

# 14 Financial Statement of SBP-BSC (Bank)

## **M. YOUSUF ADIL SALEEM & CO.**

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### **AUDITORS' REPORT TO THE SHAREHOLDER**

We have audited the accompanying financial statements of SBP Banking Service Corporation ("the Corporation") which comprise the balance sheet as at June 30, 2008 and profit and loss account, cash flow statement and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Corporation for the year ended June, 30 2007 were audited by KPMG Taseer Hadi & Co. and M. Yousuf Adil Saleem & Co. whose report dated September 04, 2007 expressed an unqualified audit opinion.

#### **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. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. 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 Corporation'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. 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 Corporation's financial position as of June 30, 2008 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.

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**M. Yousuf Adil Saleem & Co.**

Chartered Accountants

Karachi

Date: 2<sup>nd</sup> September 2008

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**Ford Rhodes Sidat Hyder & Co.**

Chartered Accountants

Karachi

Date: 2<sup>nd</sup> September 2008

**SBP BANKING SERVICES CORPORATION**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2008**

|  | <i>Note</i> | <b>2008</b><br><i>(Rupees in '000)</i> | <b>2007</b> |
|--|-------------|--|-------------|
| <b>ASSETS</b>  |             |  |             |
| Balance in current account with State Bank of Pakistan |             | <b>2,369,636</b>                       | 4,266,639   |
| Investments  | 5           | <b>917,533</b>                         | 921,826     |
| Employee loans   | 6           | <b>7,781,361</b>                       | 5,506,869   |
| Other assets   | 7           | <b>109,899</b>                         | 100,201     |
| Property and equipment                                 | 8           | <b>183,667</b>                         | 175,206     |
| <b>Total assets</b>                                    |             | <b>11,362,096</b>                      | 10,970,741  |
| <b>LIABILITIES</b>                                     |             |  |             |
| Other liabilities                                      | 9           | <b>2,117,883</b>                       | 2,311,199   |
| Deferred liabilities - staff retirement benefits       | 10          | <b>8,244,213</b>                       | 7,659,542   |
| <b>Total liabilities</b>                               |             | <b>10,362,096</b>                      | 9,970,741   |
| <b>Net assets</b>                                      |             | <b>1,000,000</b>                       | 1,000,000   |
| <b>REPRESENTED BY:</b>                                 |             |  |             |
| <b>Share capital</b>                                   | 11          | <b>1,000,000</b>                       | 1,000,000   |

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

*Muhammad Kamran Shehzad*  
*Managing Director*

*Riaz Nazarali*  
*Director Accounts*

**SBP BANKING SERVICES CORPORATION**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2008**

|  | <i>Note</i> | <i>2008</i><br><i>(Rupees in '000)</i> | <i>2007</i> |
|--|-------------|--|-------------|
| Discount and interest earned                     | 12          | <b>78,195</b>                          | 73,663      |
| Net operating expenses                           | 13          |  |             |
| Total expenses                                   |             | <b>4,966,747</b>                       | 5,708,096   |
| Reimbursed by the State Bank of Pakistan         |             | <b>(3,376,624)</b>                     | (3,135,927) |
| Allocated to the State Bank of Pakistan          |             | <b>(1,590,123)</b>                     | (2,572,169) |
|  |             | -                                      | -           |
|  |             | <b>78,195</b>                          | 73,663      |
| Gain on disposal of property and equipment       |             | <b>1,544</b>                           | 2,689       |
| Profit transferred to the State Bank of Pakistan |             | <b>79,739</b>                          | 76,352      |

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

**Muhammad Kamran Shehzad**  
*Managing Director*

**Riaz Nazarali**  
*Director Accounts*

**SBP BANKING SERVICES CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2008**

|  | <i>Share capital</i>           | <i>Unappropriated profit</i> | <i>Total</i> |
|--|--------------------------------|------------------------------|--------------|
|  | <----- (Rupees in '000) -----> |                              |              |
| Balance at June 30, 2006                         | 1,000,000                      | -                            | 1,000,000    |
| Profit for the year                              | -                              | 76,352                       | 76,352       |
| Profit transferred to the State Bank of Pakistan | -                              | (76,352)                     | (76,352)     |
| Balance at June 30, 2007                         | 1,000,000                      | -                            | 1,000,000    |
| Profit for the year                              | -                              | 79,739                       | 79,739       |
| Profit transferred to the State Bank of Pakistan | -                              | (79,739)                     | (79,739)     |
| Balance at June 30, 2008                         | 1,000,000                      | -                            | 1,000,000    |

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

*Muhammad Kamran Shehzad*  
**Managing Director**

*Riaz Nazarali*  
**Director Accounts**

**SBP BANKING SERVICES CORPORATION**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2008**

|  | <i>Note</i> | <i>2008</i>             | <i>2007</i> |
|--|-------------|-------------------------|-------------|
|  |             | <i>(Rupees in '000)</i> |             |
| <b>Cash flows from operating activities</b>                  |             |                         |             |
| Loss before adjustment of non-cash items                     | 14          | <b>(1,780,474)</b>      | (559,707)   |
| Expenses reimbursed by the State Bank of Pakistan            |             | <b>3,376,624</b>        | 3,135,927   |
| Profit transferred to the State Bank of Pakistan             |             | <b>(79,739)</b>         | (76,352)    |
| Retirement benefits and employees' compensated absences paid |             | <b>(823,377)</b>        | (1,943,624) |
| Discount income received                                     |             | <b>76,461</b>           | 71,710      |
|  |             | <b>769,495</b>          | 627,954     |
| <b>(Increase) / Decrease in assets</b>                       |             |                         |             |
| Loan to employees  |             | <b>(2,274,492)</b>      | 681,607     |
| Other assets   |             | <b>(9,698)</b>          | (15,919)    |
| <b>(Decrease) / Increase in liabilities</b>                  |             |                         |             |
| Other liabilities  |             | <b>(297,753)</b>        | 174,642     |
| Net cash (used in) / generated from operating activities     |             | <b>(1,812,448)</b>      | 1,468,284   |
| <b>Cash flows from investing activities</b>                  |             |                         |             |
| Fixed capital expenditure                                    |             | <b>(86,376)</b>         | (104,885)   |
| Proceeds from disposal of property and equipment             |             | <b>1,821</b>            | 6,077       |
| Net cash (used in) investing activities                      |             | <b>(84,555)</b>         | (98,808)    |
| Net (decrease) / increase in cash and cash equivalents       |             | <b>(1,897,003)</b>      | 1,369,476   |
| Cash and cash equivalents at beginning of the year           |             | <b>4,266,639</b>        | 2,897,163   |
| Cash and cash equivalents at end of the year                 |             | <b>2,369,636</b>        | 4,266,639   |

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

**Muhammad Kamran Shehzad**  
**Managing Director**

**Riaz Nazarali**  
**Director Accounts**

**SBP BANKING SERVICES CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**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 company's functional and presentation currency.

**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 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**

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with International Accounting Standards 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 recognized 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.

Judgements made by the management in the application of International Accounting Standards 1 to 38 and policy for investment as stated in note 4.1, that have significant effect on the financial statements and estimate with significant risk of material judgement in the future year are discussed in note 16 to these financial statements.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 4.1 Investments

Investment in Government securities are stated at cost less accumulated impairment, if any. The cost of securities is adjusted for any amortisation of premiums on a straight-line basis over the period of maturity.

##### 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 8.1 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 included in income currently.

##### 4.3 Stock in hand

Stock in hand includes medicine, store and stationery stock. 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 are 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. Unrecognised 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.



**4.6 Compensated absences**

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

**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 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.

**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 instrument and de-recognised 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 currently.

Financial instruments carried on the balance sheet include the balance in the current account with the State Bank of Pakistan, investments, loans and advances, other assets and deferred 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 recognized in the profit and loss account.

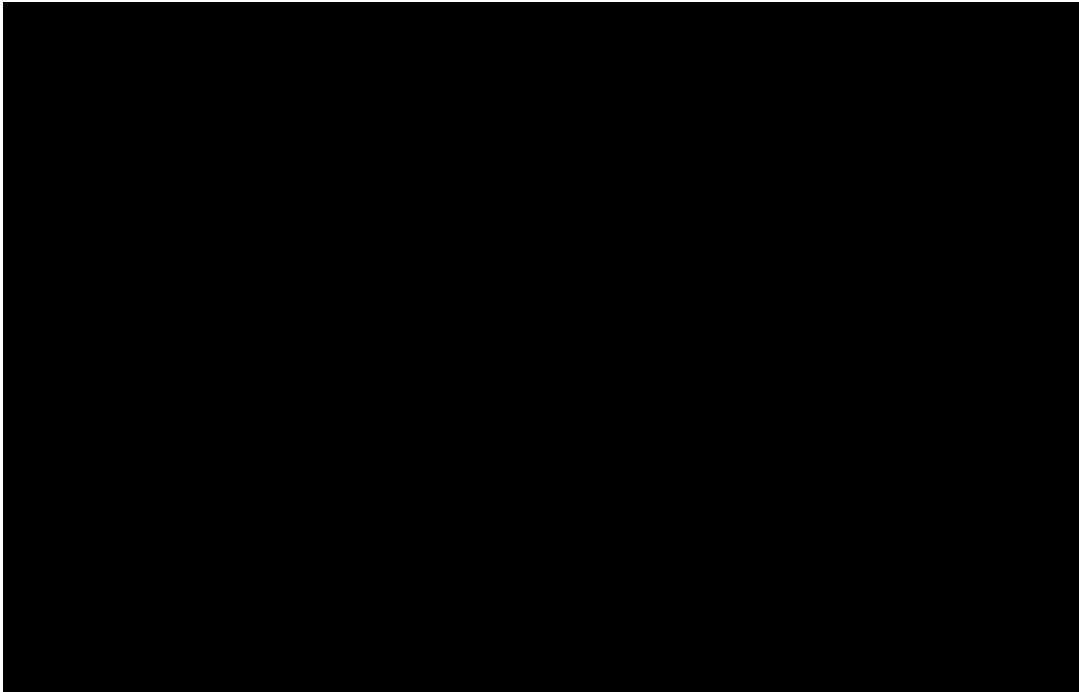
Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income / expense currently.

|                              |                           | 2008             | 2007           |
|------------------------------|---------------------------|------------------|----------------|
|                              |                           | (Rupees in '000) |                |
|                              |                           | Note             |                |
| <b>5. INVESTMENTS</b>        |                           |                  |                |
| <b>Government securities</b> |                           |                  |                |
|                              | Market Treasury Bill      | 5.1              | 509,000        |
|                              | Pakistan Investment Bonds | 5.2              | 412,826        |
|                              |                           |                  | <u>917,533</u> |
|                              |                           |                  | <u>921,826</u> |

**5.1** Market Treasury Bill carries mark-up at the rate of 10.1% per annum (2007: 9% per annum) and is due to mature in March 2009.

**5.2** Pakistan Investment Bonds carry mark-up at the rate of 8% to 9.6% per annum (2007: 8% to 9.6% per annum) and are due to mature till 2016.

|                          |                                  | 2008             | 2007             |
|--------------------------|----------------------------------|------------------|------------------|
|                          |                                  | (Rupees in '000) |                  |
|                          |                                  | Note             |                  |
| <b>6. EMPLOYEE LOANS</b> |                                  |                  |                  |
|                          | Considered good                  |                  | 7,781,361        |
|                          | Considered doubtful              |                  | 5,506,869        |
|                          |                                  |                  | <u>12,382</u>    |
|                          |                                  |                  | -                |
|                          | Provision against doubtful loans | 6.1              | 7,793,743        |
|                          |                                  |                  | 5,506,869        |
|                          |                                  |                  | <u>(12,382)</u>  |
|                          |                                  |                  | -                |
|                          |                                  |                  | <u>7,781,361</u> |
|                          |                                  |                  | <u>5,506,869</u> |



8.1 Operating fixed assets

The following is a statement of operating fixed assets:

| 2008                         | Cost               |   |                     | Accumulated Depreciation |   |                     | Net book value at June 30, 2008 | Annual rate of depreciation % |
|------------------------------|--------------------|---|---------------------|--------------------------|---|---------------------|---------------------------------|-------------------------------|
|                              | As at July 1, 2007 | Additions / (deletions) / adjustments & reclassification* during the year | As at June 30, 2008 | As at July 1, 2007       | Charge for the year / (deletions) / adjustments & reclassification* | As at June 30, 2008 |                                 |                               |
| ----- (Rupees in '000) ----- |                    |   |                     |                          |   |                     |                                 |                               |
| Furniture and fixtures       | 73,966             | 15,083<br>(1,193)<br>(39) *   | 87,817              | 30,946                   | 6,981<br>(1,193)<br>(331) *   | 36,403              | 51,414                          | 10                            |
| Office equipment             | 333,172            | 45,271<br>(1,255)<br>6,322 *  | 383,510             | 245,595                  | 30,962<br>(1,036)<br>11,554 *                                       | 287,075             | 96,435                          | 20                            |
| EDP equipment                | 202,561            | 11,892<br>(150)<br>14,755 *   | 229,058             | 168,408                  | 34,925<br>(136)<br>6,483 *  | 209,680             | 19,378                          | 33.33                         |
| Motor vehicles               | 29,449             | 7,692<br>(1,609)<br>(162) *   | 35,370              | 18,993                   | 4,770<br>(1,565)<br>(152) *   | 22,046              | 13,324                          | 20                            |
|                              | <b>639,148</b>     | <b>79,938<br/>(4,207)<br/>20,876</b>                                      | <b>735,755</b>      | <b>463,942</b>           | <b>77,638<br/>(3,930)<br/>17,554</b>                                | <b>555,204</b>      | <b>180,551</b>                  |                               |

State Bank of Pakistan's Annual Performance Review for 2007-2008

| 2007                        | Cost               |  |                     | Accumulated Depreciation |  |                     | Net book value at June 30, 2007 | Annual rate of depreciation % |
|-----------------------------|--------------------|--|---------------------|--------------------------|--|---------------------|---------------------------------|-------------------------------|
|                             | As at July 1, 2006 | Additions / (deletions) adjustments* during the year | As at June 30, 2007 | As at July 1, 2006       | Charge for the year / (deletions) / adjustments* | As at June 30, 2007 |                                 |                               |
| ------(Rupees in '000)----- |                    |  |                     |                          |  |                     |                                 |                               |
| Furniture and fixtures      | 37,484             | 26,126<br>(3,312)<br>13,668 *                        | 73,966              | 17,471                   | 1,585<br>(1,778)<br>13,668 *                     | 30,946              | 43,020                          | 10                            |
| Office equipment            | 227,595            | 30,860<br>(3,781)<br>78,498 *                        | 333,172             | 145,365                  | 24,623<br>(2,891)<br>78,498 *                    | 245,595             | 87,577                          | 20                            |
| EDP equipment               | 141,023            | 48,147<br>(650)<br>14,041 *                          | 202,561             | 89,773                   | 65,170<br>(576)<br>14,041 *                      | 168,408             | 34,153                          | 33.33                         |
| Motor vehicles              | 19,450             | 2,963<br>(2,494)<br>9,530 *                          | 29,449              | 5,821                    | 5,246<br>(1,604)<br>9,530 *                      | 18,993              | 10,456                          | 20                            |
|                             | 425,552            | 108,096<br>(10,237)<br>115,737 *                     | 639,148             | 258,430                  | 96,624<br>(6,849)<br>115,737 *                   | 463,942             | 175,206                         |                               |

|  | Note | 2008<br>(Rupees in '000)   | 2007      |
|--|------|----------------------------|-----------|
| <b>8.2 Capital work-in-progress</b>                                |      |                            |           |
| Furniture and fixtures   |      | 100                        | -         |
| Office equipment   |      | 3,016                      | -         |
|  |      | <b>3,116</b>               | -         |
| <b>9. OTHER LIABILITIES</b>  |      |                            |           |
| Accruals and provisions  | 9.1  | 1,839,457                  | 2,057,383 |
| Others   |      | 278,426                    | 253,816   |
|  |      | <b>2,117,883</b>           | 2,311,199 |
| <b>9.1 Accruals and provisions</b>                                 |      |                            |           |
| Provision for employees' compensated absences                      |      | 1,786,437                  | 1,682,000 |
| Others   |      | 53,020                     | 375,383   |
|  |      | <b>1,839,457</b>           | 2,057,383 |
| <b>10. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS</b>        |      |                            |           |
| Gratuity   |      | 37,821                     | 43,000    |
| Pension  |      | 5,798,287                  | 5,391,000 |
| Benevolent fund scheme   |      | 709,988                    | 699,000   |
| Post retirement medical benefits                                   |      | 882,133                    | 672,000   |
|  |      | <b>7,428,229</b>           | 6,805,000 |
| Provident fund scheme  |      | 815,984                    | 854,542   |
|  |      | <b>8,244,213</b>           | 7,659,542 |
| <b>11. SHARE CAPITAL</b>   |      |                            |           |
|  |      | 2008<br>(Number of shares) | 2007      |
|  |      | <b>1,000</b>               | 1,000     |
| <b>Authorised share capital</b>                                    |      |                            |           |
| Ordinary shares of Rs 1,000,000 each                               |      | <b>1,000,000</b>           | 1,000,000 |
| <b>Issued, subscribed and paid-up capital</b>                      |      |                            |           |
| Fully paid-up ordinary shares of Rs 1,000,000 each issued for cash |      | <b>1,000,000</b>           | 1,000,000 |
| <b>12. DISCOUNT AND INTEREST EARNED</b>                            |      |                            |           |
| Discount on Government securities                                  |      | 76,461                     | 71,710    |
| Interest on staff loans  |      | 1,734                      | 1,953     |
|  |      | <b>78,195</b>              | 73,663    |
| <b>13. NET OPERATING EXPENSES</b>                                  | Note | 2008<br>(Rupees in '000)   | 2007      |
| <b>Reimbursable from the State Bank of Pakistan</b>                |      |                            |           |
| Salaries, wages and other benefits                                 |      | 2,918,933                  | 2,727,309 |
| Rent and taxes   |      | 8,254                      | 7,703     |
| Insurance  |      | 1,537                      | 1,478     |
| Electricity, gas and water   |      | 133,677                    | 129,976   |
| Repairs and maintenance  |      | 16,929                     | 9,478     |
| Auditors' remuneration   | 13.6 | 3,030                      | 2,700     |
| Legal and professional   |      | 3,193                      | 1,245     |
| Traveling  |      | 5,832                      | 4,130     |
| Daily expenses   |      | 9,443                      | 7,419     |
| Passages   |      | 90,755                     | 69,882    |
| Fuel   |      | 1,682                      | 1,500     |
| Conveyance   |      | 5,588                      | 3,157     |
| Postages and telephone   |      | 9,760                      | 9,965     |
| Training   |      | 13,812                     | 13,868    |
| Remittance of treasure   |      | 27,743                     | 31,276    |
| Stationery   |      | 7,938                      | 4,932     |
| Books and newspapers   |      | 1,415                      | 1,183     |
| Advertisement  |      | 1,564                      | 366       |
| Bank guards  |      | 57,988                     | 51,364    |
| Uniforms   |      | 12,810                     | 15,605    |
| Others   |      | 44,741                     | 41,391    |
|  |      | <b>3,376,624</b>           | 3,135,927 |
| <b>Allocable to the State Bank of Pakistan</b>                     |      |                            |           |
| Retirement benefits and employees' compensated absences            |      | 1,512,485                  | 2,475,545 |
| Depreciation   | 8.1  | 77,638                     | 96,624    |
|  |      | <b>1,590,123</b>           | 2,572,169 |
|  |      | <b>4,966,747</b>           | 5,708,096 |

13.1 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 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 in the report dated August 5, 2008 using Projected Unit Credit Method. The following significant assumptions has been used for the valuations of these schemes as at June 30, 2008: -

|   | 2008        | 2007 |
|---|-------------|------|
|   | % per annum |      |
| Expected rate of increase in salary level | 10.0        | 8.9  |
| Expected rate of discount                 | 12          | 11.0 |
| Medical cost trend                        | 7.0         | 5.7  |

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

|                                     | <i>Recognised liability as at June 30, 2007</i> | <i>Charge for the year</i> | <i>Payments during the year</i> | <i>Employee Contributions</i> | <i>Recognised liability as at June 30, 2008</i> |
|-------------------------------------|---|----------------------------|---------------------------------|-------------------------------|---|
| -----( <i>Rupees in '000</i> )----- |   |                            |                                 |                               |   |
| Gratuity                            | 43,000  | 5,889                      | (11,068)                        | -                             | 37,821  |
| Pension                             | 5,391,000                                       | 789,965                    | (382,678)                       | -                             | 5,798,287                                       |
| Benevolent fund scheme              | 699,000   | 92,263                     | (92,381)                        | 11,106                        | 709,988   |
| Post retirement medical benefits    | 672,000   | 294,810                    | (84,677)                        | -                             | 882,133   |
|                                     | <u>6,805,000</u>                                | <u>1,182,927</u>           | <u>(570,804)</u>                | <u>11,106</u>                 | <u>7,428,229</u>                                |

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:

|                                     | 2008   |   |   | 2007  |
|-------------------------------------|--|---|---|---|
|                                     | <i>Present value of the defined benefit obligation</i> | <i>Unrecognised actuarial gain / (loss)</i> | <i>Provision made in respect of retirement benefits</i> | <i>Provision made in respect of retirement benefits</i> |
| -----( <i>Rupees in '000</i> )----- |  |   |   |   |
| Gratuity                            | 43,066   | 5,245                                       | 37,821  | 43,000  |
| Pension                             | 6,679,812  | 881,525                                     | 5,798,287   | 5,391,000   |
| Benevolent fund scheme              | 761,325  | 51,337                                      | 709,988   | 699,000   |
| Post retirement medical benefits    | 2,315,481  | 1,433,348                                   | 882,133   | 672,000   |
|                                     | <u>9,799,684</u>                                       | <u>2,371,455</u>                            | <u>7,428,229</u>  | <u>6,805,000</u>  |

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

|                                     | <i>Current<br/>service cost</i> | <i>Actuarial<br/>(gain)/loss</i> | <i>Interest<br/>cost</i> | <i>Settlement<br/>cost</i> | <i>Employee<br/>Contributions</i> | <i>Total</i>     |
|-------------------------------------|---------------------------------|----------------------------------|--------------------------|----------------------------|-----------------------------------|------------------|
| ----- <i>(Rupees in '000)</i> ----- |                                 |                                  |                          |                            |                                   |                  |
| Gratuity                            | 1,094                           | 94                               | 4,701                    | -                          | -                                 | 5,889            |
| Pension                             | 219,489                         | (10,211)                         | 580,687                  | -                          | -                                 | 789,965          |
| Benevolent fund scheme              | 31,815                          | (2,442)                          | 73,996                   | -                          | (11,106)                          | 92,263           |
| Post retirement medical benefits    | 62,830                          | 68,140                           | 163,840                  | -                          | -                                 | 294,810          |
| <b>2008</b>                         | <b>315,228</b>                  | <b>55,581</b>                    | <b>823,224</b>           | <b>-</b>                   | <b>(11,106)</b>                   | <b>1,182,927</b> |
| 2007                                | 252,000                         | 111,000                          | 784,000                  | 620,000                    | (10,000)                          | 1,757,000        |

13.4 *Employees' compensated absences*

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2008 using the Projected Unit Credit Method. An amount of Rs.104.437 million has been charged during the year as compared to reversal of Rs. 72 million in year 2007 based on actuarial recommendations.

13.5 *Historical Information*

|  | <i>2008</i> | <i>2007</i> | <i>2006</i> | <i>2005</i> | <i>2004</i> |
|--|-------------|-------------|-------------|-------------|-------------|
| ----- <i>(Rupees in '000)</i> -----                                |             |             |             |             |             |
| <b>Gratuity</b>  |             |             |             |             |             |
| Present value of defined benefit obligation                        | 43,066      | 43,000      | 58,000      | 74,000      | 68,443      |
| Unrecognised actuarial gains / (losses)                            | (5,245)     | -           | 7,000       | (3,000)     | 15,665      |
| Liability in balance sheet   | 37,821      | 43,000      | 65,000      | 71,000      | 84,108      |
| Experience adjustment arising on plan liabilities (gains) / losses | 5,058       | 4,211       | (8,246)     | 16,046      | (7,099)     |
| <b>Pension</b>   |             |             |             |             |             |
| Present value of defined benefit obligation                        | 6,679,812   | 5,279,000   | 5,009,000   | 4,765,000   | 4,041,000   |
| Unrecognised actuarial gains / (losses)                            | (881,525)   | 112,000     | (6,000)     | (329,000)   | (52,000)    |
| Liability in balance sheet   | 5,798,287   | 5,391,000   | 5,003,000   | 4,436,000   | 3,989,000   |
| Experience adjustment arising on plan liabilities (gains) / losses | 983,638     | (117,735)   | (295,654)   | 281,000     | (8,000)     |
| <b>Benevolent Fund Scheme</b>                                      |             |             |             |             |             |
| Present value of defined benefit obligation                        | 761,325     | 673,000     | 710,000     | 627,000     | 574,000     |
| Unrecognised actuarial gains / (losses)                            | (51,337)    | 26,000      | 5,000       | -           | (7,000)     |
| Liability in balance sheet   | 709,988     | 699,000     | 715,000     | 627,000     | 567,000     |
| Experience adjustment arising on plan liabilities (gains) / losses | 75,755      | (22,303)    | (5,845)     | (6,000)     | (4,000)     |
| <b>Medical</b>   |             |             |             |             |             |
| Present value of defined benefit obligation                        | 2,315,481   | 1,489,000   | 1,204,000   | 806,000     | 489,000     |
| Unrecognised actuarial gains / (losses)                            | (1,433,348) | (817,000)   | (765,000)   | (529,000)   | (269,000)   |
| Liability in balance sheet   | 882,133     | 672,000     | 439,000     | 277,000     | 220,000     |
| Experience adjustment arising on plan liabilities (gains) / losses | 683,802     | 165,511     | 276,001     | 279,000     | 269,000     |

**M. Yousuf**      **Ford**  
**Adil**              **Rhodes**  
**Saleem**          **Sidat Hyder**  
**& Co.**            **& Co.**              2008              2007  
 <----- - Rupees in '000'----- >

**13.6 Auditors' remuneration**

|                        |              |              |              |              |
|------------------------|--------------|--------------|--------------|--------------|
| Audit fee              | 1,265        | 1,265        | 2,530        | 2,200        |
| Out of pocket expenses | 250          | 250          | 500          | 500          |
|                        | <b>1,515</b> | <b>1,515</b> | <b>3,030</b> | <b>2,700</b> |

Note                      2008              2007  
 (Rupees in '000)

**14. LOSS BEFORE ADJUSTMENT OF NON-CASH ITEMS**

|   |                    |                    |
|---|--------------------|--------------------|
| Net profit for the year                           | 79,739             | 76,352             |
| Expenses reimbursed by the State Bank of Pakistan | (3,376,624)        | (3,135,927)        |
| Expenses allocated to the State Bank of Pakistan  | (1,590,123)        | (2,572,169)        |
|   | <b>(4,887,008)</b> | <b>(5,631,744)</b> |

Adjustments for:

|   |                    |                  |
|---|--------------------|------------------|
| Depreciation  | 77,638             | 96,624           |
| Provision for retirement benefits and employees' compensated absences | 1,512,485          | 2,475,545        |
| Expenses allocated to the State Bank of Pakistan                      | 1,590,123          | 2,572,169        |
| Discount on Government securities                                     | (76,461)           | (71,710)         |
| Amortisation of premium   | 4,293              | 2,098            |
| Gain on disposal of property and equipments                           | (1,544)            | (2,689)          |
|   | <b>3,106,534</b>   | <b>5,072,037</b> |
|   | <b>(1,780,474)</b> | <b>(559,707)</b> |

## 15. FINANCIAL ASSETS AND LIABILITIES

| 2008   | Interest rate (%) | 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         |                   |
| <i>Financial assets</i>                                    |                   |                            |                         |                  |                                |                         |                   |                   |
| Balance in current account with the State Bank of Pakistan |                   | -                          | -                       | -                | 2,369,636                      | -                       | 2,369,636         | 2,369,636         |
| Investments  | 8.0 - 10.1        | 509,000                    | 408,533                 | 917,533          | -                              | -                       | -                 | 917,533           |
| Employee loans and advances                                | 10                | 23,655                     | 102,506                 | 126,161          | 662,348                        | 7,005,234               | 7,667,582         | 7,793,743         |
| Other assets   |                   | -                          | -                       | -                | 15,459                         | -                       | 15,459            | 15,459            |
|  |                   | <u>532,655</u>             | <u>511,039</u>          | <u>1,043,694</u> | <u>3,047,443</u>               | <u>7,005,234</u>        | <u>10,052,677</u> | <u>11,096,371</u> |
| <i>Financial liabilities</i>                               |                   |                            |                         |                  |                                |                         |                   |                   |
| Other liabilities  |                   | -                          | -                       | -                | 331,446                        | 1,786,437               | 2,117,883         | 2,117,883         |
|  |                   | <u>-</u>                   | <u>-</u>                | <u>-</u>         | <u>331,446</u>                 | <u>1,786,437</u>        | <u>2,117,883</u>  | <u>2,117,883</u>  |
| <i>On balance sheet gap</i>                                |                   | <u>532,655</u>             | <u>511,039</u>          | <u>1,043,694</u> | <u>2,715,997</u>               | <u>5,218,797</u>        | <u>7,934,794</u>  | <u>8,978,488</u>  |
| 2007   |                   |                            |                         |                  |                                |                         |                   |                   |
| <i>Financial assets</i>                                    |                   |                            |                         |                  |                                |                         |                   |                   |
| Balance in current account with the State Bank of Pakistan |                   | -                          | -                       | -                | 4,266,639                      | -                       | 4,266,639         | 4,266,639         |
| Investments  | 8.0 - 9.6         | 509,000                    | 412,826                 | 921,826          | -                              | -                       | -                 | 921,826           |
| Employee loans and advances                                | 10                | 18,856                     | 92,411                  | 111,267          | 580,471                        | 4,815,131               | 5,395,602         | 5,506,869         |
| Other assets   |                   | -                          | -                       | -                | 21,928                         | -                       | 21,928            | 21,928            |
|  |                   | <u>527,856</u>             | <u>505,237</u>          | <u>1,033,093</u> | <u>4,869,038</u>               | <u>4,815,131</u>        | <u>9,684,169</u>  | <u>10,717,262</u> |
| <i>Financial liabilities</i>                               |                   |                            |                         |                  |                                |                         |                   |                   |
| Other liabilities  |                   | -                          | -                       | -                | 629,199                        | 1,682,000               | 2,311,199         | 2,311,199         |
|  |                   | <u>-</u>                   | <u>-</u>                | <u>-</u>         | <u>629,199</u>                 | <u>1,682,000</u>        | <u>2,311,199</u>  | <u>2,311,199</u>  |
| <i>On balance sheet gap</i>                                |                   | <u>527,856</u>             | <u>505,237</u>          | <u>1,033,093</u> | <u>4,239,839</u>               | <u>3,133,131</u>        | <u>7,372,970</u>  | <u>8,406,063</u>  |

## 15.1 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.

## 15.2 Liquidity risk

Liquidity risk is the risk that the 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.

## 15.3 Fair value of financial assets and liabilities

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



**16. ACCOUNTING ESTIMATES AND JUDGEMENTS**

***Held-to-maturity investments***

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

***Retirement benefits***

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation in notes 13.1 to the financial statements.

***Useful life of property and equipment***

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

**17. CAPITAL DISCLOSURE**

The Corporation is not subject to any externally imposed capital requirement.

**18. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on 2nd September 2008 by the Board of Directors of the Corporation.

**19. FIGURES**

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

***Muhammad Kamran Shehzad***  
***Managing Director***

***Riaz Nazarali***  
***Director Accounts***