

FINANCIAL STATEMENTS OF SBP BANKING SERVICES CORPORATION

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KPMG TASEER HADI & CO.

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of SBP Banking Services Corporation ("the Corporation"), which comprise the balance sheet as at June 30, 2007 and profit and loss account, cash flow statement and statement of 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 and Accounting Policy for investments as stated in note 4.1 to the financial statements approved for adoption by the Board of Directors of the Corporation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan

and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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, 2007 and of its financial performance and its cash flows for the year then ended in accordance with international Accounting Standards and Accounting Policy for investments as stated in note 4.1 to the financial statements approved for adoption by the Board of Directors of the Corporation.

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Karachi

SBP Banking Services Corporation

Balance Sheet

As at June 30, 2007

	<i>Note</i>	2007 (Rupees in '000)	2006
ASSETS			
Balance in current account with State Bank of Pakistan		4,266,639	2,897,163
Investments	5	921,826	923,924
Employees loans and advances		5,506,869	6,188,476
Other assets		100,201	84,282
Property, plant and equipment	6	175,206	170,333
Total assets		10,970,741	10,264,178
LIABILITIES			
Other liabilities	7	2,311,199	2,208,557
Deferred liabilities - staff retirement benefits	8	7,659,542	7,055,621
Total liabilities		9,970,741	9,264,178
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	9	1,000,000	1,000,000

The annexed notes 1 to 15 form an integral part of these financial statements.

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation

Profit and Loss Account

For the year ended June 30, 2007

	Note	2007 (Rupees in '000)	2006
Discount and interest earned	10	73,663	60,242
Net operating expenses - establishment costs	11		
Total expenses		5,708,096	4,144,435
Reimbursed by the State Bank of Pakistan		(3,135,927)	(2,773,637)
Allocated to the State Bank of Pakistan		(2,572,169)	(1,370,798)
		-	-
Gain on disposal of property, plant and equipment		2,689	454
BALANCE PROFIT TRANSFERRED TO THE STATE BANK OF PAKISTAN		76,352	60,696

The annexed notes 1 to 15 form an integral part of these financial statements.

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation**Cash Flow Statement***For the year ended June 30, 2007*

	Note	2007	2006
		(Rupees in '000)	
Cash flows from operating activities			
Loss after non-cash items	12	(563,903)	(1,401,592)
Expenses reimbursed by the State Bank of Pakistan		3,135,927	2,773,637
Balance profit transferred to the State Bank of Pakistan		(76,352)	(60,696)
Retirement benefits and employees' compensated absences paid		(1,943,624)	(392,841)
Discount income received		73,808	58,995
		<u>625,856</u>	<u>977,503</u>
Decrease / (Increase) in assets			
- Employee loans and advances		681,607	(1,026,649)
- Other assets		(15,919)	(13,576)
Increase / (Decrease) in liabilities			
- Other liabilities		<u>174,642</u>	<u>(415,542)</u>
Net cash generated from / (used in) operating activities		<u>1,466,186</u>	<u>(478,264)</u>
Cash flows from investing activities			
Fixed capital expenditure		(104,885)	(80,414)
Investment sold		2,098	9,582
Proceeds from disposal of property, plant and equipment		6,077	454
Net cash (used in) investing activities		<u>(96,710)</u>	<u>(70,378)</u>
Net increase / (decrease) in cash and cash equivalents		<u>1,369,476</u>	<u>(548,642)</u>
Cash and cash equivalents at beginning of the year		2,897,163	3,445,805
Cash and cash equivalents at end of the year		<u>4,266,639</u>	<u>2,897,163</u>

The annexed notes 1 to 15 form an integral part of these financial statements.

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation
Statement of Changes in Equity
For the year ended June 30, 2007

	Share capital	Unappropriated profit	Total
	----- (Rupees in '000) -----		
Balance as at June 30, 2005	1,000,000	-	1,000,000
Total recognised income and expense for the year - profit for the year	-	60,696	60,696
Balance profit transferred to the State Bank of Pakistan	-	(60,696)	(60,696)
Balance as at June 30, 2006	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total recognised income and expense for the year - profit for the year	-	76,352	76,352
Balance profit transferred to the State Bank of Pakistan	-	(76,352)	(76,352)
Balance as at June 30, 2007	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

The annexed notes 1 to 15 form an integral part of these financial statements.

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation

Notes to the Financial Statements

For the year ended June 30, 2007

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. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards IAS 1 to 38 and policy for investments as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation. Where the requirements of policies adopted by the Board of Directors of the Corporation differ with the requirements of International Accounting Standards adopted by the Board of Directors of the Corporation the requirements of policies adopted by the Board of Directors of the Corporation take precedence.

3. BASIS OF MEASUREMENT

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

The preparation of financial statements in conformity with International Accounting Standards IAS 1 to 38 and policy for investment as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation, requires management to make judgements estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by the management in the application of International Accounting Standard IAS 1 to 38 and policy for investment as stated in note 4.1, that have significant effect on the financial statements and estimate with significant risk of material judgment in the next year are discussed in note 14 to these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Investments

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

4.2 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 capitalized and the assets so replaced, if any, are retired. Gains and losses on disposal of property, plant and equipment are included in income currently.

4.3 Provisions

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

4.4 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. Unrecognised actuarial gains and losses arising at the valuation date are recognised as income / expense in the following year based on actuarial recommendations.

The above staff retirement benefits are payable to staff on completion of prescribed qualifying period of service.

4.5 Compensated absences

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

4.6 Revenue recognition

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

4.7 Taxation

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

4.8 Cash and cash equivalents

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

4.9 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 derecognition 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.

4.10 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 recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.11 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.

5. INVESTMENTS

Government securities		2007	2006
		(Rs. in 000)	
Market Treasury Bill	5.1	509,000	551,577
Pakistan Investment Bonds	5.2	412,826	372,347
		921,826	923,924

5.1 Market Treasury Bill carries mark-up at the rate of 9.0 percent per annum (2006: 8.8 percent per annum) and is due to mature in March 2008.

5.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6 percent per annum (2006: 8.0 percent per annum) and are due to mature in 2013 and 2016.

6. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets	6.1	175,206	167,122
Capital work-in-progress	6.2	-	3,211
		<u>175,206</u>	<u>170,333</u>

6.1 Operating fixed assets

The following is a statement of operating fixed assets:

2007	Cost at July 1, 2006	Additions/ (deletions)/ adjustments* during the year	Cost at June 30, 2007	Accumulated depreciation at July 1, 2006	Charge for the year/ (accumulated depreciation on deletions)/ adjustments*	Accumulated depreciation at June 30, 2007	Net book value at June 30, 2007	Annual rate of depreciation %
------(Rupees in '000)-----								
Furniture and fixtures	37,484	26,126 (3,312) 13,668 *	17,471	1,585 (1,778) 13,668 *	30,946	43,020	10	
Office equipment	227,595	30,860 (3,781) 78,498 *	145,365	24,623 (2,891) 78,498 *	245,595	87,577	20	
EDP equipment	141,023	48,147 (650) 14,041 *	89,773	65,170 (576) 14,041 *	168,408	34,153	33.33	
Motor vehicles	19,450	2,963 (2,494) 9,530 *	5,821	5,246 (1,604) 9,530 *	18,993	10,456	20	
	<u>425,552</u>	<u>108,096</u> <u>(10,237)</u> <u>115,737 *</u>	<u>258,430</u>	<u>96,624</u> <u>(6,849)</u> <u>115,737 *</u>	<u>463,942</u>	<u>175,206</u>		
2006	Cost at July 1, 2005	Additions / (deletions) during the year	Cost at June 30, 2006	Accumulated depreciation at July 1, 2005	Charge for the year / (accumulated depreciation on deletions)	Accumulated depreciation at June 30, 2006	Net book value at June 30, 2006	Annual rate of depreciation %
------(Rupees in '000)-----								
Furniture and fixtures	29,805	7,679	37,484	12,672	4,799	17,471	20,013	10
Office equipment	206,944	20,651	227,595	128,366	16,999	145,365	82,230	20
EDP equipment	91,127	49,936 (40)	141,023	47,634	42,179 (40)	89,773	51,250	33.33
Motor vehicles	11,843	8,272 (665)	19,450	3,137	3,349 (665)	5,821	13,629	20
	<u>339,719</u>	<u>86,538</u> <u>(705)</u>	<u>425,552</u>	<u>191,809</u>	<u>67,326</u> <u>(705)</u>	<u>258,430</u>	<u>167,122</u>	

6.2 Capital work-in-progress		2007	2006
		(Rupees in '000)	
Furniture and fixtures		-	386
Others		-	2,825
		<u>-</u>	<u>3,211</u>
7. OTHER LIABILITIES			
Accruals and provisions	7.1	2,057,383	1,995,838
Others		253,816	212,719
		<u>2,311,199</u>	<u>2,208,557</u>
7.1 Accruals and provisions			
Provision for employees' compensated absences		1,682,000	1,754,000
Others		375,383	241,838
		<u>2,057,383</u>	<u>1,995,838</u>
8. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS			
Gratuity		43,000	65,000
Pension		5,391,000	5,003,000
Benevolent fund scheme		699,000	715,000
Post retirement medical benefits		672,000	439,000
		<u>6,805,000</u>	<u>6,222,000</u>
Provident fund scheme		854,542	833,621
		<u>7,659,542</u>	<u>7,055,621</u>
9. SHARE CAPITAL			
2007	2006		
(Number of shares)			
<u>1,000</u>	<u>1,000</u>	Authorised share capital	
		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	
<u>1,000</u>	<u>1,000</u>	Rs 1,000,000 each	
		<u>1,000,000</u>	<u>1,000,000</u>
10. Discount and interest earned			
Discount on Government securities		71,710	58,995
Interest on staff loans		1,953	1,247
		<u>73,663</u>	<u>60,242</u>

11.	NET OPERATING EXPENSES - ESTABLISHMENT COSTS	2007	2006
		(Rupees in '000)	
	Reimbursable from the State Bank of Pakistan		
	Salaries, wages and other benefits	2,727,309	2,395,588
	Rent and taxes	7,703	7,162
	Insurance	1,478	1,296
	Electricity, gas and water	129,976	115,690
	Repair and maintenance	9,478	9,751
	Auditors' remuneration	2,700	2,250
	Legal and professional	1,245	2,127
	Travelling	4,130	4,947
	Daily expenses	7,419	11,530
	Passages	69,882	60,367
	Fuel	1,500	2,066
	Conveyance	3,157	3,167
	Postages, telex and telephone	9,965	11,815
	Training	13,868	13,419
	Remittance of treasure	31,276	37,445
	Stationery	4,932	5,039
	Books and newspapers	1,183	890
	Advertisement	366	597
	Bank guards	51,364	46,206
	Uniforms	15,605	13,083
	Others	41,391	29,202
		3,135,927	2,773,637
	Allocable to the State Bank of Pakistan		
	Retirement benefits and employees' compensated absences	2,475,545	1,303,472
	Depreciation	96,624	67,326
		2,572,169	1,370,798
		5,708,096	4,144,435

11.1 As mentioned in note 4.4, 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 has been used for the valuation of these schemes:

	Percent per annum	
	2007	2006
- Expected rate of increase in salary level	8.90%	8.60%
- Expected rate of discount	11.00%	10.80%
- Medical cost trend	5.70%	5.50%

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

	Recognized liability as at June 30, 2006	Charge for the year	Payments during the year	Employee Contributions	Recognized liability as at June 30, 2007
	(Rupees in '000)				
Gratuity	65,000	9,000	(31,000)	-	43,000
Pension	5,003,000	1,140,000	(752,000)	-	5,391,000
Benevolent fund scheme	715,000	271,000	(297,000)	10,000	699,000
Post retirement medical benefits	439,000	337,000	(104,000)	-	672,000
	<u>6,222,000</u>	<u>1,757,000</u>	<u>(1,184,000)</u>	<u>10,000</u>	<u>6,805,000</u>

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

	2007		2006	
	Present value of the defined benefit obligation	Provision made in respect of retirement benefits	Unrecognised actuarial gain / (loss)	Provision made in respect of retirement benefits
	(Rupees in '000)			
Gratuity	43,000	43,000	-	65,000
Pension	5,279,000	5,391,000	112,000	5,003,000
Benevolent fund scheme	673,000	699,000	26,000	715,000
Post retirement medical benefits	1,489,000	672,000	(817,000)	439,000
	<u>7,484,000</u>	<u>6,805,000</u>	<u>(679,000)</u>	<u>6,222,000</u>

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

	Current service cost	Actuarial (gain)/loss	Interest cost	Settlement cost	Employee Contributions	Total
	(Rupees in '000)					
Gratuity	2,000	(2,000)	7,000	2,000	-	9,000
Pension	174,000	1,000	552,000	413,000	-	1,140,000
Benevolent fund scheme	29,000	(1,000)	92,000	161,000	10,000	271,000
Post retirement medical benefits	47,000	113,000	133,000	44,000	-	337,000
2007	<u>252,000</u>	<u>111,000</u>	<u>784,000</u>	<u>620,000</u>	<u>10,000</u>	<u>1,757,000</u>
2006	<u>260,000</u>	<u>68,000</u>	<u>717,000</u>	<u>-</u>	<u>10,000</u>	<u>1,035,000</u>

11.4 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2007 using the Projected Unit Credit Method. An amount of Rs.72 million has been reversed during the year as compared to charge of Rs.95 million in year 2006 based on actuarial recommendations.

11.5	Historical information	2007	2006	2005	2004	2003
------(Rupees in '000)-----						
	Pension					
	Present value of defined benefit obligation	5,279,000	5,009,000	4,765,000	4,041,000	4,044,560
	Unrecognised actuarial (loss) / gain	112,000	(6,000)	(329,000)	(52,000)	(65,000)
	Liability in balance sheet	5,391,000	5,003,000	4,436,000	3,989,000	3,979,560
	Experience adjustment arising on plan liabilities (gains) / losses	(117,735)	(295,654)	281,000	(8,000)	65,000
	Gratuity					
	Present value of defined benefit obligation	43,000	58,000	74,000	68,443	71,176
	Unrecognised actuarial (loss) / gain	-	7,000	(3,000)	15,665	10,389
	Liability in balance sheet	43,000	65,000	71,000	84,108	81,565
	Experience adjustment arising on plan liabilities (gains) / losses	4,211	(8,246)	16,046	(7,099)	(12,853)
	Medical					
	Present value of defined benefit obligation	1,489,000	1,204,000	806,000	489,000	275,825
	Unrecognised actuarial (loss) / gain	(817,000)	(765,000)	(529,000)	(269,000)	-
	Liability in balance sheet	672,000	439,000	277,000	220,000	275,825
	Experience adjustment arising on plan liabilities (gains) / losses	165,511	276,001	279,000	269,000	228,000
	Benevolent Fund					
	Present value of defined benefit obligation	673,000	710,000	627,000	574,000	607,184
	Unrecognised actuarial (loss) / gain	26,000	5,000	-	(7,000)	(12,000)
	Liability in balance sheet	699,000	715,000	627,000	567,000	595,184
	Experience adjustment arising on plan liabilities (gains) / losses	(22,303)	(5,845)	(6,000)	(4,000)	12,000
		M. Yousuf	KPMG	2007	2006	
		Adil	Taseer			
		Saleem	Hadi			
		& Co.	& Co.			
11.6	Auditors' remuneration					
	Audit fee	1,100	1,100	2,200	1,750	
	Out of pocket expenses	250	250	500	500	
		1,350	1,350	2,700	2,250	
12.	LOSS AFTER NON-CASH ITEMS					
	Net profit for the year			76,352	60,696	
	Expenses reimbursed by the State Bank of Pakistan			(3,135,927)	(2,773,637)	
	Expenses allocated to the State Bank of Pakistan			(2,572,169)	(1,370,798)	
				(5,631,744)	(4,083,739)	
	Adjustments for:					
	Depreciation			96,624	67,326	
	Provision for retirement benefits and employees' compensated absences			2,475,545	1,303,472	
	Expenses allocated to the State Bank of Pakistan			2,572,169	1,370,798	
	Discount on Government securities			(73,808)	(58,995)	
	Gain on disposal of property, plant and equipments			(2,689)	(454)	
				5,067,841	2,682,147	
				(563,903)	(1,401,592)	

13. FINANCIAL ASSETS AND LIABILITIES

2007	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								
Balance in current account with the State Bank of Pakistan		-	-	-	4,266,639	-	4,266,639	4,266,639
Investments	8.0 - 9.6	509,000	412,826	921,826	-	-	-	921,826
Employee loans and advances	10	18,856	92,411	111,267	580,471	4,815,131	5,395,602	5,506,869
		527,856	505,237	1,033,093	4,847,110	4,815,131	9,662,241	10,695,334
Financial liabilities								
Other liabilities		-	-	-	629,199	1,682,000	2,311,199	2,311,199
		-	-	-	629,199	1,682,000	2,311,199	2,311,199
On balance sheet gap		527,856	505,237	1,033,093	4,217,911	3,133,131	7,351,042	8,384,135
2006								
Financial assets								
Balance in current account with the State Bank of Pakistan		-	-	-	2,897,163	-	2,897,163	2,897,163
Investments	8 - 8.8	551,577	372,347	923,924	-	-	-	923,924
Employee loans and advances	10	20,422	165,232	185,654	82,774	5,920,048	6,002,822	6,188,476
		571,999	537,579	1,109,578	2,979,937	5,920,048	8,899,985	10,009,563
Financial liabilities								
Other liabilities		-	-	-	454,557	1,754,000	2,208,557	2,208,557
		-	-	-	454,557	1,754,000	2,208,557	2,208,557
On balance sheet gap		571,999	537,579	1,109,578	2,525,380	4,166,048	6,691,428	7,801,006

13.1 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.

13.2 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.

13.3 Fair value of financial assets and liabilities

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

14. ACCOUNTING ESTIMATES AND JUDGEMENTS

Held-to-maturity investments

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

Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are described in note 11.1 to the financial statements.

Useful life of property, plant and equipment

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

15. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on **4th Sept 2007** by the Board of Directors of the Corporation.

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Account