

# 12 Financial Statements of NIBAF

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## **KPMG TASEER HADI & CO.**

Chartered Accountants

Sixth Floor, State Life Building Blue Area

Islamabad, Pakistan

### **INDEPENDENT AUDITORS' REPORT**

**To the members of National Institute of Banking and Finance (Guarantee) Limited**

#### **Report on the Audit of the Financial Statements**

##### **Opinion**

We have audited the annexed financial statements of National Institute of Banking and Finance (Guarantee) Limited (the Institute), which comprise the statement of financial position as at 30 June 2018, and the income and expenditure statement, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the income and expenditure statement, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Institute's affairs as at 30 June 2018 and of the income and expenditure, the changes in equity and, its cash flows for the year then ended.

##### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are Independent of the institute in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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**Emphasis of Matter**

We draw attention to note 18.1 to the financial statements wherein it is stated that, based on the advice of its legal counsel, the institute has not recognized liability in respect of sales tax under Islamabad Capital Territory (Tax on services) Ordinance, 2015. Our opinion is not modified in respect of this matter.

**Responsibilities of Management and Board of Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Board of director's are responsible for overseeing the Institute's financial reporting process.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

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an opinion on the effectiveness of the institute's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Other Legal and Regulatory Requirements**

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Institute as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the income and expenditure statement, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the institute's business; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**Other Matter**

The financial statement of the Institute for the year ended 30 June 2017, were audited by another auditor whose report dated 18 October 2017 expressed an unmodified opinion on those statements.

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**Chartered Accountants**

The engagement partner on the audit resulting in this independent auditors' report is Riaz Pesnani.

**KPMG Taseer Hadi & Co.**  
**Chartered Accountants**  
**Islamabad**

**04 October 2018**

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2018**

	Note	2018	2017
		Rupees in '000	
ASSETS			
Non-current assets			
Property and equipment	5	72,549	36,986
Intangible assets	6	-	
Long term deposits		1,645	1,645
Current assets			
Stock of stationery and consumables		2,392	1,191
Receivable against training programs	7	105,094	44,392
Advances, prepayments and other receivables	8	6,374	1,864
Due from State Bank of Pakistan (Parent entity)	9	125,087	135,612
Short term investments	10	31,155	28,401
Assets relating to Endowment fund	11	102,793	98,421
Tax refunds due from government		5,888	4,808
Cash and bank balances	12	8,327	65
		387,110	314,754
TOTAL ASSETS		461,304	353,385
LIABILITIES			
Non-current liabilities			
Restricted Grant	13	13,029	-
Deferred Capital Grant	14	13,223	-
Endowment Fund - Deferred Grant	15	102,793	98,421
		129,045	98,421
Current liabilities			
Accrued expenses and other payables	16	24,568	8,778
TOTAL LIABILITIES		153,613	107,199
NET ASSETS		307,691	246,186
SHARE CAPITAL AND RESERVES			
Share capital	17	29,261	29,261
Accumulated surplus-revenue reserve		278,430	216,925
Total equity		307,691	246,186

**CONTINGENCIES AND COMMITMENTS**

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The annexed notes from 1 to 34 form an integral part of these financial statements.

**CHIEF EXECUTIVE OFFICER/  
MANAGING DIRECTOR**

**DIRECTOR**

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED  
INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018	2017
		Rupees in '000	
INCOME			
Grant income	19	10,278	-
Training and education fee	20	419,539	366,876
Hostel and training halls	21	25,410	26,367
Other income	22	9,886	2,106
Income transferred from endowment fund	15	1,458	1,405
		466,571	396,754
EXPENDITURE			
Programme activities	23	(10,278)	-
Operating, administrative and general expenses	24	(394,788)	(296,080)
		(405,066)	(296,080)
Operating surplus for the year		61,505	100,674
Other comprehensive income for the year		-	-
Total comprehensive surplus for the year		61,505	100,674

The annexed notes from 1 to 34 form an integral part of these financial statements.

**CHIEF EXECUTIVE OFFICER/  
MANAGING DIRECTOR**

**DIRECTOR**

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 Rupees in '000	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Operating surplus for the year</b>		<b>61,505</b>	100,674
<b>Adjustments for non cash items</b>			
Income from investments	22	(1,791)	(1,515)
Restricted grant recognised as income	19	(8,766)	-
Amortisation of deferred capital grant	22	(1,512)	-
Reversal of provision against doubtful receivables		(86)	(10)
Depreciation	5	17,248	13,409
Gain on disposal of property and equipment	22	(408)	(350)
		<b>4,685</b>	11,534
Operating income before working capital changes		<b>66,190</b>	112,208
<b>Changes in working capital</b>			
<b>(Increase) / decrease in current assets</b>			
Stock of stationery and consumables		(1,201)	(240)
Receivable against training programs		(60,616)	36,434
Advances, prepayments and other receivables		(4,510)	1,695
Due from State Bank of Pakistan (Parent entity)		10,525	(135,612)
		<b>(55,802)</b>	(97,723)
<b>Increase / (decrease) in current liabilities</b>			
Accrued expenses and other payables		10,651	1,806
Net changes in working capital		<b>(45,151)</b>	(95,917)
Withholding tax deducted		(1,080)	(2,496)
Interest income received during the year		1,677	1,471
Restricted grant received during the year		36,530	-
Long term deposits		-	(13)
<b>Net cash generated from operating activities</b>		<b>58,166</b>	15,253
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure		(47,672)	(11,334)
Sale proceeds from disposal of property and equipment		408	350
Investments made during the year		(120,382)	(30,069)
Investments redeemed during the year		117,742	25,819
Endowment fund investments made during the year		(304,981)	(384,813)
Endowment fund investments redeemed during the year		304,981	384,813
<b>Net cash used in investing activities</b>		<b>(49,904)</b>	(15,234)
<b>Net increase in cash and cash equivalents during the year</b>		<b>8,262</b>	19
Cash and cash equivalents at the beginning of the year		65	46
<b>Cash and cash equivalents at the end of the year</b>		<b>8,327</b>	65

The annexed notes from 1 to 34 form an integral part of these financial statements.

**CHIEF EXECUTIVE OFFICER/  
MANAGING DIRECTOR**

**DIRECTOR**

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Share Capital	Accumulated Surplus	Total
	-----Rupees in '000-----		
<b>Balance at 01 July 2016</b>	29,261	116,251	145,512
Total comprehensive income for the year -surplus	-	100,674	100,674
<b>Balance at 30 June 2017</b>	29,261	216,925	246,186
<b>Balance at 01 July 2017</b>	29,261	216,925	246,186
<b>Total comprehensive income for the year -surplus</b>	-	61,505	61,505
<b>Balance at 30 June 2018</b>	29,261	278,430	307,691

The annexed notes from 1 to 34 form an integral part of these financial statements.

**CHIEF EXECUTIVE OFFICER/  
MANAGING DIRECTOR**

**DIRECTOR**



**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1 CORPORATE AND GENERAL INFORMATION**

**1.1 The Company and its operations**

National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated under the repealed Companies Ordinance, 1984 on 21 March 1993 in Pakistan, as a private company limited by guarantee having share capital. The Institute is engaged in providing education and training in the field of banking, finance and allied areas. State Bank of Pakistan is the Parent entity of the Institute ("the Parent entity").

Registered office of the Company is situated at NIBAF Building, Street 4 , Pitras Bukhari Road, H-8/1 , Islamabad. The Company's regional campus is located at LRC Building, State Bank of Pakistan , I.I. Chundrigar Road, Karachi.

**1.2 Summary of significant events and transactions**

Significant events and transaction affecting the financial statements are summarised as follows:

- During the year the Institute entered into a grant agreement with the State Bank of Pakistan (Parent entity) for launching National Financial Literacy Programme for the youth of Pakistan. Implementation period of the program is five years from the date of the agreement and committed amount for this period is Rs. 149 million.
- During the year Institute introduced following new trainings in response to increased on-job training need of the Parent entity.
  - Several IT related and skill upgradation programs to meet requirement of SBP's new training policy.
  - Strategic leadership development programs;
  - Capacity building sessions on ERM;
  - Officers development program;
  - Awareness on workplace harassment.
  - E-learning programs
- Other than meeting the demand of the Parent entity, training agenda for SME was also developed.
- Due to the first time application of financial reporting requirements under the Companies Act, 2017, including disclosure and presentation requirements of the fifth schedule of the Companies Act, 2017, some of the amounts reported for the previous year have been reclassified.

**2 BASIS OF PREPARATION**

**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan

- International Financial Reporting Standards (IFRS Standards), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017 ; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017 have been followed.

## **2.2 Basis of measurement**

These financial statements have been prepared under the historical cost convention except as stated otherwise.

## **2.3 Functional and presentation currency**

These financial statement are presented in Pak Rupees (PKR or Rupee) which is the Company's functional currency. All the amounts have been rounded off to the nearest thousand, unless otherwise stated.

## **2.4 Significant accounting estimates**

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

### **(a) Property and equipment**

The Institute reviews the residual values and useful lives of property and equipment on a regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on depreciation charge and impairment.

### **(b) Intangible assets**

The Institute reviews the residual values and useful lives of intangible assets on a regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of intangible assets with a corresponding effect on amortisation and impairment.

### **(c) Impairment**

The Institute's assessment relating to impairment of assets is discussed in note 4.3.

### **(d) Provision for slow moving stocks and other receivables**

The Institute exercises judgment and makes provision for slow moving stocks based on their future usability. Provision for other receivables is determined using judgment based on past business practices, probability of recovery and lapsed time period of due balance. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

### **(e) Provision for doubtful receivables**

The Institute makes provisions for doubtful receivables when the collection of full amount is not probable. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

## **STANDARDS, INTERPRETATIONS AND AMENDMENTS TO THE APPROVED ACCOUNTING STANDARDS**

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Institute's financial statements.
- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Institute's financial statements.
- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures'] (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Institute's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The amendments are not likely to have an impact on Institute's financial statements.

Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Institute's financial statements.

- Amendment to IFRS 4 'Insurance Contracts'- Applying IFRS 9 'Financial Instruments' with IFRS 4 (effective for annual periods beginning on or after 1 July 2018). The amendment address issue arising from the different effective dates of IFRS 9 and the forthcoming new standard IFRS 17 'Insurance Contracts'. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 1 July 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. These amendments may impact the Institute's equity accounted investee, however a financial impact has not been determined.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Institute is currently in the process of analysing the potential impact of changes required in revenue recognition policies on adoption of the standard.
- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Institute is currently in the process of analysing the potential impact of changes required in classification and measurement of financial instruments and the impact of expected loss model on adoption of the standard.
- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The amendments are not likely to have an impact on Institute's financial statements.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The Institute is currently assessing the impact of the IFRIC 22 on its financial statements, if any.
- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Institute's financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

- IFRS 3 ‘Business Combinations’ and IFRS 11 ‘Joint Arrangement’ - the amendment aims to clarify the accounting treatment when an entity increases its interest in a joint operation that meets the definition of a business. An entity re-measures its previously held interest in a joint operation when it obtains control of the business. an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- IAS 12 ‘Income Taxes’ - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

- IAS 23 ‘Borrowing Costs’ - the amendment clarifies that an entity treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Institute’s financial statements

## **4 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes as indicated below.

- Amendments to IAS 7 ‘Statement of Cash Flow’ became effective during the year. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Adoption of this requirement has not resulted in any change as currently there were no changes in liabilities arising from financing activities.

- The Companies Act, 2017 specified certain disclosures to be included in the financial statements. The Company has presented the required disclosures in these financial statements and re-presented certain comparatives. However, there was no change in the reported amounts of profit and other comprehensive income and the amounts presented in the statement of financial position due to these re-presentations.

### **4.1 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any.

Depreciation is charged to income and expenditure account applying the straight line method, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal. The rates of depreciation are stated in note 4.1 to these financial statements.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each reporting date.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Institute and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to income and expenditure account.

Gains and losses on sale or retirement of property and equipment are included in the income and expenditure account.



#### **4.2 Intangible - computer softwares**

Computer softwares are stated at cost less accumulated amortisation. Software costs are capitalised only when it is probable that future economic benefits attributable to the software will flow to the Institute and these are amortised applying the straight line method at the rates stated in note 6.1 to these financial statements.

#### **4.3 Impairment**

The carrying amounts of the Institute's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount and the differences are recognized as expense in the income and expenditure account.

#### **4.4 Deferred grants**

Grants related to specific assets are set up as deferred grants and recognized as income on a systematic basis over the useful life of the related assets.

#### **4.5 Stock of stationery and consumables**

Stock of stationery and consumables are valued at the lower of cost and net realizable value. Cost comprises cost of purchases and other costs incurred in bringing the items to their present location and condition. Replacement cost of the items is used to measure the net realizable value. The valuation is done on moving average basis. Provision is made for stocks which are not used for a considerable period of time or stocks which are not expected to be used in future.

#### **4.6 Receivable against training programs and other receivables**

Receivable against training programs are recognised and carried at original invoice amount less an allowance for any doubtful receivable.

An estimate for doubtful receivable against training programs and other receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### **4.7 Financial Instruments**

##### **Financial Assets**

##### **4.7.1 Classification**

The management determines the appropriate classification of its financial assets in accordance with the requirements of International Accounting Standard 39 (IAS 39) "Financial Instruments: Recognition and Measurement" at the time of purchase of financial assets and re-evaluates this classification on a regular basis. The financial assets of the Institute are categorised as follows:

##### **a) Financial assets 'at fair value through profit or loss'**

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified in financial assets 'at fair value through profit or loss' category.

**b) Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Institute's loans and receivables comprise of long term deposits, receivable against training programs, advances and other receivables, due from State Bank of Pakistan and bank balances in the statement of financial position.

**c) Held to maturity**

These are financial assets with fixed or determinable payments and fixed maturity with the Institute having positive intent and ability to hold till maturity.

**d) Available for sale financial assets**

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity and (c) financial assets 'at fair value through profit or loss'.

Currently, the financial assets of the Institute have been classified under "loans and receivables" and "held to maturity" categories.

**4.7.1.1 Initial recognition and measurement**

All financial assets are recognised at the time the Institute becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Institute commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value while the transaction costs associated with these financial assets are taken directly to the income and expenditure account.

**4.7.1.2 Subsequent measurement**

Subsequent to initial recognition, financial assets categorised as "loans and receivables" and "held to maturity" are valued at amortised cost.

**4.7.1.3 Impairment**

The Institute assesses at reporting date whether there is objective evidence that a financial asset is impaired.

**a) Assets carried at amortised cost**

A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty or default in payments, the probability that they will enter bankruptcy, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income and expenditure account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Institute also evaluates impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income and expenditure account.

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

Financial assets and financial liabilities are offset and the net amount is reported in the statement of the financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### **4.7.2 Financial liabilities**

All financial liabilities are recognised at the time when the Institute becomes a party to the contractual provisions of the instrument.

#### **4.7.3 Derecognition**

Financial assets are derecognised at the time when the Institute loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised at the time when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of financial assets and financial liabilities is taken to the income and expenditure account.

#### **4.8 Accrued expenses and other payables**

Liabilities for accrued expenses and other amounts payable are carried at amortized cost, which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Institute.

#### **4.9 Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and cash with banks in current account.

#### **4.10 Provisions**

Provisions are recognised in the statement of the financial position when the Institute has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.



**4.11 Income recognition****(a) Grants****(i) Capital grants**

Grants received for fixed assets are initially recorded as capital grants in the statement of the financial position. Subsequently, these are recognized as income on a systematic basis over periods necessary to match them with the carrying value of the related assets.

**(ii) Restricted grants**

Grants, of a non-capital nature, received for specific purposes, and any bank interest earned on them, are classified as restricted grants. Such grants are transferred to income to the extent of actual expenditure incurred against them. Expenditure incurred against grants committed but not received, is accrued and recognized in income and is reflected as a grant receivable. Unspent portions of such grants are reflected as restricted grants in the statement of the financial position.

**(iii) Unrestricted grants**

Grants received from donors without any conditions are recognized as unrestricted grants in income, during the period of receipt. Expenditure incurred against grants committed but not received, is accrued and recognized in income and is reflected as a grant receivable.

**(b) Revenue recognition**

- (i) Training, education and hostel services are recognised on an accrual basis.
- (ii) Income on investment is accounted for on a time proportion basis using the applicable rates.
- (iii) Income from endowment fund is recognised on an accrual basis and determined in accordance with the NIBAF Endowment Fund Rules.
- (iv) Other income is recognised as and when earned.

**4.12 Endowment fund - Deferred Grant**

The Institute has established an Endowment fund effective from 01 July 2011 for utilisation of the amount received from the SBP. The terms of references / rules and regulations of the Endowment fund have been formulated. The aims and objective of NIBAF Endowment Fund are as under:

- a) Capacity building of SBP and its subsidiaries (including SBP-BSC, NIBAF and others, if any) as well as other banking professionals in realms of Rural Finance, Microfinance, Agriculture and SMEs etc.
- b) To encourage, promote, support and undertake academic and scientific investigations, innovative research, inventions and developments in various Banking and Finance related areas.
- c) To provide assistance in such activities as field surveys, experiments, collection and dissemination of information, seminars, conferences and trainings etc. aimed at increasing awareness, introducing improvements and enhancing efficiency in areas related to Banking and Finance in general and Rural Finance in particular.
- d) To conduct research and trainings to increase awareness of commercial banks regarding possibilities, prospects and risks, to develop demand driven products and services, instituting enhanced portfolio management capability and installing systems and procedures for reducing costs

- e) To promote gathering of information on rural finance by collecting and analysing data, conducting survey thereby working as a main training hub.
- f) To create linkages with national and international organisations for the strengthening of Rural finance related activities.
- g) For any other purpose which the Institute's Board of Directors may consider fit for the overall benefit Institute and its stakeholders.

#### **4.13 Retirement benefits**

The permanent employees of the Institute represent employees who are either deputed by the State Bank of Pakistan (Parent entity) or State Bank of Pakistan - Banking Service Corporation (related entity). All the employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and is not charged to the Institute.

#### **4.14 Fair value measurement**

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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**5 PROPERTY AND EQUIPMENT**

**5.1** The following is a statement of property and equipment:

	Property and equipment					Total
	Furniture and fixtures	Electronic data processing equipment	Office equipment	Vehicles	Capital Work in Progress (Note 5.3)	
	-----Rupees in '000-----					
<b>Cost</b>						
Balance as at 01 July 2016	14,980	21,301	58,662	43,555	-	138,498
Additions during the year	2,002	2,442	5,200	-	-	9,644
Transfer in during the year	-	3,159	-	-	-	3,159
Disposals during the year	(60)	-	(665)	-	-	(725)
Balance as at 30 June 2017	16,922	26,902	63,197	43,555	-	150,576
<b>Balance as at 01 July 2017</b>	<b>16,922</b>	<b>26,902</b>	<b>63,197</b>	<b>43,555</b>	<b>-</b>	<b>150,576</b>
<b>Additions during the year (Note 5.5)</b>	<b>7,972</b>	<b>11,501</b>	<b>12,484</b>	<b>12,600</b>	<b>5,139</b>	<b>49,696</b>
<b>Transfer in during the year</b>	<b>-</b>	<b>3,647</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,647</b>
<b>Disposals during the year</b>	<b>(622)</b>	<b>(7,666)</b>	<b>(2,345)</b>	<b>-</b>	<b>-</b>	<b>(10,633)</b>
<b>Balance as at 30 June 2018</b>	<b>24,272</b>	<b>34,384</b>	<b>73,336</b>	<b>56,155</b>	<b>5,139</b>	<b>193,286</b>
<b>Allowance for depreciation</b>						
Balance as at 01 July 2016	8,838	21,277	44,950	24,372	-	99,437
Depreciation charge for the year	1,134	226	5,997	6,052	-	13,409
Transfer in during the year	-	1,469	-	-	-	1,469
Disposals during the year	(60)	-	(665)	-	-	(725)
Balance as at 30 June 2017	9,912	22,972	50,282	30,424	-	113,590
<b>Balance as at 01 July 2017</b>	<b>9,912</b>	<b>22,972</b>	<b>50,282</b>	<b>30,424</b>	<b>-</b>	<b>113,590</b>
<b>Depreciation charge for the year</b>	<b>1,360</b>	<b>4,852</b>	<b>5,312</b>	<b>5,724</b>	<b>-</b>	<b>17,248</b>
<b>Transfer in during the year</b>	<b>-</b>	<b>532</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>532</b>
<b>Disposals during the year</b>	<b>(622)</b>	<b>(7,666)</b>	<b>(2,345)</b>	<b>-</b>	<b>-</b>	<b>(10,633)</b>
<b>Balance as at 30 June 2018</b>	<b>10,650</b>	<b>20,690</b>	<b>53,249</b>	<b>36,148</b>	<b>-</b>	<b>120,737</b>
Carrying amounts - 2017	7,010	3,930	12,915	13,131	-	36,986
<b>Carrying amounts - 2018</b>	<b>13,622</b>	<b>13,694</b>	<b>20,087</b>	<b>20,007</b>	<b>5,139</b>	<b>72,549</b>
<b>Rate of depreciation</b>	<b>10%</b>	<b>33%</b>	<b>20%</b>	<b>20%</b>		

- 5.2** Land and buildings in use of the Institute are owned by the State Bank of Pakistan. No rent for its use has been charged by the State Bank of Pakistan to the Institute.
- 5.3** Capital work in progress represents items of electronic data processing and office equipment, which were delivered to the Institute but were not available for use as at 30 June 2018.
- 5.4** Net book value of assets disposed off during the year was below 500,000 Rupees.
- 5.5** Additions include following assets purchased for National Financial Literacy Programme (NFLP). Title of vehicles purchased is in name of State Bank of Pakistan, Parent entity.

	Rupees in '000
Electronic data processing equipment	184
Office equipment	602
Vehicles	12,600
Furniture and fixtures	1,349
	<b>14,735</b>

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	Note	2018 Rupees in '000	2017
<b>5.6</b>	The depreciation charge for the year has been allocated as follows:		
Operating, administrative and general expenses	24	<b>15,736</b>	13,409
Programme expenses	23	<b>1,512</b>	-
		<b>17,248</b>	13,409

**6 INTANGIBLE ASSETS - COMPUTER SOFTWARE**

**6.1** The following is a statement of intangible assets:

**Cost**

Balance as at the beginning of the year		<b>195</b>	195
Additions during the year		-	-
Disposals during the year		-	-
<b>Balance as at end of the year</b>		<b>195</b>	195

**Allowance for amortisation**

Balance as at the beginning of the year		<b>195</b>	195
Amortisation for the year		-	-
Disposals during the year		-	-
<b>Balance as at end of the year</b>		<b>195</b>	195

**Carrying amount**

		<b>-</b>	-
Rate of amortisation		<b>33%</b>	33%

**7 RECEIVABLE AGAINST TRAINING PROGRAMS**

Associated undertakings

State Bank of Pakistan (Parent) (SBP)	7.1 & 7.2	<b>54,886</b>	2,223
SBP Banking Services Corporation (related Party) (BSC)	7.1 & 7.2	<b>39,076</b>	32,849
		<b>93,962</b>	35,072

Others

Considered good		<b>11,132</b>	9,320
Considered doubtful		<b>1,358</b>	1,444
		<b>12,490</b>	10,764
Provision for doubtful receivables	7.3	<b>(1,358)</b>	(1,444)
		<b>11,132</b>	9,320
		<b>105,094</b>	44,392

**7.1** The year-end balance also represents the maximum aggregate amount outstanding at any time during the

**7.2** At reporting date, the ageing of receivables from associated undertakings were as follows:

	<b>Gross amount</b>		<b>Gross amount</b>	
	<b>2018</b>		<b>2017</b>	
	<b>(Rupees '000)</b>		<b>(Rupees '000)</b>	
	<b>SBP</b>	<b>BSC</b>	<b>SBP</b>	<b>BSC</b>
Past due 1-30 days	<b>49,676</b>	<b>37,515</b>	-	12,432
Past due 31-90 days	<b>4,340</b>	<b>1,527</b>	1,844	17,773
Past due 91-180 days	<b>542</b>	-	76	2,606
Past due 181-365 days	<b>62</b>	-	222	6
More than one year	<b>266</b>	<b>34</b>	81	32
	<b>54,886</b>	<b>39,076</b>	2,223	32,849

		2018	2017
		Rupees in '000	
<b>7.3</b>	<b>Provision for doubtful receivables</b>		
	Opening balance	1,444	1,454
	Reversal during the year	(86)	(10)
		<u>1,358</u>	<u>1,444</u>
<b>8</b>	<b>ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b>		
	Advances to staff - unsecured, considered good	493	1,212
	Advance to Suppliers - unsecured, considered good	5500	-
	Receivable from Endowment fund upon maturity of Investment	-	237
	Prepayments	381	415
		<u>6,374</u>	<u>1,864</u>
<b>9</b>	<b>DUE FROM STATE BANK OF PAKISTAN (PARENT ENTITY)</b>		
	This represents the current account of the Institute with the State Bank of Pakistan (Parent entity) to manage the financial affairs of the Institute. The settlement of trainings provided to SBP and SBP BSC are also settled through current account. Further, all the investments in Market Treasury Bills (MTBs) are made through the Parent entity.		
<b>10</b>	<b>SHORT TERM INVESTMENTS</b>		
		Note	
		2018	2017
		Rupees in '000	
	<b>Held to maturity</b>		
	Market Treasury Bills		
	Cost	10.1	30,970
	Accrued profits		185
			<u>31,155</u>
			<u>28,330</u>
<b>10.1</b>	These carry return at the average rate of 6.49% per annum and having maturities from 16 August 2018 to 30 August 2018 (2017: 6.1% per annum having maturity from 14 September 2017 to 28 September 2017).		
<b>10.2</b>	The fair value of investments as at 30 June 2018 is Rs 31.2 million (2017: Rs 28.4 million).		
<b>11</b>	<b>ASSETS RELATING TO ENDOWMENT FUND</b>		
		Note	
		2018	2017
		Rupees in '000	
	<b>Held to maturity</b>		
	Market Treasury Bills		
	Cost	11.1	102,619
	Accrued profits		174
	Less: income payable to the Institute		-
			<u>98,512</u>
			<u>102,793</u>
			<u>98,421</u>

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**11.1** These carry return at the rate of 6.76% per annum and having maturity on 13 September 2018 (2017: 6.1% per annum having maturity on 21 December 2017).

**11.2** The fair value of investments as at 30 June 2018 is Rs 102.8 million (2017: Rs 98.66 million).

**12 CASH AND BANK BALANCES**

	Note	2018	2017
		<b>Rupees in '000</b>	
Cash in hand		60	60
Cash in bank - current accounts			
SBP Banking Services Corporation			
(Associated undertaking)		8,267	5
		<u>8,327</u>	<u>65</u>

**13 RESTRICTED GRANT**

Balance as at 01 July			
Restricted Grant received during the year		36,530	-
Capital expenditure	14	(14,735)	-
Recognized as income	19	(8,766)	-
Balance as at 30 June		<u>13,029</u>	<u>-</u>

**13.1** This represents grant received from State Bank of Pakistan, Parent entity, pursuant to grant agreement dated 21 September 2017 for launching National Financial Literacy Program for Youth (NFLP-Y) of the country. Period of implementation of the program is five years from the date of the agreement.

	Note	2018	2017
		<b>Rupees in '000</b>	
<b>14 DEFERRED CAPITAL GRANTS</b>			
Balance as at 01 July		-	-
Cost of assets purchased during the year			
from capital grants	13	14,735	-
Amortization for the year representing the			
depreciation of related assets	19	(1,512)	-
Balance as at 30 June		<u>13,223</u>	<u>-</u>

**15 ENDOWMENT FUND - DEFERRED GRANT**

Opening balance		98,421	94,207
Interest income on investments		5,830	5,619
Less: income allocated to the Institute (at the rate of 25 percent)		(1,458)	(1,405)
Closing balance		<u>102,793</u>	<u>98,421</u>

- 15.1** This represented capital grant amounting to US dollar one million received by the Institute in January 2005 from the State Bank of Pakistan (Parent Entity) for establishment of a Rural Finance Resource Centre. The grant was disbursed by the State Bank of Pakistan out of the proceeds of loan received by the Government of Pakistan (GoP) from Asian Development Bank vide loan agreement No. 1987-PAK dated 23 December 2002. The Institute has established an Endowment fund effective from 01 July 2011 for utilisation of the amount received from SBP. The NIBAF Endowment Fund Rules, detailing the investment and utilisation of the grant, have been formulated and approved by the Board of Directors in their meeting held on 12 August 2015.

**16 ACCRUED EXPENSES AND OTHER PAYABLES**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>Rupees in '000</b>	
Payable to the Parent entity	16.1	<b>5,139</b>	-
Travelling and training cost payable		<b>7,130</b>	1,145
Accrued expenses		<b>10,505</b>	6,725
Security Deposit	16.2	<b>1,794</b>	908
		<b>24,568</b>	<b>8,778</b>

- 16.1** This represents amount payable to the Parent entity for provision of items of property and

- 16.2** These represent amounts received as security deposits from dealers and suppliers of the Institute, which are utilisable for the purpose of the business in accordance with their agreements.

	Note	2018	2017
		Rupees in '000	
SHARE CAPITAL			
Authorized share capital			
(20,000,000 Ordinary shares of Rs.10 each)		200,000	200,000
Issued, subscribed and paid-up capital			
2,926,084 ordinary shares of Rs.10 each issued for cash	17.1	29,261	29,261

- 17.1** State Bank of Pakistan holds 2,926,083 (2017: 2,926,083) ordinary shares and the Deputy Governor of State Bank of Pakistan holds 1 (2017: 1) share of the Institute as at the date of statement of financial position.



## **18 CONTINGENCIES AND COMMITMENTS**

### **18.1 Contingencies**

#### **18.1.1 Tax related contingencies**

**18.1.1.1** The Finance Act 2015 extended the scope of services covered under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (ICTO) and some new services were brought within the purview of sales tax which are detailed in schedule to the ICTO. During the year 2016, the Institute received a notice from the tax department dated 20 January 2016 claiming that the services provided by Institute fall within the purview of serial numbers 13, 19 and 38 of schedule to the ICTO and accordingly the Institute should get itself registered for sales tax, obtain Sales Tax Registration number (STRN), file returns for six months from July 2015 to December 2015 and settle the outstanding liability in respect of sales tax for those six months. The management believes that the Institute does not fall under the purview of serial numbers 13, 19 and 38 of schedule to the ICTO mainly on the ground that NIBAF is a training institute and is not liable to be registered under sales tax on services. A reply was sent from the Institute's management to the Assistant Commissioner Inland Revenue (ACIR) justifying the non-applicability of serial numbers 13, 19 and 38 of schedule to the ICTO to the Institute. However, the ACIR maintained the tax department's view and ordered the compulsory registration of the Institute with immediate effect through its order dated 19 February 2016.

Moreover, the Institute received a show cause notice on 10 March 2016 for filing the tax returns for the period from July 2015 to December 2015 and payment of the due amount of sales tax on services. Subsequently, the department passed the following order on 11 April 2016:

- a) Imposition of sales tax amounting to Rs.13,675,649; and
- b) Imposition of a penalty under section 33(1) of the Sales Tax Act, 1990 for non-filing amounting to Rs.35,000 along with default surcharge and penalty under section 33(5) of the Sales Tax Act,

The Institute challenged the above order passed by the ACIR before the Commissioner Inland Revenue Appeals II (CIRA). However, the matter was decided against the Institute.

During the year 2017, the Institute filed an appeal before the Commissioner Inland Revenue Appeals II (CIRA) challenging the compulsory registration of the Institute done by the department vide its order dated 19 February 2016. This appeal was disposed of by the CIRA on 9 February 2017 because it was not maintainable under the law (as it was outside his jurisdiction) and the case could now be taken to the Honorable Islamabad High Court. Consequently, the Institute filed writ petition against the above orders before the Honorable Islamabad High Court (IHC).

IHC passed an order dated 29 January 2018 and directed CIRA to decide the representation of the Institute expeditiously (preferably within 7 days) after affording an opportunity of being heard. The Institute filed applications to CIRA for compliance with IHC order. On 12 March 2018, representatives of the Institute attended a hearing before the tax department and made oral and written submission. On 02 April 2018, Deputy commissioner Inland Revenue passed an order rejecting Institute's application for de-registration and passed an order for compulsory registration of the Institute. The institute intends to file writ petition against the order dated 02 April 2018.

The Institute, based on the advice of its legal counsel, is of the view that the Institute has valid grounds and there are fair chances of success before the Honorable Islamabad High Court. Accordingly, no provision has been recognized in these financial statements.



**18.1.1.2** During the year the Institute received a show cause notice for Rs. 8 million from the tax authorities against alleged non-deduction of tax on various payments relating to tax year 2017. The Institute has submitted the necessary information and thereafter, tax authorities have not proceeded to pass any order. The management of the Institute is confident of favorable outcome and accordingly no provision has been recognised in these financial statements.

### **18.1.2 Litigations**

All below mentioned cases have been filed by the employees of the Parent entity for promotions etc. As these employees were deputed at the Institute, accordingly, Institute has also been added as defendant party. Management is confident that resolution of these matters would not result in any financial outlay.

**18.1.2.1** In June 2016, In National Industrial Relations Commission case No. CMA 7A(70)/2016, the ex-employees claimed promotions as back benefit. The case is under legal process in single bench NIRC along with another other case of same party.

**18.1.2.2** In March 2017, National Industrial Relations Commission case No. 12A(71)/2017, an appeal was filed against the decision of single bench NIRC for industry wise collective bargaining unit for labor practices. Democratic workers union appealed for one union for all subsidiaries of SBP on the plea that the Top management is same in all cases as per industrial relations act 2012. Resolution of this matter would not result in financial outlay.

**18.1.2.3** In August 2017, In National Industrial Relations Commission case No.4 12A(161)/2017, Ex-contractual employees filed case in the line with a previous settled case, for permanent service in SBP. The initial petition was dismissed by single bench NIRC on technical grounds, resulting in filing appeal by the employees in full bench NIRC. Hearing is in initial stage. Management is confident of favourable outcome of this matter.

		2018	2017
		Rupees in '000	
<b>18.2</b>	<b>Commitments in respect of capital expenditure</b>	-	98
<b>18.3</b>	There were no other contingencies and commitments outstanding as at 30 June 30 2018 (30 June 2017 : Nil) except as disclosed in notes 18.1 and 18.2.		

## **19 GRANT INCOME**

	Note	2018	2017
		Rupees in '000	
<i>Transfers from:</i>			
Restricted grant	13	8,766	-
Deferred capital grant	14	1,512	-
		<u>10,278</u>	<u>-</u>

## **20 TRAINING AND EDUCATION FEE**

Domestic courses	397,256	330,509
International courses	7,753	20,590
Islamic banking courses	14,530	15,777
	<u>419,539</u>	<u>366,876</u>

	Note	2018	2017
		Rupees in '000	
<b>21</b>	<b>HOSTEL AND TRAINING HALLS INCOME</b>		
Rental income		14,255	15,417
Service charges		1,152	979
Food and beverages		10,003	9,971
		<u>25,410</u>	<u>26,367</u>
<b>22</b>	<b>OTHER INCOME</b>		
<b>Income from financial assets</b>			
Interest on investments		1,791	1,515
<b>Income from non-financial assets</b>			
Reversal of provision against doubtful receivables	7.3	86	10
Gain on disposal of property and equipment		408	350
Recovery of overheads from NFLP Program		4,500	-
Others - net		3,101	231
		<u>8,095</u>	<u>591</u>
		<u>9,886</u>	<u>2,106</u>
<b>23</b>	<b>PROGRAMME EXPENSES</b>		
Salary and benefits		2,250	-
Other expenses		2,016	-
Depreciation	5.6	1,512	-
Overheads		4,500	-
		<u>10,278</u>	<u>-</u>
<b>24</b>	<b>OPERATING, ADMINISTRATIVE AND GENERAL EXPENSES</b>		
Salaries, wages and other benefits		182,355	142,694
Training cost		60,545	35,723
Repairs and maintenance		28,335	20,615
Lodging, catering and allied services		44,281	29,685
Travelling and conveyance		17,453	11,379
Printing and stationery		4,998	5,235
Medical		1,947	402
Electricity, gas and water		26,110	24,324
Telephone and fax		1,112	1,095
Vehicles running and maintenance		1,100	1,092
General consumables		990	1,092
Security charges		3,959	3,725
Insurance		2,086	2,090
Newspapers, books and periodicals		139	167
Postage and courier		309	424
Entertainment		1,124	711
Auditors' remuneration	24.1	320	288
Legal and professional		148	613
Depreciation	5.6	15,736	13,409
Others		1,741	1,317
		<u>394,788</u>	<u>296,080</u>

	2018	2017
	Rupees in '000	
<b>24.1 Auditors' remuneration</b>		
Audit fee	275	225
Out of pocket expenses	45	45
	<u>320</u>	<u>270</u>
Sindh Sales Tax on Services	-	18
	<u>320</u>	<u>288</u>

## 25 TAXATION

The Institute had claimed exemption from income tax under clause (92) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 for the tax year 2013 and for the tax year 2014 under clauses (59) and (60) of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Pursuant to enactment of section 100C with effect from 01 July 2014; the Institute filed its tax returns for the Tax Years 2015 to 2017 by claiming tax credit under the said section against its tax liability on income for the year.

For the tax Year 2018, on the basis of opinion of its tax advisor, the Institute's management believes that Institute's income is exempt in terms of section 49 of the State Bank of Pakistan Act, 1956 ("SBP Act"), whereby the State Bank of Pakistan [SBP], its subsidiaries or any other trust established by it, are not liable to pay wealth tax, income tax or super-tax on their income or wealth. Accordingly, no provision for income tax has been made in these financial statements.

## 26 RELATED PARTIES

### 26.1 Parent and related party relationships

The Institute is a wholly owned subsidiary of the State Bank of Pakistan (Parent entity); therefore all subsidiaries and associated undertakings of State Bank of Pakistan are the related parties of the Institute. Other related parties comprise of directors and key management personnel and entities over which the directors are able to exercise significant influence. Because of the ownership of Institute ultimately by the Government of Pakistan, the Institute also enters into transaction with few others State Controlled Entities. These transactions are not material , therefore not disclosed in the financial statements.

Balances with related parties have been disclosed in note 7, 9, 12, 13 and 16 and remuneration to Chief Executive Officer, Directors and Executives has been disclosed in Note 27. Transactions with related parties are as follows:

	2018	2017
	Rupees in '000	
<b>State Bank of Pakistan (Parent Entity)</b>		
Revenue charged	232,534	199,306
Receipts / (Payments) - net	179,871	219,901
Restricted grant received during the year	36,530	-

	2018	2017
	Rupees in '000	
<b>Associated undertaking - SBP - Banking Services Corporation</b>		
<b>(Subsidiary of Parent entity)</b>		
Revenue charged	161,596	132,820
Receipts / (Payments) - net	155,369	151,731

**26.2** Following are the associated companies and related parties with whom the Institute had entered into transactions during the year:

Associated company	Basis of relationship	Number of shares held in the Institute	Aggregate %age shareholding in the Institute
State Bank of Pakistan	Holding entity	2,926,083	100.00%
SBP Banking Services Corporation	Common control	-	0.00%

Related party	Basis of relationship	Number of shares held in the Institute	Aggregate %age shareholding in the Institute
Mr. Amer Aziz	Chief Executive Officer	-	0.00%
Dr. Asad Zaman	Director	-	0.00%
Dr. Eatzaz Ahmad	Director	-	0.00%

## **27 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES**

	Chief Executive Officer	Non-Executive Directors	Executives	Total
2018	(Rupees in '000)			
Fees	-	94	-	94
Managerial remuneration	21,849	-	120,917	142,766
Fuel allowance	577	-	3,434	4,011
Telephone allowance	111	-	1,085	1,196
Contribution to Provident fund	1,311	-	3,387	4,698
House rent allowance	-	-	84	84
Others	569	-	2,091	2,660
	24,417	94	130,998	155,509
Number of persons	1	2	33	

	Chief Executive Officer	Executive Directors	Executives	Total
<b>2017</b>	<b>----- (Rupees in '000) -----</b>			
Fees	-	282	-	282
Managerial remuneration	18,675	-	92,951	111,626
Fuel allowance	709	-	2,382	3,091
Telephone allowance	111	-	919	1,030
Contribution to Provident fund	1,121	-	2,248	3,369
House rent allowance	-	-	224	224
Others	348	-	1,235	1,583
	20,964	282	99,959	121,205
Number of persons	1	2	25	

**27.1** The Chief Executive Officer has been provided free use of the Institute's maintained car.

**27.2** All the employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and are not charged to the Institute as all employees are on deputation.

## **28 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT**

Fair value is the amount that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying values and fair value estimates. Underlying the definition of fair value is the presumption that the entity is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the institute is current bid price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13 'Fair Value Measurements' requires the Institute to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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**28.1 Fair value of financial assets and liabilities**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

Financial assets and liabilities	Carrying amount			Fair value			
	Loans and receivables	Held to maturity	Other financial liabilities	Total	Level 1	Level 2	Level 3
	Rupees			Rupees			
<b>30 June 2018</b>							
<b>Financial assets not measured at fair value</b>							
Long term deposits	1,645	-	-	1,645	-	-	-
Receivable against training programs	105,094	-	-	105,094	-	-	-
Due from State Bank of Pakistan (Parent) entity	125,087	-	-	125,087	-	-	-
Short term investments	-	31,155	-	31,155	31,155	-	-
Assets relating to Endowment fund	-	102,793	-	102,793	102,790	-	-
Cash and bank balances	8,327	-	-	8,327	-	-	-
<b>Total financial assets</b>	<b>240,153</b>	<b>133,948</b>	<b>-</b>	<b>374,101</b>	<b>133,945</b>	<b>-</b>	<b>133,945</b>
<b>Financial liabilities not measured at fair value</b>							
Accrued expenses and other payables	-	-	(24,568)	(24,568)	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(24,568)</b>	<b>(24,568)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 28.1 Fair value of financial assets and liabilities (continued)

Financial assets and liabilities	Carrying amount			Fair value			
	Loans and receivables	Held to maturity	Other financial liabilities	Total	Level 1	Level 2	Level 3
	Rupees			Rupees			
30 June 2017							
<b>Financial assets not measured at fair value</b>							
Long term deposits	1,645	-	-	1,645	-	-	-
Receivable against training programs	44,392	-	-	44,392	-	-	-
Due from State Bank of Pakistan (Parent) entity	135,612	-	-	135,612	-	-	-
Short term investments	-	28,401	-	28,401	28,401	-	-
Assets relating to Endowment fund	-	98,421	-	98,421	98,421	-	-
Cash and bank balances	65	-	-	65	-	-	-
<b>Total financial assets</b>	<b>181,714</b>	<b>126,822</b>	<b>-</b>	<b>308,536</b>	<b>126,822</b>	<b>-</b>	<b>126,822</b>
<b>Financial liabilities not measured at fair value</b>							
Accrued expenses and other payables	-	-	(8,778)	(8,778)	-	-	-
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(8,778)</b>	<b>(8,778)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**29 FINANCIAL RISK MANAGEMENT**

The Institute has exposure to the following risks arising from financial instruments:

- 1) Credit risk
- 2) Liquidity risk
- 3) Market risk

**29.1 Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Institute's risk management framework. The Board has delegated the responsibility for developing and monitoring the Institute's risk management policies to its management. The management reports regularly to the Board of Directors on its activities. The Institute's risk management policies are established to identify and analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The management monitors compliance with the Institute's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

**29.1.1 Credit risk**

**(i) Receivable against training programs**

The Institute's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Since the majority of the customers are either commercial banks and government owned entities including the Parent entity and its subsidiary, the Institute is less likely to be exposed to credit risk. The Institute also provides trainings to other central banks which are conducted in coordination with Government of Pakistan and has no history of significant default risk. The Institute maintains provision for doubtful debts that represents its estimate of probable losses in respect of receivable against training programs.

Geographically there is no concentration of credit risk.

At reporting date, the maximum credit exposure in trade debts by type of customer was as follows:

	2018	2017
	(Rupees '000)	
Government owned entities	93,962	35,072
Others	12,490	10,764
	<u>106,452</u>	<u>45,836</u>



At reporting date, the ageing of trade debts and provision for doubtful debts were as follows:

	Gross amount		Provision for doubtful debts	
	2018	2017	2018	2017
	(Rupees '000)		(Rupees '000)	
Past due 1-30 days	92,465	12,762	-	-
Past due 31-90 days	8,644	26,568	-	-
Past due 91-180 days	2,035	2,985	-	-
Past due 181-365 days	473	848	-	-
More than one year	2,835	2,673	1,358	1,444
	<b>106,452</b>	<b>45,836</b>	<b>1,358</b>	<b>1,444</b>

The management believes that all unimpaired amounts are collectable in full, based on historical payment behavior and extensive analysis of customer credit risk. The movement in provision for doubtful debts during the year is disclosed in note 7.3

### 29.1.2 Liquidity risk

Liquidity risk is the risk that the Institute will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation. The Institute believes that it is not exposed to any significant level of liquidity risk.

### 29.1.3 Market risk

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

#### (i) Currency risk

The Institute is not exposed to currency risk.

#### (ii) Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Institute is not exposed to Interest rate risk as it has fixed rate securities.

#### (iii) Other market price risk

The primary goal of the Institute's investment strategy is to maximize investment returns on surplus funds. The Institute adopts a policy of minimizing its price risk by investing in fixed rate investments like Market Treasury Bills. Currently, the Institute is not exposed to price risks as the investments are currently being carried at amortised cost.

### 30 CAPITAL MANAGEMENT

The Institute's objective when managing capital, is to safeguard the Institute's ability to continue as a going concern and maintain a strong capital base to support the sustained development of its business activities. The Institute is not subject to externally imposed capital requirements. Further, the parent's support is available to continue its operations.

### 31 NUMBER OF EMPLOYEES

	2018 Number	2017
Number of employees	<u>35</u>	<u>31</u>
Average number of employees	<u>33</u>	<u>29</u>

### 32 CORRESPONDING FIGURES

- 32.1** Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison. There have been no significant re-arrangements or reclassifications during the current year.

### 33 GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

### 34 DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on **October 04, 2018** by the Board of Directors of the Institute.

**CHIEF EXECUTIVE OFFICER/  
MANAGING DIRECTOR**

**DIRECTOR**