

11 Financial Statements of SBP BSC

Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30 June 2010, and the profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

ERNST & YOUNG FORD RHODES
SIDAT HYDER
Chartered Accountants
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Beaumont Road
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Karachi

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Chartered Accountants
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Karachi

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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

Management's Responsibility for the Financial Statements

Management of the Corporation is responsible for the preparation and fair presentation of these financial statements in accordance with the International Accounting Standards 1 to 38 and Accounting Policy for investments as stated in note 5.1 to the financial statements approved for adoption by the Board of Directors of the Corporation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

ERNST & YOUNG FORD RHODES
SIDAT HYDER
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Corporation as of 30 June 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards 1 to 38 and Accounting Policy for investments as stated in note 5.1 to the financial statements approved for adoption by the Board of Directors of the Corporation.

Ernst & Young Ford Rhodes
Sidat Hyder
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner
Date: 29 September 2010

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

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

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

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

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2010

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

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

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2010

	<i>2010</i>	<i>2009</i>
	<i>(Rupees in '000)</i>	
Profit for the year	63,605	86,714
Other comprehensive income	-	-
Total comprehensive income for the year	<u>63,605</u>	<u>86,714</u>

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

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2010

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

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

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBPBANKING SERVICES CORPORATION
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

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

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

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

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

2. STATEMENT OF COMPLIANCE

- 2.1 These financial statements have been prepared in accordance with the requirements of the International Accounting Standards IAS 1 to 38 and the policy for investments as stated in note 5.1 approved for adoption by the Board of Directors of the Corporation. Where the requirements of policies adopted by the Board of Directors of the Corporation differ with the requirements of International Accounting Standards adopted by the Board of Directors of the Corporation the requirements of policies adopted by the Board of Directors of the Corporation take precedence.

3. BASIS OF MEASUREMENT

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

- 3.2 The preparation of financial statements in conformity with International Accounting Standards IAS 1 to 38 and policy for investment as stated in note 5.1 approved for adoption by the Board of Directors of the Corporation, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In the process of applying the Corporation's accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

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

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

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

<i>Standards / improvements</i>	<i>Effective date (accounting period beginning on or after)</i>
IAS 24 - Related Party Disclosures (Revised)	January 1, 2011

Improvements / amendments to standards - 2009

IAS 1 Presentation of Financial Statements	January 1, 2010
IAS 7 Statement of Cash Flows	January 1, 2010
IAS 17 Leases	January 1, 2010
IAS 36 Impairment of Assets	January 1, 2010
IAS 32 Financial Instruments: Presentation – Classification of Rights Issues	January 1, 2010

Improvements / amendments to standards - 2010

IAS 27 Consolidated and Separate Financial Statements	July 1, 2010
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The Corporation expects that the adoption of the above standards / improvements will not have any material impact on the Corporation's financial statements in the period of the initial application other than to the extent of certain changes and / or enhancement in the presentation and disclosures in the financial statements resulting from application of amendments in IAS 7 and IAS 24.

4. CHANGE IN ACCOUNTING POLICY AND DISCLOSURE

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Investments - Held to maturity

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

All such investments acquired by the Corporation are initially measured at cost being the fair value of the consideration given. Transaction cost, if any, is included in the initial measurement of investments. Subsequent to initial measurement these securities are stated at cost less accumulated impairment, if any. Premiums and discounts are accounted for

using effective interest rate method.

5.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses while capital work-in-progress is stated at cost.

Depreciation on property and equipment is charged to profit and loss account applying the straight-line method at the rates specified in note 8.1 to the financial statements, whereby the cost of an asset is written off over its estimated useful life. The asset's useful life is reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation on additions is charged to the profit and loss account from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are deleted. Normal repairs and maintenance are charged to the profit and loss account as and when incurred; major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of property and equipment are recognised in the profit and loss account.

5.3 Medical and stationery consumables

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

5.4 Provisions

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

5.5 Staff retirement benefits

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

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

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

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

5.6 *Compensated absences*

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

5.7 *Revenue recognition*

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

5.8 *Taxation*

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

5.9 *Cash and cash equivalents*

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

5.10 *Financial instruments*

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

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

5.11 *Offsetting*

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Corporation has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

5.12 *Impairment*

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

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

6. *INVESTMENTS*

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

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

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

7. EMPLOYEE LOANS AND ADVANCES	Note	2010 (Rupees in '000)	2009
Considered good		10,648,266	7,928,445
Considered doubtful		13,259	13,584
	7.1	10,661,525	7,942,029
Provision against doubtful loans		(13,259)	(13,584)
		10,648,266	7,928,445

7.1 Represents loans given to the permanent employees of the Corporation, recoverable in equal monthly installments till the retirement of an employee, except the personal loan repayable in twenty four equal monthly installments. These include loans amounting to Rs. 143.439 million that carry mark up at 10% per annum. Maximum maturity of the loan is upto year 2040.

These loans have been given in respect of:-

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

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

8.1 Operating fixed assets

The following is a statement of operating fixed assets:

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

2009	Cost			Accumulated Depreciation			Net book valuea as at June 30, 2009	Annual rate of Depreciation %
	As at July 01, 2008	Additions/ (deletions) / transfers*	As at June 30, 2009	As at July 01, 2008	Charge for the year/ (deletions) / transfers*	As at June 30, 2009		
	------(Rupees in '000)-----							
Furniture and fixtures	87,817	4,426	97,734	36,403	8,649	51,257	46,477	10
		(1,101)			(387)			
		6,592			6,592			
Office equipment	383,510	41,295	663,870	287,075	37,244	562,743	101,127	20
		(4,108)			(3,605)			
		243,173			242,029			
EDP equipment	229,058	10,861	259,711	209,680	13,352	243,354	16,357	33.33
		(4,258)			(3,728)			
		24,050			24,050			
Motor vehicles	35,370	12,286	45,696	22,046	5,620	26,147	19,549	20
		(5,694)			(5,253)			
		3,734			3,734			
	735,755	68,868	1,067,011	555,204	64,865	883,501	183,510	
		(15,161)			(12,973)			
		277,549			276,405			

	<i>Note</i>	2010	2009
9. MEDICAL AND STATIONERY CONSUMABLES			
Medical and stationery consumables		96,787	84,345
Provision against obsolete items		(934)	(2,354)
		95,853	81,991
10. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances, deposits and prepayments		19,989	21,821
Others		5,136	-
		25,125	21,821
11. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS			
Gratuity		16,089	32,371
Pension		7,720,830	6,586,470
Benevolent fund scheme		865,873	769,852
Post retirement medical benefits		1,750,332	1,286,508
	16.3	10,353,124	8,675,201
Provident fund scheme		973,694	916,129
		11,326,818	9,591,330

	2010	2009
12. OTHER LIABILITIES		
Provision for employees' compensated absences	2,528,830	1,879,337
Others	460,721	386,090
	2,989,551	2,265,427

13. SHARE CAPITAL

2010	2009		2010	2009
		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		
1,000	1,000	Fully paid-up ordinary shares of Rs 1,000,000 each issued for cash	1,000,000	1,000,000

14. COMMITMENTS

Capital Commitments	59,000	7,110
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This represents amounts committed by the Corporation to purchase assets from successful bidders.

	2010	2009
15. DISCOUNT AND INTEREST EARNED		
Discount income on Government securities	60,272	81,363
Interest on staff loans	1,573	1,455
	61,845	82,818

16. NET OPERATING EXPENSES *Note* **2010** **2009**
(Rupees in '000)

Reimbursable from the State Bank of Pakistan

Salaries, wages and other benefits	4,308,823	3,478,919
Rent and taxes	9,533	8,577
Insurance	3,481	2,605
Electricity, gas and water	179,409	170,107
Repair and maintenance	20,706	19,385

Auditors' remuneration	16.7	4,570	4,570
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Legal and professional	4,838	10,233
Travelling	8,908	7,325
Daily expenses	13,909	11,792
Passages	167,059	84,334
Fuel	2,287	1,994
Conveyance	5,246	4,483
Postages and telephone	15,734	11,624
Training	20,695	21,622
Remittance of treasure	33,917	33,059
Stationery	10,327	9,219
Books and newspapers	1,560	1,332
Advertisement	3,345	1,748
Bank guards	91,033	68,355
Uniforms	19,180	14,487
Others	82,836	47,166
	5,007,396	4,012,936
Allocated to the State Bank of Pakistan		
Retirement benefits and employees' compensated absences	4,028,095	2,165,258
Depreciation	69,001	64,865
	4,097,096	2,230,123
	9,104,492	6,243,059

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

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

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

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

16.2 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:

		2010		
		<i>Present value of defined benefit obligation</i>	<i>Unrecognized actuarial gain/loss</i>	<i>Provision made in respect of retirement benefits</i>
		-----(<i>Rupees in '000</i>)-----		
	<i>Note</i>			
Gratuity	16.5	36,094	(20,005)	16,089
Pension	16.5	14,221,796	(6,500,966)	7,720,830
Benevolent fund scheme	16.5	1,216,670	(350,797)	865,873
Post retirement medical benefits	16.5	3,324,018	(1,573,686)	1,750,332
		18,798,578	(8,445,454)	10,353,124

		2009		
		<i>Present value of defined benefit obligation</i>	<i>Unrecognized actuarial gain/loss</i>	<i>Provision made in respect of retirement benefits</i>
		-----(<i>Rupees in '000</i>)-----		
	<i>Note</i>			
Gratuity	16.5	38,039	(5,668)	32,371
Pension	16.5	8,951,904	(2,365,434)	6,586,470
Benevolent fund scheme	16.5	916,147	(146,295)	769,852
Post retirement medical benefits	16.5	2,790,980	(1,504,472)	1,286,508
		12,697,070	(4,021,869)	8,675,201

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

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

2009					
	<i>Recognized liabilities as at June 30, 2009</i>	<i>Charge for the year</i>	<i>Payments during the year</i>	<i>Employee contributions</i>	<i>Recognized liability as at June 30, 2010</i>
	<i>----- (Rupees in '000) -----</i>				
Gratuity	37,821	8,777	(14,227)	-	32,371
Pension	5,798,287	1,167,465	(379,282)	-	6,586,470
Benevolent fund scheme	709,988	120,380	(71,700)	11,184	769,852
Post retirement medical benefits	882,133	494,978	(90,603)	-	1,286,508
	7,428,229	1,791,600	(555,812)	11,184	8,675,201

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

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

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

16.5 Historical Information

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

16.6 Employees' compensated absences

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

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

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

18. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest/ mark-up rate, credit and liquidity risks. The policies and procedures for managing these risks are outlined in notes 18.1 to 18.6. The Corporation has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

18.1 Interest / mark-up rate risk management

Interest / mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. The Corporation has adopted appropriate policies to minimise its exposure to this risk. The Corporation's management, the Central Board and the investment committee has set appropriate duration limits and a separate department deals with the monitoring of the Corporation's interest/ mark-up rate risk exposure based on these limits.

2010							
<i>Interest / mark-up bearing</i>			<i>Non interest / mark-up bearing</i>			<i>Total</i>	
<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub total</i>	<i>Maturity upto one year</i>	<i>Maturity after one year</i>	<i>Sub total</i>		
----- (Rupees in '000) -----							
Financial assets							
Balance in current account with the State							
Bank of Pakistan	-	-	-	3,383,274	-	3,383,274	3,383,274
Investments	508,997	399,971	908,968	-	-	-	908,968
Employee loans and advances	18,612	124,827	143,439	1,196,118	9,308,709	10,504,827	10,648,266
Accrued interest / mark-up and return	-	-	-	22,987	-	22,987	22,987
	527,609	524,798	1,052,407	4,602,379	9,308,709	13,911,088	14,963,495
Financial liabilities							
Other liabilities	-	-	-	460,721	-	460,721	460,721
	-	-	-	460,721	-	460,721	460,721
On balance sheet gap	527,609	524,798	1,052,407	4,141,658	9,308,709	13,450,367	14,502,774

2009							
Interest / mark-up bearing				Non interest / mark-up bearing			Total
Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
----- (Rupees in '000) -----							
Financial assets							
Balance in current account with State Bank of Pakistan	-	-	-	3,702,522	-	3,702,522	3,702,522
Investments	509,000	404,252	913,252	-	-	-	913,252
Employee loans and advances	15,168	93,145	108,313	797,832	7,022,300	7,820,132	7,928,445
Accrued interest / mark-up and return	-	-	-	25,216	-	25,216	25,216
	524,168	497,397	1,021,565	4,525,570	7,022,300	11,547,870	12,569,435
Financial liabilities							
Other liabilities	-	-	-	386,090	-	386,090	386,090
	-	-	-	386,090	-	386,090	386,090
On balance sheet gap	524,168	497,397	1,021,565	4,139,480	7,022,300	11,161,780	12,183,345

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

18.3 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. The remaining balances are recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

18.4 Liquidity risk

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

18.5 Fair value of financial assets and liabilities

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

19. ACCOUNTING ESTIMATES AND JUDGMENTS

19.1 Held-to-maturity investments

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

19.2 Useful life and residual value of property and equipment

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

19.3 Retirement Benefits

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

20. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on _____ by the Board of Directors of the Corporation.

21. FIGURES

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

Qasim Nawaz
Managing Director

Riaz Nazarali
Director Accounts