

AWWAL MODARABA

**Quarterly Report
September 2016**

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Vision & Mission Statements

VISION STATEMENT

AMML will play a role in the economic progress and development of Pakistan by providing a range of advisory services and financial support, through Shari'ah compliant modes; to viable projects in high growth, capital starved sectors of the economy.

MISSION STATEMENT

AMML aims to be at the vanguard of innovation in modaraba management services, offering the best solutions to our customers, value to our shareholders and modaraba investors, complemented with a challenging, equal opportunity environment to our employees.

Corporate Information

Board of Directors

Ms. Ayesha Aziz	Chairperson	Non-Executive Director
Mr. Abdul Jaleel Shaikh		Non-Executive Director
Mr. Ayyaz Ahmad		Independent Director
Mr. Abdul Hafeez		Non-Executive Director
Mr. Ahmed Ateeq		Non-Executive Director
Mr. Karim Hatim		Chief Executive Officer

Company Secretary

Ms. Rahaila Aleem

Audit Committee

Mr. Ayyaz Ahmed	Chairman
Mr. Abdul Hafeez	Member
Mr. Ahmed Ateeq	Member

Bankers

Habib Bank Limited
Soneri Bank Limited
Dubai Islamic Bank Pakistan Limited

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisor

Liaquat Merchant Associates

Shari'ah Advisor

Mufti Muhammad Hassaan Kaleem

Share Registrar

THK Associates (Pvt) Ltd.
2nd Floor, State Life Building No. 3
Dr. Ziauddin Ahmed Road
Karachi.
Tel : (+92-21) 111-000-322

Registered Office

6th Floor, Horizon Vista
Plot Commercial No. 10
Block No. 4, Scheme No. 5
Clifton
Karachi
Tel: (+92-21) 35361215-19
Web: www.awwal.com.pk

AWWAL MODARABA

Directors' Review

The Board of Directors of Awwal Modaraba Management Limited, Mudarib/Management Company of Awwal Modaraba, are pleased to present the un-audited Financial Statements of Awwal Modaraba for the period ended 30 September 2016.

Pakistan has continued its path to structural progress while maintaining macroeconomic stability by retaining low inflation digits, building foreign exchange reserves, developing social safety nets and significantly reducing fiscal deficit. The government has put major efforts to strengthen the effectiveness of tax administration by reducing tax exemptions and concessions. Although the authorities have faced setbacks to privatizing ailing public sector enterprises (PSEs), caused by labour unrest and political opposition, they continue working towards reforming the PSEs and putting them on a sustainable financial path. Moreover, a new plan, adopted in February 2016, aims at reforming the cost of doing business to reinvigorate business optimism.

Economic growth is expected to strengthen to 5% in FY2016/17, leading to higher private sector credit growth. Our exports have fallen by 9.2% year-on-year owing to lower international prices of cotton and rice, ongoing security issues and a competitive international business climate. However, favourable oil prices and so far robust remittances from the Gulf Cooperation Council (GCC) countries continue to counterbalance the decline in exports. Going forward, although downside risk remain for low growth rates in advanced and emerging markets to further weaken export demand, our fiscal and monetary policies seems well aligned for a sustainable growth and counter such risks.

Another game-changer for Pakistan's economy is the China Pakistan Economic Corridor (CPEC). Under CPEC, a heavy investment of reportedly around US\$ 46 billion is expected to be made in various sectors. Along the CPEC corridor, several industrial zones are expected to develop which will offer immense business opportunities to both existing and fresh entrants. Given our niche of financing projects that are financially distressed but possess a high intrinsic value, we believe that Awwal Modaraba is in a pole position to capitalize on the direct and indirect opportunities offered by CPEC.

Operating Results

The Modaraba in line with its business objectives is offering various shari'ah compliant islamic financing products to the potential customers with special emphasis on start-ups, growth and financially distressed companies engaged in Shari'ah compliant businesses. During the quarter the Modaraba had disbursed PKR 100 million Musharika facility and invested in PKR 100 million in Shari'ah compliant SUKUK. The Modaraba earned PKR 40.251 million profit during the quarter.

Acknowledgement

The Board of Directors acknowledges and would like to thank all the regulatory authorities for their support. The Board would also like to thank all the certificate-holders and sponsors for placing their confidence in the newly established Modaraba.

On behalf of the Board



Karim Hatim
Chief Executive Officer
Date: 26 October 2016

AWWAL MODARABA

Condensed Interim Balance Sheet (Un-audited)

As at 30 September 2016

	Notes	30 September 2016 (Un-audited)Rupees.....	30 June 2016 (Audited)Rupees.....
ASSETS			
Current assets			
Bank balances	4	737,026,474	933,524,819
Accruals, prepayments and other receivables	5	27,400,319	23,177,542
Current portion of Musharika Finance	6	22,745,506	14,976,517
Current portion of Diminishing Musharika	7	16,666,664	-
Investments	8	136,387,076	-
Taxation recoverable		3,235,487	2,602,324
Total Current Assets		943,461,526	974,281,202
Non-Current Assets			
Long term portion of Musharika Finance	6	60,912,344	68,681,331
Long term portion of Diminishing Musharika	7	83,333,336	-
Long term deposit		75,000	75,000
Operating fixed assets	9	25,861	13,542
Total non-current Assets		144,346,541	68,769,873
TOTAL ASSETS		1,087,808,067	1,043,051,075
LIABILITIES AND EQUITY			
Current liabilities			
Accrued expenses	10	3,231,443	2,193,664
Payable to related parties	11	15,881,961	12,414,540
Profit distribution payable		22,700,000	-
TOTAL LIABILITIES		41,813,404	14,608,204
CERTIFICATE HOLDERS' EQUITY			
Certificate Capital			
Authorized certificate capital			
100,000,000 Modaraba Certificates of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed, and paid-up certificate capital			
100,000,000 certificates of Rs. 10 each		1,000,000,000	1,000,000,000
Statutory reserve		25,814,470	5,688,574
Unappropriated profit		20,180,193	22,754,297
TOTAL LIABILITIES AND EQUITY		1,045,994,663	1,028,442,871
TOTAL LIABILITIES AND EQUITY		1,087,808,067	1,043,051,075
Contingencies and commitments	12		

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited
(Management Company)



Chief Executive Officer



Director



Director

AWWAL MODARABA

Condensed Interim Profit and Loss Account (Un-audited)

For the Quarter Ended 30 September 2016

	Notes	30 September 2016 (Un-audited)Rupees.....
Income on Musharika Finance		2,336,369
Income on Diminishing Musharika		304,858
Income on SUKUK		862,657
Income on bank deposits		12,256,434
Financial assets at fair value through profit or loss - net		
- Designated on initial recognition		36,303,428
		52,063,746
Financial charges		(3,335)
Administrative and operating expenses	13	(5,754,596)
		(5,757,931)
		46,305,815
Management company's remuneration		4,630,582
Provision for service sales tax on management company's remuneration		601,976
Provision for worker's welfare fund		821,465
		6,054,023
Profit for the quarter before taxation		40,251,792
Taxation	14	-
Profit for the quarter after taxation		40,251,792
Earnings per certificate - basic and diluted		0.40

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited
(Management Company)



Chief Executive Officer



Director



Director

AWWAL MODARABA

Condensed Interim Statement of Comprehensive Income (Un-audited)

For the Quarter Ended 30 September 2016

30 September
2016
(Un-audited)
.....Rupees.....

Profit for the quarter after taxation	40,251,792
Other comprehensive income for the quarter	
- Items that may be reclassified to profit & loss account	-
- Items that will not be reclassified to profit & loss account subsequently	-
Total comprehensive income for the quarter	40,251,792

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited
(Management Company)



Chief Executive Officer



Director



Director

AWWAL MODARABA

Condensed Interim Cash Flow Statement (Un-audited)

For the Quarter Ended 30 September 2016

30 September
2016
(Un-audited)
.....Rupees.....

CASH FLOWS FROM OPERATING ACTIVITIES

Profit for the quarter after taxation **40,251,792**

Adjustments for non-cash & other items:

Depreciation on operating fixed assets **2,679**

40,254,471

(Increase)/Decrease in assets

Accruals, prepayments and other receivables **(4,222,777)**

Diminishing Musharika **(100,000,000)**

Investment in securities **(136,387,076)**

(240,609,853)

Increase/(Decrease) in liabilities

Accrued expenses **1,037,779**

Payable to related parties **3,467,421**

4,505,200

Taxes paid **(633,163)**

Net cash used in operating activities (196,483,345)

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditure **(15,000)**

CASH FLOWS FROM FINANCING ACTIVITIES

-

Net decrease in cash and cash equivalents (196,498,345)

Cash and cash equivalents at the beginning of the quarter **933,524,819**

Cash and cash equivalents at the end of the quarter 737,026,474

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

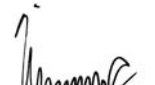
For Awwal Modaraba Management Limited
(Management Company)



Chief Executive Officer



Director



Director

AWWAL MODARABA

Condensed Interim Statement of Changes in Equity (Un-audited)

For the Quarter Ended 30 September 2016

	Paid up certificate capital	Statutory reserve	Unappropriated profit	Total
	Rupees.....			
Issue of certificate capital	1,000,000,000	-	-	1,000,000,000
<i>Total comprehensive income for the period</i>				
Net profit for the period ended 30 June 2016	-	-	28,442,871	28,442,871
Transfer to statutory reserve	-	5,688,574	(5,688,574)	-
Balance as at 30 June 2016	1,000,000,000	5,688,574	22,754,297	1,028,442,871
Profit distribution @ PKR 0.227 per certificate	-	-	(22,700,000)	(22,700,000)
<i>Total comprehensive income for the quarter</i>				
Net profit for the quarter ended 30 September 2016	-	-	40,251,792	40,251,792
Transfer to statutory reserve	-	20,125,896	(20,125,896)	-
Balance as at 30 September 2016	1,000,000,000	25,814,470	20,180,193	1,045,994,663

The annexed notes 1 to 19 form an integral part of these condensed interim financial statements.

For Awwal Modaraba Management Limited
(Management Company)



Chief Executive Officer



Director



Director

AWWAL MODARABA

Notes to the Condensed Interim Financial Statements (Un-audited) For the Quarter Ended 30 September 2016

1 LEGAL STATUS AND OPERATIONS

Awwal Modaraba (the Modaraba) has been floated under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 and the Rules framed thereunder and is managed by Awwal Modaraba Management Limited, a company wholly owned by Pak Brunei Investment Company Limited. After receiving certificate of minimum subscription, the Modaraba commenced its business operations with effect from 10 February 2016. The address of its registered office is 6th Floor, Horizon Vista, Plot Commercial No. 10, Block No. 4, Scheme No. 5, Clifton, Karachi.

Awwal Modaraba is a perpetual, multi purpose and multi dimensional Modaraba and is primarily engaged in providing Working Capital, Term Finance, Ijarah, Musharika, Morabaha & other Shari'ah compliant investment/instrument to credit worthy customers. The Modaraba is listed on Pakistan Stock Exchange Limited.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, Islamic Financial Accounting Standards (IFASs) issued by the Institute of Chartered Accountants of Pakistan, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, Islamic Financial Accounting Standards (IFASs) and the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, Modaraba Companies and Modaraba Rules, 1981, Islamic Financial Accounting Standards (IFASs) or the directives issued by the SECP shall prevail.

The Modaraba commenced its operations w.e.f. 10 February 2016. Hence, the comparative figures for the quarter ended 30 September 2015 have not been presented.

2.2 Accounting estimates and judgements

The preparation of financial statements in conformity with the approved accounting standards requires the management to make estimates, judgements and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires the management to exercise judgement in application of the Modaraba's accounting policies. The estimates, judgements and associated assumptions are based on the management's experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both the current and future periods.

2.3 Accounting convention

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

2.4 Functional and presentation currency

This condensed interim financial information is presented in Pakistani Rupees which is the Modaraba's functional and presentation currency.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of audited annual financial statements of the Modaraba for the period ended 30 June 2016.

3.1 Amended Policy

Financial Instruments

The Modaraba classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

The Modaraba classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liability category.

i Non-derivative financial assets and financial liabilities - Recognition and derecognition

The Modaraba initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Modaraba derecognises financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Modaraba is recognised as a separate asset or liability.

The Modaraba derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Modaraba currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

ii Non-derivative financial assets - Measurement

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

Impairment

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Modaraba on the terms that the Modaraba would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a Security because of financial difficulties or;
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Modaraba considers a decline of 20% to be significant and a period of nine months to be prolonged.

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	Notes	30 September 2016 (Un-audited)Rupees.....	30 June 2016 (Audited)Rupees.....
4 BANK BALANCES			
Balances with banks - savings accounts	4.1	737,026,474	933,524,819
		<u>737,026,474</u>	<u>933,524,819</u>
4.1 These balances are held with Islamic Banks / Islamic Banking windows of commercial banks only. The deposit accounts carry profit at an average rate of 5.5% per annum.			
5 ACCRUALS, PREPAYMENTS AND OTHER RECEIVABLES			
Accrued profit on Musharika Finance		2,361,764	25,395
Accrued profit on Diminishing Musharika		304,858	-
Accrued profit on SUKUK		862,657	-
Accrued profit on deposit accounts		3,551,123	4,431,700
Prepayments		1,919,100	220,985
Other receivables		18,400,817	18,499,462
		<u>27,400,319</u>	<u>23,177,542</u>
6 MUSHARIKA FINANCE			
Receivables-secured		83,657,850	83,657,848
less: Current portion of Musharika Finance		(22,745,506)	(14,976,517)
		<u>60,912,344</u>	<u>68,681,331</u>
7 DIMINISHING MUSHARIKA			
Receivables-secured		100,000,000	-
less: Current portion of Diminishing Musharika		(16,666,664)	-
		<u>83,333,336</u>	<u>-</u>
8 INVESTMENTS			
Equity securities - designated as at fair value through profit or loss			
Investment in unlisted shares			
Bunny's Limited 1,672,969 ordinary shares of Rs. 10/- each		36,387,076	-
Held-to-maturity investment			
Investment in SUKUK certificates		100,000,000	-
		<u>136,387,076</u>	<u>-</u>
9 OPERATING FIXED ASSETS			
Equipments - cost		15,000	-
Addition		<u>15,000</u>	<u>15,000</u>
		30,000	15,000
Accumulated depreciation		(4,139)	(1,458)
Written down value		<u>25,861</u>	<u>13,542</u>

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	30 September 2016 (Un-audited)Rupees.....	30 June 2016 (Audited)Rupees.....
10 ACCRUED EXPENSES		
Audit remuneration payable	-	190,200
Payable to Shari'ah Advisor	400,000	100,000
Leave fare allowance and staff medical accrual	1,406,265	616,580
Sindh sales tax payable	4,820	706,417
Provision for worker's welfare fund	1,401,932	580,467
Others	18,426	-
	<u>3,231,443</u>	<u>2,193,664</u>
11 PAYABLE TO RELATED PARTIES		
Payable to Pak Brunei Investment Company Limited	10,512,587	8,332,104
Payable to Management Company - net	5,369,374	4,082,436
	<u>15,881,961</u>	<u>12,414,540</u>
12 CONTINGENCIES AND COMMITMENTS		
There are no contingencies and commitments at the balance sheet date.		
	30 September 2016 (Un-audited)Rupees.....	
13 ADMINISTRATIVE AND OPERATING EXPENSES		
Salaries and other Staff benefits	4,215,835	
Shared services expenses - holding company of Modaraba Management Company	835,376	
Depreciation on operating fixed assets	2,681	
Fees & subscriptions	233,015	
Advertising, travelling and entertainment expenses	17,780	
Telecommunication	41,100	
Postage	3,935	
Printing and stationary	2,000	
Auditor's remuneration	5,900	
Legal and professional charges	370,856	
Other expenses	26,118	
	<u>5,754,596</u>	
14 TAXATION		
The income of non-trading modarabas is exempt from tax provided that not less than 90% of their profits are distributed to the certificate holders after making appropriation for statutory reserves. The modaraba intends to avail tax exemption for the year ending 30 June 2017. Accordingly, no provision in respect of current and deferred taxation has been made in this condensed interim financial statements.		
15 RELATED PARTY TRANSACTIONS		
The related parties of the modaraba comprise of the management company and its holding company, other associated companies, staff retirement funds, directors and key management personnel.		
Transactions with related parties other than those which have been specifically disclosed elsewhere in the financial statements and remuneration and benefits to key management personnel (which are employed by the management company) under the terms of their employment are as follows:		

AWWAL MODARABA

15.1 Details of the transactions with related parties/connected persons:

	30 September 2016 (Un-audited)Rupees.....	30 June 2016 (Audited)Rupees.....
Pak Brunei Investment Company Limited		
-Holding company of the Management Company	-	20,194,849
Pre-operational expenses paid on behalf of the Modaraba	835,376	3,618,662
Reimbursement of salaries and other benefits	1,345,107	296,281
Other expenses	15,000,000	15,000,000
Advisory fee receivable		
Awwal Modaraba Management Limited		
- Management Company	-	500,000
Pre-operational expenses paid on behalf of the Modaraba	1,286,938	-
Reimbursement of expenses	8,966,938	3,734,380
Management Company's remuneration		
Key Management Personnel		
Salaries and other benefits	934,622	1,180,874

15.2 Amounts outstanding as at quarter / year end

Pak Brunei Investment Company Limited		
- Holding company of the Management Company		
Receivable balance in respect of advisory services	15,000,000	15,000,000
Payable balance against expenses paid on behalf of the Modaraba	10,512,587	8,332,104
Awwal Modaraba Management Limited		
- Management Company	5,369,374	4,082,436

16 FINANCIAL RISK MANAGEMENT

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

- Market risk
- Credit risk
- Liquidity risk

The Board of Directors of the Management Company have overall responsibility for the establishment and oversight of Modaraba risk framework. The Board of Management Company is also responsible for developing and monitoring the modaraba risk management policies.

16.1 Market Risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates will affect the Modaraba's income or the value of its holdings of financial instruments.

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

Currency risk

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

Profit rate risk

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

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As at 30 September 2016, the Musharika Facilities are exposed to interest rate risk as detailed in Note 6 & 7 to these financial statements.

Sensitivity analysis for variable rate instruments

In case of 100 basis points increase / decrease in profit rates on the last repricing date of variable rate instruments (other than savings deposits) with all other variables held constant, the net profit of the Modaraba will be higher / lower by Rs. 246,603.

The composition of the Modaraba's portfolio of financial instruments and profit rates are expected to change over time. Therefore, the sensitivity analysis prepared as of 30 September 2016 is not necessarily indicative of the effect on the Modaraba's profit and loss and reserves due to changes in profit rates.

There are no fixed rate financial instruments at 30 September 2016.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. As on 30 September 2016, the Modaraba does not hold any instruments which exposed it to price risk.

A 5% increase/ decrease in valuation of equity securities at year end would have increased/ decreased the net profit for the period by Rs. 1.815 million with a corresponding effect on the value of investment.

16.2 Credit Risk

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

	30 September 2016 (Un-audited)Rupees.....	30 June 2016 (Audited)Rupees.....
Bank balances	737,026,474	933,524,819
Accruals and other receivables	25,481,219	22,956,557
Musharika Finance	183,657,850	83,657,848
Long term deposit	75,000	75,000
	<u>946,240,543</u>	<u>1,040,214,224</u>

Bank balances

The Modaraba maintains balances with banks having reasonably high long term credit ratings which are summarized as follows:

A+	394,746	392,447
AAA	687,070,079	765,281,559
AA-	49,561,649	167,850,813
	<u>737,026,474</u>	<u>933,524,819</u>

Accruals and other receivables

This includes profit accruals on bank deposit, Musharika finance and receivables from customers and a related party.

Accruals on bank deposits are maintained with banks having high credit ratings by respectable credit rating agencies. The profit accrued on Musharika Finance is secured against collateral. Advisory fees is to be deducted from future agreed disbursements of financial facilities to the customer.

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Musharika Finance

The Modaraba's policy is to enter into financial contracts in accordance with the internal risk management policies and the requirements of the Prudential Regulations (PRs) for Modaraba's issued by the SECP. The Modaraba aims to manage its credit risk exposure through diversification of its Musharika arrangements to avoid undue concentration of risks with individuals or groups of customers in specific locations or businesses.

Credit risk is further mitigated through proper due diligence, appropriate transaction structuring and adequate collateralization of the financial support. In addition, the risk is mitigated through adequate insurance coverage of the assets under charge of the Modaraba, implementation of appropriate administrative controls that include outsourcing of internal audit function, appointment of rated external auditors, periodical monitoring of Key Performance Indicators.

The outstanding amount of Modaraba's disbursed Musharika finance is secured as the title to the Musharika assets is in the name of the Modaraba having aggregate Forced Sales Value (FSV) of Rs. 88.58 million. Moreover, additional security has been obtained amounting to Rs. 58.1 million having Forced Sales Value of Rs. 52.29 million. The Modaraba is entitled to sell these assets in case of default by the customer. Further, the Diminishing Musharika disbursed by Modaraba is secured against pari passu hypothecation charges over present and future fixed assets including plant & machinery, pari passu mortgage charges over present and future fixed assets including land and building with 25% margin, ranking charge of Rs. 50 million over current assets of the company to be upgraded to pari passu within 120 days of 1st disbursement, pledge over 20% of sponsor's shares, cash flow routing through account under lien, personal guarantee of sponsors, post dated cheques and sponsor support agreement in case of shortfall in cash.

Long term deposit

This represents security deposit maintained with the Central Depository Company of Pakistan Limited.

Past due and impaired assets

No financial assets carried at amortized cost were past due or impaired either as at 30 September 2016.

Concentration of credit risk

Concentration of credit risk exists when changes in economic or industry factors affect groups of counterparties whose aggregate credit exposure is significant in relation to the Modaraba's total credit exposure. Concentration of credit risk indicate the relative sensitivity of the Modaraba's performance to developments affecting a particular industry.

The Modaraba's most significant investment is made with Islamic banks having high long term credit ratings by reputed credit rating agencies.

16.3 Liquidity risk

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

The following are the contractual maturities of financial liabilities:

	30 September 2016 (Un-audited)				
	Carrying amount	Contractual cash flows	Upto 1 month	Over 1 month to 3 months	Over 3 months to 1 year
	----- (Rupees) -----				
Financial liabilities					
Accrued expenses	1,829,511	(1,829,511)	23,246	400,000	1,406,265
Payable to related parties	15,881,961	(15,881,961)	-	15,881,961	-
	<u>17,711,472</u>	<u>(17,711,472)</u>	<u>23,246</u>	<u>16,281,961</u>	<u>1,406,265</u>

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30 June 2016 (Audited)					
	Carrying amount	Contractual cash flows	Upto 1 month	Over 1 month to 3 months	Over 3 months to 1 year
	----- (Rupees) -----				
Financial liabilities					
Accrued expenses	1,613,197	(1,613,197)	1,338,470	150,000	124,727
Payable to related parties	12,414,540	(12,414,540)	-	12,414,540	-
	<u>14,027,737</u>	<u>(14,027,737)</u>	<u>1,338,470</u>	<u>12,564,540</u>	<u>124,727</u>

The table above shows the undiscounted cash flows of the Modaraba's financial liabilities on the basis of their earliest possible contractual maturity or settlement.

17 FAIR VALUE OF FINANCIAL INSTRUMENTS

A number of the Modaraba's accounting policies and disclosures require the measurement of fair values for financial assets.

When measuring the fair value of financial assets, the Modaraba uses valuation techniques that are appropriate in the circumstances and uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of financial asset fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

For assets that are recognised in the financial statements at fair value on a recurring basis, the management recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There were no transfers between different levels of fair values mentioned above.

The Modaraba has an established control framework with respect to the measurement of fair values. The Modaraba's finance department performs the valuations of financial assets required for financial reporting purposes.

30 September 2016 (Un-audited)						
	Carrying amount / cost				Fair Value	
	Held-to-maturity	Held-for-trading	Loan and receivables	Other financial liabilities	Level 1	Level 2
						Level 3
Financial assets						
Investment in unlisted shares	-	36,387,076	-	-	-	36,387,076
Investment in Sukuk certificates	100,000,000	-	-	-	-	-
Musharika Finance	-	-	183,657,850	-	-	-
Accruals and other receivables	-	-	25,481,219	-	-	-
Cash and bank balances	-	-	737,026,474	-	-	-
Long term deposits	-	-	75,000	-	-	-
Financial liabilities not measured at fair value						
Accrued expenses	-	-	-	1,824,691	-	-
Payable to related parties	-	-	-	15,881,961	-	-

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30 June 2016 (Audited)							
	Carrying amount / cost				Fair Value		
	Held-to-maturity	Held-for-trading	Loan and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets							
Musharika Finance	-	-	83,657,848	-	-	-	-
Accruals and other receivables	-	-	22,956,557	-	-	-	-
Cash and bank balances	-	-	933,524,819	-	-	-	-
Long term deposits	-	-	75,000	-	-	-	-
Financial liabilities not measured at fair value							
Accrued expenses	-	-	-	906,780	-	-	-
Payable to related parties	-	-	-	12,414,540	-	-	-

Management assessed that the fair values of cash & cash equivalents, other receivables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. For long term deposit assets and long term liabilities, management consider that their carrying values approximates fair value.

For listed and quoted equity securities under Level 1 fair value measurement, the Modaraba uses quoted price from stock exchange at the measurement date. For valuation of unlisted securities at fair value through profit or loss account, the management uses discounted cash flow method (DCF) and is classifying it under Level 3 in fair value measurement hierarchy.

18 GENERAL

18.1 The Modaraba commenced its operations w.e.f. 10 February 2016. Hence, the comparative figures for the quarter ended 30 September 2015 have not been presented.

18.2 Figures have been rounded off to the nearest rupee.

19 DATE OF AUTHORISATION

These condensed interim financial statements were authorised for issue on 26 October 2016 by the Board of Directors of the Management Company.

For Awwal Modaraba Management Limited
(Management Company)



Chief Executive Officer



Director



Director

Awwal Modaraba

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