Financial Statements of SBP BSC

Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30 June 2012, 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
P.O.Box 15541
Karachi

KPMG TASEER HADI & CO.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont 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 30 June 2012, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flow 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 1 to 38 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 and for such internal controls 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 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 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.

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 the Corporation as of 30 June 2012, 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 4.1 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:

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

MohammadMahmood Hussain
Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2012

	Note	2012	2011
		(Rupees in '000)	
ASSETS			
Balance in current account with State Bank of Pakistan		**7,453,254**	6,033,302
Investments	5	**900,397**	904,688
Employee loans and advances	6	**10,971,563**	10,779,336
Property and equipment	7	**244,704**	247,535
Medical and stationery consumables	8	**117,128**	100,947
Accrued interest / mark-up and return		**37,023**	26,939
Advances, deposits and prepayments	9	**28,018**	48,468
Total assets		**19,752,087**	18,141,215
LIABILITIES			
Deferred liabilities - staff retirement benefits	10	**14,364,009**	13,604,347
Deposits and other liabilities	11	**4,388,078**	3,536,868
Total liabilities		**18,752,087**	17,141,215
Net assets		**1,000,000**	1,000,000
REPRESENTED BY:			
Share capital	12	**1,000,000**	1,000,000
Commitments	13		

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2012

	Note	***2012***	*2011*
		(Rupees in '000)	
Discount and interest earned	*14*	**68,405**	67,510
Net operating expenses	*15*	**12,007,098**	9,308,509
Reimbursable from the State Bank of Pakistan		**(6,166,745)**	(5,339,211)
Allocated to the State Bank of Pakistan		**(5,840,353)**	(3,969,298)
		-	-
Operating profit		**68,405**	67,510
Gain on disposal of property and equipment		**2,718**	2,825
Profit transferred to the State Bank of Pakistan		**71,123**	70,335

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2012

	2012	*2011*
	(Rupees in '000)	
Profit for the year	**71,123**	70,335
Other comprehensive income	-	-
Total comprehensive income for the year	**71,123**	70,335

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012

	Share capital	*Unappropriated profit*	*Total*
	------------------	*(Rupees in '000)*	------------------
Balance as at June 30, 2010	1,000,000	-	1,000,000
Total comprehensive income for the year			
Profit for the year	-	70,335	70,335
Other comprehensive income	-	-	-
	-	70,335	70,335
Transaction with owner			
Profit transferred to the State Bank of Pakistan	-	(70,335)	(70,335)
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**
Other comprehensive income	-	-	-
	-	**71,123**	**71,123**
Transaction with 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**

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012	2011
		(Rupees in '000)	
Cash flows from operating activities			
Loss after adjustment of non-cash items	16	**(321,370)**	(1,363,220)
Expenses reimbursable by the State Bank of Pakistan		**6,166,745**	5,339,211
Profit transferred to the State Bank of Pakistan		**(71,123)**	(70,335)
Retirement benefits and employees' compensated absences paid		**(4,286,862)**	(1,254,305)
Discount income received		**67,674**	65,097
		1,555,064	2,716,448
Decrease / (increase) in assets			
Employee loans and advances		**(192,227)**	(131,070)
Medical and stationery consumables		**(16,181)**	(5,094)
Accrued interest / mark-up and return		**(10,084)**	(3,952)
Advances and prepayments		**20,450**	(23,343)
Increase in liabilities			
Other liabilities		**152,563**	188,996
Net cash generated from operating activities		**1,509,585**	2,741,985
Cash flows from investing activities			
Capital expenditure		**(97,177)**	(100,148)
Proceeds from disposal of property and equipment		**7,544**	8,191
Net cash used in investing activities		**(89,633)**	(91,957)
Net increase in cash and cash equivalents		**1,419,952**	2,650,028
Cash and cash equivalents at beginning of the year		**6,033,302**	3,383,274
Cash and cash equivalents at end of the year		**7,453,254**	6,033,302

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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

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 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 from 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 except for certain staff retirement benefits which are stated at present value.

3.2 Use of estimates and judgements

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 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:

3.2.1 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.

3.2.2 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.

3.2.3 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 15.1 to the financial statements.

3.3 Accounting standards / improvements / ammendments that are not yet effective or not relevant

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

Standards / improvements	*Effective date (accounting periods beginning on or after)*
IAS 1 - Presentation of items of other comprehensive income (Amendments)	01 July 2012
IAS 12 - Income Tax (Amendment) – Recovery of underlying assets	01 January 2012
IAS 19 - Employee Benefits - Amendment	01 January 2013
IAS 32 - Offsetting financial assets and financial liabilities (Amendment)	01 January 2014

The Corporation expects that the adoption of the above revisions and interpretations of the standards will not have any material impact on the Corporation's financial statements in the period of initial application other than the amendments to IAS 19 'Employee Benefits' and except for certain new / enhanced disclosure and presentation requirements. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains and losses on settlements and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to the statement of comprehensive income.

-Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, alongwith new or revised disclosure requirements. These new disclosures include quantative information of the sensitivity of the defined benefit obligation to a reasonable possible change in each significant actuarial assumption.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 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 amortized cost less accumulated impairment, if any. Premiums and discounts are accounted for using effective interest rate method.

4.2 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 7.1 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 disposed off. 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.

4.3 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.

4.4 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.

4.5 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; 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; and

- an un-funded post retirement medical 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, 2012. 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.

4.6 Compensated absences

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

4.7 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.

4.8 Taxation

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

4.9 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.

4.10 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.

4.11 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.

4.12 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.

5. INVESTMENTS

	Note	***2012***	*2011*
		(Rupees in '000)	
Held to maturity			
Market Treasury Bills	*5.1*	**509,000**	508,998
Pakistan Investment Bonds	*5.2*	**391,397**	395,690
		900,397	904,688

5.1 Market Treasury Bills carry mark-up at the rate of 11.93 to 13.36 percent per annum (2011: 12.79 to 13.88 percent per annum) and are due to mature by December 2012.

5.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6 percent per annum (2011: 8.0 to 9.6 percent per annum) and are due to mature by 2016.

6. EMPLOYEE LOANS AND ADVANCES

	Note	2012	2011
		(Rupees in '000)	
Considered good		**10,971,563**	10,779,336
Considered doubtful		**12,010**	12,241
	6.1	**10,983,573**	10,791,577
Provision against doubtful loans		**(12,010)**	(12,241)
		10,971,563	10,779,336

6.1 Represents loans given to the permanent employees of the Corporation, recoverable in equal monthly installments till the retirement of an employee, except that the personal loan is repayable in twenty four equal monthly installments. These include loans amounting to Rs. 127.657 million (2011: Rs. 141.803 million) that carry mark up at 10% per annum (2011: 10% per annum). Maximum maturity of the loans is upto year 2049 (2011: 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.

7. PROPERTY AND EQUIPMENT

	Note	2012	2011
		(Rupees in '000)	
Operating fixed assets	7.1	**244,704**	247,317
Capital work-in-progress		**-**	218
		244,704	247,535

7.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2012							
	Cost			Accumulated 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	Net book value as at June 30, 2012	Annual rate of depreciation %
	----(Rupees in '000)----							
Furniture and fixtures	**107,905**	**5,374**	**113,312**	**63,160**	**7,930**	**71,090**	**42,222**	**10**
		-			**-**			
		33 *			**0 ***			
Office equipmer	**763,161**	**59,639**	**823,012**	**633,651**	**52,262**	**685,246**	**137,766**	**20**
		(5,049)			**(4,913)**			
		5,261 *			**4,246 ***			
EDP equipment	**308,230**	**467**	**330,836**	**273,022**	**20,700**	**308,126**	**22,710**	**33.33**
		(380)			**(380)**			
		22,519 *			**14,784 ***			
Motor vehicles	**82,889**	**23,132**	**98,468**	**45,035**	**14,290**	**56,462**	**42,006**	**20**
		(9,077)			**(4,387)**			
		1,524 *			**1,524 ***			
	1,262,185	**88,612**	**1,365,628**	**1,014,868**	**95,182**	**1,120,924**	**244,704**	
		(14,506)			**(9,680)**			
		29,337 *			**20,554 ***			

	2011							
	Cost			Accumulated Depreciation				
	As at July 01, 2010	Additions/ (deletions)/ transfers*	As at June 30, 2011	As at July 01, 2010	Charge for the year / (deletions)/ transfers*	As at June 30, 2011	Net book value as at June 30, 2011	Annual rate of depreciation %
	---(Rupees in '000)---							
Furniture and fixtures	105,903	2,848 (846)	107,905	56,147	7,613 (600)	63,160	44,745	10
Office equipment	722,683	57,956 (17,478)	763,161	603,313	45,914 (15,576)	633,651	129,510	20
EDP equipment	274,021	- (19,247) 53,456 *	308,230	258,995	12,744 (18,857) 20,140 *	273,022	35,208	33.33
Motor vehicles	81,303	6,028 (4,442)	82,889	33,777	12,872 (1,614)	45,035	37,854	20
	1,183,910	66,832 (42,013) 53,456 *	1,262,185	952,232	79,143 (36,647) 20,140 *	1,014,868	247,317	

	Note	2012	2011
		(Rupees in '000)	
8. MEDICAL AND STATIONERY CONSUMABLES			
Medical and stationery consumables		**118,276**	102,095
Provision against obsolete items		**(1,148)**	(1,148)
		117,128	100,947
9. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances, deposits and prepayments		**22,687**	43,295
Others		**5,331**	5,173
		28,018	48,468
10. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS			
Gratuity		**7,724**	868
Pension		**9,651,761**	9,327,008
Benevolent fund scheme		**1,170,980**	1,005,555
Post retirement medical benefits		**2,466,239**	2,268,023
	15.3	**13,296,704**	12,601,454
Provident fund scheme		**1,067,305**	1,002,893
		14,364,009	13,604,347
11. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	15.6	**3,585,798**	2,887,151
Deposits		**677,902**	228,746
Others		**124,378**	420,971
		4,388,078	3,536,868

12. SHARE CAPITAL

2012	2011		2012	2011
		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

13. COMMITMENTS

	Note	2012	2011
		(Rupees in '000)	
Capital Commitments		**45,272**	79,157

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

14. DISCOUNT AND INTEREST EARNED

	Note	2012	2011
Discount income on Government securities		**67,674**	65,097
Interest on staff loans		**731**	2,413
		68,405	67,510

15. NET OPERATING EXPENSES

	Note	2012	2011
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		5,325,967	4,595,936
Rent and taxes		10,607	9,918
Insurance		5,193	5,093
Electricity, gas and water		234,385	199,705
Repair and maintenance		25,730	16,815
Auditors' remuneration	15.7	6,300	5,100
Legal and professional		3,182	6,066
Travelling		10,471	12,130
Daily expenses		20,519	21,759
Passages/ rest and recreational allowance		164,169	161,912
Fuel		3,217	2,644
Conveyance		13,449	6,862
Postages and telephone		16,969	15,825
Training		25,864	31,126
Remittance of treasure		38,743	38,527
Stationery		12,078	12,508
Books and newspapers		1,166	1,368
Advertisement		8,930	4,225
Bank guards		106,385	98,258
Uniforms		22,038	16,707
Others		111,383	76,727
		6,166,745	5,339,211
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences		**5,745,171**	3,890,155
Depreciation	7.1	**95,182**	79,143
		5,840,353	3,969,298
		12,007,098	9,308,509

15.1 As mentioned in note 4.5, 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; also a funded Employees Gratuity (EGF) introduced by 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; and

- an un-funded post retirement medical benefit 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, 2012:

	2012	*2011*
	% per annum	
Expected rate of increase in salary level	**11.5**	12
Expected rate of discount	**12.5**	14
Medical cost trend	**8.5**	9
Pension indexation rate	**8**	8
Inflation in contribution and grants	**6**	6

15.2 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:

		2012			
		Present value of the defined benefit obligation	***Unrecognised actuarial gain / (loss)***	***Unrecognized negative past service cost***	***Provision made in respect of retirement benefits***
	Note	***---------------------- (Rupees in '000) ----------------------***			
Gratuity	*15.5*	**23,560**	**(15,836)**	**-**	**7,724**
Pension	*15.5*	**21,976,728**	**(12,324,967)**	**-**	**9,651,761**
Benevolent fund scheme	*15.5*	**1,619,375**	**(448,395)**	**-**	**1,170,980**
Post retirement medical benefits	*15.5*	**4,483,395**	**(2,017,156)**	**-**	**2,466,239**
		28,103,058	**(14,806,354)**	**-**	**13,296,704**

		2011			
		Present value of the defined benefit obligation	*Unrecognised actuarial gain / (loss)*	*Unrecognized negative past service cost*	*Provision made in respect of retirement benefits*
		---------------------- (Rupees in '000) ----------------------			
Gratuity	*15.5*	20,161	(19,293)	-	868
Pension	*15.5*	17,558,118	(8,241,224)	10,114	9,327,008
Benevolent fund scheme	*15.5*	1,367,399	(361,844)	-	1,005,555
Post retirement medical benefits	*15.5*	3,529,624	(1,261,601)	-	2,268,023
		22,475,302	(9,883,962)	10,114	12,601,454

15.3 The following is the movement of the net recognised liability in respect of the defined benefit schemes mentioned

	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**

	2011				
	Recognised liability as at June 30, 2010	*Charge for the year*	*Payments during the year*	*Employee Contributions*	*Recognised liability as at June 30, 2011*
	-----(Rupees in '000)-----				
Gratuity	16,089	7,857	(23,078)	-	868
Pension	7,720,830	2,498,091	(891,913)	-	9,327,008
Benevolent fund scheme	865,873	244,483	(104,801)	-	1,005,555
Post retirement medical benefits	1,750,332	643,396	(125,705)	-	2,268,023
	10,353,124	3,393,827	(1,145,497)	-	12,601,454

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

	2012					
	Current service cost	***Actuarial (gain)/loss***	***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**

	2011					
	Current service cost	*Actuarial (gain)/loss*	*Interest cost*	*Past Service Cost*	*Employee Contributions*	*Total*
	-----(Rupees in '000)-----					
Gratuity	1,140	3,279	3,438	-	-	7,857
Pension	422,848	461,708	1,928,618	(315,083)	-	2,498,091
Benevolent fund scheme	60,655	20,830	162,998	-	-	244,483
Post retirement medical benefits	73,989	112,844	456,563	-	-	643,396
	558,632	598,661	2,551,617	(315,083)	-	3,393,827

15.5 Historical Information	***2012***	*2011*	*2010*	*2009*	*2008*
	-----(Rupees in '000)-----				
Gratuity					
Present Value of Defined Benefit Obligation	**23,560**	20,161	36,094	38,039	43,066
Unrecognised actuarial (losses) / gains	**(15,836)**	(19,293)	(20,005)	(5,668)	(5,245)
Liability in balance sheet	**7,724**	868	16,089	32,371	37,821
Experience adjustment arising on plan liabilities (gains) / losses	**862**	2,567	16,226	3,046	5,058
Pension					
Present Value of Defined Benefit Obligation	**21,976,728**	17,558,118	14,221,796	8,951,904	6,679,812
Unrecognised actuarial (losses) / gains	**(12,324,967)**	(8,241,224)	(6,500,966)	(2,365,434)	(881,525)
Unrecognized negative past service cost		10,114			
Liability in balance sheet	**9,651,761**	9,327,008	7,720,830	6,586,470	5,798,287
Experience adjustment arising on plan liabilities losses / (gains)	**4,732,284**	3,369,573	4,398,358	1,572,062	983,638
Benevolent fund scheme					
Present Value of Defined Benefit Obligation	**1,619,375**	1,367,399	1,216,670	916,147	761,325
Unrecognised actuarial gains / (losses)	**(448,395)**	(361,844)	(350,797)	(146,295)	(51,337)
Liability in balance sheet	**1,170,980**	1,005,555	865,873	769,852	709,988
Experience adjustment arising on plan liabilities losses / (gains)	**109,061**	31,877	220,757	100,092	75,755
Post retirement medical benefits					
Present Value of Defined Benefit Obligation	**4,483,395**	3,529,624	3,324,018	2,790,980	2,315,481
Unrecognised actuarial gains / (losses)	**(2,017,156)**	(1,261,601)	(1,573,686)	(1,504,472)	(1,433,348)
Liability in balance sheet	**2,466,239**	2,268,023	1,750,332	1,286,508	882,133
Experience adjustment arising on plan liabilities (gains) / losses	**846,419**	(199,241)	205,984	190,570	683,802

15.6 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2012 using the Projected Unit Credit Method.

15.7 Auditors' remuneration

	2012			2011		
	KPMG Taseer Hadi &Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total	KPMG Taseer Hadi &Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total
	(Rupees in '000)					
Audit fee	**2,275**	**2,275**	**4,550**	1,725	1,725	3,450
Out of pocket expenses	**875**	**875**	**1,750**	825	825	1,650
	3,150	**3,150**	**6,300**	2,550	2,550	5,100

16. LOSS AFTER ADJUSTMENT OF NON-CASH ITEMS

	2012	2011
	(Rupees in '000)	
Profit for the year	**71,123**	70,335
Expenses reimbursed by the State Bank of Pakistan	**(6,166,745)**	(5,339,211)
Expenses allocated to the State Bank of Pakistan	**(5,840,353)**	(3,969,298)
	(11,935,975)	(9,238,174)
Adjustments for:		
Provision for retirement benefits and employees' compensated absences	**5,745,171**	3,890,155
Expenses allocated to the State Bank of Pakistan	**5,840,353**	3,969,298
Discount on Government securities	**(67,674)**	(65,097)
Depreciation	**95,182**	79,143
Amortization of premium	**4,291**	4,280
Gain on disposal of property and equipments	**(2,718)**	(2,825)
	11,614,605	7,874,954
	(321,370)	(1,363,220)

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. 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, 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.

	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	-	-	-	900,397
Employee loans and advances	20,706	106,951	127,657	1,337,763	9,518,153	10,855,916	10,983,573
Accrued interest / mark-up and return	-	-	-	37,023	-	37,023	37,023
	529,706	498,348	1,028,054	8,828,040	9,518,153	18,346,193	19,374,247
Financial liabilities							
Other liabilities	-	-	-	798,848	-	798,848	798,848
	-	-	-	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

	2011						
	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	-	-	-	6,033,302	-	6,033,302	6,033,302
Investments	508,998	395,690	904,688	-	-	-	904,688
Employee loans and advances	18,397	123,406	141,803	1,312,410	9,337,364	10,649,774	10,791,577
Accrued interest / mark-up and return	-	-	-	26,939	-	26,939	26,939
	527,395	519,096	1,046,491	7,372,651	9,337,364	16,710,015	17,756,506
Financial liabilities							
Other liabilities	-	-	-	420,971	-	420,971	420,971
	-	-	-	420,971	-	420,971	420,971
On balance sheet gap	527,395	519,096	1,046,491	6,951,680	9,337,364	16,289,044	17,335,535

17.2 The interest / mark-up for the financial assets and liabilities are mentioned in their respective notes to 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 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 fair value of all financial assets and financial liabilities is estimated to approximate their carrying values at the balance sheet date.

18. DATE OF AUTHORISATION FOR ISSUE

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

19. FIGURES

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

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Aftab Mustafa Khan
Managing Director

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Muhammad Habib Khan
Director Accounts