

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, 2009 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.

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 5.1 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 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 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, 2009 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 5.1 to the financial statements approved for adoption by the Board of Directors of the Corporation.

M. Yousuf Adil Saleem & Co.

Chartered Accountants
Karachi

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants
Karachi

Mushtaq Ali Hirani

Audit Engagement Partner
Date: October 12, 2009

Omer Chughtai

Audit Engagement Partner
Date: October 12, 2009

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2009

	<i>Note</i>	<i>2009</i>	<i>2008</i>
		<i>(Rupees in '000)</i>	
ASSETS			
Balance in current account with State Bank of Pakistan		3,702,522	2,369,636
Investments	6	913,252	917,533
Employee loans and advances	7	7,928,445	7,781,361
Property and equipment	8	183,510	183,667
Stock in hand	9	81,991	72,806
Other assets	10	47,037	37,093
Total assets		12,856,757	11,362,096
LIABILITIES			
Deferred liabilities - staff retirement benefits	11	9,591,330	8,244,213
Other liabilities	12	2,265,427	2,117,883
Total liabilities		11,856,757	10,362,096
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	13	1,000,000	1,000,000
Commitments	14		

The annexed notes 1 to 21 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2009

	<i>Note</i>	2009 <i>(Rupees in '000)</i>	2008
Discount and interest earned	<i>15</i>	82,818	78,195
Net operating expenses	<i>16</i>		
Total expenses		6,243,059	4,966,747
Reimbursable from the State Bank of Pakistan		(4,012,936)	(3,376,624)
Allocated to the State Bank of Pakistan		(2,230,123)	(1,590,123)
		82,818	78,195
Gain on disposal of property and equipment		3,896	1,544
Profit transferred to the State Bank of Pakistan		86,714	79,739

The annexed notes 1 to 21 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2009

	<i>Share capital</i>	<i>Unappropriated profit</i>	<i>Total</i>
	-----	(Rupees in '000) -----	-----
Balance as 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 as at June 30, 2008	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Profit for the year	-	86,714	86,714
Profit transferred to the State Bank of Pakistan	-	(86,714)	(86,714)
Balance as at June 30, 2009	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

The annexed notes 1 to 21 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
CASHFLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2009

	<i>Note</i>	2009	2008
		<i>(Rupees in '000)</i>	
Cash flows from operating activities			
Loss before adjustment of non-cash items	17	(1,914,706)	(1,858,112)
Expenses reimbursable by the State Bank of Pakistan		4,077,801	3,454,262
Profit transferred to the State Bank of Pakistan		(86,714)	(79,739)
Retirement benefits and employees' compensated absences paid		(652,477)	(823,377)
Discount income received		81,363	76,461
		1,505,267	769,495
(Increase) / Decrease in assets			
Loans to employees		(147,084)	(2,274,492)
Other assets		(9,944)	(4,761)
Stock in hand		(9,185)	(4,937)
(Decrease) / Increase in liabilities			
Other liabilities		54,644	(297,753)
Net cash from / (used in) operating activities		1,393,698	(1,812,448)
Cash flows from investing activities			
Fixed capital expenditure		(66,896)	(86,376)
Proceeds from disposal of property and equipment		6,084	1,821
Net cash used in investing activities		(60,812)	(84,555)
Net increase / (decrease) in cash and cash equivalents		1,332,886	(1,897,003)
Cash and cash equivalents at beginning of the year		2,369,636	4,266,639
Cash and cash equivalents at end of the year		3,702,522	2,369,636

The annexed notes 1 to 21 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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.

2. STATEMENT OF COMPLIANCE

2.1 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 5.1 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 IAS 1 to 38 and policy for investment as stated in note 5.1 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: (a) classification of investments (Note 6); (b) determining the residual values and useful lives of property and equipment (Note 8.1); (c) accounting for post employment benefits (Note 16.1); and (d) impairment of assets.

4. STANDARDS AND INTERPRETATIONS OF APPROVED ACCOUNTING STANDARDS NOT YET EFFECTIVE OR NOT RELEVANT

The following standards and interpretations of approved accounting standards are applicable from the date mentioned below against the respective standard or interpretation: -

<i>Standard or interpretation</i>	<i>Effective date (accounting period beginning on or after)</i>
IAS - 1 (Revised) Presentation of financial statements	January 1, 2009
IAS - 23 (Revised) Borrowing costs	January 1, 2009
IAS - 32 (Revised) Financial Instruments: Presentation	January 1, 2009

The Corporation expects that the adoption of the above standards will 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 enhancements in the presentation and disclosures in the financial statements resulting from the application of IAS 1. The revised IAS 1 was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments – Held to maturity

The Corporation classifies its non-derivative financial assets with fixed and determinable payments as held to maturity. In making this judgment, 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. The cost of securities is adjusted for any amortisation of premiums on a straight-line basis over the period of maturity.

5.2 Retired Employees Fund

The Corporation has approved a scheme for retired employees whereby a deposit scheme is created.

The employees can deposit for terms of either three, five or ten years upon which they will be issued an investment pass book reflecting their contribution. The fund stands reinvested by the employee if not withdrawn on maturity date.

The return is paid semi-annually to retired employees in their accounts with commercial banks after deduction of services charges and withholding tax. If deposits are withdrawn before maturity, the rate of return will be calculated on the basis of the rate applicable to the actual period of the deposit.

5.3 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 recognised in the profit and loss account.

5.4 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.

5.5 Provisions

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

5.6 Staff retirement benefits

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

- a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme;
- b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for the new scheme and 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 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.

5.7 Compensated absences

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

5.8 Revenue recognition

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

5.9 Taxation

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

5.10 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.

5.11 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, other assets and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

5.12 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.

5.13 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 account.

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.

6. INVESTMENTS	Note	2009 (Rupees in '000)	2008
Held to maturity			
Market Treasury Bill	6.1	509,000	509,000
Pakistan Investment Bonds	6.2	404,252	408,533
		<u>913,252</u>	<u>917,533</u>

6.1 Market Treasury Bill carries mark-up at the rate of 11.78 percent per annum (2008: 10.1 percent per annum) and is due to mature in March 2010.

6.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6 percent per annum (2008: 8.0 to 9.6 percent per annum) and are due to mature till 2016.

7. EMPLOYEE LOANS AND ADVANCES	Note	2009 (Rupees in '000)	2008
Considered good		7,928,445	7,781,361
Considered doubtful		13,584	12,382
	7.1	<u>7,942,029</u>	<u>7,793,743</u>
Provision against doubtful loans		(13,584)	(12,382)
		<u>7,928,445</u>	<u>7,781,361</u>

7.1 Represents loans given to the permanent employees of the Corporation, recoverable in equal monthly installments till the retirement of an employee, except the personal loan repayable in twenty four equal monthly installments. These include loans amounting to Rs. 108.313 million that carry mark up at 10% per annum. Maximum maturity of the loan is upto year 2038.

These loans have been given in respect of:-

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

8. PROPERTY AND EQUIPMENT	Note	2009 (Rupees in '000)	2008
Operating fixed assets	8.1	183,510	180,551
Capital work-in-progress		-	3,116
		<u>183,510</u>	<u>183,667</u>

8.1 Operating fixed assets

The following is a statement of operating fixed assets:

2009	Cost			Accumulated Depreciation			Net book value at June 30, 2009	Annual rate of depreciation %
	As at July 1, 2008	Additions/ (deletions)/ adjustments & transfers*	As at June 30, 2009	As at July 1, 2008	Charge for the year / (deletions)/ adjustments & transfers*	As at June 30, 2009		
----- (Rupees in '000) -----								
Furniture and fixtures	87,817	4,426 (1,101) 6,592 *	97,734	36,403	8,649 (387) 6,592 *	51,257	46,477	10
Office equipment	383,510	41,295 (4,108) 243,173 *	663,870	287,075	37,244 (3,605) 242,029 *	562,743	101,127	20
EDP equipment	229,058	10,861 (4,258) 24,050 *	259,711	209,680	13,352 (3,728) 24,050 *	243,354	16,357	33.33
Motor vehicles	35,370	12,286 (5,694) 3,734 *	45,696	22,046	5,620 (5,253) 3,734 *	26,147	19,549	20
	735,755	68,868 (15,161) 277,549 *	1,067,011	555,204	64,865 (12,973) 276,405 *	883,501	183,510	
2008	Cost			Accumulated Depreciation			Net book value at June 30, 2008	Annual rate of depreciation %
	Cost at July 1, 2007	Additions/ (deletions)/ adjustments & transfers*	Cost at June 30, 2008	Accumulated depreciation at July 1, 2007	Charge for the year / (deletions)/ adjustments & transfers*	Accumulated depreciation 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
	639,148	79,938 (4,207) 20,876 *	735,755	463,942	77,638 (3,930) 17,554	555,204	180,551	
2009 2008 (Rupees in '000)								

9. STOCK IN HAND

Medicine, stores and stationery stock
Provision against obsolesces items

84,345	76,765
(2,354)	(3,959)
81,991	72,806

	2009	2008
	(Rupees in '000)	
10. OTHER ASSETS		
Accrued interest / mark-up and return	25,216	15,459
Other advances, deposits and prepayments	21,821	21,634
	<u>47,037</u>	<u>37,093</u>
11. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS		
Gratuity	32,371	37,821
Pension	6,586,470	5,798,287
Benevolent fund scheme	769,852	709,988
Post retirement medical benefits	1,286,508	882,133
	<u>8,675,201</u>	<u>7,428,229</u>
Provident fund scheme	916,129	815,984
	<u>9,591,330</u>	<u>8,244,213</u>
12. OTHER LIABILITIES		
Accruals and provisions	12.1 1,879,337	1,839,457
Others	386,090	278,426
	<u>2,265,427</u>	<u>2,117,883</u>
12.1 Accruals and provisions		
Provision for employees' compensated absences	1,879,337	1,786,437
Others	-	53,020
	<u>1,879,337</u>	<u>1,839,457</u>
13. SHARE CAPITAL		
2009 2008		
(Number of shares)		
Authorised share capital		
<u>1,000</u> <u>1,000</u> Ordinary shares of Rs. 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued, subscribed and paid-up capital		
<u>1,000</u> <u>1,000</u> Fully paid-up ordinary shares of Rs. 1,000,000 each issued for cash	<u>1,000,000</u>	<u>1,000,000</u>
14. COMMITMENTS		
Capital Commitments	<u>7,110</u>	<u>-</u>
This represents amounts committed by the Corporation to purchase assets from successful bidders.		
15. DISCOUNT AND INTEREST EARNED	2009 2008	
	(Rupees in '000)	
Discount on Government securities	81,363	76,461
Interest on staff loans	1,455	1,734
	<u>82,818</u>	<u>78,195</u>

16. NET OPERATING EXPENSES	Note	2009	2008
		(Rupees in '000)	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		3,478,919	2,918,933
Rent and taxes		8,577	8,254
Insurance		2,605	1,537
Electricity, gas and water		170,107	133,677
Repair and maintenance		19,385	16,929
Auditors' remuneration	16.6	4,570	3,030
Legal and professional		10,233	3,193
Travelling		7,325	5,832
Daily expenses		11,792	9,443
Passages		84,334	90,755
Fuel		1,994	1,682
Conveyance		4,483	5,588
Postages and telephone		11,624	9,760
Training		21,622	13,812
Remittance of treasure		33,059	27,743
Stationery		9,219	7,938
Books and newspapers		1,332	1,415
Advertisement		1,748	1,564
Bank guards		68,355	57,988
Uniforms		14,487	12,810
Others		47,166	44,741
		4,012,936	3,376,624
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences		2,165,258	1,512,485
Depreciation	8.1	64,865	77,638
		2,230,123	1,590,123
		6,243,059	4,966,747

16.1 As mentioned in note 5.6, the Corporation operates the following staff retirement benefit schemes:

- an un-funded gratuity scheme for all employees other than the employees who opted for the new general provident 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 has had actuarial valuations carried out for all the above schemes in the report dated September 4, 2009 using Projected Unit Credit Method. Following significant assumptions have been used for the valuations of these schemes as at June 30, 2009:

	2009 % per annum	2008
Expected rate of increase in salary level	11	10
Expected rate of discount	13	12
Medical cost trend	8	7
Pension indexation rate	5	4

16.2 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:

	2009		
	<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Provision made in respect of retirement benefits</i>
	------(Rupees in '000)-----		
Gratuity	38,039	(5,668)	32,371
Pension	8,951,904	(2,365,434)	6,586,470
Benevolent fund scheme	916,147	(146,295)	769,852
Post retirement medical benefits	2,790,980	(1,504,472)	1,286,508
	<u>12,697,070</u>	<u>(4,021,869)</u>	<u>8,675,201</u>
	2008		
	<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Provision made in respect of retirement benefits</i>
	------(Rupees in '000)-----		
Gratuity	43,066	5,245	37,821
Pension	6,679,812	881,525	5,798,287
Benevolent fund scheme	761,325	51,337	709,988
Post retirement medical benefits	2,315,481	1,433,348	882,133
	<u>9,799,684</u>	<u>2,371,455</u>	<u>7,428,229</u>

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

	2009				
	<i>Recognised liability as at June 30, 2008</i>	<i>Charge for the year</i>	<i>Payments during the year</i>	<i>Employee Contributions</i>	<i>Recognised liability as at June 30, 2009</i>
	------(Rupees in '000)-----				
Gratuity	37,821	8,777	(14,227)	-	32,371
Pension	5,798,287	1,167,465	(379,282)	-	6,586,470
Benevolent fund scheme	709,988	120,380	(71,700)	11,184	769,852
Post retirement medical benefits	882,133	494,978	(90,603)	-	1,286,508
	<u>7,428,229</u>	<u>1,791,600</u>	<u>(555,812)</u>	<u>11,184</u>	<u>8,675,201</u>
	2008				
	<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>
	------(Rupees in '000)-----				
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>

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

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

2009						
	<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	986	2,623	5,168	-	-	8,777
Pension	277,735	88,153	801,577	-	-	1,167,465
Benevolent fund scheme	35,071	5,134	91,359	-	(11,184)	120,380
Post retirement medical benefits	97,674	119,446	277,858	-	-	494,978
	<u>411,466</u>	<u>215,356</u>	<u>1,175,962</u>	<u>-</u>	<u>(11,184)</u>	<u>1,791,600</u>

2008						
	<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
	<u>315,228</u>	<u>55,581</u>	<u>823,224</u>	<u>-</u>	<u>(11,106)</u>	<u>1,182,927</u>

16.5 *Historical Information*

	2009	2008	2007	2006	2005
	----- <i>(Rupees in '000)</i> -----				
Gratuity					
Present Value of Defined Benefit Obligation	38,039	43,066	43,000	58,000	74,000
Unrecognised actuarial gains / (losses)	(5,668)	(5,245)	-	7,000	(3,000)
Liability in balance sheet	<u>32,371</u>	<u>37,821</u>	<u>43,000</u>	<u>65,000</u>	<u>71,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>3,046</u>	<u>5,058</u>	<u>4,211</u>	<u>(8,246)</u>	<u>16,046</u>
Pension					
Present Value of Defined Benefit Obligation	8,951,904	6,679,812	5,279,000	5,009,000	4,765,000
Unrecognised actuarial gains / (losses)	(2,365,434)	(881,525)	112,000	(6,000)	(329,000)
Liability in balance sheet	<u>6,586,470</u>	<u>5,798,287</u>	<u>5,391,000</u>	<u>5,003,000</u>	<u>4,436,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>1,572,062</u>	<u>983,638</u>	<u>(117,735)</u>	<u>(295,654)</u>	<u>281,000</u>
Benevolent Fund Scheme					
Present Value of Defined Benefit Obligation	916,147	761,325	673,000	710,000	627,000
Unrecognised actuarial gains / (losses)	(146,295)	(51,337)	26,000	5,000	-
Liability in balance sheet	<u>769,852</u>	<u>709,988</u>	<u>699,000</u>	<u>715,000</u>	<u>627,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>100,092</u>	<u>75,755</u>	<u>(22,303)</u>	<u>(5,845)</u>	<u>(6,000)</u>
Medical					
Present Value of Defined Benefit Obligation	2,790,980	2,315,481	1,489,000	1,204,000	806,000
Unrecognised actuarial gains / (losses)	(1,504,472)	(1,433,348)	(817,000)	(765,000)	(529,000)
Liability in balance sheet	<u>1,286,508</u>	<u>882,133</u>	<u>672,000</u>	<u>439,000</u>	<u>277,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>190,570</u>	<u>683,802</u>	<u>165,511</u>	<u>276,001</u>	<u>279,000</u>

16.6 *Employees' compensated absences*

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2009 using the Projected Unit Credit Method. An amount of Rs.92.9 million has been charged after deduction of payments during the year as compared to Rs. 104.437 million in year 2008 based on actuarial recommendations.

	<i>M. Yousuf Adil Saleem & Co.</i>	<i>Ernst & Young Ford Rhodes Sidat Hyder</i>	2009	2008
16.7 Auditors' remuneration				
			-----(<i>Rupees in '000</i>)-----	
Audit fee	1,571	1,571	3,142	2,530
Out of pocket expenses	714	714	1,428	500
	<u>2,285</u>	<u>2,285</u>	<u>4,570</u>	<u>3,030</u>

17. LOSS BEFORE ADJUSTMENT OF NON-CASH ITEMS

	2009	2008
	(<i>Rupees in '000</i>)	
Net profit for the year	86,714	79,739
Expenses reimbursed by the State Bank of Pakistan	(4,012,936)	(3,376,624)
Expenses allocated to the State Bank of Pakistan	(2,230,123)	(1,590,123)
	<u>(6,156,345)</u>	<u>(4,887,008)</u>
Adjustments for:		
Provision for retirement benefits and employees' compensated absences	2,092,494	1,512,485
Expenses allocated to the State Bank of Pakistan	2,230,123	1,590,123
Discount on Government securities	(81,363)	(76,461)
Amortization of premium	4,281	4,293
Gain on disposal of property and equipments	(3,896)	(1,544)
	<u>4,241,639</u>	<u>3,028,896</u>
	<u>(1,914,706)</u>	<u>(1,858,112)</u>

18. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest/ mark-up rate, credit and liquidity risks. The policies and procedures for managing these risks are outlined in notes 18.1 to 18.5. 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.

18.1 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.

	2009						
	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	-	-	-	3,702,522	-	3,702,522	3,702,522
Investments	509,000	404,252	913,252	-	-	-	913,252
Employee loans and advances	15,168	93,145	108,313	797,832	7,022,300	7,820,132	7,928,445
Other assets	-	-	-	25,216	-	25,216	25,216
	524,168	497,397	1,021,565	4,525,570	7,022,300	11,547,870	12,569,435
Financial liabilities							
Other liabilities	-	-	-	386,090	-	386,090	386,090
	-	-	-	386,090	-	386,090	386,090
On balance sheet gap	524,168	497,397	1,021,565	4,139,480	7,022,300	11,161,780	12,183,345

	2008						
	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	-	-	-	2,369,636	-	2,369,636	2,369,636
Investments	509,000	408,533	917,533	-	-	-	917,533
Employee loans and advances	23,655	102,506	126,161	662,348	6,992,852	7,655,200	7,781,361
Other assets	-	-	-	15,459	-	15,459	15,459
	532,655	511,039	1,043,694	3,047,443	6,992,852	10,040,295	11,083,989
Financial liabilities							
Other liabilities	-	-	-	331,446	-	331,446	331,446
	-	-	-	331,446	-	331,446	331,446
On balance sheet gap	532,655	511,039	1,043,694	2,715,997	6,992,852	9,708,849	10,752,543

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

18.3 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.

18.4 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.

18.5 Fair value of financial assets and liabilities

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

19. RECLASSIFICATION OF COMPARATIVE INFORMATION

Certain prior period's figures have been reclassified consequent upon certain changes in current year's presentation. The material reclassification is as follows:

<i>Description</i>	<i>Current Classification</i>	<i>Previous Classification</i>	<i>Amount (Rupees in '000)</i>
Reclassification of other assets	Stock in hand	Other assets	47,037

20. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 12, 2009 by the Board of Directors of the Corporation.

21. FIGURES

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

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts