

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Institute of Banking and Finance (Guarantee) Limited as at June 30, 2003, and the related income and expenditure account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2003 and of the surplus and its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Lahore:

SYED HUSAIN & CO.
Chartered Accountants

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

BALANCE SHEET AS AT JUNE 30, 2003

		2003	2002
	Note	Rupees	Rupees
ASSETS			
NON CURRENT ASSETS			
Tangible operating fixed assets - at cost less accumulated depreciation	3	15,035,842	
Balance in current account with State Bank of Pakistan		10,544,898	-
		25,580,740	-
CURRENT ASSETS			
Stocks - Stationary and other consumables		245,619	-
Advances, prepayments and other receivables	4	900,150	977,929
Cash and bank balances	5	52,888,383	273,827,959
		54,034,152	274,805,888
TOTAL ASSETS		79,614,892	274,805,888
EQUITY AND LIABILITIES			
EQUITY			
Authorized share capital			
20,000,000 (2002: 20,000,000) ordinary shares of Rupees 10 each		200,000,000	200,000,000
Issued, subscribed and paid up share capital			
07 (2002: 07) ordinary shares of Rupees 10 each fully paid up in cash		70	70
Accumulated surplus		24,367,267	24,367,267
		24,367,337	24,367,337
NON-CURRENT LIABILITIES			
Advance for issue of shares	6	49,260,760	27,499,970
CURRENT LIABILITIES			
Creditors, accrued and other liabilities	7	4,486,795	222,938,581
Advance fee received		1,500,000	-
		5,986,795	222,938,581
CONTINGENCIES AND COMMITMENTS			
		-	-
TOTAL EQUITY AND LIABILITIES		79,614,892	274,805,888

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED JUNE 30, 2003

		12 months ended June 30, 2003	18 months ended June 30, 2002
	Notes	Rupees	Rupees
INCOME	8	7,903,770	4,568,139
EXPENDITURE	9	58,142,656	576,580
(DEFICIT)/SURPLUS BEFORE ALLOCATION TO STATE BANK OF PAKISTAN		<u>(50,238,886)</u>	<u>3,991,559</u>
EXPENSES REIMBURSABLE FROM / ALLOCATED TO STATE BANK OF PAKISTAN		58,142,656	-
LESS: INCOME ALLOCATED TO STATE BANK OF PAKISTAN		(7,903,770)	-
		<u>50,238,886</u>	<u>-</u>
(DEFICIT)/SURPLUS FOR THE YEAR- BEFORE TAX		-	3,991,559
TAXATION:			
Current		-	(234,780)
Prior		-	(1,367,589)
		<u>-</u>	<u>(1,602,369)</u>
(DEFICIT)/SURPLUS FOR THE YEAR - AFTER TAX		-	2,389,190
ACCUMULATED SURPLUS BROUGHT FORWARD		24,367,267	21,978,077
ACCUMULATED SURPLUS CARRIED FORWARD		<u><u>24,367,267</u></u>	<u><u>24,367,267</u></u>
BASIC EARNING PER SHARE	12	<u>-</u>	<u>341,312.86</u>

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED JUNE 30, 2003

	12 months ended June 30, 2003	18 months ended June 30, 2002
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus before tax	-	3,991,559
Adjustments for non-cash items and other charges		
Expenses allocated to State Bank of Pakistan	8,321,198	-
(Gain)/Loss on disposal of fixed assets	(60)	-
Reversal of provision for penalties	-	(1,201,721)
Cash flow from operating activities before working capital changes	<u>8,321,138</u>	<u>2,789,838</u>
Cash flow from working capital changes		
Increase/(Decrease) in Current Liabilities:		
Creditors, accrued and other liabilities	(218,451,786)	174,425
Advance fee recovered	1,500,000	-
(Increase)/Decrease in Current Assets:		
Stocks	(245,619)	-
Advances, deposits, prepayments and other receivables	77,779	250,100
Income tax paid	(217,119,626)	424,525
	-	(4,462,271)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<u>(208,798,488)</u>	<u>(1,247,908)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Addition/transfer of fixed assets	(23,358,180)	-
Proceeds from disposal of fixed assets	1,200	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(23,356,980)</u>	<u>-</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Current accounts with State Bank of Pakistan	(10,544,898)	-
Advance against issue of shares	21,760,790	-
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>11,215,892</u>	<u>-</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(220,939,576)</u>	<u>(1,247,908)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	273,827,959	275,075,867
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>52,888,383</u>	<u>273,827,959</u>

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED JUNE 30, 2003

	Advance for Issue of Shares	Share Capital	Accumulated Surplus	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at December 31, 2000	249,999,930	70	21,978,077	271,978,077
Net profit for the 18 months	-	-	2,389,190	2,389,190
Transferred to current liabilities	(222,499,960)	-	-	(222,499,960)
Balance as at June 30, 2002	27,499,970	70	24,367,267	51,867,307
Consideration received during the year	21,760,790	-	-	21,760,790
Net profit for the year	-	-	-	-
Balance as at June 30, 2003	49,260,760	70	24,367,267	73,628,097

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2003

1. STATUS AND NATURE OF BUSINESS

National Institute of Banking and Finance (Guarantee) Limited (the Institute) was incorporated under the Companies Ordinance, 1984 on March 21, 1993 in Pakistan, as a Private Company Limited by Guarantee. The Institute is engaged in providing education and training in the field of banking, finance and allied areas. State Bank of Pakistan and National Bank of Pakistan hold 59.4% and 40.6% share capital, respectively. There is, however, a proposal under consideration for change in shareholding between State Bank of Pakistan and National Bank of Pakistan to the extent of 90% and 10%, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under the historical cost convention without any adjustment of the effect of inflation.

2.2 Basis of Preparation of Financial Statements

These financial statements have been prepared in compliance with requirements of the Companies Ordinance, 1984, circulars, notifications and orders issued by the regulatory authorities and International Accounting Standards as applicable in Pakistan.

Income generated by the Institute is allocated to State Bank of Pakistan. The expenses incurred by the Institute are also allocated to or reimbursed from State Bank of Pakistan.

2.3 Tangible Operating Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation on these assets is charged on the straight line method at rates specified in Note 3 of these accounts whereby the cost of assets is written off over their estimated useful lives.

Depreciation on additions and disposals is charged for the number of months for which assets remained in use in the year of addition/disposal.

Repair and maintenance costs are charged to income as and when incurred, whereas major renewals and improvements are capitalized. Gain/Loss on disposal of fixed assets is recognized in the profit and loss account in the year of disposal.

2.4 Stationery and Computer Stock

These are valued at cost determined on first in first out basis.

2.5 Taxation

Income of the Institute, being a subsidiary of State Bank of Pakistan is exempted from tax under Section 49 of the State Bank of Pakistan Act, 1956. Further, income of the Institute is also exempted from income tax as per Clause 92 of Part-I of Schedule 2 of the Income Tax Ordinance, 2001.

2.6 Revenue Recognition

Education and training fee is recognized on completion of courses. Hostel income is recognized on providing of hostel accommodation and ancillary facilities.

Profit on PLS accounts and income from rent is recognized on accrual basis.

3 TANGIBLE OPERATING FIXED ASSETS

PARTICULARS	C O S T					Rate per Annum	D E P R E C I A T I O N					Written Down Value as on June 30, 2003
	As at July 1, 2002	Transfers	Additions	(Disposals)	As at June 30, 2003		As at July 1, 2002	Transfers	Adjustment for disposals	Depreciation for the year	As at June 30, 2003	
	Rupees	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees	Rupees	
Furniture and fixtures	-	18,477,359	345,455	-	18,822,814	10%	-	5,266,175	-	1,854,323	7,120,498	11,702,316
EDP equipment	-	951,593	175,810	-	1,127,403	33.33%	-	616,976	-	183,451	800,427	326,976
Office equipment	-	29,232,572	415,534	(1,200)	29,646,906	20%	-	21,418,796	(60)	5,866,762	27,285,498	2,361,408
Vehicles	-	2,456,902	585,000	-	3,041,902	20%	-	2,055,689	-	341,071	2,396,760	645,142
Library books	-	636,406	75,591	-	711,997	100%	-	636,406	-	75,591	711,997	-
2003	-	51,754,832	1,597,390	(1,200)	53,351,022		-	29,994,042	(60)	8,321,198	38,315,180	15,035,842
2002	-	-	-	-	-		-	-	-	-	-	-

3.1 During current year, cost and accumulated depreciation of the assets in use of the Institute (except land and buildings), were transferred by State Bank of Pakistan.

3.2 State Bank of Pakistan owns land and building of the Institute. No amount, for its use, has been charged by State Bank of Pakistan to the Institute.

	12 months ended June 30, 2003	18 months ended June 30, 2002
	Rupees	Rupees
4. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES		
These are unsecured but considered good:		
Receivable from Economic Affairs Division	437,118	-
Accrued profit on PLS accounts	395,863	977,929
Prepayments	38,055	-
Advances to staff against expenses	23,049	-
Other receivables	6,065	
	<u>900,150</u>	<u>977,929</u>
5. CASH AND BANK BALANCES		
Cash in hand	106,146	-
Cash with banks on:		
Deposit accounts	52,782,237	59,913,215
Current accounts	-	213,914,744
	<u>52,782,237</u>	<u>273,827,959</u>
	<u>52,888,383</u>	<u>273,827,959</u>
6. ADVANCE FOR ISSUE OF SHARES		
State Bank of Pakistan	29,260,770	7,499,980
National Bank of Pakistan	19,999,990	19,999,990
	<u>49,260,760</u>	<u>27,499,970</u>
7. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Payable to member banks	-	222,499,960
Creditors	2,870,533	147,098
Traveling and training costs payable	578,366	-
Payable to training institutions	356,785	-
Accrued charges	288,160	206,896
Salaries/stipends payable	182,008	-
Auditor's remuneration	70,000	84,627
Withholding tax payable	29,307	-
Other liabilities	111,636	-
	<u>4,486,795</u>	<u>222,938,581</u>

	12 months ended June 30, 2003	18 months ended June 30, 2002
	Rupees	Rupees
8 INCOME		
Hostel Income	6,192,359	-
Education and training fee	557,841	-
Other Income (Note 8.1)	1,153,570	4,568,139
	<u>7,903,770</u>	<u>4,568,139</u>
8.1 OTHER INCOME		
Profit on PLS accounts	1,024,718	3,366,418
Gain on disposal of fixed assets	60	-
Miscellaneous income	128,792	1,201,721
	<u>1,153,570</u>	<u>4,568,139</u>
9. EXPENDITURE		
Reimbursable from State Bank of Pakistan:		
Salaries, wages and other benefits	21,811,175	-
Electricity, gas and water	7,406,414	-
Training costs	6,203,140	-
Repair and maintenance	4,148,810	-
Boarding/lodging catering and allied expenses	3,794,810	-
Printing and stationery	1,464,581	-
Traveling and conveyance	1,544,533	-
Medical expenses	813,440	-
Telecommunication	868,493	-
Vehicle running expenses	587,682	-
Legal and professional charges	290,804	415,922
Disinfectants and general consumables	177,996	-
Security services/charges	225,482	-
Newspapers and periodicals	136,806	-
Insurance expense	59,224	-
Auditors' remuneration		
Audit fee	60,000	60,000
Out of pocket expenses	10,000	44,690
	70,000	104,690
Postage and courier	52,889	-
Entertainment	42,977	-
Rent, rates and taxes	12,707	-
Others	109,495	55,968
	<u>49,821,458</u>	<u>576,580</u>
Allocated to the State Bank of Pakistan:		
Depreciation (Note: 3)	8,321,198	-
	<u>58,142,656</u>	<u>576,580</u>

9.1 Number of employees of the Institute at the end of the year was 70 (2002: 77).

	12 months ended June 30, 2003 Rupees	18 months ended June 30, 2002 Rupees
10. TRANSACTIONS WITH HOLDING UNDERTAKING		
Expenses incurred on behalf of holding undertaking	4,263,939	-
Amount disbursed by holding company on behalf of the company	49,821,458	-

Maximum aggregate amount due from holding undertaking at the end of any month during the year was Rupees 10,544,898 (2002: nil)

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

11.1 Financial assets and liabilities of the Institute are as under:

	2003						Total Rupees	2002 Rupees
	Interest bearing			Non interest bearing				
	With-in one year Rupees	One year to five year Rupees	Sub Total Rupees	Within one year Rupees	One year to five year Rupees	Sub Total Rupees		
Financial assets								
Advances and other receivables	-	-	-	862,095	-	862,095	862,095	977,929
Due from SBP	-	-	-	-	10,544,898	10,544,898	10,544,898	-
Cash and bank balances	52,782,237	-	52,782,237	106,146	-	106,146	52,888,383	273,827,959
	<u>52,782,237</u>	<u>-</u>	<u>52,782,237</u>	<u>968,241</u>	<u>10,544,898</u>	<u>11,513,139</u>	<u>64,295,376</u>	<u>274,805,888</u>
Financial Liabilities								
Creditors accrued and other liabilities	-	-	-	4,457,488	-	4,457,488	4,457,488	222,938,581
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,457,488</u>	<u>-</u>	<u>4,457,488</u>	<u>4,457,488</u>	<u>222,938,581</u>
Net financial assets (liabilities)	<u>52,782,237</u>	<u>-</u>	<u>52,782,237</u>	<u>(3,489,247)</u>	<u>10,544,898</u>	<u>7,055,651</u>	<u>59,837,888</u>	<u>51,867,307</u>

11.2 Effective Markup Rate

Effective markup rate for the current year for financial assets is 1.7% to 2.5% per annum. Financial liabilities are not subjected to any mark up rate.

11.3 Exposure to Credit Risk and Mark up Rate Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Institute believes that it is not exposed to major concentration of credit risk and significant mark up rate risk.

11.4 Fair Value of Financial Instruments

The estimated fair values of financial instruments are not significantly different from their book values as shown in these financial statements.

	12 months ended June 30, 2003 Rupees	18 months ended June 30, 2002 Rupees
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12. EARNING PER SHARE -BASIC

There is no dilutive effect on the basic earning per share, which is as under:

Profit for the year - After Tax (Rupees)	-	2,389,190
Shares in issue (Numbers)	7	7
Basic earning per share (Rupees)	-	341,312.86

13. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors of the Institute and authorized for issue on

14. CORRESPONDING FIGURES

14.1 No significant reclassification or rearrangement of corresponding figures has been made in these financial statements.

MANAGING DIRECTOR

DIRECTOR

