

**A. F. FERGUSON & CO.  
CHARTERED ACCOUNTANTS  
STATE LIFE BUILDING 1-C  
I. I. CHUNDRIGAR ROAD  
KARACHI**

**TASEER HADI KHALID & CO.  
CHARTERED ACCOUNTANTS  
1<sup>ST</sup> FLOOR, SHEIKH SULTANTRUST  
BUILDING NO. 2  
BEAUMONT ROAD  
KARACHI**

#### **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have examined the annexed consolidated financial statements comprising consolidated balance sheets of the Issue and Banking Departments of the State Bank of Pakistan and its subsidiaries, SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited as at June 30, 2003 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed a separate joint opinion on the financial statements of the State Bank of Pakistan and its subsidiary, SBP Banking Services Corporation. The other subsidiary, National Institute of Banking and Finance (Guarantee) Limited was audited by another firm of chartered accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for such company, is based solely on the report of such other auditors.

It is the responsibility of the management of State Bank of Pakistan to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the International Accounting Standards approved for adoption by the Central Board of the Bank. Our responsibility is to express an opinion on these statements based on our audit.

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

Events have rendered impossible the verification of assets recoverable from the Reserve Bank of India or the Government of India or pertaining to transactions in former East Pakistan included in the financial statements. Realisability of these assets amounting to Rs. 5,925.771 million is subject to final settlement between the Government of Pakistan and the Governments of India and Bangladesh respectively. Out of these, assets valuing Rs. 1,783.438 million have been included in the Issue Department as backing against the liability towards notes in circulation. Had these assets not been included in the Issue Department, foreign currency reserves or Government securities of the equivalent value would have been transferred from the Banking Department to the Issue Department as replacement. In addition, pending finalisation of the restructuring process of Zarai Taraqiati Bank Limited (ZTBL) [formerly Agricultural Development Bank of Pakistan] and its impact on ZTBL's future profits and cash flows and due to non-availability of any estimate of the fair value of the Bank's investment in United Bank Limited (UBL), we are unable to satisfy ourselves as to the carrying value of the Bank's investment in ZTBL (formerly ADBP) and UBL and the share of the Bank's profit recoverable from ZTBL (formerly ADBP).

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Except for the financial effect of the matters stated in preceding paragraph:

- (a) in our opinion the balance sheets and related profit and loss account, cash flow statement and statement of changes in equity together with the notes thereon have been drawn up in conformity with the International Accounting Standards approved for adoption by the Central Board of the Bank and are further in accordance with accounting policies consistently applied; and
- (b) in our opinion and to the best of our information and according to the explanations given to us, the balance sheets, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the International Accounting Standards approved for adoption by the Central Board of the Bank, and, give the information required by these Standards in the manner so required, and respectively give a true and fair view of the state of the Bank's affairs as at June 30, 2003 and of the profit, its cash flows and changes in equity for the year then ended.

The financial statements of the Bank for the year ended June 30, 2002 were audited by A.F.Ferguson & Co. and Husain Rahman who had expressed a qualified opinion on the matter relating to the verification of the assets recoverable from the Reserve Bank of India or the Government of India or pertaining to transactions in former East Pakistan.

Chartered Accountants  
Karachi  
Date: 17<sup>th</sup> October 2003.

Chartered Accountants  
Karachi  
Date: 17<sup>th</sup> October 2003.