



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION**

No. SC/M/RS/PR/2004-

January 28, 2004

CIRCULAR NO. 4 OF 2004

Subject: **Prudential Regulations for Modarabas**

The Securities and Exchange Commission of Pakistan (SEC) has revised the existing Prudential Regulations for Modarabas issued vide Circular No. 5/2000 dated April 20, 2000 and subsequent amendments made therein vide Circular No. 20 of 2000 dated December 21, 2000 and Circular No. 4 of 2001 dated June 14, 2001.

All the Modaraba Companies are hereby directed to conduct all business transactions undertaken by the modarabas in conformity with the revised Prudential Regulations enclosed herewith as Prudential Regulations for Modarabas (the "Regulations"). These Regulations shall come into force with immediate effect.

These Regulations are being issued in supercession of this office Circular No. 5/2000 dated April 20, 2000, Circular No. 20 of 2000 dated December 21, 2000 and Circular No. 4 of 2001 dated June 14, 2001. However, it is clarified that the modaraba companies shall continue to submit all the information, returns and statements etc. in the same manner and format as previously prescribed vide circular No.10/2000 dated August 10, 2000.

Modaraba Companies are advised to ensure circulation of Regulations among all their officers/branches for meticulous compliance in letter and spirit. Any violations or circumvention of these Regulations shall be dealt with under the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

The new set of Regulations has also been placed on SEC Website www.secp.gov.pk for information of the concerned quarters and general public.

Please acknowledge receipt.

(Akbar Shah)

Registrar

Modaraba Companies and Modarabas

Distribution:

1. Chief Executives of all Modaraba Companies.
2. Managing Directors of all Stock Exchanges
3. The Chairman, Modaraba Association of Pakistan
4. The Institute of Chartered Accountants of Pakistan, Karachi.
5. The Institute of Cost and Management Accountants of Pakistan, Karachi.
6. Office copy.

PRUDENTIAL REGULATIONS FOR MODARABAS

1. Short title and commencement: - (1) These additional conditions shall be deemed to be part of the conditions of the certificate granted for authorization to float a modaraba in terms of powers conferred by Section 11 of the Modaraba Companies and Modaraba (Floatation & Control) Ordinance, 1980 read with rule 3 (2) (e) of Modaraba Companies and Modaraba Rules, 1981 and may be called as Prudential Regulations for Modarabas.

(2) These regulations shall be applicable at once.

Part - I

2. Definitions.— (1) In these Regulations, unless there is anything repugnant in the subject or context:-

(a) **Borrower** includes a person on whom a modaraba has taken any exposure during the course of business.

(b) **Contingent liability** means:

(i) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(ii) a present obligation that arises from past events but is not recognized because:

(a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(b) the amount of the obligation cannot be measured with sufficient reliability;

and includes letters of credit, letters of guarantee, bid bonds / performance bonds, advance payment guarantees and underwriting commitments.

(c) **Documents** include vouchers, cheques, bills, pay-orders, promissory notes, securities for leases / advances and claims by or against the modaraba or any other record / papers supporting entries in the books of a modaraba.

(d) **Equity** includes paid up fund, reserves, balance of premium account and un-appropriated profits/accumulated losses excluding deferred tax reserves, surplus on revaluation of fixed assets accounts as described in section 235 of the Companies Ordinance, 1984 and treasury stocks.

(e) **Equity of the Borrower** includes paid-up capital, general reserves, balance in share premium account, reserve for issue of bonus shares and retained earnings / accumulated losses, revaluation reserves on account of fixed assets and subordinated loans.

Explanation: Revaluation reserves will remain part of the equity for first three years only, from the date of asset revaluation, during which time the borrower will strengthen its equity base to enable it to avail facilities without the benefit of revaluation reserves.

- (f) **Exposure** includes facilities and subscription to or investment in shares.

Explanation: Secured exposure means exposure backed by tangible security and any other form of security with appropriate margins (in cases where margin has been prescribed by SEC, appropriate margin shall at least be equal to the prescribed margin). Clean exposure means exposure without any security or collateral.

- (g) **Facility** includes a financing under a system which is based on participation in profit and loss, mark-up or mark-down in price, hire-purchase, lease, rent-sharing, bills of exchange, promissory notes or other instruments with or without buy-back arrangement by a seller, participation term certificate, musharika or modaraba certificate, term finance certificate or any other mode, guarantees, indemnities, letters of credit and any other obligation, whether fund based or non-fund based;

- (h) **Financial Institutions** includes, –

- (a) a company or an institution whether established under any special enactment and operating within or outside Pakistan which transacts the business of banking or any associated or ancillary business through its branches;
- (b) a modaraba, leasing company, investment bank, venture capital company, financing company, housing finance company, a non-banking finance company and bank or any institution duly licensed by State Bank of Pakistan; and
- (c) such other institution or companies authorised by law to undertake any similar business, as the Federal Government may, by notification in the official Gazette, specify for the purpose;”.

- (j) **Forced Sale Value (FSV)** means the value which fully reflects the possibility of price fluctuations and can currently be obtained by selling the mortgaged / pledged/ leased/collaterally held assets in a forced / distressed sale conditions.

- (j) **Government Securities** include monetary obligations of the Federal Government or a Provincial Government or of a Corporation wholly owned or controlled, directly or indirectly, by the Federal Government or a Provincial Government and guaranteed by the Federal Government and any other security as the Federal Government may, by notification in the Official Gazette, declare, to the extent determined from time to time, to be Government Securities.

- (k) **Group** means persons, whether natural or juridical, if one of them or his family members including spouse, lineal ascendants and descendants and brothers and

sisters or its subsidiary, have control or hold substantial ownership interest or have power to exercise significant influence over the other. For the purpose of this:

- (i) **Subsidiary** will have the same meaning as defined in sub-section 3(2) of the Companies Ordinance, 1984 i.e. a company or a body corporate shall be deemed to be a subsidiary of another company if that other company or body corporate directly or indirectly controls, beneficially owns or holds more than 50% of its voting securities or otherwise has power to elect and appoint more than 50% of its directors.
- (ii) **Control** refers to an ownership directly or indirectly through subsidiaries, of more than one half of voting power of an enterprise.
- (iii) **Substantial ownership / affiliation** means beneficial share holding of 10% by a person and/or by his family members including spouse, lineal ascendants and descendants and brothers and sisters.

Significant influence refers to the management control of the company, to participate in financial and operating policies, either exercised by representation in the Board of Directors, partnership or by statute / agreement in the policy making process or affiliation or material inter-company transactions.

- (l) **Liquid Assets** are the assets which are readily convertible into cash without recourse to a court of law and mean encashment / realizable value of government securities, bank deposits, shares of listed companies which are actively traded on the stock exchange, NIT Units, certificates of mutual funds, Certificates of Investment (COIs)/Certificates of Deposits (CODs) issued by DFIs / modarabas and Certificates of Musharika (COMs) issued by modarabas rated at least 'A' by a credit rating agency registered with the SEC, listed TFCs and Commercial Papers rated at least 'A' by a credit rating agency registered with the SEC, National Saving Scheme securities and units of open ended schemes for which a duly licensed asset management company quotes daily offer and bid rates. These assets with appropriate margins should be in possession of the modarabas with perfected lien.
- (m) **Lease Key Money** includes lease security deposit.
- (n) **Major Shareholder** of a modaraba means any person holding 10% or more of the share capital of a modaraba either individually or in concert with family members.
- (o) **Medium and Long Term Facilities** mean facilities with maturities of more than one year.
- (p) **Other Form of Security** means hypothecation of stock (inventory), assignment of receivables, lease rentals, contract receivables, etc.
- (q) **Readily Realizable Assets** include liquid assets and stocks pledged with the modarabas and are in their possession, with 'perfected lien' duly supported with complete documentation.

- (r) **Rentals** include lease rentals, rentals in respect of housing finance facilities, hire purchase installments or any other amount received by modaraba from borrower against the grant of facility.
- (s) **Short Term Facilities** mean facilities with maturities up to one year
- (t) **Subordinated Loan** means an unsecured loan extended to the borrower by its sponsors, subordinate to the claim of the modaraba taking exposure on the borrower and documented by a formal sub-ordination agreement between provider of the loan and the borrower. The loan shall be disclosed in the annual audited financial statements of the borrower as subordinated loan.
- (u) **Tangible Security** means readily realizable assets, mortgage of land, plant, building, machinery and any other fixed assets.
- (v) **Underwriting Commitments** mean commitments given by modarabas to the limited companies at the time of new issue of equity / debt instrument, that in case the proposed issue of equity/debt instrument is not fully subscribed, the un-subscribed portion will be taken up by them (modarabas).

(2) All terms and expressions used but not defined in these regulations shall have the same meanings as in the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (Ordinance XXXI of 1980) and the Companies Ordinance 1984 (XLVII of 1984).

PART – II

(A) Corporate Borrowers

1. Limit on modaraba's exposure to a single person. -(1) The total outstanding exposure by a modaraba to any single person shall not at any point in time exceed 30% of the modaraba's equity (as disclosed in the latest audited financial statements), subject to the condition that the maximum outstanding against fund based exposure does not exceed 20% of the modaraba's equity.

(2) The total outstanding exposure by a modaraba to any group shall not exceed 50% of the modaraba's equity (as disclosed in the latest audited financial statements), subject to the condition that the maximum outstanding against fund-based exposure does not exceed 35% of the modaraba's equity.

(3) In arriving at exposure under this Regulation:

- a) 100% of the deposits placed with lending modaraba and TFCs, having investment grade credit rating by a rating agency registered with the SEC, of the lending modaraba shall be excluded.
- b) 90% of the following shall be deducted;
 - (i) deposits with another financial institution under perfected lien;

- (ii) encashment value of Government Securities and National Saving Scheme securities, lodged by the borrower as collateral; and
 - (iii) Pak. Rupee equivalent of face value of Special US Dollar Bonds converted at inter-bank rate, lodged by the borrower as collateral.
- c) 85% of the unconditional financial guarantees, payable on demand, issued by a financial institution rated at least 'A' by a credit rating agency registered with the SEC, accepted as collateral by modarabas shall be deducted.
 - d) 75% of listed Term Finance Certificates held as security with duly marked lien shall be deducted. The TFCs to qualify for this purpose should have been rated at least 'A' or equivalent by a credit rating agency registered with the SEC.
 - e) Weightage of 50% shall be given to;
 - (i) guarantees / bonds other than financial guarantees;
 - (ii) underwriting commitments.
 - f) The following different weightages will be applicable to exposure taken against financial institutions in respect of placements:
 - (i) 10% weightage on exposure to financial institutions with 'AAA' rating.
 - (ii) 25% weightage on exposure to financial institutions rated 'A' and above.
 - (iii) 50% weightage on exposure to financial institutions rated 'BBB' and above.
- (4) For the purpose of this regulation, exposure shall not include the following:
- (i) Obligations under letters of credit and letters of guarantee to the extent of cash margin held by the modarabas.
 - (ii) Letters of credit, which do not create any obligation on the part of the modarabas (no liability L/C) to make payments on account of imports.
 - (iii) Facilities provided to financial institutions through REPO transactions with underlying SLR eligible securities
 - (iv) Pre-shipment / post-shipment credit provided to finance exports of goods covered by letter of credit/firm contracts including financing provided from the Modaraba's own resources.
 - (v) Letters of credit established for the import of plant and machinery.

2. Minimum conditions for grant of financing facilities. - (1) When considering proposals for fund/non-fund based facility exceeding one million rupees, modarabas should give due weightage to credit report relating to the borrower and his group obtained from Credit Information Bureau of the State Bank of Pakistan. If the credit report indicates over-exposure/default, the facilities shall be extended only after recording reasons to do so.

(2) While granting any facility to the customers other than individuals, modaraba shall obtain copy of accounts relating to the business of each of its borrower for analysis and record in the following manner, namely:-

(a) where the exposure does not exceed one million rupees.	Such documentary evidence of the means and investment of the borrower as may be determined by the management of the modaraba.
(b) where the exposure exceeds one million rupees but does not exceed two million rupees	Accounts duly signed by the borrower
(c) where exposure exceeds two million rupees but does not exceed ten million rupees.	Accounts duly signed by the borrower and counter signed by: (i) a chartered accountant; or (ii) a cost and management accountant in case of a borrower other than a public company or a private company which is a subsidiary of a public company.
(d) where the exposure exceeds ten million rupees	Accounts duly audited by: (i) a practicing chartered accountant; or (ii) a practicing cost and management accountant in case of a borrower other than a public company or a private company which is a subsidiary of a public company.
Explanation: In case of individuals, modaraba shall obtain such documentary evidence of the means and investment of the borrower such as wealth statement, statement of assets and liabilities or any other statement as may be considered appropriate by the management of the modaraba.	

(3) Every modaraba shall, before providing any facility (including renewal, enhancement and rescheduling/restructuring), ensure that the Loan Application Form prescribed/devised by a modaraba is accompanied with a “Borrower’s Basic Fact Sheet” as per **Annexure-I**. Modaraba shall also ensure that the information requested in the Basic Fact Sheet is provided by the borrower under his seal and signature.

3. Linkage between a borrower’s equity and total exposure from financial institutions.– (1) While taking any exposure, modarabas shall ensure that the total exposure availed by any borrower from financial institutions does not exceed 10 times of borrower’s equity as disclosed in its financial statements.

(2) For the purpose of this regulation, subordinated loans shall be counted as equity of the borrower. Modarabas should specifically include the condition of subordinated loan in their Offer Letter. The subordination agreement to be signed by the provider of the subordinated loan, should confirm that the subordinated loan will be repaid after that modaraba’s prior approval.

4. Financial indicators of the borrowers: - (1) It is expected that at the time of allowing fresh exposure / enhancement / renewal, the debt-equity ratio of the borrower does not exceed 60:40 and current assets to current liabilities ratio is not lower than 1:1 or any other ratios as may be prescribed by the Registrar Modaraba from time to time. Current maturities of long term debt not yet due for payment may be excluded from the current liabilities and lease rentals receivable within the next twelve months as disclosed in the annual audited accounts shall be treated as current assets for the purpose of calculating current assets to current liabilities ratio. However, in exceptional cases, modarabas may relax these ratios in case of facilities upto three million rupees, if they are satisfied that appropriate risk mitigants have been put in place. Where the modarabas have taken exposure on exceptional basis as provided above, they shall record in writing the reasons and justifications for doing so in the approval form and maintain a file in

their central credit office containing all such approvals. The Exceptions Approval file shall be made available to the inspection team of the SEC during the inspection.

(2) This regulation shall not apply to the facilities granted to financial institutions with investment grade rating by a credit rating agency registered with SEC or in case of exposure fully secured against liquid assets held as collateral. Export finance and finance provided to ginning and rice husking factories shall also be excluded from the borrowings (exposure) for the purpose of this regulation.

5. Margin against facilities. - (1) Following minimum margins shall be maintained against various facilities and all guarantees will be backed by 100% realizable securities:

- (a) In case of performance bonds, the condition of 100% cover of realizable securities may be relaxed subject to minimum compulsory realizable security cover equivalent to 20% of the amount of the performance bond;
- (b) In case of guarantees issued against mobilization advance, the condition of 100% cover of realizable securities may be relaxed subject to the following conditions, namely:
 - (i) Guarantees issued shall contain a clause that the mobilization advance shall be released by the beneficiary through the guarantor modaraba only; and
 - (ii) At the time of issuing such a guarantee the beneficiary shall sign an agreement with the modaraba that releases out of mobilization advance would be covered by realizable assets; and
- (c) In case of bid bonds issued on behalf of domestic consultancy firms bidding for international contracts where the consultancy fees are to be received in foreign exchange, the requirement of 100% cover by realizable securities may be waived off, and this relaxation would also be available to all suppliers of goods and services bidding against international tenders.

(2) Modarabas shall adhere to the following margin requirements:

i.	Shares of listed Companies /TFCs	As at Regulation 6 of Part-II
ii.	Bank deposits and Certificates of Investment / Certificates of Deposit of NBFCs/DFIs and Certificates of Musharaka of modarabas with investment grade credit rating by a credit rating agency registered with SEC. <ul style="list-style-type: none"> • 25% margin is applicable to all forms of certificates including certificates issued under National Saving Scheme such as (a) Special Saving Certificate (b) Khas Deposits Certificates(c) Defense Saving Certificates (d) Foreign Exchange Bearer Certificates (e) Any other Government backed securities. • Value of such certificates shall be taken as the sum payable on the date when facility is being granted by the modarabas. • Prize Bonds being issued by Government needs to be given same treatment as that of other securities issued by Government. As such modarabas can provide facilities against Prize Bonds at 25% margin or a margin of 1.5 times of accrued markup on annual basis which ever is higher. Facilities provided against Prize Bonds should be for one year. 	20%
(iii)	Pledge of trading stocks	25%
(iv)	Hypothecation of trading stocks	50%

6. Facilities against Shares/TFCs and acquisition of shares. – (1) Modarabas shall not:

- a) take exposure against the security of shares / TFCs issued by them.
- b) provide unsecured credit to finance subscription towards floatation of share capital and issue of TFCs.
- c) take exposure against the non-listed TFCs or the shares of companies not listed on the Stock Exchange(s).
- d) take exposure on any limited company against the shares/TFCs of that company or its group companies.
- e) take exposure against 'sponsor director's shares' (issued in their own name or in the name of their family members) of banks.
- f) take exposure against the shares/TFCs of listed companies that are not members of the Central Depository System.
- g) take exposure against unsecured TFCs or non-rated TFCs or TFCs rated below investment grade by a credit rating agency registered with the SEC.

2. Modarabas shall not hold shares in any company whether as pledgee, mortgagee, of an amount exceeding 30% of the paid-up share capital of that company or 30% of their own paid-up fund and reserves, whichever is less.

3. Exposure against the shares of listed companies shall be subject to minimum margin of 30% of their current market value, though the modarabas may, if they wish, set higher margin requirements keeping in view other factors. The modarabas will monitor the margin on at least weekly basis and will take appropriate action for top-up and sell-out on the basis of their Board of Directors' approved credit policy and pre-fact written authorization from the borrower enabling the modarabas to do this.

4. Exposure against TFCs rated 'A' (or equivalent) and above by a credit rating agency registered with the SEC shall be subject to a minimum margin of 10% while the exposure against TFCs rated 'A-' and 'BBB' shall be subject to a minimum margin of 20%.

7. Restrictions on certain types of transactions. – (1) No modaraba shall make investment in the shares of a listed company of an amount exceeding 5% of its own equity or 10% of paid up capital of that company whichever is less:

Provided that these limits may be exceeded on an application made to the Registrar.

(2) No investment in stock market shall be made by a modaraba except in its own name.

(3) No modaraba shall allow facilities of any kind to its modaraba company or to any of its directors or to individuals, firms or companies in which it or any of its directors is interested as partner, director or guarantor, as the case may be, its chief executive and its major shareholders, including their spouses, parents, and children or to firms and companies in which they are interested as partners, directors or major shareholders of that concern.

(4) No modaraba shall allow unsecured facilities or facilities that are not backed by bank guarantees. Provided that the bank providing the guarantee shall have a minimum investment grade credit rating.

(5) No modaraba shall allow facilities on the guarantee of its chief executive, directors and major shareholders including their spouses, parents and children or to firms and companies in which they are interested as partners, directors or major shareholders of that concern.

(6) No modaraba shall allow facilities for speculative purposes.

(7) Modarabas may make investment in shares of un-listed companies subject to fulfillment of the following conditions: -

- i) total exposure in such companies does not exceed 5% of the modaraba's equity;
- ii) the directors of the modaraba company have no direct or indirect interest in the investee company; and
- iii) the investee company must have operational track record of three profitable consecutive years preceding the decision:

Provided that where a modaraba is engaged in Venture Capital Financing as set out in its prospectus, this regulation may be waived on an application made to the Registrar.

(8) The investment of modaraba fund in listed securities shall not be more than 20% of the equity of the modaraba. However, this restriction shall not apply where the modaraba has taken up the shares as consequence of underwriting obligation, or the modaraba became the absolute owner due to default of its borrowers.

Provided that in exceptional cases the Registrar may relax this condition.

(B) Individuals Borrowers

8. Regulations for Housing Finance for individuals

(1) The maximum per party limit in respect of housing finance by the modarabas will be Rs.7.5 million.

(2) Modarabas are free to extend mortgage loans for housing, for a period not exceeding twenty years. Modarabas should be mindful of their adequate asset liability matching.

(3) The house financed by the modarabas shall be mortgaged in modaraba's favour by way of equitable or registered mortgage.

(4) Modarabas shall either engage professional expertise or arrange sufficient training for their concerned officials to evaluate the property, assess the genuineness and integrity of the title documents, etc.

(5) The housing finance facility shall be provided at a maximum Loan to Value ratio of 85:100 (85%).

(6) The housing finance facility shall be provided at a maximum of Income to installment ratio of 3:1.

Part-III

1. Limit on modaraba's exposure against liabilities. - (1) Liabilities, excluding contingent liabilities and security deposits, of modaraba shall not exceed seven times of its equity for the first two years of its operations. In the subsequent years, the liabilities shall not exceed ten times of the equity of the modaraba.

(2) Contingent liabilities of a modaraba shall not exceed seven times of its equity for the first two years of its operations. In the subsequent years, the contingent liabilities shall not exceed ten times of the equity of modaraba.

2. Creation and building up of reserve. - Every modaraba shall create reserve fund to which shall be credited:

- (a) an amount not less than **20% and not more than 30%** of its after tax profits till such time the reserve fund equals the amount of the paid up capital; and
- (b) thereafter a sum not less than 5% of its after tax profits.

Explanation. - Issuance of bonus shares may be made from the above-mentioned reserves or the reserves available after appropriation made under clause (a) or (b) whichever may be the case and since such bonus shares will increase the paid up capital, the modaraba shall transfer further amounts to the reserves in order to comply with condition of clause (a);

3. Return on deposits. - Every Modaraba shall provide return on deposits which may be different for different volumes and maturities of deposits provided that uniformity is observed within each category but deposits of listed companies, financial institutions, recognized charitable trusts and statutory bodies shall, however, be exempt.

4. Deposit Insurance. - When deposit insurance arrangements are in place, every modaraba shall arrange full insurance cover for its deposits/COM etc. upto Rs. 100,000/-.

5. Classification and Provisioning for non-performing assets. - (1) Every modaraba shall observe the following prudential guidelines in the matter of classification of its assets and provisioning there against:

(A) SHORT TERM FINANCING FACILITIES

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
OAEM (Other Assets Especially Mentioned).	Where rental, mark-up/ profit or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ profit to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
Substandard.	Where rental, mark-up/ profit or principal is overdue by 180 days or more from the due date.	As above.	Provision of 20% of the difference resulting from the outstanding balance of principal against the facility less the amount

			of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/pledged/ leased/ collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
Doubtful.	Where rental, mark-up/ profit or principal is overdue by one year or more from the due date.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal against the facility less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/pledged/ leased/ collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
Loss.	(a) Where rental, mark-up/ interest/profit or principal is overdue beyond two years or more from the due date. (b) Where Trade Bills (Import/Export or Inland Bills) are not paid/adjusted within 180 days of the due date.	As above. As above.	Provision of 100% of the difference resulting from the outstanding balance of principal against the facility less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/pledged/ leased/ collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation. As above.

(B) MEDIUM AND LONG TERM FINANCING FACILITIES

CLASSIFICATION	DETERMINANT	TREATMENT OF INCOME	PROVISIONS TO BE MADE
(1)	(2)	(3)	(4)
OAEM (Other Assets Especially Mentioned).	Where rental, mark-up/ profit or principal is overdue (past due) by 90 days from the due date.	Unrealized mark-up/ profit to be put in Suspense Account and not to be credited to Income Account except when realized in cash.	No Provision is required.
Substandard.	Where installment of principal/ rental or mark-up/profit is overdue by one year or more.	As above.	Provision of 20% of the difference resulting from the outstanding balance of principal against the facility less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged/ leased/ collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
Doubtful.	Where installment of principal/ rental or mark-up/profit is overdue by two years or more.	As above.	Provision of 50% of the difference resulting from the outstanding balance of principal against the facility less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged / pledged / leased / collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.
Loss.	Where installment of principal/ rental or mark-up/profit is overdue by three years or more.	As above.	Provision of 100% of the difference resulting from the outstanding balance of principal against the facility less the amount of liquid assets realizable without recourse to a Court of Law and forced sale value of mortgaged/ pledged / leased / collaterally held assets as valued by valuers fulfilling prescribed eligibility criteria, in accordance with the guidelines provided in this regulation.

Notes:

(a) Classified facilities/loans/advances that have been guaranteed by the Government would not require provisioning, however, markup / profit on such accounts shall be taken to suspense account instead of income account.

(2) In addition to the above time based criteria, subjective evaluation of performing and non-performing advances / loans / lease port-folio shall be made for risk assessment and where considered necessary the category of classification determined on the basis of time based criteria shall be further downgraded. Such evaluation shall be carried out on the basis of adequacy of security inclusive of its realizable value, cash flow of borrower / lessee, his operation in the account, documentation covering advances and credit worthiness of the borrower / lessee etc.

(3) The rescheduling / restructuring of non-performing facilities shall not change the status of classification of a facility unless the terms and conditions of rescheduling / restructuring are fully met for a period of at least one year (excluding grace period, if any) from the date of such rescheduling / restructuring and at least 25% of the outstanding amount is recovered in cash. Accordingly, modarabas are directed to ensure that status of classification, as well as provisioning, is not changed in relevant reports to the Registrar Modaraba merely because a facility has been rescheduled or restructured. However, while reporting to the Credit Information Bureau (CIB) of State Bank of Pakistan, such loans / advances may be shown as 'rescheduled / restructured' instead of 'default'.

(4) Where a borrower subsequently defaults (either principal or mark-up) after the rescheduled / restructured loan has been declassified by the modarabas as per above guidelines, the loan will again be classified in the same category it was in at the time of rescheduling / restructuring. However, modarabas at their discretion may further downgrade the classification, taking into account the subjective criteria.

(5) At the time of rescheduling / restructuring, modarabas shall consider and examine strictly on merit the viability of the project / business and shall appropriately secure their interest etc.

(6) Modarabas shall classify their loans / advances / lease portfolio and make provision thereagainst in accordance with the time-based criteria prescribed above. However, where a modaraba wishes to avail the benefit of leased assets owned by the modaraba; or additional collaterals held against lease facilities; or collaterals held against advances / loans facilities, they can consider the realizable value of mortgaged or pledged or leased or collaterally held assets for deduction from the outstanding principal amount of loans/advances/lease facilities against which such assets are leased/mortgaged/pledged/ collaterally held, before making any provisions. The value of the mortgaged / pledged assets, other than liquid assets, to be considered for this purpose shall be the forced sale value. Further, Forced Sale Value (FSV) once determined, shall remain valid for three years from the date of valuation during which period the underlying collateral/leased assets will not be revalued for provisioning purpose. The adjustment factors of 80%, 70% and 50% shall be applied on the value so determined for the purpose of determining provisioning requirement in 1st, 2nd and 3rd year of valuation, respectively. Thereafter, the assets shall be revalued and the adjustment factor of 50% shall be applied for all subsequent years. However, the FSV of the collateral shall be restricted to fresh revaluation or previous value, whichever is less. In case of modaraba authorized/eligible to undertake housing finance services, FSV once determined, shall remain valid for a period of ten years from the date of valuation and

an adjustment factor of 70% shall be applied on the value so determined for the purpose of determining provisioning requirement in respect of housing finance for the said period.

(7) Facilities against which securities or in case of lease facilities, additional securities are not available, or where mortgaged or pledged or leased assets have not been valued according to these guidelines and verified by the external auditors, shall continue to be classified and provided for according to the time-based criteria. Modarabas shall observe the following uniform criteria, for determining the realizable value of mortgaged / pledged / leased/ collaterally held assets, namely:-

- (i) Only assets having registered mortgage, equitable mortgage (where NOC for creating further charge has not been issued by modaraba and pledged /collaterally held assets shall be considered. Assets having pari-passu charge shall be considered on proportionate basis.
- (ii) Hypothecated assets and assets with second charge and floating charge shall not be considered.
- (iii) Valuations shall be carried out by an independent professional valuer who should be listed on the panel of valuers maintained by the Pakistan Banks Association / Modaraba Association of Pakistan. The valuers while assigning any values to the mortgaged / pledged / leased / collaterally held assets, shall take into account all relevant factors affecting the salability of such assets including any difficulty in obtaining their possession, their location and condition and the prevailing economic conditions in the relevant sector, business or industry. The realizable values of mortgaged / pledged / leased /collaterally held assets so determined by the valuers must have to be a reasonably good estimate of the amount that could currently be obtained by selling such assets in a forced / distressed sale condition. The valuers should also mention in their report the assumptions made, the calculations / formulae / basis used and the method adopted in determination of the realizable values.
- (iv) Valuation shall be done at least once in three years. If valuation is older than three years, a fresh revaluation should be done; otherwise the valuation shall be taken as nil. This requirement shall not be applicable to the modarabas engaged in housing finance services.

The categories of mortgaged/pledged/leased /collaterally held assets to be considered for valuation alongwith discounting factors to be applied would be as under (no other assets shall be taken into consideration):

(a) Liquid Assets:

Valuation of Liquid Assets, excluding pledged stocks, which are dealt with at (b) below, shall be determined by the modaraba itself and verified by the external auditors. However, in the case of pledged shares of listed companies values should be taken at market value as per active list of Stock Exchange(s) on the balance sheet date and as per guidelines given in the Technical Release (TR) - 23 issued by the Institute of Chartered Accountants of Pakistan (ICAP). Moreover, valuation of shares pledged against loans/advances/lease facilities shall be considered only if these have been routed through Central Depository Company of Pakistan (CDC), otherwise these will not be admissible for deduction as liquid assets while determining required provisions.

(b) Pledged Stocks:

In case of pledged stocks of perishable and non-perishable goods, forced sale value should be provided by valuers, which should not be more than six months old, at each balance sheet date. The goods should be perfectly pledged, the operation of the godowns should be in control of the modaraba and regular valid insurance and other documents should be available. In case of perishable goods the valuers should also give the approximate date when these are expected to be of no value.

The values of mortgaged / pledged / leased / collaterally held assets determined by the valuers shall be subject to verification by the external auditors, who may reject cases of valuation, which in their opinion, do not appear to have been professionally carried out and values determined are unreasonable, or in the case of which valid documentation of mortgage / pledge / leased / collaterally held asset, supported by legal opinion wherever required, is not available on record.

(1) Subjective evaluation of investment portfolio and other assets shall be carried out by the modaraba. Classification of such assets and provision required there-against should be determined keeping in view the risk involved and the requirements of the International Accounting Standards **as notified by the SEC under sub-section (3) of Section 234 of the Companies Ordinance, 1984** and Technical Releases issued by the ICAP, from time to time.

(2) Modarabas shall review, at least on a quarterly basis, the collectibility of their loans / advances / lease portfolio and shall properly document the evaluations so made. Shortfall in provisioning, if any, determined as a result of quarterly assessment, shall be provided for immediately in their books of accounts by the modarabas.

(3) The external auditors as a part of their annual audits of modarabas shall verify that all requirements under these regulations for classification of assets and determination of provisions required there-against have been complied with. The Commission or an officer designated by him may also check the adequacy of provisioning during on-site inspection.

7. Reversal of Provision: The provision held against classified assets will only be reversed when cash realization starts exceeding:

- (i) in case of loss category, the net book value of the assets;
- (ii) in case of doubtful category, 50% of the net book value of the assets; and
- (iii) in case of sub-standard category, 20% of the net book value of the assets.

8. Overdue, default and recovery thereof. - (1) Every modaraba shall furnish the Registrar Modaraba a list of defaulters on prescribed format, on quarterly basis. A list of rescheduled and restructured facilities shall also be submitted to the Registrar Modaraba in the similar manner on prescribed format. A person, whether natural or juristic, shall be deemed to be defaulter if he (or his dependent family members or concerns owned or controlled by him or concerns in which he or his dependent family members are major shareholders) has failed to pay off or liquidate any fiduciary obligation towards any modaraba in Pakistan as was agreed upon or required under the terms and conditions of avilment of the financing facility or to do or perform an act agreed to or undertaken in writing to be done or performed by him and such failure has

continued for a period of one year from the date on which he was required to make the payment or to do or perform the act.

(2) Every modaraba shall nominate an officer as recovery officer or constitute a section as recovery section depending upon the magnitude of defaults.

(3) Besides the measures presently instituted by each modaraba, the modaraba shall set quarterly recovery targets as a percentage of the overdue obligations and communicate the same on quarterly basis to the Registrar Modaraba.

(4) A progress report on the recovery in relation to the targets shall be submitted to the Registrar Modaraba on quarterly basis. Modaraba shall also be required to explain deficiency if any, in meeting the targets and the strategies evolved with a view to ensuring achievement of subsequent targets.

(5) Wherever considered legally appropriate by the modaraba, cases of default may be referred to the Courts. The list of such cases and progress of recovery shall also be sent to the Registrar Modaraba on a quarterly basis.

Part IV

1. Internal audit. - Every modaraba shall have an Internal Audit Department whose head shall report to the board of directors directly and shall, inter-alia, be responsible for compliance with these guidelines and for establishing an effective means of testing, checking and compliance with the policy and procedures established by it.

2. Submission of statistical returns. - Every modaraba shall submit such periodical statements, information or reports in such forms and manner and within such time as may be prescribed by the Registrar Modaraba from time to time.

3. Code of conduct. - Every modaraba shall acquire and maintain membership of an association constituted in consultation with the Registrar Modaraba and modarabas shall follow the code of conduct prescribed by the said association(s).

4. Prevention of criminal use of modarabas for the purpose of money laundering and other unlawful trades. - Modarabas shall follow guidelines issued to safeguard themselves against their involvement in money laundering activities and other unlawful trades. These will add to or reinforce the following precautions, modarabas may have been taking in this regard;

- a) Modarabas shall accept deposits from an investor only after ensuring that an account has been opened in the investor's name using an account opening form, which will be developed by the respective industry associations in consultation with the Registrar Modaraba.
- b) Modarabas shall make reasonable efforts to determine the true identity of the customer before extending their services and particular care shall be taken to identify ownership of all accounts and those using safe custody facilities, effective procedures shall be instituted for obtaining identification from new customers and an explicit policy shall be devised to ensure that significant business transactions are not conducted with customers who fail to provide evidence of their identity;

- c) Modarabas shall ensure that business is conducted in conformity with high ethical standards and that rules and regulations are adhered to. It is accepted that a modaraba normally does not have effective means of knowing whether a transaction stems from or forms part of wrongful activity. Similarly, in an international context, it may be difficult to ensure that cross border transactions on behalf of customers are in compliance with the regulations of another country. Nevertheless, modarabas shall not set out to offer services or provide active assistance in transactions which in their opinion are associated with money derived from illegal activities; and
- d) Modarabas shall establish specific procedures for ascertaining customer status and his sources of earning for monitoring of accounts on a regular basis for checking identities and bonafides of remitters and beneficiaries, for retaining internal record of transactions for future reference. The transactions, which are out of character with the normal operation of the account involving high deposits, withdrawals and transfers, shall be viewed with suspicion and properly investigated.
- e) Every modaraba shall ensure that no payment or receipt exceeding Rs. 50,000/- shall be made in cash.

5. Procedure for prior approval for appointment of directors and chief executives. –

Modarabas shall, for obtaining prior approval of the Registrar Modaraba for making any change in the directors/chief executive, follow the following procedure:

- a) The application for approval of the appointment or any change in the directors/Chief Executive shall be submitted by the modaraba company to Registrar Modaraba not later than 14 days before the election/appointment or any change in the Directors/Chief Executive;
- b) The above-referred application shall not be treated complete unless the information/documents as required under Forms and affidavit attached as Annexure-II and III respectively are furnished.
- c) The information or deficiency or shortcoming as pointed out by Registrar Modaraba shall be supplied by the modaraba company, within 14 (fourteen) days of the issue of the letter by the office of Registrar Modaraba, otherwise the matter shall be treated as having been closed.

6. Removal of records: No modaraba shall remove from Pakistan to a place outside Pakistan, any of its records or documents relating to its business without the prior permission of the Registrar.

7. Appointment of Special Auditors: The Registrar may require special audit of any modaraba in addition to statutory audit, inquiry/ inspection by the Registrar, at any time and may appoint special auditors, the cost of which shall be borne by the modaraba.

8. Appointment of Chief Executive: Except with the approval of the Registrar no person can represent more than one modaraba company as Chief Executive.

9. Places of business.__ (1) A modaraba may open further places of business and it shall intimate the same to the Registrar within 15 days.

(2) The modaraba shall intimate to the Registrar the closure of any of its branches within 15 days.

(3) The management company shall provide office space for the modaraba free of any charges.

10. Distribution of profit.__ The modarabas shall distribute 90% of their net annual profits after appropriation to reserve, if any, as stipulated in regulation 2 of Part-III:

Provided that dividend for any year may be omitted or passed on if the distribution of dividend is *un-economical* and hence is not in the interest of certificate holders.

Explanation: Un-economical distribution of dividend here means such percentage of dividend declared by the modaraba company which is not likely to be in the benefit of certificate holders after certain deductions of tax, zakat and bank charges etc.

11. Annual Review Meeting.__ (1) Each modaraba shall hold an annual review meeting of its certificate holders in the town where the registered office of the modaraba company is situated, to review performance of the modaraba.

(2) There will be no voting right of the certificate holders in the annual review meeting.

(3) For the purpose of notice for the meeting, the provisions relating to notice of the meeting as provided in the Companies Ordinance, 1984 shall mutatis-mutandis apply to the notice issued by the modarabas to the certificate holders for the annual review meeting.

ANNEXURE-I

**BORROWER'S BASIC FACT SHEET – FOR CORPORATE
PRESCRIBED UNDER REGULATION 2 OF PART - II**

Date of Request _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. BORROWER'S PROFILE:

Name										Address									
Phone#										Fax #					Email Address				
Office					Res.														
National Identity Card #										National Tax #					Sales Tax #				
Import Registration #					Export Registration #					Date of Establishment					Date of opening of A/C				

2. DETAILS OF DIRECTORS/OWNERS/PARTNERS:

Name										Address									
Phone#										Fax #					Email Address				
Office					Res.														
National Identity Card #										National Tax #									
Shareholding					Amount					% of Shareholding									

3. MANAGEMENT:

A) EXECUTIVE DIRECTORS/PARTNERS:																			
Name					Address					NIC #					Phone #				
1.																			
2.																			
B) NON-EXECUTIVE DIRECTORS/PARTNERS:																			
Name					Address					NIC #					Phone #				
1.																			
2.																			

4. CORPORATE STATUS:

Sole Proprietorship					Partnership					Public/Private Company									

5. NATURE OF BUSINESS:

Industrial					Commercial					Agricultural					Services					Any other				

6. REQUESTED LIMITS:

										Amount					Tenor				
Fund Based																			
Non-Fund Based																			

7. BUSINESS HANDLED/EFFECTED WITH ALL FINANCIAL INSTITUTIONS DURING THE LAST ACCOUNTING YEAR

Imports					Exports					Remittances effected (if any)									

8. EXISTING LIMITS AND STATUS:

	Amount	Expiry date	Status	
			Regular	Amount over-due (if any)
Fund Based				
Non-Fund Based				

9. ANY WRITE-OFF, RESCHEDULING/RESTRUCTURING AVOIDED DURING THE LAST THREE YEARS:

Name of Financial Institution	Amount during 1 st year		Amount during 2 nd year		Amount during 3 rd year	
	Write-off	Rescheduled/restructured	Write-off	Rescheduled/restructured	Write-off	Rescheduled/restructured

10. DETAILS OF PRIME SECURITIES MORTGAGED/PLEDGED:

A) AGAINST EXISTING FACILITIES:				
Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				
B) AGAINST REQUESTED/FRESH/ADDITIONAL FACILITIES:				
Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value	
1.				
2.				

11. DETAILS OF SECONDARY COLLATERAL MORTGAGED/PLEDGED:

A) AGAINST EXISTING FACILITIES:				
Name of Financial Institution	Nature of Security	Total Amount	Rank of Charge	Net Realizable Value
1.				
2.				
B) AGAINST REQUESTED/FRESH/ADDITIONAL FACILITIES:				
Name of Financial Institution	Nature of Security	Total Amount	Net Realizable Value	
1.				
2.				

12. CREDIT RATING (WHERE APPLICABLE):

Name Of Rating Agency	Rating

13. DETAILS OF ASSOCIATED CONCERNS (AS DEFINED IN COMPANIES ORDINANCE, 1984):

Name of Concern	Name of Directors	Shareholding	% of Total shares capital

14. FACILITIES TO ASSOCIATED CONCERNS BY THE CONCERNED FI:

Name of concern	Nature & Amount of limit	Outstanding as on -----	Nature & Value of Securities	Overdues	Defaults

15. DETAILS OF PERSONAL GUARANTEES PROVIDED BY THE DIRECTORS/PARTNERS etc. TO FIs TO SECURE CREDIT:

Names of the Guarantors	Institutions/ persons to to whom Guarantee given	Amount of Guarantee	Validity Period	NIC #	NTN	Net-worth

16. DIVIDEND DECLARED (AMOUNT) DURING THE LAST THREE YEARS:

During 1 st Year	During 2 nd Year	During 3 rd Year

17. SHARE PRICES OF THE BORROWING ENTITY:

Listed Companies		Break-up value of the Shares in case of Private Limited Company
Current Price	Preceding 12 Months Average	

18. NET-WORTH (PARTICULARS OF ASSETS OWNED IN THEIR OWN NAMES BY THE DIRECTORS/PARTNERS/PROPRIETORS):

Owner's Name	Particulars of Assets	Market Value	Particulars of Liabilities

19. DETAILS OF ALL OVER DUES (IF OVER 90 DAYS):

Name Of Financial Institution	Amount

20. Details of payment schedule if term loan sought.

21. Latest Audited Financial Statements as per requirement of Regulation 2 to be submitted with the LAF (Loan Application Form).

22. Memorandum and Articles of Association, By-laws etc. to be submitted by the borrower along with the request.

I certify and undertake that the information furnished above is true to the best of my knowledge.

CHIEF EXECUTIVE'S/BORROWER'S
SIGNATURE & STAMP

COUNTER SIGNED BY:

AUTHORIZED SIGNATURE & STAMP
(MODARABA OFFICIAL)

**BORROWER'S BASIC FACT SHEET – FOR INDIVIDUALS
PRESCRIBED UNDER PRUDENTIAL REGULATION 2 of PART-II**

Date of Request. _____

(TO BE COMPLETED IN CAPITAL LETTERS OR TYPEWRITTEN)

1. BORROWER'S PROFILE:

Name										Address									
Phone#										Fax #					Email Address				
Office					Res.														
National Identity Card #										National Tax #									
Father's Name										Father's National Identity Card #									

2. PREFERENCES (AT LEAST TWO):

Name										Address									
Phone#										Fax #					Email Address				
Office					Res.														
National Identity Card #										National Tax #									

3. NATURE OF BUSINESS/PROFESSION:

Industrial	Commercial	Agricultural	Services	Any other

4. EXISTING LIMITS AND STATUS:

	Amount	Expiry date	Status		
			Regular	Amount over- due (if any)	Amount rescheduled/ restructured (if any)
Fund Based					
Non-Fund Based					

5. REQUESTED LIMITS:

	Amount	Tenor
Fund Based		
Non-Fund Based		

6. Details of payment schedule if term loan sought.

7. Latest Income Tax Form / Wealth Statement to be submitted by the borrower.

I certify and undertake that the information furnished above is true to be best of my knowledge

APPLICANT'S SIGNATURE & STAMP

COUNTER SIGNED BY:

AUTHORIZED SIGNATURE & STAMP
(MODARABA OFFICIAL)

ANNEXURE-II

FORM-I

**APPLICATION FORM FOR SEEKING APPROVAL OF
APPOINTMENT OF DIRECTOR/CHIEF EXECUTIVE**

S.No.	Details		
1.	a. Name: (former name if any):		
	b. N.I.C #(Attach copy)		Attached as Annexure No
	c. Father's/Husband Name:		
	d. Nationality:		
	e. Age:		
	f. Address:		
	i) Residential:		
	ii) Business:		
	g. National Tax #:		
	h. Present Occupation		
	i. Qualification (Attach copies)		Attached as Annexure No
	i) Educational		
	ii) Professional		
	j. Experience:		
	k. Photograph		Attached as Annexure No
2.	Net-worth (Attach copy of the wealth statement)		Attached as Annexure No
3.	Amount and percent of capital to be contributed/shares acquired		
4.	a. Names of companies, firms and other organization of which you have been a director, partner or office holder during last 3-years.		
	b. Summary of paid-up capital free reserves, profit after tax and dividend payment for last three years of companies and firms as mentioned in (a) above. (Attach copies of the annual accounts)		Attached as Annexure No
5.	Tax paid during last 3-years (Attach copies of the tax returns attested by Income tax authorities).		Attached as Annexure No
	a. In individual capacity.		
	i) Income Tax: Year-1 Year-2 Year-3 Total: _____ _____ _____		
	ii) Wealth Tax Year-1 Year-2 Year-3 Total: _____ _____ _____		
6.	Names of bankers with account numbers.		
	a. Individual Bankers		
	Banking behavior and credit worthiness (Attach banker's certificate)		Attached as Annexure No
	b. Bankers of companies/firms etc. wherein you have been a director for the preceding 3-years		

	Banking behavior and credit worthiness (Attach original bank certificate)		Attached as Annexure No
7.	Position regarding over due loans and defaults (C.I.B. report) (Attach CIB reports)		Attached as Annexure No
	a. Individual capacity		
	b. Companies/firms etc., wherein you have been a director for the preceding 3-years		
8.	Date of Board of Director's meeting in which appointment of proposed director was approved (Attach copy of minutes)		Attached as Annexure No
9.	Affidavit duly verified by Oath Commissioner		Attached as Annexure No
10.	In case of out- going Directors/ Chief Executive:		Attached as Annexure No
	a. Attach copies of resignation or Minutes of General Meeting in case of removal.		
	b. Copy of Board Resolution in case of Chief Executive.		
11.	Bank challan # ____ dated ____ (Attach in original).		Attached as Annexure No
12.	A copy of Checklist as circulated by the SEC vide circular No.7 of 2003 dated 27.2.2003.		Attached as Annexure No
13.	Names of persons related to the proposed director/Chief Executive who are already on the Board of the modaraba or proposed to be appointed as such and their relationship		

Signatures of Chief Executive and all the existing directors (if available in Pakistan) and proposed directors.

**APPLICATION FORM FOR SEEKING APPROVAL OF
APPOINTMENT OF NOMINEE DIRECTOR/CHIEF EXECUTIVE**

1. a.	Name: (Former name if any):		
b.	N.I.C #(Attach copy)		Attached as Annexure No
c.	Father's/Husband Name:		
d.	Nationality:		
e.	Age:		
f.	Address:		
	i) Residential:		
	ii) Business:		
g.	Present Occupation		
	Name of the institution nominating the director alongwith nomination letter		Attached as Annexure No
2.	Affidavit duly attested by Oath Commissioner (attach original)		Attached as Annexure No
3.	Bank challan # ___ dated _____ (Attach original)		Attached as Annexure No

Signatures of Chief Executive/
Company Secretary

ANNEXURE-III

**AFFIDAVIT BY SPONSORING
DIRECTOR**

AFFIDAVIT

I _____ son of _____ a director of _____ and presently residing at _____ do hereby solemnly affirms:

- i) that I have never been convicted of any fraud or breach of trust or an offence involving moral turpitude.
- ii) that I have never been removed from service compulsorily on account of charges of any corruption or on account of any disciplinary action.
- iii) that I have never been compounded with my creditors or suspended payment or defaulted in arranging in payments or got any loans of banks or development financial institutions or non-banking financial institutions written off or re-scheduled or re-structured.
- iv) that any firm or any company with which I have been associated in the past has never suspended payment or defaulted in arranging payments or compounded with any of its creditors or gone into liquidation or insolvency.
- v) that I have never been associated with any unauthorized banking business, or deposit taking, or any financial dealing.
- vi) that neither I nor my spouse have ever been a sponsor or a director or a majority shareholder or a Chief Executive of a co-operative society or any other financial institution/company which has failed to meet its legal obligations.
- vii) that I have never defaulted in the payment of any taxes and have never indulged, whether deliberately or willfully, in evasion of taxes, dues, levies or fees or any other obligations imposed under any Federal or Provincial or local bodies law.
- viii) that I or my spouse have never been associated with or involved, directly or indirectly, in any undertaking whose tax record has not been satisfactory.
- ix) that I or my spouse is not a director, Chief Executive, Chairman, in any other modaraba management company.
- x) I have read and fully understood the Modaraba Companies and modaraba (Floatation and Control) Ordinance, 1980, and the Rules and Guidelines made thereunder, and have also read and understood the Prudential Regulations for Modaraba issued by the Registrar Modaraba, Securities and Exchange Commission of Pakistan. I undertake to abide by all the Regulations and Rules contained therein, specially as regards managing this Modaraba at arms length from my personal and business matters and directly or indirectly ensuring that Modaraba financing is not obtained by me or any of the business and persons associated with me.

That I hereby affirm and verify that the contents in the accompanying application dated _____ addressed to the Registrar Modaraba are true and correct to the best of my knowledge and belief.

DEPONENT

AFFIDAVIT BY
SPONSORING INSTITUTION

AFFIDAVIT

On behalf of _____ (hereinafter referred to as the
institution) whose registered office is situated at
_____, I, _____ son
of _____, being the Chief Executive, do solemnly affirm:

- i) that the institution has never compounded with any of its creditors or suspended payment or defaulted in meeting any financial obligations nor any of its financial obligations have been written off by any financial institution;
- ii) that the institution or any of its associated undertakings have never been involved in any unauthorized business of banking, or deposit taking or any financial dealing;
- iii) that the institution has never defaulted in payment of any taxes nor it has ever indulged in willful evasion of taxes;
- iv) that the declaration made by the directors nominated by the institution have been verified by me and they have been found to be correct;
- v) that the institution, through its nominee directors, undertake to abide by the provisions of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, and the rules and guidelines made thereunder, as well as the NBF Prudential regulations issued by the State Bank of Pakistan;
- vi) that the institution, through its nominee directors, also undertakes to ensure the modaraba company and the modarabas managed by the modaraba company are managed professionally and at arms length from the business and interest of its directors, sponsoring institutions and any shareholder of the company who owns, directly or indirectly, 5% or more shares of the modaraba company; and
- viii) that the institution, through its nominee directors, will ensure that the modaraba managed by the modaraba company will not directly or indirectly, finance any of the business of the persons associated with the directors, or sponsoring institutions or any shareholders who own 5% or more shares of modaraba company.

AFFIDAVIT BY NOMINEE
DIRECTOR

AFFIDAVIT

I _____ son of _____ a director of _____ presently residing at _____ do solemnly affirms:

- i) that I have never been convicted of any fraud or breach of trust or any offence involving moral turpitude.
- ii) that I have never been removed from service compulsorily on charges of corruption or on account of disciplinary action.
- iii) that I have never been adjudicated an insolvent or suspended payment or defaulted in arranging payments or compounded with any of my creditors.
- iv) that any firm or any company with which I have been associated in the past has never been suspended payment or defaulted in arranging payments or compounded with any of its creditors or gone into liquidation.
- v) that I have never been associated with any illegal activities particularly in banking business, or deposit taking, or financial dealing or any other business or activities of unlawful nature.
- vi) that neither myself nor my spouse have ever been a sponsor or a director or a majority shareholder or a Chief Executive of a co-operative society which has failed to meet its legal obligations.
- vii) that I have never defaulted in the payment of taxes and have never indulged whether deliberately or unwittingly in the evasion in taxes, dues, levies or fees imposed under any federal or provincial or local bodies law.
- viii) that I or my spouse have never been associated or involved directly or indirectly with any undertaking whose tax record has not been satisfactory.
- ix) that I or my spouse have never defaulted in the discharge any obligation towards any bank or any financial institution.
- x) that I or my spouse is not a director, Chief executive, chairman, in any other modaraba management company.
- xi) that whatever has been stated above is true to the best of my knowledge and belief and in the event of affirmations made above proving contrary to what has been stated above, I shall be personally liable to action including penalties and prosecution as provided under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

DEPONENT