

14 Financial Statement of SBP-BSC (Bank)

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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.

M. Yousuf Adil Saleem & Co.

Chartered Accountants

Karachi

Date: 2nd September 2008

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

Karachi

Date: 2nd September 2008

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

	<i>Note</i>	<i>2008</i> <i>(Rupees in '000)</i>	<i>2007</i>
ASSETS			
Balance in current account with State Bank of Pakistan		2,369,636	4,266,639
Investments	5	917,533	921,826
Employee loans	6	7,781,361	5,506,869
Other assets	7	109,899	100,201
Property and equipment	8	183,667	175,206
Total assets		11,362,096	10,970,741
LIABILITIES			
Other liabilities	9	2,117,883	2,311,199
Deferred liabilities - staff retirement benefits	10	8,244,213	7,659,542
Total liabilities		10,362,096	9,970,741
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	11	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
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2008**

	<i>Note</i>	<i>2008</i> <i>(Rupees in '000)</i>	<i>2007</i>
Discount and interest earned	12	78,195	73,663
Net operating expenses	13		
Total expenses		4,966,747	5,708,096
Reimbursed by the State Bank of Pakistan		(3,376,624)	(3,135,927)
Allocated to the State Bank of Pakistan		(1,590,123)	(2,572,169)
		-	-
		78,195	73,663
Gain on disposal of property and equipment		1,544	2,689
Profit transferred to the State Bank of Pakistan		79,739	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>	2008	2007
		(Rupees in '000)	
Cash flows from operating activities			
Loss before adjustment of non-cash items	14	(1,780,474)	(559,707)
Expenses reimbursed by the State Bank of Pakistan		3,376,624	3,135,927
Profit transferred to the State Bank of Pakistan		(79,739)	(76,352)
Retirement benefits and employees' compensated absences paid		(823,377)	(1,943,624)
Discount income received		76,461	71,710
		769,495	627,954
(Increase) / Decrease in assets			
Loan to employees		(2,274,492)	681,607
Other assets		(9,698)	(15,919)
(Decrease) / Increase in liabilities			
Other liabilities		(297,753)	174,642
Net cash (used in) / generated from operating activities		(1,812,448)	1,468,284
Cash flows from investing activities			
Fixed capital expenditure		(86,376)	(104,885)
Proceeds from disposal of property and equipment		1,821	6,077
Net cash (used in) investing activities		(84,555)	(98,808)
Net (decrease) / increase in cash and cash equivalents		(1,897,003)	1,369,476
Cash and cash equivalents at beginning of the year		4,266,639	2,897,163
Cash and cash equivalents at end of the year		2,369,636	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.

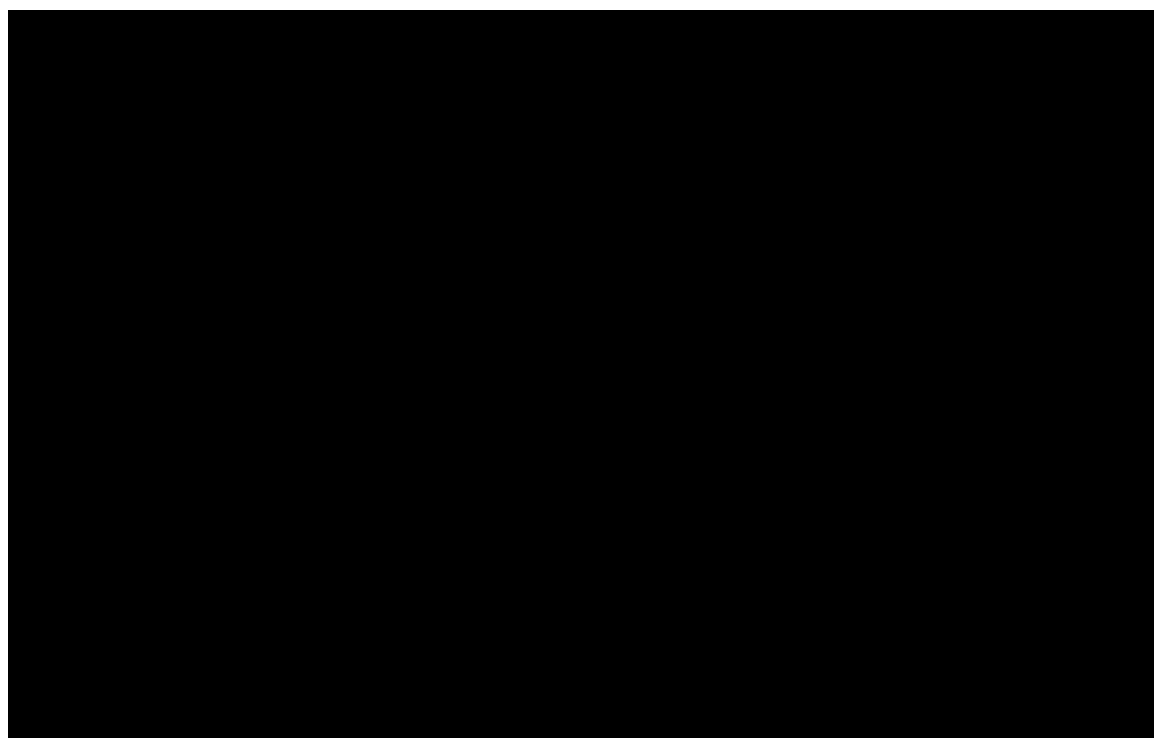
Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income / expense currently.

	Note	2008 (Rupees in '000)	2007
5. INVESTMENTS			
Government securities			
Market Treasury Bill	5.1	509,000	509,000
Pakistan Investment Bonds	5.2	408,533	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.

	Note	2008 (Rupees in '000)	2007
6. EMPLOYEE LOANS			
Considered good		7,781,361	5,506,869
Considered doubtful		12,382	-
	6.1	<u>7,793,743</u>	<u>5,506,869</u>
Provision against doubtful loans		<u>(12,382)</u>	<u>-</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) / 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 (1,193) (39) *	87,817	30,946	6,981 (1,193) (331) *	36,403	51,414	10
Office equipment	333,172	45,271 (1,255) 6,322 *	383,510	245,595	30,962 (1,036) 11,554 *	287,075	96,435	20
EDP equipment	202,561	11,892 (150) 14,755 *	229,058	168,408	34,925 (136) 6,483 *	209,680	19,378	33.33
Motor vehicles	29,449	7,692 (1,609) (162) *	35,370	18,993	4,770 (1,565) (152) *	22,046	13,324	20
	<u>639,148</u>	<u>79,938</u> (4,207) <u>20,876</u>	<u>735,755</u>	<u>463,942</u>	<u>77,638</u> (3,930) <u>17,554</u>	<u>555,204</u>	<u>180,551</u>	

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 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 (3,312) 13,668 *	73,966	17,471	1,585 (1,778) 13,668 *	30,946	43,020	10
Office equipment	227,595	30,860 (3,781) 78,498 *	333,172	145,365	24,623 (2,891) 78,498 *	245,595	87,577	20
EDP equipment	141,023	48,147 (650) 14,041 *	202,561	89,773	65,170 (576) 14,041 *	168,408	34,153	33.33
Motor vehicles	19,450	2,963 (2,494) 9,530 *	29,449	5,821	5,246 (1,604) 9,530 *	18,993	10,456	20
	425,552	108,096 (10,237) 115,737 *	639,148	258,430	96,624 (6,849) 115,737 *	463,942	175,206	

	Note	2008 (Rupees in '000)	2007
8.2 Capital work-in-progress			
Furniture and fixtures		100	-
Office equipment		3,016	-
		3,116	-
9. OTHER LIABILITIES			
Accruals and provisions	9.1	1,839,457	2,057,383
Others		278,426	253,816
		2,117,883	2,311,199
9.1 Accruals and provisions			
Provision for employees' compensated absences		1,786,437	1,682,000
Others		53,020	375,383
		1,839,457	2,057,383
10. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS			
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
		7,428,229	6,805,000
Provident fund scheme		815,984	854,542
		8,244,213	7,659,542
11. SHARE CAPITAL			
		2008 (Number of shares)	2007
		1,000	1,000
Authorised share capital			
Ordinary shares of Rs 1,000,000 each		1,000,000	1,000,000
Issued, subscribed and paid-up capital			
Fully paid-up ordinary shares of Rs 1,000,000 each issued for cash		1,000,000	1,000,000
12. DISCOUNT AND INTEREST EARNED			
Discount on Government securities		76,461	71,710
Interest on staff loans		1,734	1,953
		78,195	73,663
13. NET OPERATING EXPENSES	Note	2008 (Rupees in '000)	2007
Reimbursable from the State Bank of Pakistan			
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
		3,376,624	3,135,927
Allocable to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	8.1	1,512,485	2,475,545
Depreciation		77,638	96,624
		1,590,123	2,572,169
		4,966,747	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
	<i>% per annum</i>	
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
	6,805,000	1,182,927	(570,804)	11,106	7,428,229

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
	9,799,684	2,371,455	7,428,229	6,805,000

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

	<i>Current service cost</i>	<i>Actuarial (gain)/loss</i>	<i>Interest cost</i>	<i>Settlement cost</i>	<i>Employee 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
2008	315,228	55,581	823,224	-	(11,106)	1,182,927
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>)-----				
Gratuity					
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)
Pension					
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)
Benevolent Fund Scheme					
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)
Medical					
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
	1,515	1,515	3,030	2,700

2008 2007
Note (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)
	(4,887,008)	(5,631,744)

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)
	3,106,534	5,072,037
	(1,780,474)	(559,707)

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