

A. F. FERGUSON & CO.
CHARTERED ACCOUNTANTS
STATE LIFE BUILDING 1-C
I. I. CHUNDRIGAR ROAD
KARACHI

TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS
1st FLOOR, SHEIKH SULTAN TRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the annexed balance sheet of the **SBP Banking Services Corporation** as at June 30, 2003 and the related profit and loss 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 Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation. 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 the balance sheet and related profit and loss account, cash flow statement and statement of changes in equity together with the notes thereon have been drawn up in conformity with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation; and
- (b) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation, and, give the information required by these Standards in the manner so required, and respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2003 and of the profit, its cash flows and changes in equity for the year then ended.

The financial statements of the Corporation for the year ended June 30, 2002 were audited by A.F. Ferguson & Co., who had expressed an unqualified opinion thereon.

Chartered Accountants
Karachi
Date: 17th October 2003

Chartered Accountants
Karachi
Date: 17th October 2003.

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2003

	Note	2003	2002
		(Rupees'000)	
ASSETS			
Investment	3	512,819	518,864
Employee loans and advances		3,914,944	4,143,177
Prepaid expenses		2,429	13,209
Balance in current account with the State Bank of Pakistan		3,681,932	2,450,017
Tangible assets:			
- Operating fixed assets	4	70,785	155,657
- Capital work-in-progress	5	2,103	2,200
		72,888	157,857
Total assets		8,185,012	7,283,124
LIABILITIES			
Other liabilities	6	1,537,689	1,353,226
Deferred liabilities - staff retirement benefits	7	5,647,323	4,929,898
Total liabilities		7,185,012	6,283,124
Net assets		1,000,000	1,000,000
REPRESENTED BY			
Share capital	8	1,000,000	1,000,000

The annexed notes form an integral part of these accounts.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

**SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2003**

	Note	Year ended June 30, 2003	Period ended June 30, 2002 (Rupees' 000)
Discount and interest earned	9	41,385	24,448
Net operating expenses - establishment costs	10		
Total expenses		3,578,873	2,041,521
Less: Reimbursed by the State Bank of Pakistan		2,361,991	1,133,451
Less: Allocated to the State Bank of Pakistan		1,216,882	908,070
		-	-
OPERATING PROFIT		41,385	24,448
Profit on disposal of fixed assets		183	39
BALANCE PROFIT TRANSFERRED TO THE STATE BANK OF PAKISTAN		41,568	24,487

The annexed notes form an integral part of these accounts.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

**SBP BANKING SERVICES CORPORATION
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2003**

	Note	Year ended June 30, 2003	Period ended June 30, 2002 (Rupees' 000)
Cash flow from operating activities			
Loss after non-cash items	11	(1,132,976)	(192,532)
Expenses reimbursed by the State Bank of Pakistan		2,361,991	1,133,451
Balance profit transferred to the State Bank of Pakistan		(41,568)	(24,487)
Retirement benefits and employees' compensated absences paid		(233,244)	(61,589)
Discount income received		35,297	-
		<u>989,500</u>	<u>854,843</u>
Decrease / (increase) in assets			
- Loans to employees		228,233	(48,753)
- Other assets - net		10,780	(13,209)
Increase in liabilities			
- Other liabilities - net		36,459	132,226
Net cash inflow from operating activities		<u>1,264,972</u>	<u>925,107</u>
Cash flow from investing activities			
Fixed capital expenditure		(33,439)	(10,733)
Investment made		-	(509,000)
Receipt from the State Bank of Pakistan		-	1,535,521
Proceeds from disposal of fixed assets		382	122
Net cash inflow / (outflow) from investing activities		(33,057)	1,015,910
Cash inflow from financing activities			
Proceeds from issue of share capital		-	509,000
Increase in cash and cash equivalents		<u>1,231,915</u>	<u>2,450,017</u>
Cash and cash equivalents at beginning of the year / period		2,450,017	-
Cash and cash equivalents at end of the year / period		<u><u>3,681,932</u></u>	<u><u>2,450,017</u></u>

The annexed notes form an integral part of these accounts.

**Liaquat Durrani
Managing Director**

**Taslim Kazi
Director Accounts**

**SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003**

	Share capital	Profit and loss account	Total
	----- (Rupees '000) -----		
Issue of share capital	1,000,000	-	1,000,000
Profit for the period ended June 30, 2002	-	24,487	24,487
Balance profit transferred to the State Bank of Pakistan	-	(24,487)	(24,487)
	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Balance as at June 30, 2002			
Profit for the year ended June 30, 2003	-	41,568	41,568
Balance profit transferred to the State Bank of Pakistan	-	(41,568)	(41,568)
	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Balance as at June 30, 2003			

The annexed notes form an integral part of these accounts.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

**SBP BANKING SERVICES CORPORATION
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2003**

1. STATUS AND NATURE OF OPERATIONS

SBP Banking Services Corporation (the Corporation) has been constituted under the SBP Banking Services Corporation Ordinance, 2001 (the Ordinance) as a wholly owned subsidiary of the State Bank of Pakistan (SBP) and has commenced its operations with effect from January 2, 2002. The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance mainly including:

- disbursing of loans and advances to the Government, banks, financial institutions and local authorities and facilitating in inter-bank settlement system;
- collecting revenue and making payments for and on behalf of and maintaining accounts of the Government, local bodies, authorities, companies, banks and other financial institutions;
- receipt, supply and exchange of bank notes and coins;
- dealing in prize bonds and other savings instruments of the Government; and
- operational work relating to management of debt and foreign exchange.

Any assets, liabilities, income and expenditure directly relating to the above activities are accounted for in the books of SBP while the cost incurred by the Corporation in carrying out the above activities are either reimbursed from or allocated to SBP and are accounted for as deduction from the expenditure while net profit / loss, if any, of the Corporation is transferred to / recovered from SBP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These accounts have been prepared in accordance with the requirements of the International Accounting Standards (IASs) approved for adoption by the Board of Directors of the Corporation, being consistent with the accounting framework approved by the Central Board of SBP for the preparation of the financial statements of SBP.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention.

2.3 Investments

Investment in Government security is stated at cost. The cost of securities is adjusted for any amortisation of premiums on a straight line basis over the period of maturity.

2.4 Fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses while capital work-in-progress is stated at cost.

Depreciation is calculated using straight-line method so as to write off the assets over their expected useful lives without taking into account any residual value.

Depreciation on additions is charged from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are deleted. Normal repairs and maintenance are charged to the profit and loss account as and when incurred; major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are included in income currently.

2.5 Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

2.6 Staff retirement benefits

The Corporation operates the following staff retirement benefits for employees transferred from SBP (transferred employees) and other employees:

- a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme;
- b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for the new scheme and the other employees;
- c) the following other staff retirement benefit schemes:
 - an un-funded gratuity scheme for all employees other than the employees who opted for the new general provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
 - an un-funded pension scheme;
 - an un-funded contributory benevolent fund scheme; and
 - an un-funded post retirement medical benefit scheme.

Annual provisions are made by the Corporation to cover the obligations arising under these schemes based on actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gains and losses arising at the valuation date are recognised as income / expense in the following year based on actuarial recommendations.

The above staff retirement benefits are payable to staff on completion of prescribed qualifying period of service.

2.7 Compensated absences

The Corporation makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates.

2.8 Revenue recognition

Revenue is recognised on an accrual basis.

2.9 Taxation

The income of the Corporation is exempt from Tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001.

2.10 Cash and cash equivalents

Cash comprise of cash on hand and balance in current account with the State Bank of Pakistan. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

2003 2002
(Rupees'000)

3. Investment

Government securities

Market Treasury Bills	<u>512,819</u>	<u>518,864</u>
-----------------------	----------------	----------------

The above investment carries mark-up at the rate of 2.7 percent per annum (2002: 6.9 percent per annum)

4. Operating fixed assets

The following is a statement of operating assets:

	Cost at July 1, 2002	Additions/ (deletions) during the year	Cost at June 30, 2003	Accumulated depreciation at July 1, 2002	Charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at June 30, 2003	Net book value at June 30, 2003	Annual rate of depreciation %
------(Rupees '000)-----								
Furniture and fixtures	23,793	2,185 (386)	25,592	2,156	4,091 (327)	5,920	19,672	10
Office equipment	169,161	10,855 (683)	179,333	49,612	95,807 (490)	144,929	34,404	20
EDP equipment	15,983	19,772 (164)	35,591	3,536	17,240 (252)	20,524	15,067	33.33
Motor vehicles	2,669	724 (588)	2,805	645	1,071 (553)	1,163	1,642	20
2003	<u>211,606</u>	<u>33,536</u> <u>(1,821)</u>	<u>243,321</u>	<u>55,949</u>	<u>118,209</u> <u>(1,622)</u>	<u>172,536</u>	<u>70,785</u>	
2002	<u>-</u>	<u>211,689</u> <u>(83)</u>	<u>211,606</u>	<u>-</u>	<u>55,949</u>	<u>55,949</u>	<u>155,657</u>	

	Note	2003	2002
(Rupees'000)			
5. Capital work-in-progress			
Furniture and fixtures		1,073	-
Office equipment		968	2,018
EDP equipment		62	182
		<u>2,103</u>	<u>2,200</u>
6. Other liabilities			
Accruals and provisions	6.1	1,447,202	1,269,782
Others		90,487	83,444
		<u>1,537,689</u>	<u>1,353,226</u>
6.1 Accruals and provisions			
Provision for employees' compensated absences		1,369,004	1,221,000
Others		78,198	48,782
		<u>1,447,202</u>	<u>1,269,782</u>
7. Deferred liabilities - staff retirement benefits			
Provident fund scheme		715,189	671,068
Gratuity		81,565	74,000
Pension		3,979,560	3,550,000
Benevolent fund scheme		595,184	536,830
Post retirement medical benefits		275,825	98,000
		<u>5,647,323</u>	<u>4,929,898</u>

7.1 The following is the movement of the net recognised liability in respect of the defined benefit schemes mentioned above:

	Recognised liability as at June 30, 2002	Charge for the year	Payments during the year	Recognised liability as at June 30, 2003
----- (Rupees '000)-----				
Gratuity	74,000	11,362	3,797	81,565
Pension	3,550,000	537,000	107,440	3,979,560
Benevolent fund scheme	536,830	80,000	21,646	595,184
Post retirement medical benefits	98,000	244,000	66,175	275,825
	<u>4,258,830</u>	<u>872,362</u>	<u>199,058</u>	<u>4,932,134</u>
			2003	2002
			(Rupees'000)	

8. Share capital

Number of shares	Authorised share capital		
<u>1,000</u>	Ordinary shares of Rs 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>
	Issued, subscribed and paid-up capital		
<u>1,000</u>	Fully paid-up ordinary shares of Rs 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>

	Note	Year ended June 30, 2003	Period ended June 30, 2002
(Rupees' 000)			
9. Discount and interest earned			
Discount on Market Treasury Bills		29,252	9,864
Interest on staff loans		12,133	14,584
		41,385	24,448
10. Establishment costs			
Reimbursable from the State Bank of Pakistan			
Salaries and other benefits		1,844,254	825,212
Daily wages staff		6,219	2,701
Medical allowance		206,544	136,205
Overtime allowance		4,206	3,110
Rent and taxes		7,653	16,514
Insurance		674	33
Electricity, gas and water charges		95,328	36,679
Repairs to office property		2,498	7,120
Repairs to office vehicles		1,130	307
Repairs to mechanical / electrical equipment		3,792	8,443
Auditors' remuneration	10.3	1,500	1,500
Legal and professional charges		1,370	860
Travelling expenses		11,410	2,111
Daily expenses		13,495	4,898
Passages		23,380	3,947
Fuel charges		2,415	1,835
Conveyance charges		4,191	2,415
Postages		2,787	1,136
Telephone		11,561	10,252
Remittance of treasure		28,481	16,150
Stationery		8,202	6,083
Books and newspapers		859	739
Advertisement		1,968	438
Bank guards		34,244	23,648
Uniforms		18,908	11,428
Others		24,922	9,687
		2,361,991	1,133,451
Allocable to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences		1,098,673	852,121
Depreciation	4	118,209	55,949
		1,216,882	908,070
		3,578,873	2,041,521

10.1 As mentioned in note 2.6, the Corporation operates the following staff retirement benefit schemes:

- an un-funded gratuity scheme for all employees other than the employees who opted for the new general provident fund scheme or transferred employees who joined the SBP after 1975 and are entitled only to pension scheme benefits;
- an un-funded pension scheme;
- an un-funded contributory benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

During the year the Corporation has had actuarial valuations carried out for all the above schemes. Projected Unit Credit Method using the following significant assumptions was used for the valuations of these schemes as at June 30, 2003:

	Percent per annum
- Expected rate of increase in salary level	5.94%
- Expected rate of discount	8.00%
- Rate of benevolent fund grants and contributions	2.70%
- Medical cost trend	2.86%

The following are the fair values of the obligations under the schemes and liabilities recognised thereagainst for the past services of the employees at the latest valuation dates:

	Present value of the defined benefit obligation	Provision made in respect of retirement benefits	Unrecognised actuarial gain / (loss)
----- (Rupees '000) -----			
Gratuity	71,176	81,565	10,389
Pension	4,044,560	3,979,560	(65,000)
Benevolent fund scheme	607,184	595,184	(12,000)
Post retirement medical benefits	275,825	275,825	-
	4,998,745	4,932,134	(66,611)

The following amounts have been charged to the profit and loss account in respect of the above benefits:

	Current service cost	Actuarial loss	Interest cost	Total
	------(Rupees '000)-----			
Gratuity	2,559	536	8,267	11,362
Pension	171,000	-	366,000	537,000
Benevolent fund scheme	27,000	-	53,000	80,000
Post retirement medical benefits	11,000	228,000	5,000	244,000
	<u>211,559</u>	<u>228,536</u>	<u>432,267</u>	<u>872,362</u>

10.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2003 using the Projected Unit Credit Method. An amount of Rs 176 million (2002: Rs 365 million) has been charged to the profit and loss account in this respect based on actuarial recommendations.

	A.F.Ferguson & Co.	Taseer Hadi Khalid & Co.	Year ended June 30, 2003	Period ended June 30, 2002
	------(Rupees' 000)-----			
10.3 Auditors' remuneration				
Audit fee	500	500	1,000	1,000
Out of pocket expenses	250	250	500	500
	<u>750</u>	<u>750</u>	<u>1,500</u>	<u>1,500</u>

11. Loss after non-cash items

Net profit for the year / period	41,568	24,487
Expenses reimbursed by the State Bank of Pakistan	(2,361,991)	(1,133,451)
Expenses allocated to the State Bank of Pakistan	(1,216,882)	(908,070)
	<u>(3,537,305)</u>	<u>(2,017,034)</u>
Adjustments for:		
Depreciation	118,209	55,949
Provision for retirement benefits and employees' compensated absences	1,098,673	852,121
Expenses allocated to the State Bank of Pakistan	1,216,882	908,070
Discount on Market Treasury Bills	(29,252)	(9,864)
Medical inventory consumed	-	18,265
Profit on disposal of fixed assets	(183)	(39)
	<u>2,404,329</u>	<u>1,824,502</u>
	<u>(1,132,976)</u>	<u>(192,532)</u>

12. Financial assets and liabilities

	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
(Rupees '000)							
Financial assets							
Investments	512,819	-	512,819	-	-	-	512,819
Employee loans and advances	25,366	207,834	233,200	307,118	3,374,626	3,681,744	3,914,944
Balance in current account with the State Bank of Pakistan	-	-	-	3,681,932	-	3,681,932	3,681,932
	<u>538,185</u>	<u>207,834</u>	<u>746,019</u>	<u>3,989,050</u>	<u>3,374,626</u>	<u>7,363,676</u>	<u>8,109,695</u>
Financial liabilities							
Other liabilities	-	-	-	253,685	1,284,004	1,537,689	1,537,689
	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,685</u>	<u>1,284,004</u>	<u>1,537,689</u>	<u>1,537,689</u>

12.1. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. The remaining balances are recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

12.2 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk.

12.3 Fair value of financial assets and liabilities

The fair value of all financial assets and financial liabilities is estimated to approximate their carrying values.

13. Number of employees	2003	2002
Number of employees as at June 30	<u>5,581</u>	<u>5,927</u>

14. Date of authorisation for issue

These financial statements were authorised for issue on **27th September 2003** by the Board of Directors of the Corporation.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts