

ERNST & YOUNG FORD RHODES SIDAT HYDER

Chartered Accountants
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of SBP Banking Services Corporation ("the Corporation") which comprise the balance sheet as at 30 June 2011, and the profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

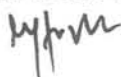
Management's Responsibility for the Financial Statements

Management of the Corporation is responsible for the preparation and fair presentation of these financial statements in accordance with the International Accounting Standards 1 to 38 and Accounting Policy for investments as stated in note 4.1 to the financial statements approved for adoption by the Board of Directors of the Corporation and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



ERNST & YOUNG FORD RHODES SIDAT HYDER

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Chartered Accountants

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as of 30 June 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards 1 to 38 and Accounting Policy for investments as stated in note 4.1 to the financial statements approved for adoption by the Board of Directors of the Corporation.



Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Karachi

Omer Chughtai

Audit Engagement Partner

Date: 8 October 2011



KPMG Taseer Hadi & Co.

Chartered Accountants

Karachi

Mohammad Mahmood Hussain

Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>(Rupees in '000)</i>	
ASSETS			
Balance in current account with State Bank of Pakistan		6,033,302	3,383,274
Investments	5	904,688	908,968
Employee loans and advances	6	10,779,336	10,648,266
Property and equipment	7	247,535	231,896
Medical and stationery consumables	8	100,947	95,853
Accrued interest / mark-up and return		26,939	22,987
Advances, deposits and prepayments	9	48,468	25,125
Total assets		18,141,215	15,316,369
LIABILITIES			
Deferred liabilities - staff retirement benefits	10	13,604,347	11,326,818
Other liabilities	11	3,536,868	2,989,551
Total liabilities		17,141,215	14,316,369
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	12	1,000,000	1,000,000
Commitments	13		

The annexed notes 1 to 19 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>(Rupees in '000)</i>	
Discount and interest earned	14	67,510	61,845
Net operating expenses	15	9,308,509	9,104,492
Reimbursable from the State Bank of Pakistan		(5,339,211)	(5,007,396)
Allocated to the State Bank of Pakistan		(3,969,298)	(4,097,096)
Operating profit		67,510	61,845
Gain on disposal of property and equipment		2,825	1,760
Profit transferred to the State Bank of Pakistan		70,335	63,605

The annexed notes 1 to 19 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2011

	<i>2011</i>	<i>2010</i>
	<i>(Rupees in '000)</i>	
Profit for the year	70,335	63,605
Other comprehensive income	-	-
Total comprehensive income for the year	<u>70,335</u>	<u>63,605</u>

The annexed notes 1 to 19 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

	<i>Share capital</i>	<i>Unappropriated profit</i>	<i>Total</i>
	-----	(Rupees in '000) -----	
Balance as at June 30, 2009	1,000,000	-	1,000,000
Total comprehensive income for the year			
Profit for the year	-	63,605	63,605
Other comprehensive income	-	-	-
	-	63,605	63,605
Transaction with owner			
Profit transferred to the State Bank of Pakistan	-	(63,605)	(63,605)
Balance as at June 30, 2010	1,000,000	-	1,000,000
Total comprehensive income for the year			
Profit for the year	-	70,335	70,335
Other comprehensive income	-	-	-
	-	70,335	70,335
Transaction with owner			
Profit transferred to the State Bank of Pakistan	-	(70,335)	(70,335)
Balance as at June 30, 2011	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

The annexed notes 1 to 19 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
CASHFLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		<i>(Rupees in '000)</i>	
Cash flows from operating activities			
Loss after adjustment of non-cash items	16	(1,363,220)	(904,443)
Expenses reimbursable by the State Bank of Pakistan		5,339,211	5,007,396
Profit transferred to the State Bank of Pakistan		(70,335)	(63,605)
Retirement benefits and employees' compensated absences paid		(1,254,305)	(1,643,114)
Discount income received		65,097	60,272
		2,716,448	2,456,506
Decrease / (increase) in assets			
Employee loans and advances		(131,070)	(2,719,821)
Medical and stationery consumables		(5,094)	(13,862)
Accrued interest / mark-up and return		(3,952)	2,229
Advances, deposits and prepayments		(23,343)	(3,304)
Increase in liabilities			
Other liabilities		188,996	74,631
Net cash generated from / (used in) operating activities		2,741,985	(203,621)
Cash flows from investing activities			
Capital expenditure		(100,148)	(134,198)
Proceeds from disposal of property and equipment		8,191	18,571
Net cash used in investing activities		(91,957)	(115,627)
Net increase / (decrease) in cash and cash equivalents		2,650,028	(319,248)
Cash and cash equivalents at beginning of the year		3,383,274	3,702,522
Cash and cash equivalents at end of the year		6,033,302	3,383,274

The annexed notes 1 to 19 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

***SBP BANKING SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011***

1. STATUS AND NATURE OF OPERATIONS

1.1 SBP Banking Services Corporation (the Corporation) was constituted under the SBP Banking Services Corporation Ordinance, 2001 (the Ordinance) as a wholly owned subsidiary of the State Bank of Pakistan (SBP) and 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.

1.2 The financial statements are presented in Pak Rupees which is the Corporation's functional and presentation currency.

1.3 The head office of the Corporation is situated at I.I. Chundrigar Road, Karachi, in the province of Sindh, Pakistan.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards IAS 1 to 38 and the policy for investments as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation. Where the requirements of policies adopted by the Board of Directors of the Corporation differ with the requirements of International Accounting Standards adopted by the Board of Directors of the Corporation, the requirements of policies adopted by the Board of Directors of the Corporation take precedence.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention except for certain staff retirement benefits which are stated at present value.

3.2 Use of estimates and judgements

The preparation of financial statements in conformity with International Accounting Standards IAS 1 to 38 and policy for investment as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In the process of applying the Corporation's accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

3.2.1 Held-to-maturity investments

The Corporation classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Corporation evaluates its intention and ability to hold such investments to maturity.

3.2.2 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management's best estimate.

3.2.3 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 15.1 to the financial statements.

3.3 Accounting standards / improvements / amendments that are not yet effective or not relevant

The following standards / improvements / amendments are applicable from the date mentioned below against the respective standard / improvement:

<i>Standards / improvements</i>	<i>Effective date (accounting period beginning on or after)</i>
IAS 1 - Presentation of items of other comprehensive income (amendments)	01 July 2012
IAS 12 - Income Tax (Amendment) – Deferred Taxes on Investment Property	01 January 2012
IAS 19 - Employee Benefits - Amended (2011)	01 January 2013

IAS 24 - Related Party Disclosures (Revised 2009)	01 January 2011
IAS 27 - Separate Financial Statements (2011)	01 January 2013
IAS 28 - Investment in Associates and Joint Ventures (2011)	01 January 2013
IFRIC 14 - IAS 19 (amendment) - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction	01 January 2011

The Corporation expects that the adoption of the above revisions and interpretations of not have any material impact on the Corporation's financial statements in the period of initial application other than to the extent of certain changes and / or enhancement in the presentation and disclosures in the financial statements resulting from the application of amendments in IAS-24 and IAS-1.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Investments - Held to maturity

The Corporation classifies its non-derivative financial assets with fixed and determinable payments as held to maturity. In making this judgement, the Corporation evaluates its intention and ability to hold such investments to maturity.

All such investments acquired by the Corporation are initially measured at cost being the fair value of the consideration given. Transaction cost, if any, is included in the initial measurement of investments. Subsequent to initial measurement, these securities are stated at cost less accumulated impairment, if any. Premiums and discounts are accounted for using effective interest rate method.

4.2 Property and equipment

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

Depreciation on property and equipment is charged to profit and loss account applying the straight-line method at the rates specified in note 7.1 to the financial statements, whereby the cost of an asset is written off over its estimated useful life. The asset's useful life is reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation on additions is charged to the profit and loss account 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 property and equipment are recognised in the profit and loss account.

4.3 Medical and stationery consumables

These are valued at lower of weighted average cost and net realisable value. Net realisable value represents estimated selling prices in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

4.4 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.

4.5 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 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 contributory 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 defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Unrecognised actuarial gains and losses at the beginning of the year are recognized in profit and loss account over the expected average remaining working life of employees. The above staff retirement benefits are payable to staff on completion of prescribed qualifying period of service.

4.6 Compensated absences

The Corporation makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates using Projected Unit Credit Method.

4.7 Revenue recognition

Revenue is recognised on time proportion basis that takes into account the effective yield on the asset.

4.8 Taxation

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

4.9 Cash and cash equivalents

Cash comprises 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.

4.10 Financial instruments

Financial assets and liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instruments and derecognised when the Corporation loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on the derecognition of the financial assets and liabilities is included in the profit and loss account.

Financial instruments carried on the balance sheet include the balance in the current account with the State Bank of Pakistan, investments, loans and advances, accrued interest / mark-up and return, and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

4.11 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Corporation has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

4.12 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment losses are recognised in the profit and loss

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised in the profit and loss account.

5. INVESTMENTS

	<i>Note</i>	<i>2011</i> <i>(Rupees in '000)</i>	<i>2010</i>
Held to maturity			
Market Treasury Bills	5.1	508,998	508,997
Pakistan Investment Bonds	5.2	395,690	399,971
		904,688	908,968

- 5.1 Market Treasury Bills carry mark-up at the rate of 12.79 to 13.88 percent per annum (2010: 12.28 to 12.35 percent per annum) and are due to mature by 2012.
- 5.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6 percent per annum (2010: 8.0 to 9.6 percent per annum) and are due to mature by 2016.

6. **EMPLOYEE LOANS AND ADVANCES**

	Note	2011 (Rupees in '000)	2010
Considered good		10,779,336	10,648,266
Considered doubtful		12,241	13,259
	6.1	10,791,577	10,661,525
Provision against doubtful loans		(12,241)	(13,259)
		<u>10,779,336</u>	<u>10,648,266</u>

- 6.1 Represents loans given to the permanent employees of the Corporation, recoverable in equal monthly installments till the retirement of an employee, except that the personal loan is repayable in twenty four equal monthly installments. These include loans amounting to Rs. 141.803 million (2010: Rs. 143.439 million) that carry mark up at 10% per annum (2010: 10% per annum). Maximum maturity of the loans is upto year 2049 (2010: year 2040).

These loans have been given in respect of:-

- Housing loan - Secured against equitable mortgage of the property.
- Motor vehicle loan - Secured against hypothecation of the vehicle.
- Computer and personal loan, given on personal guarantee of two employees of the Corporation.

7. **PROPERTY AND EQUIPMENT**

	Note	2011 (Rupees in '000)	2010
Operating fixed assets	7.1	247,317	231,678
Capital work-in-progress		218	218
		<u>247,535</u>	<u>231,896</u>

7.1 **Operating fixed assets**

The following is a statement of operating fixed assets:

	2011							
	Cost			Accumulated Depreciation			Net book value as at June 30, 2011	Annual rate of depreciation %
	As at July 01, 2010	Additions/ (deletions)/ transfers*	As at June 30, 2011	As at July 01, 2010	Charge for the year / (deletions)/ transfers*	As at June 30, 2011		
----- (Rupees in '000) -----								
Furniture and fixtures	105,903	2,848 (846)	107,905	56,147	7,613 (600)	63,160	44,745	10
Office equipment	722,683	57,956 (17,478)	763,161	603,313	45,914 (15,576)	633,651	129,510	20
EDP equipment	274,021	- (19,247) 53,456 *	308,230	258,995	12,744 (18,857) 20,140 *	273,022	35,208	33.33
Motor vehicles	81,303	6,028 (4,442)	82,889	33,777	12,872 (1,614)	45,035	37,854	20
	1,183,910	66,832 (42,013) 53,456 *	1,262,185	952,232	79,143 (36,647) 20,140 *	1,014,868	247,317	

	2010							Annual rate of depreciation %
	Cost			Accumulated Depreciation			Net book value as at June 30, 2010	
	As at July 01, 2009	Additions/ (deletions)/ transfers*	As at June 30, 2010	As at July 01, 2009	Charge for the year / (deletions)/ transfers*	As at June 30, 2010		
----- (Rupees in '000) -----								
Furniture and fixtures	97,734	10,911 (2,742)	105,903	51,257	7,127 (2,237)	56,147	49,756	10
Office equipment	663,870	73,227 (14,414)	722,683	562,743	42,335 (1,765)	603,313	119,370	20
EDP equipment	259,711	- (1,344) 15,654	274,021	243,354	7,602 - 8,039	258,995	15,026	33.33
		*			*			
Motor vehicles	45,696	42,227 (6,620)	81,303	26,147	11,937 (4,307)	33,777	47,526	20
	1,067,011	126,365 (25,120) 15,654	1,183,910	883,501	69,001 (8,309) 8,039	952,232	231,678	
		*			*			

2011
Note (Rupees in '000)

8. MEDICAL AND STATIONERY CONSUMABLES

Medical and stationery consumables	102,095	96,787
Provision against obsolete items	(1,148)	(934)
	<u>100,947</u>	<u>95,853</u>

9. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances, deposits and prepayments	43,295	19,989
Others	5,173	5,136
	<u>48,468</u>	<u>25,125</u>

10. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS

Gratuity	868	16,089
Pension	9,327,008	7,720,830
Benevolent fund scheme	1,005,555	865,873
Post retirement medical benefits	2,268,023	1,750,332
	15.3	
	<u>12,601,454</u>	<u>10,353,124</u>
Provident fund scheme	1,002,893	973,694
	<u>13,604,347</u>	<u>11,326,818</u>

11. OTHER LIABILITIES

Provision for employees' compensated absences	15.6	2,887,151	2,528,830
Others		649,717	460,721
		<u>3,536,868</u>	<u>2,989,551</u>

12. SHARE CAPITAL

2011	2010		
<u>1,000</u>	<u>1,000</u>	Authorised share capital	
		Ordinary shares of Rs 1,000,000 each	<u>1,000,000</u> <u>1,000,000</u>
<u>1,000</u>	<u>1,000</u>	Issued, subscribed and paid-up capital	
		Fully paid-up ordinary shares of Rs 1,000,000 each issued for cash	<u>1,000,000</u> <u>1,000,000</u>

13. COMMITMENTS

	2011	2010
Note	(Rupees in '000)	
Capital Commitments	<u>79,157</u>	<u>59,000</u>

This represents amounts committed by the Corporation to purchase assets from successful bidders.

14. DISCOUNT AND INTEREST EARNED

Discount income on Government securities	65,097	60,272
Interest on staff loans	<u>2,413</u>	<u>1,573</u>
	<u>67,510</u>	<u>61,845</u>

15. NET OPERATING EXPENSES

Reimbursable from the State Bank of Pakistan

Salaries, wages and other benefits	4,595,936	4,308,823
Rent and taxes	9,918	9,533
Insurance	5,093	3,481
Electricity, gas and water	199,705	179,409
Repair and maintenance	16,815	20,706
Auditors' remuneration	15.7 5,100	4,570
Legal and professional	6,066	4,838
Travelling	12,130	8,908
Daily expenses	21,759	13,909
Passages	161,912	167,059
Fuel	2,644	2,287
Conveyance	6,862	5,246
Postages and telephone	15,825	15,734
Training	31,126	20,695
Remittance of treasure	38,527	33,917
Stationery	12,508	10,327
Books and newspapers	1,368	1,560
Advertisement	4,225	3,345
Bank guards	98,258	91,033
Uniforms	16,707	19,180
Others	<u>76,727</u>	<u>82,836</u>
	<u>5,339,211</u>	<u>5,007,396</u>

Allocated to the State Bank of Pakistan

Retirement benefits and employees' compensated absences	7.1 3,890,155	4,028,095
Depreciation	79,143	69,001
	<u>3,969,298</u>	<u>4,097,096</u>
	<u>9,308,509</u>	<u>9,104,492</u>

15.1 As mentioned in note 4.5, 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 contributory 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 carried out actuarial valuation for all the above schemes using Projected Unit Credit Method. Following significant assumptions have been used for the valuations of these schemes as at June 30, 2011:

	2011	2010
	% per annum	
Expected rate of increase in salary level	12	12
Expected rate of discount	14	14
Medical cost trend	9	9
Pension indexation rate	8	8
Inflation in contribution and grants	6	6

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

		2011			
		<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Unrecognized negative past service cost</i>	<i>Provision made in respect of retirement benefits</i>
<i>Note</i>		------(Rupees in '000)-----			
Gratuity	15.5	20,161	(19,293)	-	868
Pension	15.5	17,558,118	(8,241,224)	10,114	9,327,008
Benevolent fund scheme	15.5	1,367,399	(361,844)	-	1,005,555
Post retirement medical benefits	15.5	3,529,624	(1,261,601)	-	2,268,023
		<u>22,475,302</u>	<u>(9,883,962)</u>	<u>10,114</u>	<u>12,601,454</u>

		2010			
		<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Unrecognized negative past service cost</i>	<i>Provision made in respect of retirement benefits</i>
		------(Rupees in '000)-----			
Gratuity	15.5	36,094	(20,005)	-	16,089
Pension	15.5	14,221,796	(6,500,966)	-	7,720,830
Benevolent fund scheme	15.5	1,216,670	(350,797)	-	865,873
Post retirement medical benefits	15.5	3,324,018	(1,573,686)	-	1,750,332
		<u>18,798,578</u>	<u>(8,445,454)</u>	<u>-</u>	<u>10,353,124</u>

- 15.3 The following is the movement of the net recognised liability in respect of the defined benefit schemes mentioned

		2011			
	<i>Recognised liability as at June 30, 2010</i>	<i>Charge for the year</i>	<i>Payments during the year</i>	<i>Employee Contributions</i>	<i>Recognised liability as at June 30, 2011</i>
----- <i>(Rupees in '000)</i> -----					
Gratuity	16,089	7,857	(23,078)	-	868
Pension	7,720,830	2,498,091	(891,913)	-	9,327,008
Benevolent fund scheme	865,873	244,483	(104,801)	-	1,005,555
Post retirement medical benefits	1,750,332	643,396	(125,705)	-	2,268,023
	<u>10,353,124</u>	<u>3,393,827</u>	<u>(1,145,497)</u>	<u>-</u>	<u>12,601,454</u>

		2010			
	<i>Recognised liability as at June 30, 2009</i>	<i>Charge for the year</i>	<i>Payments during the year</i>	<i>Employee Contributions</i>	<i>Recognised liability as at June 30, 2010</i>
----- <i>(Rupees in '000)</i> -----					
Gratuity	32,371	11,954	(28,236)	-	16,089
Pension	6,586,470	2,251,500	(1,117,140)	-	7,720,830
Benevolent fund scheme	769,852	199,099	(115,421)	12,343	865,873
Post retirement medical benefits	1,286,508	633,054	(169,230)	-	1,750,332
	<u>8,675,201</u>	<u>3,095,607</u>	<u>(1,430,027)</u>	<u>12,343</u>	<u>10,353,124</u>

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

	2011					
	<i>Current service cost</i>	<i>Actuarial (gain)/loss</i>	<i>Interest cost</i>	<i>Past Service Cost</i>	<i>Employee Contributions</i>	<i>Total</i>
	----- <i>(Rupees in '000)</i> -----					
Gratuity	1,140	3,279	3,438	-	-	7,857
Pension	422,848	461,708	1,928,618	(315,083)	-	2,498,091
Benevolent fund scheme	60,655	20,830	162,998	-	-	244,483
Post retirement medical benefits	73,989	112,844	456,563	-	-	643,396
	558,632	598,661	2,551,617	(315,083)	-	3,393,827
	2010					
	<i>Current service cost</i>	<i>Actuarial (gain)/loss</i>	<i>Interest cost</i>	<i>Past Service Cost</i>	<i>Employee Contributions</i>	<i>Total</i>
	----- <i>(Rupees in '000)</i> -----					
Gratuity	1,702	1,889	8,363	-	-	11,954
Pension	482,384	262,826	1,506,290	-	-	2,251,500
Benevolent fund scheme	56,554	16,255	138,633	-	(12,343)	199,099
Post retirement medical benefits	98,809	136,770	397,475	-	-	633,054
	639,449	417,740	2,050,761	-	(12,343)	3,095,607

15.5 Historical Information

	2011	2010	2009	2008	2007
	----- <i>(Rupees in '000)</i> -----				
Gratuity					
Present Value of Defined Benefit Obligation	20,161	36,094	38,039	43,066	42,736
Unrecognised actuarial (losses) / gains	(19,293)	(20,005)	(5,668)	(5,245)	(282)
Liability in balance sheet	868	16,089	32,371	37,821	42,454
Experience adjustment arising on plan liabilities (gains) / losses	2,567	16,226	3,046	5,058	4,211
Pension					
Present Value of Defined Benefit Obligation	17,558,118	14,221,796	8,951,904	6,679,812	5,279,000
Unrecognised actuarial (losses) / gains	(8,241,224)	(6,500,966)	(2,365,434)	(881,525)	112,000
Unrecognized negative past service cost	10,114				
Liability in balance sheet	9,327,008	7,720,830	6,586,470	5,798,287	5,391,000
Experience adjustment arising on plan liabilities losses / (gains)	3,369,573	4,398,358	1,572,062	983,638	(117,735)
Benevolent Fund Scheme					
Present Value of Defined Benefit Obligation	1,367,399	1,216,670	916,147	761,325	673,000
Unrecognised actuarial gains / (losses)	(361,844)	(350,797)	(146,295)	(51,337)	26,000
Liability in balance sheet	1,005,555	865,873	769,852	709,988	699,000
Experience adjustment arising on plan liabilities losses / (gains)	31,877	220,757	100,092	75,755	(22,303)
Medical					
Present Value of Defined Benefit Obligation	3,529,624	3,324,018	2,790,980	2,315,481	1,489,000
Unrecognised actuarial gains / (losses)	(1,261,601)	(1,573,686)	(1,504,472)	(1,433,348)	(817,000)
Liability in balance sheet	2,268,023	1,750,332	1,286,508	882,133	672,000
Experience adjustment arising on plan liabilities (gains) / losses	(199,241)	205,984	190,570	683,802	165,511

15.6 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2011 using the Projected Unit Credit Method.

	2011			2010		
	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sifat Hyder	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sifat Hyder	Total
15.7 Auditors' remuneration	------(Rupees in '000)-----			------(Rupees in '000)-----		
Audit fee	1,725	1,725	3,450	1,571	1,571	3,142
Out of pocket expenses	825	825	1,650	714	714	1,428
	<u>2,550</u>	<u>2,550</u>	<u>5,100</u>	<u>2,285</u>	<u>2,285</u>	<u>4,570</u>

	2011	2010
	(Rupees in '000)	
Net profit for the year	70,335	63,605
Expenses reimbursed by the State Bank of Pakistan	(5,339,211)	(5,007,396)
Expenses allocated to the State Bank of Pakistan	(3,969,298)	(4,097,096)
	<u>(9,238,174)</u>	<u>(9,040,887)</u>
Adjustments for:		
Provision for retirement benefits and employees' compensated absences	3,890,155	4,028,095
Expenses allocated to the State Bank of Pakistan	3,969,298	4,097,096
Discount on Government securities	(65,097)	(60,272)
Depreciation	79,143	69,001
Amortization of premium	4,280	4,284
Gain on disposal of property and equipments	(2,825)	(1,760)
	<u>7,874,954</u>	<u>8,136,444</u>
	<u>(1,363,220)</u>	<u>(904,443)</u>

17. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest/ mark-up rate and credit risks. The policies and procedures for managing these risks are outlined in notes 17.2 to 17.4. The Corporation has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

17.1 Interest / mark-up rate risk management

Interest / mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. The Corporation has adopted appropriate policies to minimise its exposure to this risk. The Corporation's management, the Central Board and the investment committee has set appropriate duration limits and a separate department deals with the monitoring of the Corporation's interest/ mark-up rate risk exposure based on these limits.

	2011					
	Interest / mark-up bearing			Non interest / mark-up bearing		
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Total
	------(Rupees in '000)-----					
Financial assets						
Balance in current account with the State Bank of Pakistan	-	-	-	6,033,302	-	6,033,302
Investments	508,998	395,690	904,688	-	-	904,688
Employee loans and advances	18,397	123,406	141,803	1,312,410	9,337,364	10,649,774
Accrued interest / mark-up and return	-	-	-	26,939	-	26,939
	<u>527,395</u>	<u>519,096</u>	<u>1,046,491</u>	<u>7,372,651</u>	<u>9,337,364</u>	<u>17,756,506</u>
Financial liabilities						
Other liabilities	-	-	-	649,717	-	649,717
	<u>-</u>	<u>-</u>	<u>-</u>	<u>649,717</u>	<u>-</u>	<u>649,717</u>
On balance sheet gap	<u>527,395</u>	<u>519,096</u>	<u>1,046,491</u>	<u>6,722,934</u>	<u>9,337,364</u>	<u>17,106,789</u>

	2010						
	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 in '000) -----						
Financial assets							
Balance in current account with the State Bank of Pakistan	-	-	-	3,383,274	-	3,383,274	3,383,274
Investments	508,997	399,971	908,968	-	-	-	908,968
Employee loans and advances	18,612	124,827	143,439	1,196,118	9,308,709	10,504,827	10,648,266
Accrued interest / mark-up and return	-	-	-	22,987	-	22,987	22,987
	527,609	524,798	1,052,407	4,602,379	9,308,709	13,911,088	14,963,495
Financial liabilities							
Other liabilities	-	-	-	460,721	-	460,721	460,721
	-	-	-	460,721	-	460,721	460,721
On balance sheet gap	527,609	524,798	1,052,407	4,141,658	9,308,709	13,450,367	14,502,774

17.2 The interest / mark-up for the financial assets and liabilities are mentioned in their respective notes to the financial statements.

17.3 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.

17.4 Liquidity risk

Liquidity risk is the risk that an Corporation 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.

17.5 Fair value of financial assets and liabilities

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

18. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 8th October 2011 by the Board of Directors of the Corporation.

19. FIGURES

Have been rounded off to the nearest thousand rupees, unless otherwise stated.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts