Deloitte

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AUDITORS' REPORT TO THE MEMBERS OF NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

We have audited the annexed balance sheet of NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED (the Institute) as at June 30, 2013 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 Institute'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 Institute 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 Institute’s business; and
- **iii.** the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Institute;

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
BALANCE SHEET
AS AT JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
NON CURRENT ASSETS			
Property plant and equipment	5	39,588,190	36,988,450
Long term deposits		953,497	953,497
CURRENT ASSETS			
Stock of stationery and consumables		812,104	834,908
Receivable against training programs	6	32,707,544	30,923,631
Advances, prepayments and other receivables	7	1,776,580	2,181,737
Short term investments	8	237,439,853	214,183,904
Cash in hand		33,780	160,860
		272,769,861	248,285,040
		313,311,548	286,226,987
SHAREHOLDERS' EQUITY			
Authorized share capital		200,000,000	200,000,000
(20,000,000 Ordinary shares of Rs.10 each)			
Issued, subscribed and paid up capital	9	29,260,840	29,260,840
Accumulated surplus		24,367,267	24,367,267
		53,628,107	53,628,107
Endowment Fund	10	74,489,990	67,280,645
		128,118,097	120,908,752
CURRENT LIABILITIES			
Creditors, accrued expenses and other payables	11	9,794,208	13,751,725
Due to State Bank of Pakistan (Parent entity)	12	175,399,243	151,566,510
		185,193,451	165,318,235
		313,311,548	286,226,987
COMMITMENTS	13		

The annexed notes 1 to 24 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, 2013

	2013 Rupees	2012 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating deficit for the year	(83,487,044)	(56,430,760)
Adjustments for non cash items:		
Income from investments	(16,046,605)	(17,141,632)
Depreciation	13,123,828	9,814,396
Gain on disposal	-	(3,624,730)
Provision for doubtful debts	-	956,990
Assets disposed off	-	-
	(2,922,776)	(9,994,976)
Operating deficit before working capital changes	(86,409,820)	(66,425,736)
Changes in working capital		
(Increase) / decrease in current assets:		
Stock of stationery and consumables	22,804	(112,462)
Receivable against training programs	(1,783,913)	(21,684,858)
Advances, prepayments and other receivables	405,157	(890,479)
	(1,355,952)	(22,687,799)
Increase / (decrease) in current liabilities:		
Creditors, accrued expenses and other payables	(3,957,517)	2,021,106
Due to State Bank of Pakistan (Parent entity)	107,319,777	103,000,397
	103,362,260	105,021,503
Net changes in working capital	102,006,308	82,333,704
Income tax paid	-	(128,000)
Net cash generated from operating activities	15,596,488	15,779,968
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(15,723,568)	(16,743,204)
Assets transferred from the Parent Entity	-	(2,008,607)
Proceeds from the disposal of property, plant and equipment	-	3,624,800
Long term security deposits	-	(552,097)
Net cash used in investing activities	(15,723,568)	(15,679,108)
Net increase in cash and cash equivalents	(127,080)	100,860
Cash and cash equivalents at beginning of the year	160,860	60,000
Cash and cash equivalents at end of the year	33,780	160,860

The annexed notes 1 to 24 form an integral part of these financial statements.

MANAGING DIRECTOR **DIRECTOR**

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

1. STATUS AND NATURE OF BUSINESS

1.1 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 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").

1.2 These financial statements are presented in Pakistan Rupee which is the Institute's functional and presentation currency.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan, differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2013

The following standards, amendments and interpretations are effective for the year ended June 30, 2013. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Standards / amendments / interpretations	Effective date (accounting periods beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements – Presentation of	*July 01, 2012*

2.3 New accounting standards and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures except for amendments in IAS 19.

Standards / amendments / interpretations	Effective for annual periods beginning on or after
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information	*January 01, 2013*
Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment	*January 01, 2013*

(a) Property, plant and equipment

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

(b) Impairment

The Institute's assessment relating to impairment of assets is discussed in notes 3.2.

(c) Provision for slow moving stocks and other receivables

The Institute assesses the amount of provision for slow moving stocks on the basis of their actual pattern of usage. Provision is determined for those stocks, which are not used for considerable period of time. Provision for other receivables is determined by using judgment based on past business practices, probability of recovery and lapsed time period of due balance.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Property, plant and equipment

These are stated at cost less accumulated depreciation and provision for impairment, if any. Depreciation on additions is charged from the month the asset is available for use and on disposal up to the month preceding the month of disposal. Depreciation for the year is calculated using the straight line method at rates given in note 5 to the financial statements and included in the income and expenditure account. Maintenance and normal repairs are charged to income as and when incurred. Major extensions, renewals and improvements are capitalized. Gains and losses on disposal of property, plant and equipment are taken to the income and expenditure account currently.

3.2 Impairment

The carrying amounts of the Institute's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of assets is estimated and impairment losses are recognized as expense in the income and expenditure account.

3.3 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.

3.4 Stocks

Stocks and other 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. Provision is made for stocks which are not used for a considerable period of time.

3.5 Accounts receivables and other receivables

Accounts receivables and other receivables are carried at invoice amount less an allowance for any uncollectible amounts. Known bad debts are written off when identified.

3.14 Taxation

Income of the Institute is exempted from income tax as per Clause 92 of Part-1 of Second Schedule to the Income Tax Ordinance, 2001.

3.15 Endowment fund

The Institute established an Endowment fund from July 1, 2011 for development and running the operations of Rural Finance Resource Centre from the grant received from State Bank of Pakistan (SBP). The terms of references / rules and regulations of the Endowment fund are being formulated.

3.16 Retirement benefits

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. FINANCIAL RISK MANAGEMENT

The Institute has exposure to the following risks from its use of financial instruments:

(a) Credit risk
(b) Liquidity risk
(c) Market risk.

This note presents information about the Institute's exposure to each of the above risks, the Institute's objectives, policies and processes for measuring and managing risks, and the Institute's management of capital. Further quantitative disclosures are included throughout these financial statements.

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.

(a) Credit risk

Credit risk is the risk of financial loss to the Institute if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Institute's receivables against training programs and investment securities.

(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 the 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.

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5. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Electronic data processing equipment	Office equipment	Vehicles	Total
	Rupees				
Cost					
Balance as at 01 July 2011	18,444,831	13,910,880	40,380,886	15,671,104	88,407,701
Additions during the year	75,000	-	909,240	15,758,964	16,743,204
Transfer in during the year	-	3,841,238	-	-	3,841,238
Disposals during the year	(78,239)	-	-	(2,319,504)	(2,397,743)
Balance as at 30 June 2012	18,441,592	17,752,118	41,290,126	29,110,564	106,594,400
Balance as at 01 July 2012	18,441,592	17,752,118	41,290,126	29,110,564	106,594,400
Additions during the year	22,999	576,424	15,124,145	-	15,723,568
Transfer in during the year	-	-	-	-	-
Disposals during the year	-	-	-	-	-
Balance as at 30 June 2013	18,464,591	18,328,542	56,414,271	29,110,564	122,317,968
Allowance for depreciation					
Balance as on 01 July 2011	11,036,632	9,150,110	31,179,714	8,990,140	60,356,596
Depreciation charge for the year	1,216,972	3,300,119	2,043,184	3,254,121	9,814,396
Transfer in during the year	-	1,832,631	-	-	1,832,631
Disposals during the year	(78,209)	-	-	(2,319,464)	(2,397,673)
Balance as at 30 June 2012	12,175,395	14,282,860	33,222,898	9,924,797	69,605,950
Balance as on 01 July 2012	12,175,395	14,282,860	33,222,898	9,924,797	69,605,950
Depreciation charge for the year	791,476	3,327,232	4,033,607	4,971,514	13,123,828
Transfer in during the year	-	-	-	-	-
Disposals during the year	-	-	-	-	-
Balance as at 30 June 2013	12,966,871	17,610,092	37,256,505	14,896,311	82,729,778
Carrying amounts - 2013	**5,497,720**	**718,450**	**19,157,766**	**14,214,253**	**39,588,190**
Carrying amounts - 2012	6,266,197	3,469,258	8,067,228	19,185,767	36,988,450
Rates of depreciation	**10%**	**33.33%**	**20%**	**20 - 25%**	

5.1 Land and buildings in use of the Institute is owned by State Bank of Pakistan. No rent for its use has been charged by State Bank of Pakistan to the Institute.

5.2 The depreciation charge for the year has been allocated to administrative and general expenses - (Refer note 17).

	Note	2013 Rupees	2012 Rupees
9. ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
Issued, subscribed and paid-up capital			
2,926,084 ordinary shares of Rs.10 each issued for cash	9.1	29,260,840	29,260,840

9.1 State Bank of Pakistan hold 2,926,083 (2012: 2,926,083) ordinary shares and Governor of State Bank of Pakistan holds 1 (2012: 1) share of the Institute as at the balance sheet date.

	2013 Rupees	2012 Rupees
10. ENDOWMENT FUND / CAPITAL GRANT		
Endowment fund		
Opening balance	67,280,645	-
Transferred from capital grant	-	59,429,900
Interest income on investments	7,209,345	7,850,745
Closing balance	74,489,990	**67,280,645**

This represented capital grant amounting to US dollar one million received by the Institute in January 2005 from State Bank of Pakistan (Parent entity) for establishment of Rural Finance Resource Centre. The grant disbursed by SBP out of the proceeds of loan given to the Government of Pakistan (GoP) by Asian Development Bank vide loan agreement No. 1987-PAK dated 23 December 2002. The Institute has established an Endowment fund effective from July 1, 2011 for development and running the operations of Rural Finance Resource Centre and accordingly, the amount of Capital grant has been transferred to Endowment fund.

	2013 Rupees	2012 Rupees
11. CREDITORS, ACCRUED EXPENSES AND OTHER PAYABLES		
Creditors	2,721,418	2,761,030
Traveling and training cost	212,000	376,500
Accrued expenses	3,872,832	5,067,510
Retention money/deposits	2,987,958	5,546,685
	9,794,208	13,751,725

12. DUE TO STATE BANK OF PAKISTAN (PARENT ENTITY)

	2013 Rupees	2012 Rupees
State Bank of Pakistan (Parent entity)	175,399,243	151,566,510
Opening balance	151,566,510	104,996,873
Received during the year	107,319,777	103,000,397
Deficit allocated	(83,487,044)	(56,430,760)
Closing balance	175,399,243	151,566,510

This represents the current account of the Institute with the State Bank of Pakistan (Parent entity) to manage the financial affairs of the Institute.

13. COMMITMENTS

Commitments in respect of capital expenditure contracted for but not as yet incurred are amounting to Rs. 4.7 million (2012: Rs. 6.1 million).

	2013 Rupees	2012 Rupees

18. TAXATION

The income of the Institute is exempt from tax under Income Tax Ordinance 2001. The Institute has obtained an exemption certificate from taxation authorities against application of section 113 of the said Ordinance relating to turnover tax.

19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

19.1 Credit risk

Exposure to credit risk

The carrying amount of following financial assets represents the maximum credit exposure.

	2013 Rupees	2012 Rupees
Deposit	953,497	953,497
Receivable against training programs	32,707,544	30,923,631
Advances, short term deposits and other receivables	385,480	840,659
Short term investments	237,439,853	214,183,904
	271,486,374	246,901,691

The receivable against training programs includes Rs. 27.4 million (2011: Rs. 14 million) due from the Parent entity and one of its subsidiary which are not significantly exposed to credit risk.

19.2 Impairment losses

(a) The maximum exposure to credit risk for receivable against training programs at the balance sheet date by geographic region was:

	2013 Rupees	2012 Rupees
Domestic	32,707,544	22,549,206
Other regions	-	8,374,425
	32,707,544	30,923,631

(b) The aging of receivable against training programs at the balance sheet date was:

	2013		2012	
	---------------------------- Rupees ----------------------------			
	Gross	Provision	Gross	Provision
Not past due	31,622,906	-	19,914,523	-
Past due 0-30 days	551,370	-	5,780,129	-
Past due 31-90 days	240,000	-	268,400	-
Past due 90-180 days	90,000	-	283,880	-
Past due 180-365 days	-	-	2,667,860	-
More than one year	1,638,608	1,435,340	4,518,979	2,510,140
	34,142,884	1,435,340	33,433,771	2,510,140

Based on historical record, the Institute believes that no additional impairment allowance is necessary in respect of receivable against training programs past due more than one year.

21. TRANSACTIONS WITH RELATED PARTIES

The Institute is a wholly owned subsidiary of 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.

All transactions are entered into by the State Bank of Pakistan (Parent entity) on behalf of the Institute. Transactions with other related parties, if any, are not disclosed as the management is of the opinion that it is impracticable to disclose such transactions due to the nature of the Institute's operations.

Balances with related parties including remuneration and benefits to key management personnel and Chief Executive Officer under the terms of their employment are as follows:

	2013 Rupees	2012 Rupees
State Bank of Pakistan (Parent entity)		
Balances at the year end		
Short term investments	237,439,853	214,183,904
Receivable against training programs	5,850,430	4,148,652
Due to the Parent entity	175,399,243	151,566,510
Transactions during the year		
Investments purchased / matured and re-invested	229,285,000	204,808,043
Value of assets transferred at net book value	-	2,008,607
Allocation of deficit	83,487,044	56,430,760
Associated undertaking - SBP - Banking Services Corporation (Subsidiary of parent entity)		
Balances at the year end		
Receivable against training programs	21,565,871	6,432,598
Transactions during the year		
Revenue charged	27,956,729	16,157,095
Receipts	12,823,456	11,356,830
Remuneration to Chief Executive Officer and Key Management Personnel		
Transactions during the year		
Salaries, wages and other benefits to:		
- Chief executive officer	12,505,678	11,134,103
- Key management personnel	27,019,252	24,125,610
- No. of persons	10	10

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.