

Financial Statements of SBP BSC (Bank)

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS
CAVISH COURT
A-35, BLOCK 7 & 8 KCSHU
SHAHRAH-E-FAISAL
KARACHI

TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS
1ST FLOOR, SHEIKH SULTAN TRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the annexed balance sheet of the **SBP Banking Services Corporation** as at June 30, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

It is the responsibility of the Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion the balance sheet and related profit and loss account, cash flow statement and statement of changes in equity together with the notes thereon have been drawn up in conformity with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation; and
- b) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss accounts, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation, and, give the information required by these Standards in the manner so required, and respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2005 and of the profit, its cash flows and changes in equity for the year then ended.

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Karachi
Date: 30 Aug 2005

Taseer Hadi Khalid & Co.
Chartered Accountants
Karachi
Date: 30 Aug 2005

SBP Banking Services Corporation

Balance Sheet

As at June 30, 2005

	Note	2005 (Rupees in '000)	2004
ASSETS			
Investments	3	933,506	896,429
Employee loans and advances		5,161,827	4,167,674
Other assets		70,706	5,682
Balance in current account with the State Bank of Pakistan		3,445,805	3,065,457
Property, plant and equipment	4	157,245	92,109
Total assets		9,769,089	8,227,351
LIABILITIES			
Other liabilities	5	2,533,099	1,609,443
Deferred liabilities - staff retirement benefits	6	6,235,990	5,617,908
Total liabilities		8,769,089	7,227,351
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	7	1,000,000	1,000,000

The annexed notes 1 to 13 form an integral part of these financial statements.

Liaqat Durrani
Managing Director

Taslim Kazi
Director Accounts

**SBP Banking Services
Corporation**
Profit and Loss Account
For the year ended June 30, 2005

	<i>Note</i>	2005 (Rupees in '000)	2004
Discount and interest earned	8	24,289	12,600
Net operating expenses - establishment costs	9		
Total expenses		3,576,011	3,161,728
Reimbursed by the State Bank of Pakistan		(2,612,611)	(2,340,526)
Allocated to the State Bank of Pakistan		(963,400)	(821,202)
		-	-
Gain on disposal of fixed assets		4,329	13,535
BALANCE PROFIT TRANSFERRED TO THE STATE BANK OF PAKISTAN		28,618	26,135

The annexed notes 1 to 13 form an integral part of these financial statements.

Liaqat Durrani
Managing Director

Taslim Kazi
Director Accounts

SBP Banking Services Corporation

Cash Flow Statement

For the year ended June 30, 2005

	Note	2005	2004
		(Rupees in '000)	
Cash flow from operating activities			
Loss after non-cash items	10	(1,640,589)	(1,506,304)
Expenses reimbursed by the State Bank of Pakistan		2,612,611	2,340,526
Balance profit transferred to the State Bank of Pakistan		(28,618)	(26,135)
Retirement benefits and employees' compensated absences paid		(52,594)	(775,975)
Discount income received		18,590	13,497
		909,400	45,609
(Increase) in assets			
- Loans to employees		(994,153)	(252,730)
- Other assets		(65,024)	(3,253)
Increase in liabilities			
- Other liabilities - net		677,656	23,758
Net cash from / (used to) operating activities		527,879	(186,616)
Cash flow from investing activities			
Fixed capital expenditure		(115,538)	(46,603)
Investment made		(40,000)	(384,507)
Proceeds from disposal of fixed assets		8,007	1,251
Net cash (used to) investing activities		(147,531)	(429,859)
Net increase / (decrease) in cash and cash equivalents		380,348	(616,475)
Cash and cash equivalents at beginning of the year		3,065,457	3,681,932
Cash and cash equivalents at end of the year		3,445,805	3,065,457

The annexed notes 1 to 13 form an integral part of these financial statements

Liaqat Durrani
Managing Director

Taslim Kazi
Director Accounts

**SBP Banking Services
Corporation**
Statement of Changes in Equity
For the year ended June 30, 2005

	Share capital	Profit and loss account	Total
	----- (Rupees in '000) -----		
Balance as at June 30, 2003	1,000,000	-	1,000,000
Profit for the year ended June 30, 2004	-	26,135	26,135
Balance profit transferred to the State Bank of Pakistan	-	(26,135)	(26,135)
Balance as at June 30, 2004	1,000,000	-	1,000,000
Profit for the year ended June 30, 2005	-	28,618	28,618
Balance profit transferred to the State Bank of Pakistan	-	(28,618)	(28,618)
Balance as at June 30, 2005	1,000,000	-	1,000,000

The annexed notes 1 to 13 form an integral part of these financial statements.

Liaqat Durrani
Managing Director

Taslim Kazi
Director Accounts

SBP Banking Services Corporation

Notes to the Financial Statements

For the year ended June 30, 2005

1. STATUS AND NATURE OF OPERATIONS

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards (IASs) approved for adoption by the Board of Directors of the Corporation.

2.2 Accounting convention

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

2.3 Investments

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

2.4 Property, plant and equipment

Property, plant 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, plant and equipment is charged to profit and loss account applying the straight-line method whereby the cost of an asset is written off over its estimated useful life.

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 fixed assets are included in income currently.

2.5 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.

2.6 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 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. 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.

2.7 Compensated absences

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

2.8 Revenue recognition

Revenue is recognised on an accrual basis.

2.9 Taxation

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

2.10 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.

2.11 Financial instruments

Financial assets and liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instrument. Any gain or loss on the de-recognition of the financial assets and liabilities is included in the profit and loss account currently.

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

2.12 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.

2.13 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 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.

3.			2005	2004
	INVESTMENTS			
			(Rupees in '000)	
	Government securities			
	Market Treasury Bills	3.1	549,000	511,923
	Pakistan Investment Bonds	3.2	384,506	384,506
			933,506	896,429

3.1 Market Treasury Bills carry mark-up at the rate of 5.7 percent per annum (2004: 2.0 percent per annum) and is due to maturity on March 2005.

3.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 percent per annum (2004: 8.0 percent per annum) and is due to mature in 2013.

4. PROPERTY, PLANT AND EQUIPMENT

	Operating fixed assets	4.1	147,910	74,933
	Capital work-in-progress	4.2	9,335	17,176
			<u>157,245</u>	<u>92,109</u>

4.1 Operating fixed assets

The following is a statement of operating assets:

	Cost at July 1, 2004	Additions / (deletions) during the year	Cost at June 30, 2005	Accumulated depreciation at July 1, 2004	Charge for the year / (accumulated depreciation on deletions)	Accumulated depreciation at June 30, 2005	Net book value at June 30, 2005	Annual rate of depreci- ation %
	(Rupees in '000)							
Furniture and fixtures	27,366	5,155 (2,716)	29,805	9,650	3,848 (826)	12,672	17,133	10
Office equipment	195,363	61,916 (50,335)	206,944	158,063	20,638 (50,335)	128,366	78,578	20
EDP equipment	36,887	54,352 (112)	91,127	27,653	20,038 (57)	47,634	43,493	33.33
Motor vehicles	13,352	1,956 (3,465)	11,843	2,669	2,200 (1,732)	3,137	8,706	20
2005	<u>272,968</u>	<u>123,379</u> <u>(56,628)</u>	<u>339,719</u>	<u>198,035</u>	<u>46,724</u> <u>(52,950)</u>	<u>191,809</u>	<u>147,910</u>	
2004	<u>243,321</u>	<u>31,530</u> <u>(1,883)</u>	<u>272,968</u>	<u>172,536</u>	<u>26,646</u> <u>(1,147)</u>	<u>198,035</u>	<u>74,933</u>	

4.2 Capital work-in-progress

	2005	2004
	(Rupees in '000)	
Furniture and fixtures	3,705	9,398
Office equipment	3,887	7,598
EDP equipment	1,743	180
	<u>9,335</u>	<u>17,176</u>

5. OTHER LIABILITIES

Accruals and provisions	5.1	1,934,282	1,419,834
Others		<u>598,817</u>	<u>189,609</u>
		<u>2,533,099</u>	<u>1,609,443</u>

5.1 Accruals and provisions

Provision for employees' compensated absences	1,663,000	1,417,000
Others	<u>271,282</u>	<u>2,834</u>
	<u>1,934,282</u>	<u>1,419,834</u>

6. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS

Gratuity	71,000	84,108
Pension	4,436,000	3,989,000
Benevolent fund scheme	627,000	567,000
Post retirement medical benefits	<u>277,000</u>	<u>220,000</u>
	5,411,000	4,860,108
Provident fund scheme	<u>824,990</u>	<u>757,800</u>
	<u>6,235,990</u>	<u>5,617,908</u>

7. SHARE CAPITAL

Number of shares			
2005	2004		
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			
		Fully paid-up ordinary shares of Rs.1,000,000 each	
<u>1,000</u>	<u>1,000</u>		<u>1,000,000</u>
			<u>1,000,000</u>

8. Discount and interest earned

	2005	2004
	(Rupees in '000)	
Discount on Government securities	15,667	12,600
Interest on staff loans	7,646	13,020
Others	976	-
	<u>24,289</u>	<u>25,620</u>

9. NET OPERATING EXPENSES - ESTABLISHMENT COSTS**Reimbursable from the State Bank of Pakistan**

Salaries, wages and other benefits

	2,279,552	2,022,629
Rent and taxes	6,200	5,857
Insurance	1,378	1,142
Electricity, gas and water charges	94,440	96,099
Repair and maintenance	9,699	6,466
Auditors' remuneration	1,750	1,500
Legal and professional charges	2,776	2,237
Travelling expenses	3,855	6,154
Daily expenses	7,112	10,019
Passages	60,574	57,022
Fuel charges	2,056	2,194
Conveyance charges	2,803	3,145
Postages, telegram /telex and telephone	10,563	12,627
Training	12,891	-
Remittance of treasure	30,993	30,772
Stationery	6,395	8,430
Books and newspapers	874	2,340
Advertisement	354	1,612
Bank guards	39,036	34,733
Uniforms	15,675	14,151
Others	23,635	21,397

2,612,611 2,340,526

Allocable to the State Bank of Pakistan

Retirement benefits and employees' compensated absences

Depreciation

4.1

916,676	794,556
46,724	26,646
<u>963,400</u>	<u>821,202</u>
<u>3,576,011</u>	<u>3,161,728</u>

9.1 As mentioned in note 2.6, 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 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. Projected Unit Credit Method using the following significant assumptions was used for the valuations of these schemes as at June 30, 2005:

	Percent per annum
- Expected rate of increase in salary level	9.50%
- Expected rate of discount	11.60%
- Medical cost trend	6.30%

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

	Recognised liability as at June 30, 2004	Charge for the year	Payments during the year	Recognised liability as at June 30, 2005
	----- (Rupees in '000) -----			
Gratuity	84,108	4,000	17,108	71,000
Pension	3,989,000	498,000	51,000	4,436,000
Benevolent fund scheme	567,000	64,000	4,000	627,000
Post retirement medical benefits	220,000	81,000	24,000	277,000
	<u>4,860,108</u>	<u>647,000</u>	<u>96,108</u>	<u>5,411,000</u>

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

	Present value of the defined benefit obligation	Provision made in respect of retirement benefits	Unrecognised actuarial gain / (loss)
	----- (Rupees in '000) -----		
Gratuity	74,000	71,000	(3,000)
Pension	4,765,000	4,436,000	(329,000)
Benevolent fund scheme	627,000	627,000	-
Post retirement medical benefits	806,000	277,000	(529,000)
	<u>6,272,000</u>	<u>5,411,000</u>	<u>(861,000)</u>

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

	Current service cost	Actuarial gain	Interest cost	Total
	----- (Rupees in '000) -----			
Gratuity	2,000	(3,000)	5,000	4,000
Pension	173,000	4,000	321,000	498,000
Benevolent fund scheme	28,000	(9,000)	45,000	64,000
Post retirement medical benefits	24,000	19,000	38,000	81,000
	<u>227,000</u>	<u>11,000</u>	<u>409,000</u>	<u>647,000</u>

9.4 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2005 using the Projected Unit Credit Method. An amount of Rs. 249 million (2004: Rs. 141 million) has been charged to the profit and loss account in this respect based on actuarial recommendations.

9.5 Auditors' remuneration

	M. Yousuf Adil Saleem & Co	Taseer Hadi Khalid & Co.	2005	2004
	(Rupees in '000)			
Audit fee	625	625	1,250	1,000
Out of pocket expenses	250	250	500	500
	<u>875</u>	<u>875</u>	<u>1,750</u>	<u>1,500</u>

10. LOSS AFTER NON-CASH ITEMS

Net profit for the year	28,618	26,135
Expenses reimbursed by the State Bank of Pakistan	(2,612,611)	(2,340,526)
Expenses allocated to the State Bank of Pakistan	(963,400)	(821,202)
	<u>(3,547,393)</u>	<u>(3,135,593)</u>
Adjustments for:		
Depreciation	46,724	26,646
Provision for retirement benefits and employees' compensated absences	916,676	794,556
Expenses allocated to the State Bank of Pakistan	963,400	821,202
Discount on Government securities	(15,667)	(12,600)
Profit on disposal of fixed assets	(4,329)	(515)
	<u>1,906,804</u>	<u>1,629,289</u>
	<u>(1,640,589)</u>	<u>(1,506,304)</u>

11. FINANCIAL ASSETS AND LIABILITIES

	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	
		(Rupees in '000)						
Financial assets								
Investments	5.7% - 8%	549,000	384,506	933,506	-	-	-	933,506
Employee loans and advances	10%	13,752	124,893	138,645	442,935	4,580,247	5,023,182	5,161,827
Balance in current account with the State Bank of Pakistan		-	-	-	3,445,805	-	3,445,805	3,445,805
		<u>562,752</u>	<u>509,399</u>	<u>1,072,151</u>	<u>3,888,740</u>	<u>4,580,247</u>	<u>8,468,987</u>	<u>9,541,138</u>
Financial liabilities								
Other liabilities		-	-	-	870,099	1,663,000	2,533,099	2,533,099
		<u>-</u>	<u>-</u>	<u>-</u>	<u>870,099</u>	<u>1,663,000</u>	<u>2,533,099</u>	<u>2,533,099</u>
On balance sheet gap		<u>562,752</u>	<u>509,399</u>	<u>1,072,151</u>	<u>3,018,641</u>	<u>2,917,247</u>	<u>5,935,888</u>	<u>7,008,039</u>

11.1 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.

11.2 Liquidity risk

Liquidity risk is the risk that an enterprise 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.

11.3 Fair value of financial assets and liabilities

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

12. NUMBER OF EMPLOYEES	2005	2004
Number of employees as at June 30	<u>5,452</u>	<u>5,510</u>

13. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 30th August 2005 by the Board of Directors of the Corporation.

Liaqat Durrani
Managing Director

Taslim Kazi
Director Accounts