ilyas	Chairman Member Member Secretary
HR & R COMMITTEE	Shaheen Rashid Arslan Khan Khakwani Naveed Amin Shiraz Butt	Chairman Member Member Secretary
SHARIA' AH ADVISOR	Dr. Mufti Salman Ahmad Khan	
LEGAL ADVISOR	M/s. Holscott International [Legal Services]	
AUDITORS TO MODARABA	M/s. Horwath Hussain Chaudhury & Co. Chartered Accountants	
BANKERS	Habib Bank Limited - Islamic Banking Meezan Bank Limited Silk Bank Limited - Islamic Banking	
REGISTRAR	Corp Tec Associates (Pvt.) Ltd. 503-E Johar Town Lahore.	
REGISTERED OFFICE	Suite # 105, 1 <sup>st</sup> Floor, Fortune Center, 45-A,Block # 6 , P.E.C.H.S., Shahrah-e-Faisal, Karachi.	
PRINCIPAL OFFICE	87-Aurangzaib, Block, New Garden Town, Lahore.	



## **Mission Statement**

Our mission is to strive for continued excellence in providing quality services to the business community as a whole, with the ultimate goal to increase the value of certificate holders.

## **Vision Statement**

Our vision is to establish First IBL Modaraba as the benchmark reference for all Islamic Financial Institutions for the provision of financial services in line with increasing needs of our esteemed customers and to become the premier financial service organization that provides the highest level of quality service while remaining innovative and responsive to ever-changing customer demands.

## **Corporate Strategy**

We, First IBL Modaraba, being a multi purposes Modaraba and an Islamic financial institution, are engaged in various Shari'ah compliant products, namely; financing through Ijarah, Murabahah and Musharakah arrangements and investments in Shari'ah compliant securities.

In order to maintain diversified business activities in different sectors of economy, we do not only focus them for Corporate and SMEs Sectors but we also facilitate proprietorship and partnership firms and the individuals in their businesses, which play an effective and important role in the markets.

Keeping in light the present micro and macro economic scenarios in the country, we maintain and apply cautious and well maintained risk management policies in extending the new business rather we target the selective/ quality clientele so as to minimize the risk of default in the repayments.

## NOTICE OF ANNUAL REVIEW MEETING (ARM)

Notice is hereby given to the certificate holders of First IBL Modaraba (FIBLM) that 16<sup>th</sup> Annual Review Meeting [ARM] of certificate holders will be held on Wednesday October 26, 2016 at 05:45 p.m. at Auditorium of NBF and Modaraba Association of Pakistan, 602, 6<sup>th</sup> Floor, Progressive Centre, 30-A, Block-6, P.E.C.H.S., Shahrah-e-Faisal, Karachi to review the performance of First IBL Modaraba for the year ended June 30, 2016.

The persons entitled to attend the meeting will be those certificate holders whose names are entered in the register of certificate holders seven (07) days before October 26, 2016.



**M. Sohail A. Sheikh**  
**Company Secretary**

October 04, 2016



# Director Report

The Board of Directors of M/s. IBL Modaraba Managements (Private) Limited [IBLMM], the Management Company of First IBL Modaraba [FIBLM], is pleased to present to the certificate holders the Audited Financial Statement of First IBL Modaraba for the year ended June 30, 2016 along with Auditors' Report thereon.

## **Financial Results**

Summarized results for the year under report are as follows:

	<b>June 2016 Amount in PKR</b>	<b>June 2015 Amount in PKR</b>
Operating Income	33,902,134	27,264,345
Other Income	10,013,262	8,507,649
Management Fee (10 %)	1,093,303	592,036
Profit before Tax	9,839,731	5,325,323

## **Review of Operations**

The diversity of the Modaraba concept provides unique kind of business opportunities, which are not available in other such entities of the Islamic financial regime; having tax benefit by distributing 90% of the net profit to its certificate holders and offering financial facilities to the prospective clients through Musharakah, Murabahah and Ijarah modes.

By the kind guidance, support and given outlines by the apex regulator as well as by placement of good corporate governance, adapting fool proof, transparent systems & procedures, improved checks & balances and applying adequate risk management policies & practices, the Modaraba sector is moving towards a direction which is not only gaining the trust and confidence of the investors but also optimizes the profitability of the Modarabas.

During the year, to give competitive return to its certificate holders, FIBLM reported increase in Ijarah income of Rs. 2.60 million as compared to the preceding period against Ijarah segment.

We are pleased to inform that due to the efforts of your team in FIBLM, the earning per share of the Modaraba for the period under review stood at 0.49 hence FIBLM declared a cash dividend at rate of 3.51% (i.e. Re. 351) per Modaraba Certificate.

During the year FIBLM mainly focused on recovery of its classified portfolio thus an aggregate amount of Rs. 10 million has been recovered against classified portfolio.

During the reported period FIBLM extended fresh Musharakah and Ijarah facilities for an aggregate amount of Rs. 49.131 million to the quality borrowers/clients during the year.

During the current year FIBLM not only concentrated on increase of its income but also intensified the efforts of previous outstanding amounts.

Following reflects the break-up of the revenue generated from operations:

<b>INCOME</b>	<b>June 2016 Amount in PKR</b>	<b>June 2015 Amount in PKR</b>
Income from Ijarah	12,717,171	10,124,834
Profit on Murabaha investment	2,254,333	3,661,472
Profit on Musharaka investments	3,605,796	1,645,643
Income from investment property	7,495,440	7,495,440
Profit on term deposit receipts and bank deposits	1,542,139	377,442
Income from short term investments	6,287,255	3,959,514
<b>TOTAL INCOME</b>	<b>33,902,134</b>	<b>27,264,345</b>

The break-up of expenses are as under:

<b>EXPENSES</b>	<b>June 2016 Amount in PKR</b>	<b>June 2015 Amount in PKR</b>
Operating Expenses	21,485,757	19,485,956
Depreciation on assets under Ijarah	10,828,700	8,849,583
Other Operating Expenses	667,905	1,516,096
<b>TOTAL EXPENSES</b>	<b>32,982,362</b>	<b>29,851,635</b>

The statutory reserves of the Modaraba stood at Rs.41,058,348 compared to the accumulated amount of Rs.39,090,402 for the preceding period.

#### **Attendance of Board Meeting**

During the year under review, four (04) meetings of Board of Directors were held. Attendance of which is described in the table below:

<b>Sr. #</b>	<b>Name of Director</b>	<b>Number of Meetings</b>	<b>No. of Meetings Attended</b>	<b>Leave of Absence</b>
1	Dr. Hasan Sohaib Murad	4	4	0
2	Mr. Shaheen Rashid	4	4	0
3	Mr. Arslan Khan Khakwani	4	2	2
4	Mr. Naveed Amin	4	4	0

#### **Operating Data for six year**

The operating data of FIBLM for last six (06) years is annexed to this report.

#### **Pattern of Certificates Holding**

The detailed pattern of certificate holding as at June 30, 2016, as required under the Code of Corporate Governance is annexed to this report. There has been no trading in the certificates/shares of the Modaraba by any of its directors, CEO, COF, Company Secretary or their spouses and minor children.

#### **Economic Review:**

The Pakistani economy was moving ahead to even stronger points with stable output. An improvement in energy supply, high investment in infrastructure and improved security environment will push up Pakistan's GDP growth in 2016 and 2017. As per a report issued by the Moody's Corporation, "Pakistan's B3 issuer rating balances strengthening growth and progress on structural reforms against a relatively high government debt burden and political risks." Moody's assessment of Pakistan's "Moderate" economic strength encompasses the sovereign's very low per capita incomes and the large size of its economy.

China's US\$46bn investment to build a China-Pakistan Economic Corridor (CPEC) will boost trade and make critical infrastructure that will have very positive impact on overall economy of the country in years to come.

It is also notable that "Reforms in the Privatization Programme and better relations with the International Monetary Fund (IMF) have strengthened Pakistan's economy". Moreover, inclusion of Pakistan in countries with emerging markets status will increase foreign investment significantly.

As at June 2016 Pakistan's total liquid foreign exchange reserves were US\$23.085bn. The country received about US\$20bn remittances in the fiscal year ended on June 30, 2016 that is an increase of almost US\$11bn in last six years. Whereas Pakistan received FDI of US\$1,281.1mn during July 2015 to June 2016, which is US\$358.2mn higher than FDI received in the preceding fiscal year.

Total investment records growth of 5.78% in 2016 as it was recorded at Rs.4,256bn in FY 2015 increased to Rs.4,502bn in FY 2016.



Pakistan's average inflation came in at 2.86% in the fiscal year ended at June 30, 2016, which is lowest level in over 13 years; whereas the average inflation was stood at 4.53% in 2014-15, 8.62% in 2013-14 and 7.36% in 2012-13.

The share of foreign currency debt to total general government debt has considerably declined in the last five years. Pakistan's exports dropped to an eight-year low of US\$20.8bn in the last fiscal year (2015-16), which has been reduced from US\$23.67bn in FY-2015.

Pakistan spent Rs.1.3 trillion on debt servicing during last financial year 2015-16, which is 42.36% of the FBR's tax revenue target of Rs.3,104bn. The Banks' holding in government securities reached to Rs.7.2 trillion as of end-June 2016, representing more than 90 percent share in total investments, showing a growth of 5%. Whereas Credit to private sector improved by 10.4% YoY in Apr 2016 vs 9.7% in the same period last year.

Agriculture sector accounts of 19.82% of GDP. Livestock contributes 58.55% of agriculture value addition. The manufacturing growth registers 5.00 % as compared to 4.81 % last year. Cotton production stood at 10.074 mn of bales.

Share of services sector in GDP has reached to 59.16%, whereas services sector witnesses growth of 5.71 % as compared to 4.31 % last year; whereas the per capita income in dollar terms has reached to US\$1,560.70.

### **Stock Markets Review**

During the period under review major landmark achieved by capital market where share trading businesses of Lahore & Islamabad Stock Exchanges had been merged into Karachi Stock Exchange and was renamed as Pakistan Stock Exchange Limited (PSX) with effect from January 11, 2016.

In 2016, Pakistan's benchmark equity index, has been one of Asia's best performing. In fact, it is the fifth-best performing stock index globally, which has been increased by 3,384 points, from 34398.86 points on June 30, 2015 to 37783.84 points on June 30, 2016 though existence of political uncertainty during the year. Pakistan inclusion into MSCI EM index in June 2016 also provided sustenance to our stock market, reflected a full year returns to 9.8%. However, the average daily volume has been reduced to 208 million shares.

The report from a renowned American media house Bloomberg had termed the Pakistan Stock Exchange (PSX) the best of the Asian markets. The Bloomberg report had contended: "Pakistan has regained the „tiger“ status in the region with 15 per cent rise and increasing rate of annual growth."

During the last fiscal year, the foreign investors were net seller, sold their portfolios to the extent of US\$293mn. The two leading sectors banks and oil/gas which constitute almost 40% of the KSE-100 index market capitalization have been showing declining trends as investment in oil exploration stocks may continue to disappoint as performance of oil exploration stocks is directly driven by international oil prices.

The investors have shown their interest in the Cement sector, growth of which recorded as 23.5% during LFY, i.e. 2015- 2016. Textiles, which has the largest number of listed companies on the exchange, but relatively smaller weight in terms of capitalization has witnessed significant underperformance during the fiscal year; whereas major appreciation in prices was seen in Autos, Cement, Pharma, Food, Power generation, Software, Appliances and Fertilizer stocks.

The government is focusing on speeding up the divestment and execution of Pakistan Stock Exchange (PSX) keeping in view the best national interest and development of the country's capital market.

### **Future Outlook**

We are hopeful that with the concrete efforts, FIBLM will soon recover further amounts from its other receivables (In Sha Allah).

FIBLM's team is vigorously working to recover the amounts from stuck-up portfolio/classified portfolio; once recoveries are materialized, FIBLM will be in position to further strengthen its profitability thus resultantly increase in certificate holder's equity. Further, the sponsors have firm plan to enhance equity of Modaraba, working on various avenues are in progress.

On the basis of performance of the last three years, the management has an optimistic view of FIBLM immediate future and hope to capitalize upon the available opportunities while managing the business risks and avoiding financial uncertainties.

### **Auditors**

The present auditors, M/s. Hussain Chaudhury & Co., Chartered Accountants, being due for retirement have offered themselves for re-appointment for the year ending June 30, 2017. Hence, the Board has confirm their re-appointment as external auditors of the Modaraba for the year ended June 30, 2017 subject to the approval of the Registrar Modaraba, SECP, Islamabad.

### **Acknowledgement**

The Board remains thankful to the Securities & Exchange Commission of Pakistan, Registrar Modaraba, State Bank of Pakistan and NBFBI & Modaraba Association of Pakistan for providing us their usual support and guidance. The Board appreciate and pays gratitude to the certificate holders and customers for entrusting their confidence on FIBLM and assure them maintenance of adequate internal controls, proving personalized services and also to maintain and ideal environment of good corporate governance in all areas.

Finally, the Board also appreciates the dedication and hard work put in by all staff members of First IBL Modaraba.

For & On behalf of Board of Directors of  
IBL Modaraba Management (Pvt.) Limited  
Managers of First IBL Modaraba



**Dr. Hasan Sohaib Murad**  
**Chairman**

September 27, 2016.

## SIX YEAR'S FINANCIAL SUMMARY BALANCE SHEET

(Rs in Million)

BALANCE SHEET						
Year Ended June 30.	2010	2011	2012	2013	2014	2015
<b>CURRENT ASSETS</b>						
Cash and bank balances	1.06	1.98	0.05	3.52	30.35	24.58
Ijarah rental receivables	1.51	4.14	1.92	0.32	0.49	0.53
Advances, prepayments & other receivables	54.71	53.27	40.10	36.94	33.54	13.64
Short term investments	23.31	14.22	2.17	22.01	7.77	11.87
Musharikhah receivables	227.66	123.13	74.49	19.37	3.96	16.50
Other current assets	-	-	-	-	-	-
Current portion of murabaha receivables	30.00	-	-	23.00	6.65	22.21
<b>Total Current Assets</b>	<b>338.25</b>	<b>196.74</b>	<b>118.73</b>	<b>105.16</b>	<b>82.76</b>	<b>89.32</b>
<b>NON-CURRENT ASSETS</b>						
Long term murabaha receivables	-	23.00	23.00	-	21.84	-
Long term advances and deposits	3.38	3.38	3.41	3.21	2.71	2.71
Investment Property	-	-	-	97.08	92.08	87.08
Fixed assets under ijarah arrangements	16.88	15.86	9.46	11.68	22.49	31.89
Fixed assets under own use	4.25	2.78	1.15	2.44	1.74	1.28
Intangible assets	-	-	0.75	0.42	0.09	0.17
Investment in subsidiary	17.13	57.06	57.31	-	-	-
<b>Total Non-Current Assets</b>	<b>41.63</b>	<b>102.07</b>	<b>95.07</b>	<b>114.83</b>	<b>140.95</b>	<b>123.12</b>
<b>Total Assets</b>	<b>379.88</b>	<b>298.81</b>	<b>213.80</b>	<b>219.98</b>	<b>223.71</b>	<b>212.44</b>
<b>CURRENT LIABILITIES</b>						
Creditors, accrued & other liabilities	14.18	10.18	14.99	12.08	4.29	3.61
Musharikhah profit payable	1.43	1.43	1.43	1.43	1.43	1.43
Musharikhah finance	86.79	29.14	14.64	12.14	11.20	8.20
Current portion of non current liabilities	0.30	0.22	6.49	7.87	5.02	4.41
Provision for taxation	-	-	3.19	3.19	3.19	-
Short term finance	20.85	9.50	-	-	-	-
Unclaimed profit distribution	4.14	7.99	7.69	7.65	9.82	8.41
<b>Total current Liabilities</b>	<b>127.68</b>	<b>58.46</b>	<b>48.44</b>	<b>44.36</b>	<b>34.94</b>	<b>26.06</b>
<b>NON CURRENT LIABILITIES</b>						
Long term security deposits	4.22	9.37	2.70	1.94	6.57	10.25
Deffered murabaha income	-	-	-	-	2.41	-
	4.22	9.37	2.70	1.94	8.98	10.25
<b>EQUITY</b>						
Issued, subscribed & paid up capital	201.88	201.88	201.88	201.88	201.88	201.88
Reserves	39.14	39.17	39.99	43.60	49.06	47.81
Revenue Reserve and Unappropriated profit	6.97	(10.07)	(79.23)	(71.79)	(71.14)	(73.56)
<b>Total Equity</b>	<b>247.98</b>	<b>230.98</b>	<b>162.64</b>	<b>173.68</b>	<b>179.79</b>	<b>176.12</b>
<b>Total Equity &amp; Liabilities</b>	<b>379.88</b>	<b>298.81</b>	<b>213.80</b>	<b>219.98</b>	<b>223.71</b>	<b>212.44</b>

## SIX YEAR'S FINANCIAL SUMMARY INCOME STATEMENT

(Rs in Million)

Year Ended June 30.	2010	2011	2012	2013	2014	2015
<b>INCOME</b>						
Income from Ijarah	6.69	6.73	2.90	3.32	5.54	10.12
Profit on murabaha investments	3.15	3.85	4.03	4.03	4.19	3.66
profit on musharikhah investments	37.46	35.84	0.94	0.00	0.56	1.65
income from investment property	-	-	-	4.37	7.50	7.50
Profit on deposits	0.02	0.29	0.82	0.54	0.67	0.38
Income from short term investments	5.86	0.19	0.09	0.09	0.17	3.96
	<u>53.18</u>	<u>46.90</u>	<u>8.77</u>	<u>12.36</u>	<u>18.61</u>	<u>27.26</u>
<b>OTHER INCOME</b>						
Reversal of provision against non performing musharikhah receivables	-	-	-	14.54	11.02	4.34
Reversal of musharikhah profit held in suspense account	-	-	-	1.99	0.00	2.64
balances written back	-	-	-	0.66	5.32	0.83
Other income	7.97	2.68	0.20	0.58	1.11	0.69
	<u>7.97</u>	<u>2.68</u>	<u>0.20</u>	<u>17.77</u>	<u>17.45</u>	<u>8.51</u>
<b>Total Income</b>	<b><u>61.15</u></b>	<b><u>49.58</u></b>	<b><u>8.97</u></b>	<b><u>30.13</u></b>	<b><u>36.06</u></b>	<b><u>35.77</u></b>
<b>EXPENSES</b>						
Operating Expenses	14.38	14.82	13.90	14.23	19.36	19.49
Depreciation on assets under ijarah	4.78	5.19	5.76	3.97	5.16	8.85
Provision against non performing musharikhah receivables	19.50	14.31	26.02	-	-	-
Musharikhah profit held in suspense account	-	11.79	1.76	-	-	-
Finance cost	15.93	13.28	1.65	-	-	-
Other operating expenses	4.24	0.38	1.41	1.61	1.25	1.52
<b>Total Expenses</b>	<b><u>58.83</u></b>	<b><u>59.77</u></b>	<b><u>50.51</u></b>	<b><u>19.81</u></b>	<b><u>25.77</u></b>	<b><u>29.85</u></b>
Profit/ (loss) before Management Fee	2.31	(10.19)	(41.54)	10.32	10.29	5.92
Management Fee	0.23	-	-	1.03	1.03	0.59
<b>Net Profit</b>	<b><u>2.08</u></b>	<b><u>(10.19)</u></b>	<b><u>(41.54)</u></b>	<b><u>9.29</u></b>	<b><u>9.26</u></b>	<b><u>5.33</u></b>
<b>Appropriations</b>						
Final dividend	6.05	-	-	6.76	6.68	4.04
Statutory reserves	42.00	-	-	1.86	1.85	1.07

## **STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED JUNE 30, 2016**

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation # 5.19, sub regulations # 5.19.23 stipulated in Rule Book of Pakistan Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.


The company has applied the principles contained in the CCG in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:


<b>Category</b>	<b>Names</b>
Independent Director	Mr. Naveed Amin
Executive Director	Dr. Hasan Sohaib Murad
Non-Executive Directors	Mr. Shaheen Rashid Mr. Arslan Khan Khakwani

The independent director meets the criteria of independence under clause 5.19.1(b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy was occurring on the board during the period from July 01, 2015 to June 30, 2016.
5. The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/ mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and

- 
- terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/ shareholders.
8. 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 and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
  9. The board has arranged training programs for its directors during the year.
  10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
  11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
  12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the board.
  13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
  14. The company has complied with all the corporate and financial reporting requirements of the CCG.
  15. The board has formed an Audit Committee. It comprises three (3) members, of whom two (2) are non-executive directors and one (1) is an independent director. The chairman of the committee is a non-executive independent director.
  16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance
  17. The board has formed an HR and Remuneration Committee. It comprises three (3) members, of whom two (2) are non-executive directors and one (1) is an independent director. The chairman of the committee is also a non-executive director.
  18. The board has set up an effective internal audit function and internal auditor who is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Modaraba.



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19. The person appointed as Head of Internal Audit is MBA from Asia School of Economics development and possesses more than five years of experience in the field of internal audit and has also served as CFO in NBFBI for eight years.
  20. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
  21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
  22. The "closed period", prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).
  23. Material/ price sensitive information has been disseminated among all market participants at once through stock exchange(s).
  24. CEO and Chairman of the Modaraba is the same person and the Chairman is an Executive Director. The board is taking all possible measures to comply with the requirements of the Code.
  25. We confirm that all other material principles enshrined in the CCG have been complied with except referred above in the Serial No. 19 & 23 toward which reasonable progress is being made by the Modaraba to seek compliance by the end of next accounting year.



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**DR. HASAN SOHAIB MURAD**  
**Chairman/Chief Executive**  
September 27, 2016



# **REVIEW REPORT TO THE CERTIFICATE HOLDERS**

## **ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of IBL Modaraba Management (Private) Limited (the Management Company) in respect of First IBL Modaraba (the Modaraba) for the year ended June 30, 2016 to comply with the Code of Corporate Governance contained in Regulation # 5.19, sub regulations # 5.19.23 stipulated in Rule Book of Pakistan Stock Exchange where the Modaraba is listed.

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

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

The Code requires the Modaraba to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken 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 Modaraba's compliance, in all material respects, with the best practices contained in the Code as applicable to the Modaraba for the year ended June 30, 2016.

Further, we highlight below instances of non-compliance with the requirements of the Code as reflected in paragraph reference where these are stated in the Statement of Compliance:

<b>Serial no.</b>	<b>Paragraph reference</b>	<b>Description</b>
i	23	CEO and Chairman of the Modaraba are the same person and the chairman is an executive director.
ii	19	The Head of Internal Audit Department does not have the necessary professional qualifications.

Lahore  
Dated: September 27, 2016

**HORWATH HUSSAIN CHAUDHURY & CO.**  
*Chartered Accountants*

(Engagement Partner: Muhammad Nasir Muneer)


## AUDITORS' REPORT TO THE CERTIFICATE HOLDERS

We have audited the annexed balance sheet of **First IBL Modaraba** ("the Modaraba") as at June 30, 2016 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (hereinafter referred to as the financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

These financial statements are the Modaraba Company's (IBL Modaraba Management (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) We were unable to verify receivable balances aggregating to Rs. 8.470 million (2015: Rs. 9.470 million) included in "Advances, prepayments and other receivables" and any movement therein owing to non-availability of related records / information / direct confirmation.
- b) in our opinion, proper books of accounts have been kept by the Modaraba Company in respect of the Modaraba as required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981;
- c) in our opinion;
  - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, and are in agreement with the books of accounts and are further in accordance with the accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the Modaraba's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects, terms and conditions of the Modaraba;

- 
- d) In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in preceding paragraph "a", the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) and the Modaraba Companies and Modaraba Rules, 1981, in the manner so required and respectively give a true and fair view of the state of the Modaraba's affairs as at June 30, 2016 and of the profit, comprehensive income, its cash flows and changes in equity for the year then ended; and
- e) In our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Modaraba and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

LAHORE  
Dated: September 27, 2016

**HORWATH HUSSAIN CHAUDHURY & CO.**  
*Chartered Accountants*

(Engagement Partner: Muhammad Nasir Muneer)

## SHARI'AH ADVISOR'S REPORT FOR THE YEAR ENDED JUNE 30, 2016

I have conducted the Shari'ah review of **First IBL Modaraba** managed by **IBL Modaraba Management (Private) Limited** for the Financial Year ended **June 30, 2016** in accordance with the requirements of the Shari'ah Compliance and Shari'ah Audit Mechanism for Modarabas and report that except the observations as reported hereunder, in my opinion:

- i. During the financial year FIBLM showed high level of interest in strengthening Shari'ah compliance in letter and spirit and has introduced more efficient systems, procedures and policies which are in line with the Shari'ah principles;
- ii. The agreements entered into by the Modaraba during the reporting period, are Shari'ah compliant and fulfill the guidelines as specified by the religious board.
- iii. Following were the major developments that took place during the year:
  - a) No investment was made in non-Shari'ah compliant investments.
  - b) In some Ijarah and Musharikhah transactions, physical inspection was also conducted.
- iv. The major portfolio of FIBLM is in Ijarah, Murabaha and Musharikhah segments.
- v. 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 as well as the requirements of the Prospectus, Islamic Financial Accounting Standards as applicable in Pakistan and the Shari'ah Compliance and Shari'ah Audit Regulations for Modarabas.
- vi. During the period, no earnings were realized from the source or by means, prohibited by Shari'ah.
- vii. There is no receipt of charity during the financial year accordingly no amount was credited into charity account.

### Observation and Recommendation

Subject to partnership based agreements (Except Diminishing Musharakah), it is being advised that the financials of clients must be received by First IBL Modaraba to realize actual profit or loss in letter and spirit.

### Conclusion

In this context of detailed Shari'ah review carried by the undersigned for the Year ended June 30, 2016, transactions during the period executed by FIBLM were found satisfactory as required by Shari'ah Audit Mechanism.

  
MUFTI SALMAN AHMED KHAN  
SHARIAH ADVISOR  
FIRST IBL MODARABA

**Dr. Mufti Salman Ahmad Khan**

Shari'ah Advisor

First IBL Modaraba

Dated: September 27, 2016



## BALANCE SHEET AS AT JUNE 30, 2016

	Note	2016 Rupees	2015 Rupees
<b>ASSETS</b>			
<b>Current Assets</b>			
Bank balances	6	20,702,418	24,576,852
Ijarah rentals receivable	7	988,822	525,015
Advances, prepayments and other receivables	8	12,338,171	13,635,896
Short term investments	9	36,183,629	11,872,195
Musharaka receivables	10	14,410,895	16,499,625
Murabaha receivable		18,340,882	22,207,121
		102,964,817	89,316,704
<b>Non-Current Assets</b>			
Long term advances and deposits	11	2,709,260	2,709,260
Investment property	12	82,083,713	87,083,736
Fixed assets under ijarah arrangements	13	35,643,826	31,887,819
Fixed assets under own use	14	780,032	1,276,587
Intangible asset	15	83,338	166,667
		121,300,169	123,124,069
<b>Total Assets</b>		<u>224,264,986</u>	<u>212,440,773</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Creditors, accrued and other liabilities	16	5,195,330	3,610,027
Short term borrowing	17	10,000,000	-
Musharaka profit payable		1,430,192	1,430,192
Musharaka finances	18	4,200,000	8,200,000
Current portion of non-current liabilities	19	5,078,443	4,414,136
Unpresented profit warrants		9,481,834	8,410,795
		35,385,799	26,065,150
<b>Non-Current Liabilities</b>			
Long term security deposits	20	10,047,035	10,250,985
<b>Total Liabilities</b>		<u>45,432,834</u>	<u>36,316,135</u>
<b>NET ASSETS</b>		<u>178,832,152</u>	<u>176,124,638</u>
<b>REPRESENTED BY:</b>			
Certificate capital	21	201,875,000	201,875,000
Reserves	22	46,686,272	47,813,043
Accumulated loss		(69,729,120)	(73,563,405)
Contingencies and commitments	23	-	-
		<u>178,832,152</u>	<u>176,124,638</u>

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

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**

  
**DIRECTOR**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2016**

	Note	<b>2016</b> Rupees	<b>2015</b> Rupees
<b>INCOME FROM OPERATION</b>			
Income from ijarah	24	12,717,171	10,124,834
Profit on murabaha investment		2,254,333	3,661,472
Profit on musharaka investments		3,605,796	1,645,643
Income from investment property		7,495,440	7,495,440
Profit on modaraba certificate, term deposit receipts and bank deposits		1,542,139	377,442
Income from short term investments	25	6,287,255	3,959,514
		<b>33,902,134</b>	<b>27,264,345</b>
<b>OTHER INCOME</b>			
Reversal of provision against non-performing musharaka receivables - net	10.2	9,854,514	4,344,721
Reversal of musharaka profit held in suspense account		-	2,642,901
Balances written back		-	829,145
Other income	26	158,748	690,882
		<b>10,013,262</b>	<b>8,507,649</b>
<b>TOTAL INCOME</b>		<b>43,915,396</b>	<b>35,771,994</b>
<b>EXPENSES</b>			
Operating expenses	27	(21,485,757)	(19,485,956)
Depreciation on assets under ijarah		(10,828,700)	(8,849,583)
Other operating expenses	28	(667,905)	(1,516,096)
		<b>(32,982,362)</b>	<b>(29,851,635)</b>
Profit before Modaraba Company's management fee		10,933,034	5,920,359
Modaraba Company's management fee	29	(1,093,303)	(592,036)
<b>Net Profit for the Year</b>		<b>9,839,731</b>	<b>5,328,323</b>
<b>Earnings per Modaraba Certificate - Basic and Diluted</b>	30	<b>0.49</b>	<b>0.26</b>

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

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**

  
**DIRECTOR**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED JUNE 30, 2016**

	<b>2016</b> Rupees	<b>2015</b> Rupees
<b>Net Profit for the Year</b>	9,839,731	5,328,323
<b><i>Other comprehensive income</i></b>		
<b>Items that may be reclassified subsequently to profit and loss</b>		
Unrealized gain in value of available for sale investments	3,126,981	1,438,897
Gain realized on disposal of short term investments classified as 'available for sale'	(6,221,698)	(3,747,282)
Other comprehensive loss for the year	(3,094,717)	(2,308,385)
<b>Total Comprehensive Income for the Year</b>	<b>6,745,014</b>	<b>3,019,938</b>

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

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**

  
**DIRECTOR**

## CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2016

	Note	2016 Rupees	2015 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash generated from operations</b>	31	37,300,065	29,360,419
Income taxes paid		(157,296)	(3,260,406)
Dividend income received		65,557	50,000
Profit on term deposit receipts and bank deposits		1,542,139	-
<b>Net Cash generated from Operating Activities</b>		38,750,465	26,150,013
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets under ijarah arrangements		(16,131,330)	(21,490,450)
Purchase of fixed assets under own use		(11,000)	(64,000)
Purchase of intangible asset		-	(250,000)
Proceeds from disposal of fixed assets under own use		-	8,000
Proceeds from disposal of assets on terminating ijarahs		1,548,572	3,458,209
Purchase of short term investments		(25,000,000)	(5,000,000)
Proceeds from encashment of short term investments		3,935,320	2,500,000
Long term loans and deposits		-	(3,000)
<b>Net Cash used in Investing Activities</b>		(35,658,438)	(20,841,241)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Musharaka finances		(4,000,000)	(3,000,000)
Dividends paid		(2,966,461)	(8,086,429)
<b>Net Cash used in Financing Activities</b>		(6,966,461)	(11,086,429)
<b>Net Decrease in Cash and Cash Equivalents</b>		(3,874,434)	(5,777,657)
Cash and cash equivalents at the beginning of the year		24,576,852	30,354,509
<b>Cash and Cash Equivalents at the End of the Year</b>		<u>20,702,418</u>	<u>24,576,852</u>

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

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**

  
**DIRECTOR**

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2016

Particulars	Certificate Capital	Reserves			Total	Total Equity
		Capital	Revenue			
		Statutory reserve	Unrealized gain on revaluation of available for sale investments	Accumulated loss		
Rupees						
<b>Balance as at June 30, 2014</b>	201,875,000	38,024,737	11,031,026	(71,144,000)	(22,088,237)	179,786,763
<b>Comprehensive income for the year</b>						
Net profit for the year	-	-	-	5,328,323	5,328,323	5,328,323
Other comprehensive loss for the year	-	-	(2,308,385)	-	(2,308,385)	(2,308,385)
<b>Total comprehensive income for the year</b>	-	-	(2,308,385)	5,328,323	3,019,938	3,019,938
Transferred to statutory reserve	-	1,065,665	-	(1,065,665)	-	-
<b>Transactions with owners</b>						
Profit distributed for the year ended June 30, 2014	-	-	-	(6,682,063)	(6,682,063)	(6,682,063)
<b>Balance as at June 30, 2015</b>	201,875,000	39,090,402	8,722,641	(73,563,405)	(25,750,362)	176,124,638
<b>Comprehensive income for the year</b>						
Net profit for the year	-	-	-	9,839,731	9,839,731	9,839,731
Other comprehensive loss for the year	-	-	(3,094,717)	-	(3,094,717)	(3,094,717)
<b>Total comprehensive income for the year</b>	-	-	(3,094,717)	9,839,731	6,745,014	6,745,014
Transferred to statutory reserve	-	1,967,946	-	(1,967,946)	-	-
<b>Transactions with owners</b>						
Profit distributed for the year ended June 30, 2015	-	-	-	(4,037,500)	(4,037,500)	(4,037,500)
<b>Balance as at June 30, 2016</b>	201,875,000	41,058,348	5,627,924	(69,729,120)	(23,042,848)	178,832,152

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

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**

  
**DIRECTOR**

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016**

### **Note 1**

#### **Legal Status and Nature of Business**

First IBL Modaraba ("the Modaraba") is a multi purpose, perpetual and multi dimensional Modaraba formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and rules framed thereunder, having its registered office at Suite # 105, 1st Floor, Fortune Center, 45-A, Block-6, PECHS, Shahrah-e-Faisal, Karachi. The Modaraba is managed by IBL Modaraba Management (Private) Limited (Modaraba Management Company) incorporated in Pakistan under the Companies Ordinance, 1984 and registered with the Registrar of Modaraba Companies.

The Modaraba is listed on Pakistan Stock Exchange Limited (PSX). It commenced its operations on October 19, 1989 and is currently engaged in various Islamic modes of financing and operations including Ijarah, Musharaka and Murabaha arrangements.

### **Note 2**

#### **Basis of Preparation**

##### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, the Modaraba Companies and Modaraba Rules, 1981; prudential regulations and directives issued by the Securities and Exchange Commission of Pakistan (the Modaraba Regulations). Approved accounting standards comprise such International Financial Reporting Standards ("IFRSs") and the Islamic Financial Accounting Standards (IFASs) as are notified under the provisions of the Companies Ordinance, 1984 and made applicable to Modarabas under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Wherever, the requirements of the Modaraba Regulations differ from the requirements of these standards, the requirements of the Modaraba Regulations take precedence.

##### **2.2 Accounting convention**

These financial statements have been prepared under the historical cost convention except for the measurement of certain financial instruments at fair value in accordance with the requirements of IAS-39 (Financial Instruments: Recognition and Measurement) and at the overall contract price in accordance with IFAS-1 (Murabaha).

##### **2.3 Functional and presentation currency**

These financial statements are presented in Pak Rupees which is Modaraba's functional and presentation currency. All financial information presented in Pak Rupees has been rounded off to the nearest rupee unless otherwise stated.

### **Note 3**

#### **Use of Estimates and Judgments**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under circumstances, results of which form the basis of making judgment about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.



Judgments made by the management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are as under:

#### **Fixed assets**

The Modaraba reviews the useful lives of fixed assets, both under own use and ijarah arrangements, on regular basis. Any change in the estimate in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the depreciation charge and impairment, if any.

#### **Short term investments**

The Modaraba has recorded its short term investments by using quotations from active market. This valuation is subjective to market price fluctuation and therefore, cannot be determined with precision.

#### **Ijarah rentals, musharaka and murabaha investments**

Ijarah rentals, musharaka receivables and murabaha investments are stated net of provision, where applicable. Provision is recognised for ijarah rentals receivable, musharaka receivables and murabaha investment in accordance with the prudential regulations for Modarabas issued by the Securities and Exchange Commission of Pakistan (SECP). Bad and doubtful receivables are written-off when identified.

### **Note 4**

#### **Changes in Accounting Standards, Interpretations and Pronouncements**

##### **4.1 Standards, interpretations and amendments to approved accounting standards which became effective during the year**

The following key amendments to standards are relevant that became effective during the year. These amendments are not likely to have any impact on the Modaraba's financial statement.

Amendments to IFRS 13 'Fair Value Measurement' that aim to improve consistency and reduce complexity by providing a precise definition of fair value. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The adoption of this standard is not likely to have an impact on the Modaraba's financial statements.

##### **4.2 Standards, interpretations and amendments to approved accounting standards which became effective during the year but are not relevant**

There were certain amendments to the approved accounting standards which became effective during the year but are considered not to be relevant or have any significant effect on the Modaraba's operations and are, therefore, not disclosed in these financial statements.

##### **4.3 Standards, interpretations and amendments to approved accounting standards that are neither relevant and nor yet effective**

IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019) is introduced during the year that aims to set out the principles for recognition, measurement, presentation and disclosure of leases. It introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all the leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make the lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 replaces 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.

#### **4.4 Standards, interpretations and amendments to approved accounting standards that are relevant but not yet effective**

There were no new standards or amendments to existing standards and interpretations that are neither relevant nor yet effective.

### **Note 5**

#### **Summary of Significant Accounting Policies**

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied, unless stated otherwise.

##### **5.1 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 consist of cash in hand and balances with banks.

##### **5.2 Receivables**

Receivables are due on normal trade terms. These are carried at original invoice amount less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

##### **5.3 Murabaha investment**

Murabaha investments are stated net of provision against potential murabaha losses. Provision is recognized in accordance with prudential regulations for Modarabas issued by the SECP or on the estimate of management, whichever is higher. Bad debts are written off when identified. Murabaha receivables are recorded by the Modaraba at invoiced amount and disclosed as such in the balance sheet.

Purchases and sales under murabaha and the resultant profit are accounted for on the culmination of murabaha transaction. However, the profit on that portion of sales revenue not due for payment is deferred and shown in the balance sheet as liability.

##### **5.4 Financial assets**

Financial assets are classified into financial assets at fair value through profit or loss; loans and receivable; held-to-maturity investments and / or available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Modaraba determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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

Financial assets classified as held for trading are included in the category 'Financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the profit and loss account.

###### **5.4.2 Held-to-maturity**

Non-derivatives financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Modaraba has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments, that are intended to be held-to-maturity, are subsequently measured at amortized cost.

This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective markup rate method, of a difference between the initially recognised amount and the maturity amount. This calculation includes all fees and charges paid or received between parties to the contract that are an integral part of the effective markup rate, transaction cost and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the profit and loss account and then the investments are derecognized or impaired, as well as, through the amortization process.

### **5.4.3 Loans and receivables**

Loans and receivables are not derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective markup rate method. Gains and losses are recognized in the profit and loss account when loans and receivables are derecognized or impaired, as well as, through the amortization process.

### **5.4.4 Available-for-sale**

Available-for-sale financial assets are those non derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investments are derecognized or determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

Fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid price at the close of business on the balance sheet date. For investments where there is no active market, value is determined using valuation techniques.

### **5.5 Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities are secured deposits against ijarah (lease) assets, musharaka payable and other liabilities.

### **5.6 Recognition and derecognition of financial instruments**

All financial assets and liabilities are recognized at the time when the Modaraba becomes a party to the contractual provisions of the instrument and are derecognized in the case of asset, when the contractual rights under the instrument are derecognized, expired or surrendered and in case of liability, when the obligation is discharged, cancelled or expired.

Any gain / (loss) on the recognition and derecognition of financial assets and liabilities is included in the profit / (loss) for the period in which it arises.

Assets and liabilities that are not of contractual nature and that are created as a result of statutory requirements are not financial instruments of the Modaraba.

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

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and the Modaraba intends to either settle on a net basis, or to recognize the asset and settle the liability simultaneously.

### **5.8 Musharaka investment**

Musharaka investments are stated net of provision. Provision is recognized in accordance with prudential regulations for Modarabas issued by the SECP or on the estimate of management, whichever is higher. Bad debts are written off when identified.

### **5.9 Fixed assets**

#### **Assets given to customers under ijarah arrangements**

Assets given to customers under ijarah arrangements are accounted for as operating lease and are stated at cost less accumulated depreciation and impairment loss, if any. Assets under ijarah arrangements are depreciated using the straight line basis over the shorter of ijarah term or asset's useful life. In respect of additions and transfer during the year, depreciation is charged proportionately over the period of ijarah.

#### **Assets in own use - Tangible**

Tangible fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Cost in relation to assets comprises acquisition and other directly attributable costs. Subsequent costs are included in assets' carrying amounts 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. Carrying amount of parts so replaced, if any, is derecognized. All other repairs and maintenance are charged to income as and when incurred. Gains / losses on disposals are carried to the profit and loss account in the year of disposal.

Depreciation is charged to income using the straight line method at the rates as specified in note 14 to these financial statements so as to write off the cost of assets over their estimated useful lives without taking into account any residual value. Depreciation on additions to the tangible fixed assets is charged from the month in which an asset is available for use while no depreciation is charged for the month in which the asset is disposed off.

#### **Assets in own use - Intangible**

Expenditure incurred on intangible asset is capitalized and stated at cost less accumulated amortization and any identified impairment loss. Intangible assets are amortized on straight line basis over a period of three years.

#### **5.10 Investment property**

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The Modaraba values its investment property, which is held to earn rentals and / or for capital appreciation purposes, using the cost model i.e. at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on investment property is charged to income on straight-line method over its estimated useful life at the rates specified in note 12 to the financial statements. Depreciation on additions to investment property is charged from the month in which a property is available for use while no depreciation is charged for the month in which the property is disposed off.

#### **5.11 Creditors and other liabilities**

Creditors and other liabilities are measured at cost which is the fair value of the consideration to be paid in future for goods and services received whether billed to the Modaraba or not.

#### **5.12 Provident fund**

The Modaraba does not maintain a separate provident fund for its employees.

#### **5.13 Provisions**

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Future operating losses are not provided for.

#### **5.14 Revenue recognition**

Ijarah rentals are recognized as income on accrual basis, as and when the rental becomes due over the lease period.

Profit on murabaha investment is recognized on pro-rata accrual basis, calculated on number of days for which funds are utilized.

Return on deposits with bank is recognized on accrual basis.

Profit on investment under musharaka arrangements is recognized on accrual basis and additional profit, if any, is recognized on declaration by the investee company in accordance with terms of issue.

Dividend income is recognized when the right to receive dividends is established.

Income from fee and commission is recognized as and when it becomes due.

#### **5.15 Taxation**

Under the current tax law, the income of non-trading Modaraba is exempt from income tax provided that the Modaraba distributes ninety percent (90%) of its profits for the year, as cash dividend to the certificate holders, after appropriating statutory reserves. Where such profit is not distributed, provision for tax is made on taxable income at the current tax rates applicable to the Modaraba after taking into account available tax exemptions and tax credits, if any.

### 5.16 Proposed profit distribution to certificate holder

Profit distribution to certificate holders is recognised as a liability in the period in which such distributions are approved by the Board of Directors of the Management Company.

### 5.17 Related party transactions

Transactions involving related parties arising in the normal course of business are conducted at arm's length on the same terms and conditions as are applicable to third party transactions or otherwise as approved by the Board of Directors.

### 5.18 Impairment

Carrying amounts of the Modaraba's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value, the recoverable amount is determined to be the value in use. Impairment losses are recognized as expense in the profit and loss account.

### 5.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (the Chief Executive Officer of the Company). Segment results, assets and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

### 5.20 Dividend

Dividends are recognized as a liability in the period in which these are declared.

## Note 6

### Cash and Bank Balances

	Note	2016 Rupees	2015 Rupees
Profit bearing bank account		498,895	309,575
Non profit bearing bank accounts		20,203,523	24,267,277
		<u>20,702,418</u>	<u>24,576,852</u>

## Note 7

### Ijarah Rentals Receivable

Considered good		988,822	525,015
Considered doubtful	7.2	9,525,449	8,771,008
		<u>10,514,271</u>	<u>9,296,023</u>
Provision against doubtful ijarah rentals		(9,525,449)	(8,771,008)
		<u>988,822</u>	<u>525,015</u>

7.1 These represent rentals receivable against assets given under Ijarah arrangements.

7.2 Movement in provision against doubtful ijarah rentals is as follows:

As at the beginning of the year		8,771,008	7,586,362
Addition during the year		1,211,524	1,504,037
Reversed during the year		(457,083)	(319,391)
	24.1	<u>754,441</u>	<u>1,184,646</u>
As at the end of the year		<u>9,525,449</u>	<u>8,771,008</u>

## Note 8

### Advances, Prepayments and Other Receivables

	Note	2016 Rupees	2015 Rupees
Advance income tax		918,583	761,287
Advance to employees (Unsecured - Considered good)		802,175	594,335
Advance for ijarah		-	678,000
Prepayments		560,554	287,174
		2,281,312	2,320,796
Accrued profit on musharaka receivable:			
- Profit receivable		13,663,968	13,536,414
- Less: Profit held in suspense account	10.2	(13,502,100)	(13,502,100)
		161,868	34,314
Accrued profit on murabaha receivable		1,295,548	729,309
Accrued profit on modaraba certificate and bank deposits		118,751	1,764
Other receivables		8,480,692	10,549,713
		<u>12,338,171</u>	<u>13,635,896</u>

## Note 9

### Short Term Investments

Investments in listed equity securities are classified as:

- Available for sale	9.1	5,627,966	6,289,505
- At fair value through profit or loss	9.2	555,663	582,690
Investment in modaraba certificate - Held to Maturity	9.3	30,000,000	5,000,000
		<u>36,183,629</u>	<u>11,872,195</u>

#### 9.1 Available for sale

2016	2015	Name of entity		
No. of shares/ Certificates				
Holdings are in ordinary certificates / shares of Rupees 10 each.				
10,497	7,341	The Searle Company Limited	5,627,967	2,354,185
-	246,266	Lafarge Pakistan Cement Limited	-	3,935,320
<u>10,497</u>	<u>253,607</u>		<u>5,627,967</u>	<u>6,289,505</u>

#### 9.2 At fair value through profit or loss

Holdings are in ordinary certificates / shares of Rupees 10 each.

174	-	IBL Health Care	56,028	-
200	200	Attock Refinery Limited	27,635	45,690
100,000	100,000	First Punjab Modaraba	472,000	537,000
<u>100,374</u>	<u>100,200</u>		<u>555,663</u>	<u>582,690</u>

9.3 This represents investment in monthly modaraba certificate with Habib Bank Limited that carry profit at rate of 4.0% to 5.5% (2015: 7.0 to 8.0%) per annum, on profit and loss sharing basis.

## Note 10

### Musharaka Receivables

Considered good		14,410,895	16,499,625
Considered doubtful		16,340,519	26,195,033
	10.1	30,751,414	42,694,658
Provision against classified portfolio	10.2	(16,340,519)	(26,195,033)
		<u>14,410,895</u>	<u>16,499,625</u>



**10.1** This represents Musharaka finance provided to customers for business activities for a maximum period of twelve months. The provisional rate of profit on these finances ranges from 10% to 23.84% (2015: 10% to 23.84%) per annum and secured by way of hypothecation of goods and book debts and equitable mortgage of property. These charges have not been registered.

**10.2** This represents provision made against overdue principal amount of musharaka finance on time based criteria in terms of the requirement of the prudential regulations applicable to the Modaraba. Accrued profit of Rs. 13,502,100 (2015: Rs. 13,502,100) is held in suspense account (Refer to note 8). Movement in provision against classified portfolio is as follows:

	Note	2016 Rupees	2015 Rupees
As at beginning of the year		26,195,033	30,539,754
Recognized during the year		145,486	145,486
Reversed during the year	10.2.1	(10,000,000)	(4,490,207)
		(9,854,514)	(4,344,721)
As at end of the year		<u>16,340,519</u>	<u>26,195,033</u>

**10.2.1** This represents reversal of provision against outstanding principal after cash recovery from different parties.

#### Note 11

##### Long Term Advances and Deposits

Advances	1,500,000	1,500,000
Deposits	1,209,260	1,209,260
	<u>2,709,260</u>	<u>2,709,260</u>

#### Note 12

##### Investment Property

###### Cost

Opening balance	12.1	100,000,465	100,000,465
Additions during the year		-	-
Closing balance		100,000,465	100,000,465

###### Accumulated Depreciation

Opening balance		(12,916,729)	(7,916,706)
Charged during the year	12.2 & 27	(5,000,023)	(5,000,023)
Closing balance		<u>(17,916,752)</u>	<u>(12,916,729)</u>
		<u>82,083,713</u>	<u>87,083,736</u>

**12.1** This represents fifth floor of the Library Building situated at C-II, Johar Town, Lahore. This floor measures 13,370 square feet.

**12.2** The Modaraba depreciates investment property on straight line basis @ 5% per annum.

**12.3** The fair value of investment property as at June 30, 2016 was Rs. 117.654 million, as per the latest valuation report by an independent valuer.

**Note 13**  
**Fixed Assets under Ijarah Arrangements**

Description	Plant and Machinery	Vehicles	Office Equipment and Computers	Total
	Rupees	Rupees	Rupees	Rupees
<b><u>Year Ended June 30, 2016</u></b>				
<b><i>Cost</i></b>				
Balance as at July 01, 2015	14,205,813	34,370,003	603,825	49,179,641
Additions	3,594,000	12,537,330	-	16,131,330
Disposals	(1,644,000)	(3,159,800)	-	(4,803,800)
Balance as at June 30, 2016	<u>16,155,813</u>	<u>43,747,533</u>	<u>603,825</u>	<u>60,507,171</u>
<b><i>Accumulated depreciation</i></b>				
Balance as at July 01, 2015	5,628,953	11,128,425	534,444	17,291,822
Charge for the year	3,707,418	7,121,282	-	10,828,700
Disposals	(1,319,600)	(1,937,577)	-	(3,257,177)
Balance as at June 30, 2016	<u>8,016,771</u>	<u>16,312,130</u>	<u>534,444</u>	<u>24,863,345</u>
<b>Total as at June 30, 2016</b>	<b><u>8,139,042</u></b>	<b><u>27,435,403</u></b>	<b><u>69,381</u></b>	<b><u>35,643,826</u></b>
<b><u>Year Ended June 30, 2015</u></b>				
<b><i>Cost</i></b>				
Balance as at July 01, 2014	5,096,663	27,282,703	603,825	32,983,191
Additions	9,109,150	12,381,300	-	21,490,450
Disposals	-	(5,294,000)	-	(5,294,000)
Balance as at June 30, 2015	<u>14,205,813</u>	<u>34,370,003</u>	<u>603,825</u>	<u>49,179,641</u>
<b><i>Accumulated depreciation</i></b>				
Balance as at July 01, 2014	2,876,842	7,082,670	534,444	10,493,956
Charge for the year	2,752,111	6,097,472	-	8,849,583
Disposals	-	(2,051,717)	-	(2,051,717)
Balance as at June 30, 2015	<u>5,628,953</u>	<u>11,128,425</u>	<u>534,444</u>	<u>17,291,822</u>
<b>Total as at June 30, 2015</b>	<b><u>8,576,860</u></b>	<b><u>23,241,578</u></b>	<b><u>69,381</u></b>	<b><u>31,887,819</u></b>

**13.1 General description of significant ijarah arrangements (IFAS-2)**

This represents Ijarah arrangements made by the Modaraba at profit rates ranging from 12.50% to 25.00% (2015: 12.50% to 25.00%) per annum. These arrangements are secured against assets under ijarah, personal / corporate guarantees, demand promissory notes executed by Musta'jir and other collaterals.

**13.2 Aggregate amount of future ijarah rentals receivable on the basis of ijarah arrangements executed upto the balance sheet date are as follows:**

	2016 Rupees	2015 Rupees
Not later than one year	22,002,234	21,974,969
Later than one year but not later than five years	12,450,630	12,560,008
	<u>34,452,864</u>	<u>34,534,977</u>

**Note 14**  
**Fixed Assets under Own Use**

Description	Machinery	Furniture and Fittings	Vehicles	Office Equipment	Computers and Accessories	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b><u>Year Ended June 30, 2016</u></b>						
<b><i>Cost</i></b>						
Balance as at July 01, 2015	1,987,400	4,639,595	1,904,210	1,344,867	2,506,438	12,382,510
Additions	-	-	-	-	11,000	11,000
Disposals	-	-	-	-	-	-
Balance as at June 30, 2016	<u>1,987,400</u>	<u>4,639,595</u>	<u>1,904,210</u>	<u>1,344,867</u>	<u>2,517,438</u>	<u>12,393,510</u>
<b><i>Accumulated depreciation</i></b>						
Balance as at July 01, 2015	1,933,934	4,605,261	974,884	1,117,762	2,474,082	11,105,923
Charge for the year	19,176	10,296	349,740	96,707	31,636	507,555
Balance as at June 30, 2016	<u>1,953,110</u>	<u>4,615,557</u>	<u>1,324,624</u>	<u>1,214,469</u>	<u>2,505,718</u>	<u>11,613,478</u>
<b>Total as at June 30, 2016</b>	<b><u>34,290</u></b>	<b><u>24,038</u></b>	<b><u>579,586</u></b>	<b><u>130,398</u></b>	<b><u>11,720</u></b>	<b><u>780,032</u></b>
<b><u>Year Ended June 30, 2015</u></b>						
<b><i>Cost</i></b>						
Balance as at July 01, 2014	1,987,400	4,639,595	1,904,210	1,315,417	2,506,438	12,353,060
Additions	-	-	-	64,000	-	64,000
Disposals	-	-	-	(34,550)	-	(34,550)
Balance as at June 30, 2015	<u>1,987,400</u>	<u>4,639,595</u>	<u>1,904,210</u>	<u>1,344,867</u>	<u>2,506,438</u>	<u>12,382,510</u>
<b><i>Accumulated depreciation</i></b>						
Balance as at July 01, 2014	1,914,754	4,594,961	625,141	1,045,376	2,430,087	10,610,319
Charge for the year	19,180	10,300	349,743	92,540	43,995	515,758
Disposals	-	-	-	(20,154)	-	(20,154)
Balance as at June 30, 2015	<u>1,933,934</u>	<u>4,605,261</u>	<u>974,884</u>	<u>1,117,762</u>	<u>2,474,082</u>	<u>11,105,923</u>
<b>Total as at June 30, 2015</b>	<b><u>53,466</u></b>	<b><u>34,334</u></b>	<b><u>929,326</u></b>	<b><u>227,105</u></b>	<b><u>32,356</u></b>	<b><u>1,276,587</u></b>
<b>Depreciation rates</b>	<b><u>20%</u></b>	<b><u>20%</u></b>	<b><u>20%</u></b>	<b><u>20%</u></b>	<b><u>33.33%</u></b>	

**14.1** These contain fully depreciated assets of Rs. 9,870,860 (2015: Rs. 9,870,860) that are still in use by the Modaraba.

**Note 15**  
**Intangible Asset**

	Note	2016 Rupees	2015 Rupees
Carrying value of intangible - computer software	15.1	<u>83,338</u>	<u>166,667</u>

**15.1 Net Carrying Value**

Net carrying value - opening balance		166,667	92,500
Additions during the year		-	250,000
		<u>166,667</u>	<u>342,500</u>
Amortization during the year		<u>(83,329)</u>	<u>(175,833)</u>
		<u>83,338</u>	<u>166,667</u>

**15.2 Gross Carrying Value**

Cost		1,250,000	1,250,000
Accumulated amortization		<u>(1,166,662)</u>	<u>(1,083,333)</u>
Net book value		<u>83,338</u>	<u>166,667</u>

**15.3** The Modaraba amortizes its intangible asset on straight line basis over the period of three years and charges the amortization for the year to operating expenses (Note 27).

**Note 16**

**Creditors, Accrued and Other Liabilities**

Accrued expenses		432,364	261,500
Contribution to provident fund payable	16.1	2,583,304	2,063,008
Payable to the Modaraba Management Company		1,093,303	592,036
Other liabilities		<u>1,086,359</u>	<u>693,483</u>
		<u>5,195,330</u>	<u>3,610,027</u>

**16.1** The provident fund contribution is not deposited in a separate bank account.

**Note 17**

**Short Term Borrowing**

This represents short term borrowing received from director and repayable on demand. This borrowing is unsecured and markup free and accounted for in accordance with the requirements of TR - 32 of Institute of Chartered Accountants of Pakistan.

**Note 18**

**Musharaka Finance**

Musharaka finance - secured	18.1	<u>4,200,000</u>	<u>8,200,000</u>
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**18.1** Musharaka finance facilities are arranged for the purpose of normal business activities of the Modaraba. The maximum period of these arrangements is twelve months. The provisional rate of profit payable ranges from 12.6% to 18.0% (2015:12.6% to 18.0%) per annum. The arrangements are secured against pledge of marketable securities, hypothecation charge over current assets and demand promissory note.

**Note 19**

**Current Portion of Non-Current Liabilities**

Long term security deposits	20	5,078,443	2,159,803
Deferred murabaha income		-	2,254,333
		<u>5,078,443</u>	<u>4,414,136</u>

**Note 20**

**Long Term Security Deposits**

Security deposit - Ijarah		15,125,478	12,410,788
Less: Current portion	19	<u>(5,078,443)</u>	<u>(2,159,803)</u>
		<u>10,047,035</u>	<u>10,250,985</u>

## Note 21 Certificate Capital

2016	2015		Note	2016 Rupees	2015 Rupees
Authorized:					
<u>50,000,000</u>	<u>50,000,000</u>	Modaraba Certificates of Rs. 10 each		<u>500,000,000</u>	<u>500,000,000</u>
Issued, subscribed and paid-up:					
18,500,000	18,500,000	Modaraba Certificates of Rs. 10 each issued as fully paid in cash		185,000,000	185,000,000
1,687,500	1,687,500	Modaraba Certificates of Rs. 10 each issued as fully paid bonus certificate		<u>16,875,000</u>	<u>16,875,000</u>
<u>20,187,500</u>	<u>20,187,500</u>			<u>201,875,000</u>	<u>201,875,000</u>

**21.1** There was no movement in certificate capital during the year.

**21.2** Certificates of the Modaraba held by associates / related parties

2,030,905	2,030,905	IBL Modaraba Management (Private) Limited		20,309,050	20,309,050
3,070,000	3,070,000	University of Management and Technology		30,700,000	30,700,000
<u>1,515,820</u>	<u>1,515,820</u>	Director		<u>15,158,200</u>	<u>15,158,200</u>
<u>6,616,725</u>	<u>6,616,725</u>			<u>66,167,250</u>	<u>66,167,250</u>

## Note 22 Reserves

Statutory reserve	22.1	41,058,348	39,090,402
Unrealised gain on revaluation of available for sale investments		<u>5,627,924</u>	<u>8,722,641</u>
		<u>46,686,272</u>	<u>47,813,043</u>

**22.1** Statutory reserve represents profits set aside in compliance with the requirements of prudential regulations for Modarabas issued by the SECP. These regulations require the Modaraba to transfer at least 20% after tax profit, up to a maximum of 50% in the statutory reserves until the reserve equals 100% of the paid up capital. Thereafter, a sum not less than 5% of the after tax profit is to be transferred into the statutory reserve each year. During the year, an amount of Rs. 1,967,946 (2015: Rs. 1,065,665) has been transferred from profit for the year to statutory reserve with the approval of the Board of Directors of the Management Company.

## Note 23 Contingencies and Commitments

There were no material contingencies and commitments outstanding as at the balance sheet date (2015: Nil).

## Note 24 Income from Ijarah

Income from ijarah rental		13,471,612	11,309,480
Ijarah income suspended - net	7.2 & 24.1	<u>(754,441)</u>	<u>(1,184,646)</u>
		<u>12,717,171</u>	<u>10,124,834</u>

**24.1** This represents ijarah income suspended in accordance with the prudential regulations applicable to the Modaraba.

**Note 25**

**Income from Short Term Investments**

	Note	2016 Rupees	2015 Rupees
Dividend income		65,557	50,000
Unrealised gain on re-measurement of investments at fair value through profit or loss		-	162,232
Gain on disposal of short term investments available for sale		6,221,698	3,747,282
		<u>6,287,255</u>	<u>3,959,514</u>

**Note 26**

**Other Income**

Documentation charges		63,273	134,653
Gain on termination of ijarah arrangements		1,949	215,926
Miscellaneous		93,526	340,303
		<u>158,748</u>	<u>690,882</u>

**Note 27**

**Operating Expenses**

Salaries, allowances and other benefits	27.1	8,932,821	7,794,573
Communication expenses		246,937	248,259
Travelling and conveyance	27.2	1,247,972	1,135,642
Postage and stamps		117,281	165,263
Advertisement		68,850	37,000
Legal and professional charges		2,208,514	1,557,000
Rent, rates and taxes		821,044	805,644
Fees and subscription		1,098,378	629,586
Repairs and maintenance		230,785	353,907
Utilities		273,230	350,500
Insurance		155,177	156,290
Stationery, printing and other expenses		241,899	357,154
Depreciation / amortization:			
- Owned - tangible	14	507,555	515,758
- Investment property	12	5,000,023	5,000,023
- Intangible assets	15	83,329	175,833
Entertainment		125,587	101,668
Bank charges		3,877	3,447
Office supplies		122,498	98,409
		<u>21,485,757</u>	<u>19,485,956</u>

**27.1 Remuneration of Officers**

Salaries and other benefits include remuneration of officers:

Remuneration		5,921,598	5,375,677
Employer's contribution to provident fund		339,639	240,885
		<u>6,261,237</u>	<u>5,616,562</u>
Number of persons		<u>4</u>	<u>4</u>

**27.2** Officers are also provided with free use of vehicles fully maintained by the Modaraba.

## **Note 28**

### **Other Operating Expenses**

	Note	2016 Rupees	2015 Rupees
Auditors' remuneration	28.1	448,175	404,700
Fines and penalties		35,000	105,000
Balances written off		157,703	1,000,000
Unrealised loss on re-measurement of investments at fair value through profit or loss		27,027	-
Loss on disposal of fixed assets under own use		-	6,396
		<u>667,905</u>	<u>1,516,096</u>

### **28.1 Auditors' remuneration**

Audit fee	275,000	250,000
Review of half yearly financial statements and other certifications	144,975	125,000
Out of pocket expenses	28,200	29,700
	<u>448,175</u>	<u>404,700</u>

## **Note 29**

### **Modaraba Company's Management Fee**

In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the Modaraba Management Company.

## **Note 30**

### **Earnings per Modaraba Certificate - Basic and Diluted**

The calculation of the basic earnings per modaraba certificate is based on the following data:

Profit for the year (Rupees)	<u>9,839,731</u>	<u>5,328,323</u>
Weighted average number of modaraba certificates outstanding (Numbers)	<u>20,187,500</u>	<u>20,187,500</u>
Earnings per certificate - basic (Rupees)	<u>0.49</u>	<u>0.26</u>

**30.1** Basic earnings per modaraba certificate have been computed by dividing profit for the year as stated above with weighted average number of Modaraba certificates.

**30.2** There is no dilutive effect on the basic earnings per modaraba certificate.



**Note 31****Cash Generated from Operations**

	<b>2016</b>	<b>2015</b>
	Rupees	Rupees
<b>Net profit for the Year</b>	9,839,731	5,328,323

## Adjustment for:

- Depreciation on fixed assets under own use	507,555	515,758
- Depreciation on investment property	5,000,023	5,000,023
- Depreciation on fixed assets under ijarah arrangements	10,828,700	8,849,583
- Amortization on intangible asset	83,329	175,833
- Balances written back	-	(829,145)
- Loss on disposal of fixed assets under own use	-	6,396
- Balances written off	157,703	1,000,000
- Reversal of provision against non-performing musharaka receivables - net	(9,854,514)	(4,344,721)
- Reversal of musharaka profit held in suspense account	-	(2,642,901)
- Revaluation loss / (gain) on investment at fair value through profit or loss	27,027	(162,232)
- Gain on disposal of short term investments available for sale	(6,368,498)	(3,747,282)
- Gain on termination of ijarah arrangements	(1,949)	(215,926)
- Profit on term deposit receipts and bank deposits	(1,542,139)	-
- Dividend income	(65,557)	(50,000)

<u>(1,228,320)</u>	<u>3,555,386</u>
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**Operating profit before working capital changes**

8,611,411	8,883,709
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## Decrease / (Increase) in operating assets:

- Advances, prepayments and other receivables	1,297,318	21,618,203
- Ijarah rentals receivable	(463,807)	(36,313)
- Musharaka receivables	11,943,244	(8,199,803)
- Long term murabaha receivable	1,611,906	2,614,916

## Increase/ (Decrease) in operating liabilities:

- Long term security deposits	2,714,690	4,330,112
- Short term borrowing	10,000,000	-
- Creditors, accrued and other liabilities	1,585,303	149,595

**Net changes in working capital**

<u>28,688,654</u>	<u>20,476,710</u>
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**Cash generated from operations**

<u><u>37,300,065</u></u>	<u><u>29,360,419</u></u>
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## Note 32

### Maturity of Assets and Liabilities

	Up to one month	One month to three months	Three months to one year	One year to five years	Five years and above	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Assets</b>						
Bank balances	20,702,418	-	-	-	-	20,702,418
Ijarah rentals receivable	988,822	-	-	-	-	988,822
Advances, prepayments and other receivables	1,576,167	-	10,762,004	-	-	12,338,171
Short term investments	36,183,629	-	-	-	-	36,183,629
Musharaka receivables	826,173	12,256,929	1,327,793	-	-	14,410,895
Murabaha receivable	18,340,882	-	-	-	-	18,340,882
Long term advances and deposits	-	-	-	2,709,260	-	2,709,260
Investment property	416,669	833,338	3,750,020	20,000,104	57,083,582	82,083,713
Fixed assets	1,724,071	87,808	1,498,090	33,113,889	-	36,423,858
Intangible asset	6,944	13,894	62,500	-	-	83,338
<b>Total Assets - June 30, 2016</b>	<b>80,765,775</b>	<b>13,191,969</b>	<b>17,400,407</b>	<b>55,823,253</b>	<b>57,083,582</b>	<b>224,264,986</b>
Total Assets - June 30, 2015	36,419,569	2,167,273	59,123,191	52,647,135	62,083,605	212,440,773

	Up to one month	One month to three months	Three months to one year	One year to five years	Five years and above	Total
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Liabilities</b>						
Creditors, accrued and other liabilities	1,086,359	1,093,303	3,015,668	-	-	5,195,330
Short term loan	-	-	10,000,000	-	-	10,000,000
Musharaka profit payable	1,430,192	-	-	-	-	1,430,192
Musharaka finances	-	1,250,000	2,950,000	-	-	4,200,000
Unpresented profit warrants	9,481,834	-	-	-	-	9,481,834
Long term security deposits	2,007,513	-	3,070,930	10,047,035	-	15,125,478
<b>Total Liabilities - June 30, 2016</b>	<b>14,005,898</b>	<b>2,343,303</b>	<b>19,036,598</b>	<b>10,047,035</b>	<b>-</b>	<b>45,432,834</b>
Total Liabilities - June 30, 2015	19,873,152	1,776,204	4,415,794	10,250,985	-	36,316,135
<b>Net Assets - June 30, 2016</b>	<b>66,759,877</b>	<b>10,848,666</b>	<b>(1,636,191)</b>	<b>45,776,218</b>	<b>57,083,582</b>	<b>178,832,152</b>
Net Assets - June 30, 2015	16,546,417	391,069	54,707,397	42,396,150	62,083,605	176,124,638

### Represented by:

Certificate capital	201,875,000	201,875,000
Reserves	46,686,272	47,813,043
Accumulated loss	(69,729,120)	(73,563,405)
	<u>178,832,152</u>	<u>176,124,638</u>

## Note 33

### Segment Analysis

#### 33.1 Geographical segments

The Modaraba's assets are employed and its income is derived in Pakistan.

#### 33.2 Business segments

#### Murabaha receivable and profit on murabaha receivable

	2016		2015	
	Rupees	%	Rupees	%
Chemicals	<u>19,636,430</u>	<u>100.0</u>	<u>22,936,430</u>	<u>100.0</u>

**Musharaka receivable and profit on musharaka receivable**

	2016		2015	
	Rupees	%	Rupees	%
Media advertising	12,394,453	85.1	11,922,317	72.1
Education	2,178,310	14.9	4,611,622	27.9
	<u>14,572,763</u>	<u>100.0</u>	<u>16,533,939</u>	<u>100.0</u>

**Ijarah receivable**

Medical and pharmaceuticals	231,680	23.0	233,355	44.4
Individuals	361,172	37.0	216,660	41.3
Textile	395,970	40.0	75,000	14.3
	<u>988,822</u>	<u>100.0</u>	<u>525,015</u>	<u>100.0</u>

**Investment in ijarah under (IFAS-2)**

Individuals	21,677,112	60.8	18,199,039	57.1
Textiles	5,207,209	14.6	6,646,500	20.8
Medical and pharmaceuticals	2,349,346	6.6	4,067,953	12.8
Media advertising	4,437,193	12.4	1,832,547	5.7
Leasing	283,906	0.8	438,133	1.4
Hotel	120,000	0.3	120,000	0.4
Engineering	60,000	0.2	60,000	0.2
Others	1,509,060	4.2	523,647	1.6
	<u>35,643,826</u>	<u>100</u>	<u>31,887,819</u>	<u>100</u>

**Note 34****Balances and Transactions with Related Parties**

**34.1** In accordance with Section 18 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, management fee @ 10% of annual profits is paid to the Modaraba Management Company.

**34.2** Related parties comprise the Management Company, major certificate holders of the Modaraba and their close family members, directors of the management company and their close family members, key management personnel of the Management Company and their close family members and entities with common directors or under common management.

**34.3** Details of transactions with related parties and balances outstanding with them as at the balance sheet date are as follows:

Transactions during the year			2016	2015
Related party	Relationship	Nature of Transaction	Rupees	Rupees
IBL Modaraba Management (Private) Limited	Management Company	Management fee paid during the year	592,036	1,029,666
University of Management and Technology	Holds 15.2% of the paid up certificates of Modaraba	Musharaka profit received	-	16,652,909
Hasan Sohaib	Director	Rent of Library Building received	7,495,440	7,495,440
		Short term borrowing obtained	10,000,000	-
<b>Outstanding Balance at the year end</b>				
		Short term borrowing	10,000,000	-
		Payable to the Modaraba Management Company	1,093,303	592,036

Transactions with related parties, except for the management fee payable to the Management Company, are carried at an arm's length in the normal course of business.

## **Note 35**

### **Capital Risk Management**

While managing capital, the objectives of the Modaraba are to ensure that it continues to meet the going concern assumption, enhances certificate holders' wealth and meets stakeholders' expectations. The Modaraba ensures its sustainable growth viz. maintaining optimal capital structure and keeping its profits payable low thus maintaining smooth capital management.

In line with others in the industry, the Modaraba monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) less cash and cash equivalents. Total capital is calculated by adding equity, as shown in the balance sheet, into net debt. As on the balance sheet date, the Modaraba was not geared.

## **Note 36**

### **Financial Risk Management**

**36.1** 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 Modaraba Management Company ("the Board") has overall responsibility for the establishment and oversight of the Modaraba's risk management framework. The Board is responsible for developing and monitoring the Modaraba's risk management policies.

The Modaraba's risk management policies are established to identify and analyze the risks faced by the Modaraba, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Modaraba's activities. The Modaraba, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Modaraba's Audit Committee oversees how the management monitors compliance with the Modaraba's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Modaraba. The Audit Committee is assisted in its oversight role by the Internal Audit Department.

### **36.2 Credit Risk:**

#### **36.2.1 Credit risk and concentration of credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties to the financial instruments fail to perform as contracted. The Modaraba is exposed to credit risk from its operating activities (primarily from investments in ijarah, murabaha and musharaka contracts), deposits with banks and financial institutions and other financial instruments.

#### **36.2.2 Credit risk related to receivables**

The Modaraba has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Modaraba only transacts with those counter parties that are rated the equivalent of investment grade and above. The Modaraba has internally developed rating criteria to rate its customers which is supplemented by ratings supplied by independent rating agencies, where available. The Modaraba also uses other publicly available financial information and its own trading records to rate its customers. The Modaraba's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are internally reviewed and approved by the risk management committee annually.

The management monitors and limits the Modaraba's exposure to credit risk through monitoring of clients' credit exposure, reviews and conservative estimates of provisions for doubtful receivables, if any, and through the prudent use of collateral policy. The management is of the view that it is not exposed to significant concentration

of credit risk as its financial assets are adequately diversified in organizations of sound financial standing covering various industrial sectors and segments.

### 36.2.3 Credit risk related to financial instruments and cash deposits

The Modaraba limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a track record. Given these high credit ratings, the management does not expect any counterparty to fail to meet its obligations, except to the extent of impairment loss recognized.

### 36.2.4 Exposure to credit risk

Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Financial assets	Note	2016 Rupees	2015 Rupees
Bank balances	6	20,702,418	24,576,852
Ijarah rentals receivable	7	988,822	525,015
Advances and other receivables	8	10,056,859	11,315,100
Short term investments	9	36,183,629	11,872,195
Musharaka receivables	10	14,410,895	16,499,625
Murabaha receivable		18,340,882	22,207,121
Long term advances and deposits	11	2,709,260	2,709,260
		<u>103,392,765</u>	<u>89,705,168</u>

Geographically all credit exposure is concentrated in Pakistan.

The maximum exposure to credit risk for receivables against ijarah, musharaka and murabaha investment at the reporting date by type of customer was:

Chemicals	19,636,430	22,936,430
Textiles	395,970	75,000
Education	2,178,310	4,611,622
Medical and pharmaceuticals	231,680	233,355
Media advertising	12,394,453	11,922,317
Individuals	361,172	216,660
	<u>35,198,015</u>	<u>39,995,384</u>

The maximum exposure to credit risk for the following financial assets at the reporting date by mode of financing was as under:

Ijarah rentals receivable	988,822	525,015
Accrued profit on murabaha and musharaka	1,457,416	763,623
Musharaka receivables	14,410,895	16,499,625
Murabaha receivable	18,340,882	22,207,121
	<u>35,198,015</u>	<u>39,995,384</u>

### Impairment losses

The aging of financial assets at the reporting date was:

	Gross 2016 Rupees	Impairment 2016 Rupees	Gross 2015 Rupees	Impairment 2015 Rupees
Not past due	15,561,584	-	38,580,602	-
Past due 0-90 days	19,910,269	273,838	-	-
Past due 90-180 days	234,480	234,480	238,590	73,185
Past due over 180 days	38,859,748	38,859,748	49,644,333	48,394,956
	<u>74,566,081</u>	<u>39,368,066</u>	<u>88,463,525</u>	<u>48,468,141</u>

### 36.3 Liquidity risk

Liquidity risk is the risk that the Modaraba will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to dynamic nature of the business. 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 maturity profile of the Modaraba's financial liabilities based on contractual amounts is disclosed in Note 32 to the financial statements.

#### 36.3.1 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Modaraba's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

#### 36.3.2 Exposure to currency risk

The Modaraba has no exposure to foreign currency risk at balance sheet date.

#### 36.3.3 Other market price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Modaraba is exposed to equity price risk in respect of short term investments available for sale and at fair value through profit or loss.

#### 36.3.4 Sensitivity analysis - equity price risk

A change of 1% in value of investments would have increased or decreased equity by Rs. 61,837 (2015: Rs. 68,722).

#### 36.3.5 Fair value of financial assets and liabilities

The carrying values of financial assets and financial liabilities approximate to their fair values.

#### Note 37

##### Number of Employees

	2016 Numbers	2015 Numbers
Employees as at June 30,	14	13
Average employees during the year	14	12

#### Note 38

##### Date of Authorization for Issue

These financial statements were authorized for issue on September 27, 2016 by the Board of Directors of IBL Modaraba Management (Private) Limited (the Management Company).



**Note 39**  
**Profit Distribution**

Subsequent to the year ended June 30, 2016, the Board of Directors of the Management Company in their meeting held on September 27, 2016 declared a final profit distribution of Rs. 0.351 (2015: Rs. 0.2) per Modaraba certificate which in total amounts to Rs. 7,085,813 (2015: Rs. 4,037,500).

**Note 40**  
**General**

Corresponding figures have been rearranged, wherever necessary during the year. No material rearrangements have been made in these financial statements.

  
**CHIEF EXECUTIVE**

  
**DIRECTOR**

  
**DIRECTOR**

## Detail of Categories of Certificate Holders As At June 30, 2016

Categories of Shareholder	Total	% age
<b>Directors, Chief Executive Officer, Their Spouses and Minor Children</b>		
<b>Directors</b>		
Hassan Sohaib Murad	1,515,820	7.51
	<b>1,515,820</b>	<b>7.51</b>
<b>Associated Companies, Undertakings &amp; Related Parties</b>		
University Of Management & Technology	3,070,000	15.21
IBL Modaraba Management (Private) Limited	2,030,905	10.06
	<b>5,100,905</b>	<b>25.27</b>
<b>NIT &amp; ICP (Name Wise Detail)</b>		
CDC - Trustee National Investment (Unit) Trust	1,078,774	5.34
Investment Corporation of Pakistan Limited	3,006	0.01
	<b>1,081,780</b>	<b>5.36</b>
<b>Banks, NBFCs, DFIs, Takaful, Pension Funds</b>	<b>599,667</b>	<b>2.97</b>
<b>Modarabas</b>	<b>70</b>	<b>0.00</b>
<b>Insurance Companies</b>	<b>517,608</b>	<b>2.56</b>
<b>Other Companies, Corporate Bodies, Trust etc.</b>	<b>6,673,865</b>	<b>33.06</b>
<b>General Public</b>	<b>4,697,785</b>	<b>23.27</b>
	<b>20,187,500</b>	<b>100.00</b>



**Categories of Certificate Holders  
As At June 30, 2016**

<b>Categories of Certificate Holders</b>	<b>Number</b>	<b>Holding</b>	<b>% Age</b>
Modarabas	1	70	0.00
Related Parties	2	5,100,905	25.27
Directors	1	1,515,820	7.51
Banks	7	599,667	2.97
Insurance Companies	4	517,608	2.56
NIT & ICP	2	1,081,780	5.36
Others	14	6,673,865	33.06
Individuals	1183	4,697,785	23.27
<b>Total</b>	<b>1214</b>	<b>20,187,500</b>	<b>100.00</b>

## Pattern Of Shareholding By Certificate Holders As At June 30, 2016

No. of Shareholders	Shareholding		Total Shares held
	From	To	
424	1	100	16,433
307	101	500	84,713
188	501	1,000	133,001
217	1,001	5,000	454,101
31	5,001	10,000	214,049
11	10,001	15,000	140,787
5	15,001	20,000	98,000
2	20,001	25,000	47,971
2	25,001	30,000	53,000
3	30,001	35,000	97,812
1	35,001	40,000	36,000
1	50,001	55,000	51,087
1	55,001	60,000	56,000
1	70,001	75,000	71,000
1	80,001	85,000	82,000
1	90,001	95,000	92,700
2	130,001	135,000	265,441
1	165,001	170,000	170,000
1	195,001	200,000	200,000
1	200,001	205,000	200,507
2	235,001	240,000	474,068
1	260,001	265,000	264,500
1	405,001	410,000	406,077
1	505,001	510,000	509,990
1	795,001	800,000	797,000
1	1,045,001	1,050,000	1,050,000
1	1,075,001	1,080,000	1,078,774
1	1,515,001	1,520,000	1,515,820
1	1,995,001	2,000,000	2,000,000
1	2,030,001	2,035,000	2,030,905
1	3,065,001	3,070,000	3,070,000
1	4,425,001	4,430,000	4,425,764
<b>1,214</b>			<b>20,187,500</b>



## First IBL Modaraba

Managed by: IBL Modaraba Management (Pvt.) Ltd.

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