KPMG TASEER HADI & CO.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi

A. F. FERGUSON & CO
Chartered Accountants
State Life Building 1-C
I. I. Chundrigar Road
Karachi

INDEPENDENT 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, 2013, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the financial statements).

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 approved accounting standards as disclosed in note 2.1 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 financial position of the Corporation as at June 30, 2013, and of its financial performance and its cash flows for the year then ended in accordance with approved accounting standards as disclosed in note 2.1 to the financial statements.

Other Matter

The financial statements of the Corporation for the year ended June 30, 2012, were audited by Ernst & Young Ford Rhodes Sidat Hyder and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 5, 2012.

KPMG Taseer Hadi & Co.	**A. F. Ferguson & Co.**
Chartered Accountants	Chartered Accountants
Karachi	Karachi
Mohammad Mahmood Hussain	**Salman Hussain**
Audit Engagement Partner	Audit Engagement Partner

Date: October 30, 2013

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2013

	Note	2013	2012
		------(Rupees in '000)------	
ASSETS			
Balance in current account with the State Bank of Pakistan		**8,475,848**	7,453,254
Investments	4	**926,641**	937,420
Employee loans and advances	5	**11,024,650**	10,971,563
Property and equipment	6	**197,957**	244,704
Medical and stationery consumables	7	**119,592**	117,128
Advances, deposits and prepayments	8	**35,930**	28,018
Total assets		**20,780,618**	19,752,087
LIABILITIES			
Deferred liabilities - unfunded staff retirement benefits	9	**15,240,478**	14,364,009
Deposits and other liabilities	10	**4,540,140**	4,388,078
Total liabilities		**19,780,618**	18,752,087
Net assets		**1,000,000**	1,000,000
REPRESENTED BY:			
Share capital	11	**1,000,000**	1,000,000
CONTINGENCIES AND COMMITMENTS	12		

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013	2012
		------(Rupees in '000)------	
Discount and interest earned	13	**58,031**	68,405
Net operating expenses	14	**13,427,231**	12,007,098
Reimbursable from the State Bank of Pakistan		**(6,213,009)**	(6,166,745)
Allocated to the State Bank of Pakistan		**(7,214,222)**	(5,840,353)
		-	-
Operating profit		**58,031**	68,405
(Loss) / gain on disposal of property and equipment		**(776)**	2,648
Other income		**1,911**	70
Profit transferred to the State Bank of Pakistan		**59,166**	71,123

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	------(Rupees in '000)------	
Profit for the year	**59,166**	71,123
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**59,166**	71,123

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2013

	Share capital	Unappropriated profit	Total
	---------------- (Rupees in '000) ----------------		
Balance as at June 30, 2011	1,000,000	-	1,000,000
Total comprehensive income for the year			
Profit for the year	-	71,123	71,123
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(71,123)	(71,123)
Balance as at June 30, 2012	1,000,000	-	1,000,000
Total comprehensive income for the year			
Profit for the year	-	59,166	59,166
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(59,166)	(59,166)
Balance as at June 30, 2013	**1,000,000**	-	**1,000,000**

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	**2013**	2012
		-------(Rupees in '000)-------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) after adjustment of non-cash items	*15*	**1,041,843**	(283,714)
Expenses reimbursable from the State Bank of Pakistan		**6,213,009**	6,166,745
Profit transferred to the State Bank of Pakistan		**(59,166)**	(71,123)
Retirement benefits and employees' compensated absences paid		**(5,985,622)**	(4,286,862)
Discount income on Government Securities received		**32,047**	37,584
		1,242,111	1,562,630
(Increase) / decrease in assets			
Investments		**(1,956)**	(17,580)
Employee loans and advances		**(53,087)**	(192,227)
Medical and stationery consumables		**(2,464)**	(16,181)
Advances, deposits and prepayments		**(7,912)**	20,450
(Decrease) / increase in liabilities			
Deposits and other liabilities		**(105,033)**	152,563
Net cash generated from operating activities		**1,071,659**	1,509,655
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(52,553)**	(97,177)
Proceeds from disposal of property and equipment		**3,488**	7,474
Net cash used in investing activities		**(49,065)**	(89,703)
Net increase in cash and cash equivalents		**1,022,594**	1,419,952
Cash and cash equivalents at beginning of the year		**7,453,254**	6,033,302
Cash and cash equivalents at end of the year		**8,475,848**	7,453,254

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of approved accounting standards as adopted by the Board of Directors of the Corporation. Approved accounting standards comprise of International Accounting Standards (IASs) 1 to 38 and policy for investments as stated in note 3.1 as approved for adoption by the Board of Directors of the Corporation. Where the requirements of the policy 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 the policy adopted by the Board of Directors of the Corporation take precedence.

2.2 Standards, interpretations and amendments to published accounting standards that are effective in current year

The following amendment to approved accounting standard has been published and is mandatory for the Corporation's accounting period beginning on or after July 1, 2012:

IAS 1, 'Financial statement presentation'. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendments do not have any effect on the Corporation's financial statements.

There are other amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or did not have any significant effect on the Corporation's operations and are, therefore, not detailed in these financial statements.

2.3 Standards, interpretations and amendments to published accounting standards that are not yet effective

The following new amendment to approved accounting standard that has been published and is mandatory for the Corporation's accounting period beginning on or after July 1, 2013.

IAS 19, 'Employee benefits' was amended in June 2011 applicable for periods beginning on or after January 1, 2013. The amendment has resulted in the following changes: eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. As at June 30, 2013 the corporation has unrecognised actuarial losses of Rs. 17,509 million. Following this change all unrecognised gains/losses will be recognised in other comprehensive income.

There are other amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as adopted 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, 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.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

2.4.1 Held-to-maturity investments (notes 3.1 and 4)

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.

2.4.2 Useful life and residual value of property and equipment (notes 3.3 and 6)

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

2.4.3 Provision against obsolete medical and stationery consumables (notes 3.4 and 7)

The Corporation exercises judgment and makes provision for obsolete items based on their future usability and recoverable value. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

2.4.4 Accounting for staff retirement benefits (notes 3.6 and 9)

The key actuarial assumptions concerning the valuation of defined benefit plans and sources of estimation are disclosed in note 14.1 to these financial statements.

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain staff retirement benefits which are carried at present value of defined benefit obligation.

2.6 Functional and presentation currency

The financial statements are presented in Pakistani Rupees which is the Corporation's functional and presentation currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in preparation of these financial statements are set out below. These have been consistently applied to all years presented, unless otherwise specified.

3.1 Investments - Held to maturity

The Corporation classifies its non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity. In making this judgment, the Corporation evaluates its intention and ability to hold such investments till 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 investments are stated at amortized cost less accumulated impairment, if any. Premiums and discounts are accounted for using effective interest rate method.

3.2 Employee loans and advances

These are stated at cost less estimates made for any doubtful receivables based on a review of all outstanding amounts at the balance sheet date.

3.3 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any. Historical cost includes expenditure that are directly attributable to the acquisition of the items.

Depreciation on property and equipment is charged to profit and loss account by applying the straight-line method at the rates specified in note 6.1 to the financial statements, whereby the depreciable amount 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 available for use while no depreciation is charged in the month in which the assets are disposed off.

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. The assets' residual value, depreciation method and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property and equipment are recognised in the profit and loss account.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to profit and loss account as and when incurred.

3.4 Medical and stationery consumables

Medical and stationery consumables are valued at lower of weighted average cost and net realisable value.

Provision for obsolete items is determined based on the management's assessment regarding their future usability.

Net realisable value represents estimated selling prices in the ordinary course of business less the estimated cost of completion, if any and the estimated cost necessary to make the sale.

3.5 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 embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.6 Staff retirement benefits

The Corporation operates the following staff retirement benefit schemes 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. The Corporation provided an option to employees covered under old scheme to join the funded Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from July 1, 2010. Under this scheme contribution is made both by the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new 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. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.

c) the following other staff retirement benefit schemes:

- an un-funded gratuity scheme (old 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;

- a funded Employees Gratuity Fund (EGF) was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);

- an un-funded pension scheme for those employees who joined the Bank after 1975 and before the introduction of EGF which is effective from July 1, 2010;

- an un-funded contributory benevolent fund scheme;

- an un-funded post retirement medical benefit scheme; and

- an un-funded six months post retirement benefit scheme.

Obligations for contributions to defined contribution provident plans are recognised as an expense in the profit and loss account as and when incurred.

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 2013. Unrecognised actuarial gains and losses at the beginning of the year are recognised in the profit and loss account over the expected average remaining working lives of the employees. The above staff retirement benefits are payable to staff on completion of prescribed qualifying period of service.

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 14.1 to the financial statements.

3.7 Compensated absences

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

3.8 Revenue recognition

Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset.

3.9 Taxation

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

3.10 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of balance in current account with the State Bank of Pakistan. The cash and cash equivalents are readily convertible to known amounts of cash and are therefore subject to insignificant risk of changes in value.

3.11 Financial instruments

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

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

3.12 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

3.13 Impairment

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

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised in the profit and loss account.

4. INVESTMENTS

	Note	2013	2012
		------(Rupees in '000)------	
Held to maturity			
Market Treasury Bills	*4.1*	**532,593**	539,090
Pakistan Investment Bonds	*4.2*	**394,048**	398,330
		926,641	937,420

4.1 Market Treasury Bills carry mark-up at the rate of 9.21 to 10.29% per annum (2012: 11.93 to 13.36% per annum) and are due to mature by June 2014.

4.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6% per annum (2012: 8.0 to 9.6% per annum) and are due to mature by 2016.

5. EMPLOYEE LOANS AND ADVANCES

	Note	2013	2012
		------(Rupees in '000)------	
Considered good		**11,024,650**	10,971,563
Considered doubtful		**9,706**	12,010
	5.1	**11,034,356**	10,983,573
Provision against doubtful loans		**(9,706)**	(12,010)
		11,024,650	10,971,563

5.1 Represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 110.790 million (2012: Rs. 127.657 million) that carry mark up at 10% per annum (2012: 10% per annum). Maximum maturity of the loans is upto year 2049 (2012: year 2049).

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.

6. PROPERTY AND EQUIPMENT

	Note	2013	2012
		------(Rupees in '000)------	
Operating fixed assets	*6.1*	**197,957**	244,704

6.1 Operating fixed assets

The following is a statement of operating fixed assets:

2013

	Cost			**Accumulated Depreciation**			**Net book value as at June 30, 2013**	**Annual rate of depreciation %**
	As at July 01, 2012	**Additions/ (deletions)**	**As at June 30, 2013**	**As at July 01, 2012**	**Charge for the year / (deletions)**	**As at June 30, 2013**		
	----------(Rupees in '000)----------							
Furniture and fixtures	**113,312**	**5,759** **(3,780)**	**115,291**	**71,090**	**8,355** **(2,552)**	**76,893**	**38,398**	**10**
Office equipment	**823,012**	**37,729** **(2,161)**	**858,580**	**685,246**	**53,213** **(1,868)**	**736,591**	**121,989**	**20**
EDP equipment	**330,836**	**4,163** **(6,270)**	**328,729**	**308,126**	**19,221** **(5,248)**	**322,099**	**6,630**	**33.33**
Motor vehicles	**98,468**	**4,902** **(3,593)**	**99,777**	**56,462**	**14,247** **(1,872)**	**68,837**	**30,940**	**20**
	1,365,628	**52,553** **(15,804)**	**1,402,377**	**1,120,924**	**95,036** **(11,540)**	**1,204,420**	**197,957**	

2012

	Cost			Accumulated Depreciation			Net book value as at June 30, 2012	Annual rate of depreciation %
	As at July 01, 2011	Additions/ (deletions)/ transfers*	As at June 30, 2012	As at July 01, 2011	Charge for the year / (deletions) transfers*	As at June 30, 2012		
	----------(Rupees in '000)----------							
Furniture and fixtures	107,905	5,374 - 33 *	113,312	63,160	7,930 - - *	71,090	42,222	10
Office equipment	763,161	59,639 (5,049) 5,261 *	823,012	633,651	52,262 (4,913) 4,246 *	685,246	137,766	20
EDP equipment	308,230	467 (380) 22,519 *	330,836	273,022	20,700 (380) 14,784 *	308,126	22,710	33.33
Motor vehicles	82,889	23,132 (9,077) 1,524 *	98,468	45,035	14,290 (4,387) 1,524 *	56,462	42,006	20
	1,262,185	88,612 (14,506) 29,337 *	1,365,628	1,014,868	95,182 (9,680) 20,554 *	1,120,924	244,704	

7. MEDICAL AND STATIONERY CONSUMABLES

	Note	2013	2012
		----------(Rupees in '000)------	
Medical and stationery consumables	7.1	**120,740**	118,276
Provision against obsolete items		**(1,148)**	(1,148)
		119,592	117,128

7.1 These include stocks of medicine, stationery, engineering items and printing press.

8. ADVANCES, DEPOSITS AND PREPAYMENTS

		2013	2012
Advances, deposits and prepayments		**30,583**	22,687
Others		**5,347**	5,331
		35,930	28,018

9. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS

		2013	2012
Gratuity		**7,686**	7,724
Pension		**9,740,888**	9,651,761
Benevolent fund scheme		**1,365,973**	1,170,980
Post retirement medical benefits		**3,076,873**	2,466,239
Six months post retirement benefits		**59,263**	-
	14.4	**14,250,683**	13,296,704
Provident fund scheme		**989,795**	1,067,305
		15,240,478	14,364,009

10. DEPOSITS AND OTHER LIABILITIES

		2013	2012
Provision for employees' compensated absences	14.8	**3,842,893**	3,585,798
Deposits		**600,854**	677,902
Others		**96,393**	124,378
		4,540,140	4,388,078

11. SHARE CAPITAL

2013	2012		2013	2012
(Number of shares)				
		Authorised share capital		
1,000	1,000	Ordinary shares of Rs 1,000,000 each	**1,000,000**	1,000,000
		Issued, subscribed and paid-up capital		
		Fully paid-up ordinary shares of Rs 1,000,000 each		
509	509	- issued for cash	**509,000**	509,000
491	491	- issued against consideration in kind	**491,000**	491,000
1,000	1,000		**1,000,000**	1,000,000

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

12.1.1 The Corporation does not have any contingencies as at June 30, 2013 and June 30, 2012.

12.2 Commitments	*Note*	**2013**	2012
		---------(Rupees in '000)-------	
Capital Commitments	*12.2.1*	**29,931**	45,272

12.2.1 This represents amounts committed by the Corporation to purchase assets from successful bidders.

13. DISCOUNT AND INTEREST EARNED

	Note	**2013**	2012
		---------(Rupees in '000)-------	
Discount income on Government securities		**55,641**	67,674
Interest on staff loans		**2,390**	731
		58,031	68,405

14. NET OPERATING EXPENSES

Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		**5,243,803**	5,325,967
Rent and taxes		**11,833**	10,607
Insurance		**5,404**	5,193
Electricity, gas and water		**244,753**	234,385
Repair and maintenance		**71,915**	25,730
Auditors' remuneration	*14.9*	**5,950**	6,300
Legal and professional		**4,122**	3,182
Travelling		**12,578**	10,471
Daily expenses		**18,704**	20,519
Passages / rest and recreational allowance		**189,249**	164,169
Fuel		**3,329**	3,217
Conveyance		**18,049**	13,449
Postages and telephone		**16,797**	16,969
Training		**42,152**	25,864
Remittance of treasure		**49,870**	38,743
Stationery		**13,629**	12,078
Books and newspapers		**1,402**	1,166
Advertisement		**12,018**	8,930
Bank guards		**121,944**	106,385
Uniforms		**23,725**	22,038
Others		**101,783**	111,383
		6,213,009	6,166,745
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	*14.1 to 14.7*	**7,119,186**	5,745,171
Depreciation	*6.1*	**95,036**	95,182
		7,214,222	5,840,353
		13,427,231	12,007,098

14.1 As mentioned in note 3.6, the Corporation operates the following staff retirement benefit schemes:

- an un-funded gratuity scheme for all employees other than the employees who opted for the new general provident contributory fund scheme or transferred employees who joined the SBP after 1975 and are entitled only to pension scheme benefits;
- a funded Employees Gratuity (EGF) introduced by the Corporation effective from July 1, 2010 for all employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
- an un-funded pension scheme;
- an un-funded contributory benevolent fund scheme;
- an un-funded post retirement medical benefit scheme; and
- an unfunded six months post retirement benefits scheme.

During the year the Corporation carried out actuarial valuation 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, 2013:

	2013	2012
	% per annum	
Expected rate of increase in salary level	**11.5**	11.5
Expected rate of discount	**11.5**	12.5
Medical cost trend	**8**	8.5
Pension indexation rate	**9**	8
Inflation in contribution and grants	**6**	6

14.2 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:

	Note	**2013**			
		Present value of the defined benefit obligation	**Unrecognised actuarial loss**	**Unrecognised past service cost**	**Provision made in respect of retirement benefits**
		----------------------- (Rupees in '000) -----------------------			
Gratuity	*14.7*	**19,007**	**(11,321)**	**-**	**7,686**
Pension	*14.7*	**25,118,066**	**(15,377,178)**	**-**	**9,740,888**
Benevolent fund scheme	*14.7*	**1,788,602**	**(422,629)**	**-**	**1,365,973**
Post retirement medical benefits	*14.7*	**4,774,390**	**(1,697,517)**	**-**	**3,076,873**
Six Months Post Retirement Benefits		**59,263**	**-**	**-**	**59,263**
		31,759,328	**(17,508,645)**	**-**	**14,250,683**

		2012			
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Unrecognised past service cost	Provision made in respect of retirement benefits
		----------------------- (Rupees in '000) -----------------------			
Gratuity	*14.7*	23,560	(15,836)	-	7,724
Pension	*14.7*	21,976,728	(12,324,967)	-	9,651,761
Benevolent fund scheme	*14.7*	1,619,375	(448,395)	-	1,170,980
Post retirement medical benefits	*14.7*	4,483,395	(2,017,156)	-	2,466,239
		28,103,058	(14,806,354)	-	13,296,704

14.3 The following is the movement of present value of the defined benefit obligation in respect of the defined benefit schemes mentioned above:

	2013						
	Present value of obligation as at June 30, 2012	**Current service cost**	**Past service cost**	**Interest cost**	**Benefits paid during the year**	**Actuarial (gain)/ loss on obligation**	**Present value of obligation as at June 30, 2013**
	----------(Rupees in '000)----------						
Gratuity	**23,560**	**648**	**-**	**2,042**	**(7,221)**	**(22)**	**19,007**
Pension	**21,976,728**	**821,951**	**-**	**2,747,091**	**(4,605,170)**	**4,177,466**	**25,118,066**
Benevolent fund scheme	**1,619,375**	**81,000**	**-**	**207,000**	**(124,836)**	**6,063**	**1,788,602**
Post retirement medical benefits	**4,483,395**	**138,868**	**-**	**627,675**	**(330,222)**	**(145,326)**	**4,774,390**
Six Months Post Retirement Benefits	**-**	**-**	**59,263**	**-**	**-**	**-**	**59,263**
	28,103,058	**1,042,467**	**59,263**	**3,583,808**	**(5,067,449)**	**4,038,181**	**31,759,328**

	2012					
	Present value of obligation as at June 30, 2011	Current service cost	Interest cost	Benefits paid during the year	Actuarial (gain) / loss on obligation	Present value of obligation as at June 30, 2012
	---(Rupees in '000)---					
Gratuity	20,161	748	2,822	(1,034)	863	23,560
Pension	17,558,118	538,000	2,458,137	(3,309,810)	4,732,283	21,976,728
Benevolent fund scheme	1,367,399	67,000	191,434	(115,519)	109,061	1,619,375
Post retirement medical benefits	3,529,624	104,012	494,147	(611,792)	967,404	4,483,395
	22,475,302	709,760	3,146,540	(4,038,155)	5,809,611	28,103,058

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

	2013				
	Recognised liability as at June 30, 2012	**Charge for the year**	**Payments during the year**	**Employee contributions**	**Recognised liability as at June 30, 2013**
	---(Rupees in '000)---				
Gratuity	**7,724**	**7,183**	**(7,221)**	**-**	**7,686**
Pension	**9,651,761**	**4,694,297**	**(4,605,170)**	**-**	**9,740,888**
Benevolent fund scheme	**1,170,980**	**319,829**	**(124,836)**	**-**	**1,365,973**
Post retirement medical benefits	**2,466,239**	**940,856**	**(330,222)**	**-**	**3,076,873**
Six Months Post Retirement Benefits	**-**	**59,263**	**-**	**-**	**59,263**
	13,296,704	**6,021,428**	**(5,067,449)**	**-**	**14,250,683**

	2012				
	Recognised liability as at June 30, 2011	Charge for the year	Payments during the year	Employee contributions	Recognised liability as at June 30, 2012
	---(Rupees in '000)---				
Gratuity	868	7,890	(1,034)	-	7,724
Pension	9,327,008	3,634,563	(3,309,810)	-	9,651,761
Benevolent fund scheme	1,005,555	280,944	(115,519)	-	1,170,980
Post retirement medical benefits	2,268,023	810,008	(611,792)	-	2,466,239
	12,601,454	4,733,405	(4,038,155)	-	13,296,704

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

	2013					
	Current service cost	**Actuarial loss recognised**	**Interest cost**	**Past service cost**	**Employee contributions**	**Total**
	---(Rupees in '000)---					
Gratuity	**648**	**4,493**	**2,042**	**-**	**-**	**7,183**
Pension	**821,951**	**1,125,255**	**2,747,091**	**-**	**-**	**4,694,297**
Benevolent fund scheme	**81,000**	**31,829**	**207,000**	**-**	**-**	**319,829**
Post retirement medical benefits	**138,868**	**174,313**	**627,675**	**-**	**-**	**940,856**
Six Months Post Retirement Benefits	**-**	**-**	**-**	**59,263**	**-**	**59,263**
	1,042,467	**1,335,890**	**3,583,808**	**59,263**	**-**	**6,021,428**

	2012					
	Current service cost	Actuarial loss recognised	Interest cost	Past service cost	Employee contributions	Total
	---(Rupees in '000)---					
Gratuity	748	4,320	2,822	-	-	7,890
Pension	538,000	648,541	2,458,137	(10,115)	-	3,634,563
Benevolent fund scheme	67,000	22,510	191,434	-	-	280,944
Post retirement medical benefits	104,012	90,864	494,147	120,985	-	810,008
	709,760	766,235	3,146,540	110,870	-	4,733,405

14.6 The Corporation contributes to the above mentioned staff retirement benefit schemes according to the actuary's advice. The management estimates that the expected charge in respect of their defined benefit plans for the year ending June 30, 2014 would be as follows:

	2014	2013
	(Rupees in '000)	
Gratuity	2,549	11,000
Pension	3,662,707	4,817,000
Benevolent fund scheme	292,794	319,000
Post retirement medical benefits	812,660	941,000
Employees Compensated Absences	591,443	697,000
Six Months Post Retirement Benefits	9,759	-
	5,371,912	6,785,000

14.7 Historical Information

	2013	2012	2011	2010	2009
	(Rupees in '000)				
Gratuity					
Present value of defined benefit obligation	19,007	23,560	20,161	36,094	38,039
Unrecognised actuarial losses	(11,321)	(15,836)	(19,293)	(20,005)	(5,668)
Liability in balance sheet	7,686	7,724	868	16,089	32,371
Experience adjustment arising on plan liabilities losses	(22)	863	2,567	16,226	3,046
Pension					
Present value of defined benefit obligation	25,118,066	21,976,728	17,558,118	14,221,796	8,951,904
Unrecognised actuarial losses	(15,377,178)	(12,324,967)	(8,241,224)	(6,500,966)	(2,365,434)
Unrecognised past service cost	-	-	10,114	-	-
Liability in balance sheet	9,740,888	9,651,761	9,327,008	7,720,830	6,586,470
Experience adjustment arising on plan liabilities losses	4,177,467	4,732,283	3,369,573	4,398,358	1,572,062
Benevolent fund scheme					
Present value of defined benefit obligation	1,788,602	1,619,375	1,367,399	1,216,670	916,147
Unrecognised actuarial losses	(422,629)	(448,395)	(361,844)	(350,797)	(146,295)
Liability in balance sheet	1,365,973	1,170,980	1,005,555	865,873	769,852
Experience adjustment arising on plan liabilities losses	6,063	109,061	31,877	220,757	100,092
Post retirement medical benefits					
Present value of defined benefit obligation	4,774,390	4,483,395	3,529,624	3,324,018	2,790,980
Unrecognised actuarial losses	(1,697,517)	(2,017,156)	(1,261,601)	(1,573,686)	(1,504,472)
Liability in balance sheet	3,076,873	2,466,239	2,268,023	1,750,332	1,286,508
Experience adjustment arising on plan liabilities (gains) / losses	(145,326)	967,404	(199,241)	205,984	190,570
Six Months Post Retirement Benefits					
Present value of defined benefit obligation	59,263	-	-	-	-
Unrecognised actuarial losses	-	-	-	-	-
Liability in balance sheet	59,263	-	-	-	-

14.8 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under Projected Unit Credit Method amounted to Rs 3,842.893 million (2012: Rs 3,585.798 million). An amount of Rs 986.755 million (2012: Rs 1,240.522 million) has been charged to the profit and loss account in the current year based on actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2014 would be Rs 591.443 million (2013: Rs 697 million).

14.9 Auditors' remuneration

	2013			2012		
	KPMG Taseer Hadi &Co.	A.F. Ferguson & Co.	Total	KPMG Taseer Hadi &Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total
	(Rupees in '000)					
Audit fee	2,090	2,090	4,180	2,275	2,275	4,550
Out of pocket expenses	885	885	1,770	875	875	1,750
	2,975	2,975	5,950	3,150	3,150	6,300

15. PROFIT / (LOSS) AFTER ADJUSTMENT OF NON-CASH ITEMS

	2013	2012
	----------- (Rupees in '000) -----------	
Profit for the year	**59,166**	71,123
Expenses reimbursable from the State Bank of Pakistan	**(6,213,009)**	(6,166,745)
Expenses allocated to the State Bank of Pakistan	**(7,214,222)**	(5,840,353)
	(13,368,065)	(11,935,975)
Adjustments for:		
Provision for retirement benefits and employees' compensated absences	**7,119,186**	5,745,171
Expenses allocated to the State Bank of Pakistan	**7,214,222**	5,840,353
Amortisation of discount on Government securities	**(23,594)**	(30,090)
Depreciation	**95,036**	95,182
Amortisation of premium on Government Securities	**4,282**	4,293
Loss / (gain) on disposal of property and equipment	**776**	(2,648)
	14,409,908	11,652,261
	1,041,843	(283,714)

16. RELATED PARTY TRANSACTIONS

The Corporation is a wholly owned subsidiary of the State Bank of Pakistan (Parent entity), therefore all subsidiaries and associated undertakings of the Parent entity are the related parties of the Corporation. Other related parties comprise of key management personnel of the Corporation which include members of the Board of Directors, Managing Director and other executives of the Corporation who have responsibility for planning, directing and controlling the activities of the Corporation.

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. The accounting treatment of assets, liabilities, income and expenditure relating to such activities are detailed in note 1.1 to these financial statements.

17. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest / mark-up rate and credit risks. The policies and procedures for managing these risks are outlined in notes 17.1 to 17.4 to these financial statements. 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.

17.1 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 and the Board of Directors 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.

	2013						
	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	**-**	**-**	**-**	**8,475,848**	**-**	**8,475,848**	**8,475,848**
Investments	**850,193**	**45,921**	**896,114**	**30,527**	**-**	**30,527**	**926,641**
Employee loans and advances	**16,134**	**94,656**	**110,790**	**1,495,140**	**9,428,426**	**10,923,566**	**11,034,356**
	866,327	**140,577**	**1,006,904**	**10,001,515**	**9,428,426**	**19,429,941**	**20,436,845**
Financial liabilities							
Deposits and Other liabilities	**-**	**-**	**-**	**697,247**	**-**	**697,247**	**697,247**
On balance sheet gap	**866,327**	**140,577**	**1,006,904**	**9,304,268**	**9,428,426**	**18,732,694**	**19,739,598**

	2012						
	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	-	-	-	7,453,254	-	7,453,254	7,453,254
Investments	509,000	391,397	900,397	37,023	-	37,023	937,420
Employee loans and advances	20,706	106,951	127,657	1,337,763	9,518,153	10,855,916	10,983,573
	529,706	498,348	1,028,054	8,828,040	9,518,153	18,346,193	19,374,247
Financial liabilities							
Deposits and Other liabilities	-	-	-	798,848	-	798,848	798,848
On balance sheet gap	529,706	498,348	1,028,054	8,029,192	9,518,153	17,547,345	18,575,399

17.2 The interest / mark-up for the financial assets and liabilities are mentioned in their respective notes to and forming part of the financial statements.

17.3 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.

17.4 Liquidity risk

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

17.5 Fair value of financial assets and liabilities

The carrying value of all financial instruments reflected in the financial statements approximates their fair value at the balance sheet date.

18. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on **October 25, 2013** by the Board of Directors of the Corporation.

19. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison.

20. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

Muhammad Haroon Rasheed **Acting Managing Director**	**Muhammad Habib Khan** **Director Accounts**