

# 15 Financial Statement of SBP-BSC (Bank)

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the accompanying financial statements of **SBP Banking Service Corporation** ("the Corporation") which comprise the balance sheet as at 30 June 2010, and the profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Corporation for the year ended 30 June 2009 were audited by M. Yousuf Adil Saleem & Co. and Ernst & Young Ford Rhodes Sidat Hyder whose report dated 12 October 2009 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 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 financial position of Corporation as of 30 June 2010, 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.

#### **Ernst & Young Ford Rhodes Sidat Hyder**

Chartered Accountants  
Karachi

#### **Omer Chughtai**

Audit Engagement Partner  
Date: September 29, 2010

#### **KPMG Taseer Hadi & Co.**

Chartered Accountants  
Karachi

#### **Mohammad Mahmood Hussain**

Audit Engagement Partner  
Date: September 29, 2010

**SBP BANKING SERVICES CORPORATION**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2010**

	<i>Note</i>	<i>2010</i>	<i>2009</i>
		<i>(Rupees in '000)</i>	
<b>ASSETS</b>			
Balance in current account with State Bank of Pakistan		<b>3,383,274</b>	3,702,522
Investments	6	<b>908,968</b>	913,252
Employee loans and advances	7	<b>10,648,266</b>	7,928,445
Property and equipment	8	<b>231,896</b>	183,510
Medical and stationery consumables	9	<b>95,853</b>	81,991
Accrued interest / mark-up and return		<b>22,987</b>	25,216
Advances, deposits and prepayments	10	<b>25,125</b>	21,821
<b>Total assets</b>		<b>15,316,369</b>	12,856,757
<b>LIABILITIES</b>			
Deferred liabilities - staff retirement benefits	11	<b>11,326,818</b>	9,591,330
Other liabilities	12	<b>2,989,551</b>	2,265,427
<b>Total liabilities</b>		<b>14,316,369</b>	11,856,757
<b>Net assets</b>		<b>1,000,000</b>	1,000,000
<b>REPRESENTED BY:</b>			
<b>Share capital</b>	13	<b>1,000,000</b>	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, 2010**

	<i>Note</i>	<i>2010</i>	<i>2009</i>
		<i>(Rupees in '000)</i>	
Discount and interest earned	15	<b>61,845</b>	82,818
Net operating expenses	16	<b>9,104,492</b>	6,243,059
Reimbursable from the State Bank of Pakistan		<b>(5,007,396)</b>	(4,012,936)
Allocated to the State Bank of Pakistan		<b>(4,097,096)</b>	(2,230,123)
Operating profit		<b>61,845</b>	82,818
Gain on disposal of property and equipment		<b>1,760</b>	3,896
Profit transferred to the State Bank of Pakistan		<b>63,605</b>	86,714

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 COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<i>2010</i>	<i>2009</i>
	<i>(Rupees in '000)</i>	
Profit for the year	<b>63,605</b>	86,714
Other comprehensive income	-	-
Total comprehensive income for the year	<u><b>63,605</b></u>	<u>86,714</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**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<i>Share capital</i>	<i>Unappropriated profit</i>	<i>Total</i>
	-----	(Rupees in '000)	-----
Balance as at June 30, 2008	1,000,000	-	1,000,000
<b>Total comprehensive income for the year</b>			
Profit for the year	-	86,714	86,714
Other comprehensive income	-	-	-
	-	86,714	86,714
<b>Transaction with owner</b>			
Profit transferred to the State Bank of Pakistan	-	(86,714)	(86,714)
Balance as at June 30, 2009	1,000,000	-	1,000,000
<b>Total comprehensive income for the year</b>			
Profit for the year	-	63,605	63,605
Other comprehensive income	-	-	-
	-	63,605	63,605
<b>Transaction with owner</b>			
Profit transferred to the State Bank of Pakistan	-	(63,605)	(63,605)
Balance as at June 30, 2010	<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, 2010**

	<i>Note</i>	<b>2010</b>	<b>2009</b>
		<i>(Rupees in '000)</i>	
<b>Cash flows from operating activities</b>			
Loss after adjustment of non-cash items	17	<b>(973,444)</b>	(1,914,706)
Expenses reimbursable by the State Bank of Pakistan		<b>5,076,397</b>	4,077,801
Profit transferred to the State Bank of Pakistan		<b>(63,605)</b>	(86,714)
Retirement benefits and employees' compensated absences paid		<b>(1,643,114)</b>	(652,477)
Discount income received		<b>60,272</b>	81,363
		<b>2,456,506</b>	1,505,267
(Increase) / decrease in assets			
Employee loans and advances		<b>(2,719,821)</b>	(147,084)
Medical and stationery consumables		<b>(13,862)</b>	(9,185)
Accrued interest / mark-up and return		<b>2,229</b>	(9,757)
Advances, deposits and prepayments		<b>(3,304)</b>	(187)
Increase in liabilities			
Other liabilities		<b>74,631</b>	54,644
Net cash (used in) / generated from operating activities		<b>(203,621)</b>	1,393,698
<b>Cash flows from investing activities</b>			
Capital expenditure		<b>(134,198)</b>	(66,896)
Proceeds from disposal of property and equipment		<b>18,571</b>	6,084
Net cash used in investing activities		<b>(115,627)</b>	(60,812)
Net (decrease) / increase in cash and cash equivalents		<b>(319,248)</b>	1,332,886
Cash and cash equivalents at beginning of the year		<b>3,702,522</b>	2,369,636
Cash and cash equivalents at end of the year		<b>3,383,274</b>	3,702,522

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, 2010**

**1. STATUS AND NATURE OF OPERATIONS**

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

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

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

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

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

**2. STATEMENT OF COMPLIANCE**

**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

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

3.2 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 judgments, 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 judgments 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 judgments which are significant to the financial statements:

- (a) classification of investments (Note 19.1);
- (b) determining the residual values and useful lives of property and equipment (Note 19.2);
- (c) accounting for post employment benefits (Note 19.3); and
- (d) impairment of assets.

### 3.3. Accounting standards that are not yet effective or not relevant

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

<i>Standards / improvements</i>	<i>Effective date (accounting period beginning on or after)</i>
IAS 24 - Related Party Disclosures (Revised)	January 1, 2011
<i>Improvements / amendments to standards - 2009</i>	
IAS 1 Presentation of Financial Statements	January 1, 2010
IAS 7 Statement of Cash Flows	January 1, 2010
IAS 17 Leases	January 1, 2010
IAS 36 Impairment of Assets	January 1, 2010
IAS 32 Financial Instruments: Presentation – Classification of Rights Issues	January 1, 2010
<i>Improvements / amendments to standards - 2010</i>	
IAS 27 Consolidated and Separate Financial Statements	July 1, 2010

The Corporation expects that the adoption of the above standards / improvements will not have any material impact on the Corporation's financial statements in the period of the initial application other than to the extent of certain changes and / or enhancement in the presentation and disclosures in the financial statements resulting from application of amendments in IAS 7 and IAS 24.

#### **4. CHANGE IN ACCOUNTING POLICY AND DISCLOSURE**

Starting July 01, 2009, the Corporation has changed its accounting policy in the following area:

##### **IAS - 1 "PRESENTATION OF FINANCIAL STATEMENTS (REVISED)"**

The Corporation has adopted IAS - 1 "Presentation of Financial Statements (Revised)" which became effective during the year. The revised standard separates owner and non-owner changes in equity. In addition, the standard introduces the statement of comprehensive income which presents all items of the recognized income and expense, either in one single statement, or in two linked statements. The Corporation has elected to present two statements.

#### **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. Premiums and discounts are accounted for using effective interest rate method.

##### **5.2 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 recognised in the profit and loss account.

### **5.3 Medical and stationery consumables**

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

### **5.4 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.

### **5.5 Staff retirement benefits**

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

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

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

### **5.6 Compensated absences**

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

### **5.7 Revenue recognition**

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

### **5.8 Taxation**

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

### **5.9 Cash and cash equivalents**

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

### **5.10 Financial instruments**

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

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

### **5.11 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.

### **5.12 Impairment**

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

	<i>Note</i>	<b>2010</b> <i>(Rupees in '000)</i>	<b>2009</b> <i>(Rupees in '000)</i>
<b>Held to maturity</b>			
Market Treasury Bills	6.1	<b>508,997</b>	509,000
Pakistan Investment Bonds	6.2	<b>399,971</b>	404,252
		<b>908,968</b>	913,252

**6.1** Market Treasury Bills carry mark-up at the rate of 12.28 to 12.35 percent per annum (2009: 11.78 percent per annum) and are due to mature in June 2011.

**6.2** Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6 percent per annum (2009: 8.0 to 9.6 percent per annum) and are due to mature by 2016.

**7. EMPLOYEE LOANS AND ADVANCES**

	<i>Note</i>	<b>2010</b> <i>(Rupees in '000)</i>	<b>2009</b> <i>(Rupees in '000)</i>
Considered good		<b>10,648,266</b>	7,928,445
Considered doubtful		<b>13,259</b>	13,584
	7.1	<b>10,661,525</b>	7,942,029
Provision against doubtful loans		<b>(13,259)</b>	(13,584)
		<b>10,648,266</b>	7,928,445

**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. 143.439 million that carry mark up at 10% per annum. Maximum maturity of the loan is upto year 2040.

These loans have been given in respect of:-

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

	<i>Note</i>	<b>2010</b> <i>(Rupees in '000)</i>	<b>2009</b> <i>(Rupees in '000)</i>
<b>8. PROPERTY AND EQUIPMENT</b>			
Operating fixed assets	8.1	<b>231,678</b>	183,510
Capital work-in-progress		<b>218</b>	-
		<b>231,896</b>	183,510

**8.1 Operating fixed assets**

The following is a statement of operating fixed assets:

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

2009	Cost			Accumulated Depreciation			Net book value as at June 30, 2009	Annual rate of depreciation %
	As at July 01, 2008	Additions/ (deletions)/ transfers*	As at June 30, 2009	As at July 01, 2008	Charge for the year / (deletions)/ 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	

#### 9. MEDICAL AND STATIONERY CONSUMABLES

Medical and stationery consumables	96,787	84,345
Provision against obsolete items	(934)	(2,354)
	<u>95,853</u>	<u>81,991</u>

#### 10. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances, deposits and prepayments	19,989	21,821
Others	5,136	-
	<u>25,125</u>	<u>21,821</u>

#### 11. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS

Gratuity	16,089	32,371
Pension	7,720,830	6,586,470
Benevolent fund scheme	865,873	769,852
Post retirement medical benefits	1,750,332	1,286,508
	<u>10,353,124</u>	<u>8,675,201</u>
Provident fund scheme	973,694	916,129
	<u>11,326,818</u>	<u>9,591,330</u>

16.3

		2010	2009
		(Rupees in '000)	
<b>12.</b>	<b>OTHER LIABILITIES</b>		
	Provision for employees' compensated absences	2,528,830	1,879,337
	Others	460,721	386,090
		<u>2,989,551</u>	<u>2,265,427</u>
<b>13.</b>	<b>SHARE CAPITAL</b>		
	2010	2009	
	(Number of shares)		
	<u>1,000</u>	<u>1,000</u>	
	<b>Authorised share capital</b>		
	Ordinary shares of Rs 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>
	<b>Issued, subscribed and paid-up capital</b>		
	Fully paid-up ordinary shares of		
	<u>1,000</u>	<u>1,000</u>	
	Rs 1,000,000 each issued for cash	<u>1,000,000</u>	<u>1,000,000</u>
<b>14.</b>	<b>COMMITMENTS</b>		
	Capital Commitments	<u>59,000</u>	<u>7,110</u>
	This represents amounts committed by the Corporation to purchase assets from successful bidders.		
<b>15.</b>	<b>DISCOUNT AND INTEREST EARNED</b>	2010	2009
		(Rupees in '000)	
	Discount income on Government securities	60,272	81,363
	Interest on staff loans	1,573	1,455
		<u>61,845</u>	<u>82,818</u>

<b>16. NET OPERATING EXPENSES</b>	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>(Rupees in '000)</b>	
<b>Reimbursable from the State Bank of Pakistan</b>			
Salaries, wages and other benefits		<b>4,308,823</b>	3,478,919
Rent and taxes		<b>9,533</b>	8,577
Insurance		<b>3,481</b>	2,605
Electricity, gas and water		<b>179,409</b>	170,107
Repair and maintenance		<b>20,706</b>	19,385
Auditors' remuneration	16.7	<b>4,570</b>	4,570
Legal and professional		<b>4,838</b>	10,233
Travelling		<b>8,908</b>	7,325
Daily expenses		<b>13,909</b>	11,792
Passages		<b>167,059</b>	84,334
Fuel		<b>2,287</b>	1,994
Conveyance		<b>5,246</b>	4,483
Postages and telephone		<b>15,734</b>	11,624
Training		<b>20,695</b>	21,622
Remittance of treasure		<b>33,917</b>	33,059
Stationery		<b>10,327</b>	9,219
Books and newspapers		<b>1,560</b>	1,332
Advertisement		<b>3,345</b>	1,748
Bank guards		<b>91,033</b>	68,355
Uniforms		<b>19,180</b>	14,487
Others		<b>82,836</b>	47,166
		<b>5,007,396</b>	4,012,936
<b>Allocated to the State Bank of Pakistan</b>			
Retirement benefits and employees' compensated absences		<b>4,028,095</b>	2,165,258
Depreciation	8.1	<b>69,001</b>	64,865
		<b>4,097,096</b>	2,230,123
		<b>9,104,492</b>	6,243,059

**16.1** As mentioned in note 5.5, the Corporation operates the following staff retirement benefit schemes:

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

During the year the Corporation has had actuarial valuations carried out for all the above schemes using Projected Unit Credit Method. Following significant assumptions have been used for the valuations of these schemes as at June 30, 2010:

	<b>2010</b>	<b>2009</b>
	<b>% per annum</b>	
Expected rate of increase in salary level	<b>12</b>	11
Expected rate of discount	<b>14</b>	13
Medical cost trend	<b>9</b>	8
Pension indexation rate	<b>8</b>	5



**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:

		2010		
		Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of retirement benefits
	Note	----- (Rupees in '000) -----		
Gratuity	16.5	36,094	(20,005)	16,089
Pension	16.5	14,221,796	(6,500,966)	7,720,830
Benevolent fund scheme	16.5	1,216,670	(350,797)	865,873
Post retirement medical benefits	16.5	3,324,018	(1,573,686)	1,750,332
		<u>18,798,578</u>	<u>(8,445,454)</u>	<u>10,353,124</u>
		2009		
		Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of retirement benefits
		----- (Rupees in '000) -----		
Gratuity	16.5	38,039	(5,668)	32,371
Pension	16.5	8,951,904	(2,365,434)	6,586,470
Benevolent fund scheme	16.5	916,147	(146,295)	769,852
Post retirement medical benefits	16.5	2,790,980	(1,504,472)	1,286,508
		<u>12,697,070</u>	<u>(4,021,869)</u>	<u>8,675,201</u>

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

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

  

	<b>2009</b>				
	<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>
<b>------(Rupees in '000)-----</b>					
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
	<b>7,428,229</b>	<b>1,791,600</b>	<b>(555,812)</b>	<b>11,184</b>	<b>8,675,201</b>

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

	<b>2010</b>				
	<i>Current service cost</i>	<i>Actuarial (gain)/loss</i>	<i>Interest cost</i>	<i>Employee Contributions</i>	<i>Total</i>
	<i>----- (Rupees in '000) -----</i>				
Gratuity	1,702	1,889	8,363	-	11,954
Pension	482,384	262,826	1,506,290	-	2,251,500
Benevolent fund scheme	56,554	16,255	138,633	(12,343)	199,099
Post retirement medical benefits	98,809	136,770	397,475	-	633,054
	<u>639,449</u>	<u>417,740</u>	<u>2,050,761</u>	<u>(12,343)</u>	<u>3,095,607</u>
	<b>2009</b>				
	<i>Current service cost</i>	<i>Actuarial (gain)/loss</i>	<i>Interest 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>(11,184)</u>	<u>1,791,600</u>

**16.5 Historical Information**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<i>----- (Rupees in '000) -----</i>				
<b>Gratuity</b>					
Present Value of Defined Benefit Obligation	36,094	38,039	43,066	42,736	58,000
Unrecognised actuarial gains / (losses)	(20,005)	(5,668)	(5,245)	(282)	7,000
Liability in balance sheet	<u>16,089</u>	<u>32,371</u>	<u>37,821</u>	<u>42,454</u>	<u>65,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>16,226</u>	<u>3,046</u>	<u>5,058</u>	<u>4,211</u>	<u>(8,246)</u>
<b>Pension</b>					
Present Value of Defined Benefit Obligation	14,221,796	8,951,904	6,679,812	5,279,000	5,009,000
Unrecognised actuarial gains / (losses)	(6,500,966)	(2,365,434)	(881,525)	112,000	(6,000)
Liability in balance sheet	<u>7,720,830</u>	<u>6,586,470</u>	<u>5,798,287</u>	<u>5,391,000</u>	<u>5,003,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>4,398,358</u>	<u>1,572,062</u>	<u>983,638</u>	<u>(117,735)</u>	<u>(295,654)</u>
<b>Benevolent Fund Scheme</b>					
Present Value of Defined Benefit Obligation	1,216,670	916,147	761,325	673,000	710,000
Unrecognised actuarial gains / (losses)	(350,797)	(146,295)	(51,337)	26,000	5,000
Liability in balance sheet	<u>865,873</u>	<u>769,852</u>	<u>709,988</u>	<u>699,000</u>	<u>715,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>220,757</u>	<u>100,092</u>	<u>75,755</u>	<u>(22,303)</u>	<u>(5,845)</u>
<b>Medical</b>					
Present Value of Defined Benefit Obligation	3,324,018	2,790,980	2,315,481	1,489,000	1,204,000
Unrecognised actuarial gains / (losses)	(1,573,686)	(1,504,472)	(1,433,348)	(817,000)	(765,000)
Liability in balance sheet	<u>1,750,332</u>	<u>1,286,508</u>	<u>882,133</u>	<u>672,000</u>	<u>439,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>205,984</u>	<u>190,570</u>	<u>683,802</u>	<u>165,511</u>	<u>276,001</u>

**16.6 Employees' compensated absences**

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2010 using the Projected Unit Credit Method.

	2010			2009		
	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total	M. Yousuf Adil Saleem & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total
	------(Rupees in '000)-----			------(Rupees in '000)-----		
16.7 Auditors' remuneration						
Audit fee	1,571	1,571	3,142	1,571	1,571	3,142
Out of pocket expenses	714	714	1,428	714	714	1,428
	<b>2,285</b>	<b>2,285</b>	<b>4,570</b>	<b>2,285</b>	<b>2,285</b>	<b>4,570</b>

	2010 (Rupees in '000)	2009 (Rupees in '000)
17. LOSS BEFORE ADJUSTMENT OF NON-CASH ITEMS		
Net profit for the year	63,605	86,714
Expenses reimbursed by the State Bank of Pakistan	(5,007,396)	(4,012,936)
Expenses allocated to the State Bank of Pakistan	(4,097,096)	(2,230,123)
	<b>(9,040,887)</b>	<b>(6,156,345)</b>
Adjustments for:		
Provision for retirement benefits and employees' compensated absences	4,028,095	2,092,494
Expenses allocated to the State Bank of Pakistan	4,097,096	2,230,123
Discount on Government securities	(60,272)	(81,363)
Amortization of premium	4,284	4,281
Gain on disposal of property and equipments	(1,760)	(3,896)
	<b>8,067,443</b>	<b>4,241,639</b>
	<b>(973,444)</b>	<b>(1,914,706)</b>

## 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 18.6. 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.

	2010					
	Interest / mark-up bearing			Non interest / mark-up bearing		
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total
	------(Rupees in '000)-----					
<b>Financial assets</b>						
Balance in current account with the State Bank of Pakistan	-	-	-	3,383,274	-	3,383,274
Investments	508,997	399,971	908,968	-	-	908,968
Employee loans and advances	18,612	124,827	143,439	1,196,118	9,308,709	10,504,827
Accrued interest / mark-up and return	-	-	-	22,987	-	22,987
	<b>527,609</b>	<b>524,798</b>	<b>1,052,407</b>	<b>4,602,379</b>	<b>9,308,709</b>	<b>13,911,088</b>
						<b>14,963,495</b>
<b>Financial liabilities</b>						
Other liabilities	-	-	-	460,721	-	460,721
	-	-	-	460,721	-	460,721
						<b>460,721</b>
<b>On balance sheet gap</b>	<b>527,609</b>	<b>524,798</b>	<b>1,052,407</b>	<b>4,141,658</b>	<b>9,308,709</b>	<b>13,450,367</b>
						<b>14,502,774</b>
	2009					
	Interest / mark-up bearing			Non interest / mark-up bearing		
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total
	------(Rupees in '000)-----					
<b>Financial assets</b>						
Balance in current account with the State Bank of Pakistan	-	-	-	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
Accrued interest / mark-up and return	-	-	-	25,216	-	25,216
	<b>524,168</b>	<b>497,397</b>	<b>1,021,565</b>	<b>4,525,570</b>	<b>7,022,300</b>	<b>11,547,870</b>
						<b>12,569,435</b>
<b>Financial liabilities</b>						
Other liabilities	-	-	-	386,090	-	386,090
	-	-	-	386,090	-	386,090
						<b>386,090</b>
<b>On balance sheet gap</b>	<b>524,168</b>	<b>497,397</b>	<b>1,021,565</b>	<b>4,139,480</b>	<b>7,022,300</b>	<b>11,161,780</b>
						<b>12,183,345</b>

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

### **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. ACCOUNTING ESTIMATES AND JUDGMENTS**

### **19.1 Held-to-maturity investments**

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

### **19.2 Useful life and residual value of property and equipment**

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

### **19.3 Retirement Benefits**

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 16.1 to the financial statements.

## **20. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on September 29, 2010 by the Board of Directors of the Corporation.

## **21. FIGURES**

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

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**Qasim Nawaz**  
Managing Director

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**Riaz Nazarali**  
Director Accounts