

# 11 State Bank's Accounts for 2000-01

## 11.1 Annual Accounts

It was a monumental year for SBP as there were substantial changes in accounting policies for the current year to conform to the International Accounting Standards (IAS). For comparative purposes, the accounts for the year ended 30<sup>th</sup> June 2000 have also been re-structured accordingly. The profit and loss position of the Bank for financial year 2001 is summarized in **Table 11.1**.

	2001	2000
<b>A. Income</b>		
Discount, interest/mark-up and/or return earned	64,143,082	60,556,557
Interest/mark-up expense	(11,120,405)	(7,969,194)
<b>Sub-total</b>	<b>53,022,677</b>	<b>52,587,363</b>
Commission	296,858	297,648
Dividend income	261,120	344,183
Other operating income	407,427	849,822
<b>Gross earnings</b>	<b>53,988,082</b>	<b>54,079,016</b>
<b>Net gain/(loss) on foreign exchange transactions</b>	<b>(49,168,208)</b>	<b>(13,890,666)</b>
<b>Net earnings</b>	<b>4,819,874</b>	<b>40,188,350</b>
Other and exceptional income	23,307,911	4,028,043
<b>Total income for the year</b>	<b>28,127,785</b>	<b>44,216,393</b>
<b>B. Expenditure</b>		
Note printing charges	1,371,544	1,352,752
Agency commission	1,094,012	1,050,992
SDR charges	557,240	447,321
<b>Sub-total</b>	<b>3,022,796</b>	<b>2,851,065</b>
Salaries and other benefits	2,237,705	2,092,568
Other items including retirement benefits	1,599,649	1,501,898
<b>Sub-total</b>	<b>3,837,354</b>	<b>3,594,466</b>
<b>Total expenditure</b>	<b>6,860,150</b>	<b>6,445,531</b>
<b>Net profit for the year</b>	<b>21,267,635</b>	<b>37,770,862</b>
Provision for retirement benefits and		
Employees' compensated absences	3,333,388	--
Provisions for loans, investments etc.	2,266,612	--
Charge for contingencies fund	--	1,681,994
<b>Sub-total</b>	<b>(5,600,000)</b>	<b>(1,681,994)</b>
Transferred from reserve fund	5,600,000	--
<b>Available for appropriation</b>	<b>21,267,635</b>	<b>36,088,868</b>
<b>C. Appropriations</b>		
Amount transferred to reserve fund	--	5,000,000
Amount set aside for payment of dividend at the rate of 10 percent per annum	10,000	10,000
Surplus payable to the federal government	21,257,635	31,078,868
<b>Total</b>	<b>21,267,635</b>	<b>36,088,868</b>

There was nominal decrease of Rs 90.9 million in gross earnings for the year as compared to preceding year mainly due to retirement of interest bearing special government bonds (State Life Insurance Corporation bonds) partly offset by increase in discount earnings on additions in holdings of market treasury bills during the year. Net earnings, however, declined from Rs 40.2 billion to Rs 4.8 billion due to exchange loss of Rs 49.2 billion during the year as compared to loss of Rs 13.9 billion during the preceding year. The exorbitant exchange loss for the year was mainly due to depreciation of Pak Rupee vis-à-vis US Dollar and other international currencies.

As per international accounting standards, during the year, those liabilities/provisions were required to be reversed which were considered no longer payable. Accordingly, the 'contingencies fund account' balances kept as Bank's reserves in 'other liabilities' and certain reversal of revaluation losses booked over the previous year were taken to profit and loss account, thus there was exceptional income of Rs 23.3 billion during the year as compared to such income of Rs 4.0 billion during the preceding year. The total income for the year accordingly worked out to Rs 28.1 billion as compared to Rs 44.2 billion during the preceding year.

The total expenditure for the year under review increased by 6.4 percent to Rs 6.9 billion over last year's expenditure of Rs 6.4 billion. The major heads of expenditure show normal increase. In 'salaries and other benefits', there was an increase of 6.9 percent due to usual annual increments to the employees while 'SDR charges' increased by 24.6 percent due to increase in interest rate of SDRs and depreciation of Pak Rupee vis-à-vis US Dollar. 'Other items including retirement benefits' increased by 6.5 percent mainly due to increase in the depreciation charges because of change in method of depreciation from diminishing method to straight-line method during the current year on adoption of IAS. There was nominal increase in 'printing of notes' and 'agency charges'.

Net profit for the year, however, declined from Rs 37.8 billion as of last year to Rs 21.3 billion for the year under review. Further, due to adoption of IAS, the Bank had to make provisions of Rs 3.3 billion of retirement benefits and employees' compensated absences and also to provide Rs 2.3 billion for loans and investments made in Bankers Equity Limited (BEL) being in liquidation. These provisions were met by transfer of Rs 5.6 billion from Bank's reserve fund.

The net available balance for the year for appropriation thus worked out to Rs 21.3 billion as compared with Rs 36.1 billion in FY 2000 which has been appropriated as follows: -

In billion Rs	
Dividend @ Rs 10/- per share	0.010
Surplus payable to the federal government	21.258

## 11.2 Balance Sheet of the Banking and Issue Departments

### 11.2.1 Banking Department

The net assets are represented by:

- 1) share capital which remained unchanged at Rs 100.0 million;
- 2) capital receipts stood at Rs 1,526.0 million, which represent the allocation of SDRs by the IMF previously being treated as a liability by the Bank. However, during the year due to adoption of IAS, this amount has been reclassified as part of equity;
- 3) after transfer of Rs 5.6 billion from reserve fund to meet the requirements of IAS for provisioning of retirement benefits and employees' compensated absences as well as to make provision for loans and investments made in BEL (under liquidation), the reserve fund declined to Rs 19.7 billion from Rs 25.3 billion;
- 4) unrealized appreciation on gold reserves previously treated as liability has now formed part of equity. The amount under this head increased from Rs 28.6 billion to Rs 33.3 billion; and

- 5) surplus on revaluation of fixed assets stood at Rs 6.9 billion on 30<sup>th</sup> June 2001. The surplus resulted from revaluation of SBP land and buildings on the basis of market value as at the close of FY01. It is added that revaluation of Bank's immovable property was carried out first time as it was necessitated due to adoption of IAS.

### ***Liabilities***

On the liabilities side, bills payable rose by Rs 21.7 million during the year. The current account of the federal government and provincial governments increased from Rs 43.8 billion as of last year to Rs 45.0 billion as on 30<sup>th</sup> June 2001. The balance of the federal government was slightly higher at Rs 23.5 billion on 30<sup>th</sup> June 2001 as compared to Rs 23.3 billion last year. As for the current account of the provincial governments, the governments of Punjab and AJK had credit balance of Rs 11.1 billion and Rs 1.4 billion as on 30<sup>th</sup> June 2001 respectively against credit balances of Rs 19.5 billion and Rs 0.9 billion as on 30<sup>th</sup> June 2001. While the current accounts of governments of Sindh, NWFP and Balochistan had credit balances of Rs 1.9 billion, Rs 3.7 billion and Rs 3.3 billion as on 30<sup>th</sup> June 2001 respectively as against nil balances as of last year.

Deposits of banks and financial institutions declined by Rs 1.9 to Rs 165.2 billion from Rs 167.1 billion as of last year. Other deposits, including counterpart funds, special debt repayments accounts and funds received for re-structuring of banking sector, increased from Rs 227.9 billion at end June 2000 to Rs 275.4 billion at end June 2001. The amount payable to IMF increased to Rs 95.8 billion in FY01 from Rs 63.9 billion in FY00. The increase is due to the reason that in the current year due to adoption of IAS, IMF securities account has been incorporated in the liabilities which was previously an off balance sheet item. 'Other liabilities' increased by Rs 14.5 billion from Rs 47.4 billion at end June 2000 to Rs 61.9 billion at end June 2001. Deferred liabilities-staff retirement benefits increased from Rs 4.3 billion at end June 2000 to Rs 6.3 billion at end June 2001 due to provision of Rs 3.3 billion made on the report of actuarial review (required under IAS-19) partly offset by payments to the employees retiring under Early Retirement Incentive Scheme (ERIS) during the year, while 'deferred income' on account of FSDIP grant for computerization stood at Rs 272.5 million at year end.

### ***Assets***

On the assets side, 'foreign currency reserves' increased by Rs 11.5 billion at the end-year under review from Rs 10.5 billion on 30<sup>th</sup> June 2000 to Rs 22.0 billion at 30<sup>th</sup> June 2001. 'SDRs' increased from Rs 23.8 million at end June 2000 to Rs 281.4 million at end June 2001. 'Reserve tranche with IMF under quota arrangements' stood at Rs 8.9 million at year-end level. This was previously an off balance sheet item. 'Investments' increased from Rs 345.3 billion at end June 2000 to Rs 427.6 billion at end June 2001 showing increase of Rs 82.3 billion, which was mainly due to increase in holdings of MTBs and Adhoc treasury bills reflecting increased government borrowings from the Bank. 'Loans, advances and bills of exchange' declined to Rs 202.8 billion at end June 2001 from Rs 214.1 billion at end June 2000. Balances due from the governments of India and Bangladesh (former East Pakistan) increased to Rs 3.2 billion from Rs 3.1 billion over the previous year due to accrual of interest on over due amounts from Bangladesh (former East Pakistan) during the year. 'Fixed assets' increased to Rs 8.4 billion at end June 2001 from Rs 1.5 billion at end June 2000 showing increase of Rs 6.9 billion due to revaluation of land and buildings on the basis of fair market value. It is added that revaluation of Bank's immovable property was carried out first time as it was necessitated due to adoption of IAS. 'Other assets' increased from Rs 34.1 billion at end June 2000 to Rs 47.5 billion at end June 2001.

The balances in the Bank's main account with Reserve Bank of India, remained unchanged as India did not write up the State Bank's balance with it under the provisions of the payments agreement between the two countries. The matter is still in dispute.

### 11.2.2 Issue Department

The 'bank notes issued' increased from Rs 373.7 billion at the close of last financial year to Rs 393.1 billion on 30<sup>th</sup> June 2001. On the assets side, the value of 'gold reserves held by the Bank' (gold coin and bullion) increased from Rs 31.0 billion as on 30<sup>th</sup> June 2000 to Rs 35.6 billion as on 30<sup>th</sup> June 2001 due to appreciation booked on revaluation of gold at the market rate (London afternoon fixing) as on 29<sup>th</sup> June 2001 (30<sup>th</sup> June being closed at London due to Saturday). 'Foreign currency reserves' (approved foreign exchange) increased from Rs 60.2 billion to Rs 111.0 billion over the year. The balance of 'Indian notes representing assets receivable from the Reserve Bank of India' increased from Rs 0.5 billion to Rs 0.6 billion due to appreciation of India Rupee in terms of Pakistan Rupee. Holding of 'investment in securities' (GOP securities) decreased from Rs 264.5 billion to Rs 243.2 billion mainly due to transfer of these securities from Issue to Banking Department against adjustment on account of appreciation booked on revaluation of gold holdings and increase in foreign exchange reserves, partly offset by transfer of these securities from Banking to Issue Department due to expansion of currency and adjustment against transfer of internal bills of exchange and commercial paper to the extent of Rs 15.0 billion (industrial sector Rs 5.0 billion and housing sector Rs 10.0 billion) from Issue to Banking Department. The 'assets held with Reserve Bank of India pending transfer to Pakistan' increased from Rs 0.8 billion to Rs 0.9 billion mainly due to appreciation booked on revaluation of gold coin and bullion, Sterling securities, India Rupee securities and India Rupee coin in terms of Pakistan Rupee.

### 11.3 Coinage

Rupee coins in circulation amounted to Rs 0.6 billion on 30<sup>th</sup> June 2001 as against Rs 0.4 billion a year ago. One Rupee notes in circulation at the end of 30<sup>th</sup> June 2001 amounted to Rs 0.1 billion as against Rs 0.2 billion at the end of the previous year. The decline in circulation of One Rupee notes and increase in circulation of Rupee coin was due to gradual replacement of Rupee One note by coin. Rs 2/- coin in circulation at the end of 30<sup>th</sup> June 2001 amounted to Rs 0.3 billion as against Rs 0.2 billion at the end of the previous financial year. The circulation of coins of the denomination lower than one rupee including old half Rupee and quarter Rupee coins, in circulation as on 30<sup>th</sup> June, 2001 remained un-changed at last year's end-June level of Rs 0.7 billion.

### 11.4 Transfer of Assets

According to the provisions of the Pakistan (Monetary System and Reserve Bank) Order, 1947 as amended, the value of assets of the Issue Department of the Reserve Bank of India, which became due to Pakistan, was as under:

Against notes in circulation	
As on 30 <sup>th</sup> June, 1948	Rs 0.5 billion
Against India notes	
Retired thereafter	Rs 1.3 billion
<b>Total</b>	<b><u>Rs 1.8 billion</u></b>

Out of a total of Rs 1.8 billion, assets of Rs 1.3 billion were received by the SBP and the balance is yet to be transferred by Reserve Bank of India.

### 11.5 Appointment of Auditors

The Central Board at its meeting held on April 16, 2001 at Quetta, approved appointment of following two firms of Chartered Accountants as Auditors of the Bank for FY01:

1. M/s A.F. Ferguson & Co.
2. M/s Husain Rahman

## 11.6 Details of Annual Accounts

### REPORT OF THE AUDITORS

#### TO THE SHAREHOLDERS

We have audited the annexed balance sheets of the Issue and Banking Departments respectively of the **State Bank of Pakistan** as at June 30, 2001 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended, in which are incorporated the certified returns of 12 offices audited by us and the unaudited certified returns of the remaining 4 offices and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved International Accounting Standards. Our responsibility is to express an opinion on these statements based on our audit.

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

1. 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 5,476.445 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 1,734.716 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, Government securities of the equivalent value would have been transferred from the Banking Department to the Issue Department as replacement.
2. The Bank has accrued an amount of Rs 2,916.646 million being its share of profits for the year ended June 30, 2001 on various financing facilities granted to Agricultural Development Bank of Pakistan (ADBP) under the profit and loss

sharing arrangements. This accrual is made on the basis of provisional accounts of ADBP for this period. These accounts have highlighted that ADBP has earned income which is sufficient to meet the maximum share of profit allocable to the State Bank of Pakistan under the financing arrangements. However, the eventual determination of this profit is subject to finalization of the audited financial statements of ADBP.

Had the above provisional share of income not been booked, the profit for the year would have been lower by Rs 2,916.646 million.

Except for the financial effects of the matters stated in the preceding paragraphs:

- (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 approved International Accounting Standards which were adopted by the Central Board of the Bank during the year. The adoption of International Accounting Standards has resulted in changes to some of the accounting policies being used by the Bank. The accounting policies used in the preparation of these financial statements are disclosed in note 2 to the accounts, with which we concur;
- (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 approved International Accounting Standards, 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, 2001 and of the profit, cash flows, and changes in equity for the year then ended.

Without further qualifying our opinion, we would like to draw attention to:

- a) Note 7.3.3, which states the reason for not making any provision for diminution in the value of the investments held by the Bank in the shares of Habib Bank Limited and United Bank Limited as at June 30, 2001; and
- b) Note 26, which states that SDRs allocated by the International Monetary Fund (IMF) have been reclassified by the Bank as capital receipt based on the communication and the guidelines received from the IMF. This amount was previously recorded as a liability in the financial statements. Accordingly, exchange loss recorded upon revaluation of this allocation in prior years up to June 30, 2000 amounting to Rs 10,247.446 million has been written back and taken to income account as an exceptional item, as disclosed in note 40.

A.F.Ferguson & Co.

Husain Rahman

Chartered Accountants

Chartered Accountants

Karachi, the 30<sup>th</sup> day of August 2001.

**STATE BANK OF PAKISTAN-ISSUE DEPARTMENT  
BALANCE SHEET  
AS AT JUNE 30, 2001**

	Note	2001 (Rupees'000)	2000
<b>ASSETS</b>			
Gold reserves held by the Bank	3	35,617,683	31,002,043
Foreign currency reserves	4	111,027,187	60,152,292
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	5	580,676	498,631
- Rupee coins	6	1,726,702	1,751,243
		2,307,378	2,249,874
Investment in securities	7	243,187,199	264,472,618
Internal bills of exchange and other commercial papers	8	78,500	15,078,500
Assets held with the Reserve Bank of India	9	896,174	783,334
		<u>393,114,121</u>	<u>373,738,661</u>
<b>LIABILITIES</b>			
Bank notes issued	10	<u>393,114,121</u>	<u>373,738,661</u>

The annexed notes form an integral part of these accounts.

**Syed Nasrat Kamal**  
Director of Accounts

**Mukhtar Nabi Qureshi**  
Deputy Governor

**Ishrat Husain**  
Governor

**STATE BANK OF PAKISTAN- BANKING DEPARTMENT**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2001**

	Note	2001	2000
		(Rupees'000)	
<b>ASSETS</b>			
Local currency	6	177,598	99,641
Foreign currency reserves	4	21,934,215	10,537,395
Special Drawing Rights	11	281,419	23,837
		<u>22,393,232</u>	<u>10,660,873</u>
Reserve tranche with the International Monetary Fund under quota arrangements	12	8,864	-
Investments	7	427,569,842	345,340,700
Loans, advances and bills of exchange	13	202,809,264	214,086,404
Balances due from the Governments of India and Bangladesh (former East Pakistan)	14	3,237,048	3,063,294
Fixed assets:			
- Operating fixed assets	15	8,105,678	1,497,818
- Capital work-in-progress	16	288,755	17,346
		8,394,433	1,515,164
Other assets	17	47,455,350	34,084,965
Total assets		<u>711,868,033</u>	<u>608,751,400</u>
<b>LIABILITIES</b>			
Bills payable		434,206	412,540
Current accounts of the Government*	18	45,007,583	43,807,178
Deposits of banks and financial institutions	19	165,176,194	167,118,304
Other deposits and accounts	20	275,445,660	227,885,214
Payable to the International Monetary Fund	21	95,801,871	63,857,853
Other liabilities	22	61,909,125	47,378,200
		643,774,639	550,459,289
Deferred liability - staff retirement benefits	23	6,280,136	4,321,857
Deferred income	24	272,535	-
Total liabilities		<u>650,327,310</u>	<u>554,781,146</u>
<b>Net assets</b>		<u>61,540,723</u>	<u>53,970,254</u>
<b>REPRESENTED BY</b>			
Share capital	25	100,000	100,000
Capital receipt	26	1,525,958	-
Reserves	27	19,700,000	25,300,000
		21,325,958	25,400,000
Unrealised appreciation on gold reserves	28	33,261,246	28,570,254
Surplus on revaluation of fixed assets	15	6,953,519	-
		<u>61,540,723</u>	<u>53,970,254</u>
<b>Contingencies and commitments</b>	29		

\*Government includes Federal and Provincial Governments of Pakistan and Government of Azad Jammu and Kashmir.

The annexed notes form an integral part of these accounts.

**Syed Nasrat Kamal**  
**Director of Accounts**

**Mukhtar Nabi Qureshi**  
**Deputy Governor**

**Ishrat Husain**  
**Governor**

**STATE BANK OF PAKISTAN  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED JUNE 30, 2001**

	Note	2001	2000
		(Rupees' 000)	
Discount, interest/mark-up and/or return earned	30	64,143,082	60,556,557
Interest/mark-up expense	31	11,120,405	7,969,194
		53,022,677	52,587,363
Commission	32	296,858	297,648
Exchange loss	33	(49,168,208)	(13,890,666)
Dividend income		261,120	344,183
Other operating income	34	407,427	849,822
		4,819,874	40,188,350
<b>DIRECT OPERATING EXPENSES</b>			
Note printing charges	35	1,371,544	1,352,752
Agency commission	36	1,094,012	1,050,992
Provisions for:			
- loans and advances		1,584,216	-
- diminution in value of investments		282,396	-
- reimbursement of agricultural losses under Agricultural Loans Scheme		400,000	-
		2,266,612	-
		87,706	37,784,606
Establishment costs	37	6,933,467	3,594,466
<b>OPERATING (LOSS)/ PROFIT</b>		(6,845,761)	34,190,140
Other income	38	13,060,465	4,028,043
		6,214,704	38,218,183
Other charges	39	794,515	2,129,315
<b>PROFIT BEFORE EXCEPTIONAL ITEM</b>		5,420,189	36,088,868
Exceptional item	40	10,247,446	-
<b>NET PROFIT FOR THE YEAR</b>		15,667,635	36,088,868
Transferred from Reserve Fund		5,600,000	-
<b>AVAILABLE FOR APPROPRIATION</b>		21,267,635	36,088,868
Appropriations:			
Dividend to the Government of Pakistan @ Rs. 10 per share (2000: Rs. 10 per share)		10,000	10,000
Transferred to Reserve Fund		-	5,000,000
<b>BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN</b>		21,257,635	31,078,868

The annexed notes form an integral part of these accounts

**Syed Nasrat Kamal**  
Director of Accounts

**Mukhtar Nabi Qureshi**  
Deputy Governor

**Ishrat Husain**  
Governor

**STATE BANK OF PAKISTAN  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2001**

	Note	2001	2000
		(Rupees '000)	
<b>Profit for the year after non-cash items</b>	<b>41</b>	15,227,597	37,942,082
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(8,864)	-
Investments		(69,331,556)	(189,373,861)
Loans, advances and bills of exchange		24,692,924	(31,475,146)
Foreign currency reserves not included in cash and cash equivalents		(156,371)	(62,085)
Indian notes representing assets receivable from the Reserve Bank of India		(82,045)	13,307
Assets held with the Reserve Bank of India		(37,488)	7,055
Other assets - net		(16,386,569)	(2,305,984)
		(61,309,969)	(223,196,714)
Increase/(decrease) in liabilities			
Bank notes issued		19,297,495	68,432,629
Bills payable		21,666	161,012
Current accounts of the Government		1,200,405	28,541,270
Deposits of banks and financial institutions		(1,942,110)	26,189,732
Other deposits and accounts		47,560,446	92,967,169
Payable to the International Monetary Fund		43,717,422	5,265,312
Other liabilities - net		11,889,742	(16,627,673)
		121,745,066	204,929,451
		75,662,694	19,674,819
Retirement benefits and employees' compensated absences paid		(1,563,958)	(480,043)
Dividend income received		167,943	254,205
Gold purchased		-	(96,464)
Fixed capital expenditure		(60,865)	(123,329)
Proceeds from disposal of fixed assets		47,126	122,873
		(1,409,754)	(322,758)
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Surplus profits paid to the Government of Pakistan		(20,000,000)	(30,000,000)
		(20,010,000)	(30,010,000)
Increase in cash and cash equivalents for the year		54,242,940	(10,657,939)
Cash and cash equivalents at the beginning of the year		80,072,863	90,730,802
Cash and cash equivalents at the end of the year	<b>42</b>	<u>134,315,803</u>	<u>80,072,863</u>

The annexed notes form an integral part of these accounts.

**Syed Nasrat Kamal**  
Director of Accounts

**Mukhtar Nabi Qureshi**  
Deputy Governor

**Ishrat Husain**  
Governor

STATE BANK OF PAKISTAN  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2001

	Share capital	Capital receipt	Reserves							Unrealised appreciation on gold reserves	Surplus on revaluation of fixed assets	Profit and loss account	Total
			Reserve Fund	Rural Credit Fund	Industrial Credit Fund	Export Credit Fund	Loans Guarantee Fund	Housing Credit Fund					
	(Rupees '000)												
Balance at June 30, 1999	100,000	-	9,000,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	25,225,585	-	-	45,625,585	
Net profit for the year	-	-	-	-	-	-	-	-	-	-	36,088,868	36,088,868	
Profit for the year ended June 30, 2000 transferred to reserves	-	-	5,000,000	-	-	-	-	-	-	-	(5,000,000)	-	
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	
Balance profits transferred to the Govt.	-	-	-	-	-	-	-	-	-	-	(31,078,868)	(31,078,868)	
Unrealised appreciation during the year	-	-	-	-	-	-	-	-	3,344,669	-	-	3,344,669	
Balance at June 30, 2000	100,000	-	14,000,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	28,570,254	-	-	53,970,254	
Net profit for the year	-	-	-	-	-	-	-	-	-	-	15,667,635	15,667,635	
Transferred from reserves to the profit and loss account	-	-	(5,600,000)	-	-	-	-	-	-	-	5,600,000	-	
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	
Balance profits transferred to the Govt.	-	-	-	-	-	-	-	-	-	-	(21,257,635)	(21,257,635)	
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	4,690,992	-	-	4,690,992	
Surplus on revaluation of fixed assets during the year	-	-	-	-	-	-	-	-	-	6,953,519	-	6,953,519	
Reclassification of allocation of SDRs as capital receipt - note 26	-	1,525,958	-	-	-	-	-	-	-	-	-	1,525,958	
Balance at June 30, 2001	100,000	1,525,958	8,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	33,261,246	6,953,519	-	61,540,723	

The annexed notes form an integral part of these accounts.

Syed Nasrat Kamal  
Director of Accounts

Mukhtar Nabi Qureshi  
Deputy Governor

Ishrat Husain  
Governor

**STATE BANK OF PAKISTAN  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED JUNE 30, 2001**

**1. STATUS AND NATURE OF OPERATIONS**

The Bank is the Central Bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. The Bank is primarily responsible for the management of credit, foreign exchange and currency in the country and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

- ?? implementing the monetary and fiscal policies;
- ?? issuing of currency;
- ?? facilitation of free competition and stability in the financial system;
- ?? licensing and supervision of credit institutions;
- ?? organisation and management of the inter-bank settlement system and promotion of smooth functioning of payment systems;
- ?? providing loans and advances to the Government, banks, financial institutions and local authorities under various facilities;
- ?? purchase, holding and sale of securities of banks and financial institutions on the directives of the Federal Government; and
- ?? acting as depository of the Government under specific arrangements with the Government and certain institutions.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

These accounts have been prepared in accordance with the requirements of the International Accounting Standards (IASs) as applicable in Pakistan and approved by the Central Board of the Bank under the powers conferred by the State Bank of Pakistan Act, 1956.

The Bank's financial statements for prior years were prepared in accordance with the formats laid down in the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations. The Central Board has approved IASs as the reporting framework as it was felt that this would result in a more appropriate presentation of transactions and events in the financial statements. The adoption of IASs has resulted in changes to some of the accounting policies being used by the Bank in the preparation of the financial statements. The accounting policies used are detailed in notes 2.2 to 2.16. The effect of changes in accounting policies has been accounted for in the net profit and loss for the current year and the comparative information has not been restated as it was considered impracticable to do so.

The financial information presented in the financial statements of the corresponding year has been rearranged and reclassified to bring it in conformity with the disclosure requirements of the approved IASs in order to facilitate comparison.

## **2.2 Accounting convention**

These accounts have been prepared under the historical cost convention except that gold reserves and certain fixed assets, as referred to in notes 2.6 and 2.7, have been included at the revalued amounts.

## **2.3 Bank notes and rupee coins**

The liability of the Bank towards bank notes issued as legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of these notes is charged to the current profit and loss account. Accordingly, any un-issued notes lying with the Bank are not reflected in the books of account.

The Bank also issues one and two rupee coins on behalf of the Government. These coins are purchased from the Government at the respective face values. The un-issued coins form part of the assets of the Issue Department.

## **2.4 Bad and doubtful balances**

Balances considered bad and irrecoverable are written off from the books of account. Provision is made against debts considered doubtful based on the management's best estimate of the loss likely to arise on these balances.

## **2.5 Investments**

Investments in listed and short-term Government securities are stated at the lower of cost and market value determined on a portfolio basis. Long-term investments in Government and other securities, unlisted companies and financial institutions are stated at cost less provision for any diminution in value. Provision for diminution in the value of long-term investments is made only if there is a permanent impairment in the value of these investments.

The cost of securities is adjusted for any amortisation of discounts or premiums on a straight-line basis over the period to maturity.

The Bank enters into transactions of outright sale, repurchase (Repo) and resale (Reverse Repo) of securities at contracted rates for specified periods of time. These are recorded as follows:

- i) in case of outright sale or sale under repurchase obligations, the securities are deleted from investments and the charges arising from the differential in sale and face/repurchase value are accrued on a pro rata basis and recorded as discount expense which is deducted from the interest/mark-up and/or return earned on these securities. Upon maturity, the securities are reinstated at their respective original cost.
- ii) in case of purchase under resale obligations, the securities are included under investments at the contracted purchase price and the differential of the contracted purchase and resale prices is amortised over the period of the contract and recorded under discount, interest/mark-up and/or return earned.

## **2.6 Gold reserves**

Gold reserves, including those held with the Reserve Bank of India are stated at the revalued amounts of the fine gold content thereof in accordance with requirements of the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations. Any appreciation or depreciation on revaluation is taken to "Unrealised appreciation on gold reserves" account. Appreciation realised on disposal of gold reserves is credited to the profit and loss account.

## **2.7 Fixed assets and depreciation**

Operating fixed assets except freehold land and capital work-in-progress are stated at cost or revalued amounts less accumulated depreciation. Freehold land is stated at revalued amount while capital work-in-progress is valued at cost.

Depreciation is calculated using the straight-line method so as to write off the assets over their expected useful lives without taking into account any residual value.

Depreciation on additions is charged 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. Gain and losses on disposal of fixed assets are included in income currently.

## **2.8 Deferred income**

Grants or donations received on account of capital expenditure are recorded as deferred income. These are amortised over the useful life of the relevant asset.

## **2.9 Staff retirement benefits**

The Bank operates:

- a) an un-funded contributory provident fund (old scheme) for those employees who joined prior to 1975 and have opted to remain under the old scheme;
- b) an un-funded general contributory provident fund (new scheme) for all employees who joined after 1975 and those employees who had joined prior to 1975 but have opted for the new scheme;
- c) following other staff retirement benefit schemes:
  - an un-funded gratuity scheme for all its employees other than those who opted for the new general provident fund scheme or joined the Bank 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 Bank to cover the obligations arising under these schemes based on actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gains and losses arising at the valuation date are recognised as income/expense in the following year based on actuarial recommendations.

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

## **2.10 Compensated absences**

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

## **2.11 Revenue recognition**

?? Interest/ mark-up and/ or return on loans and advances and investments is recorded on accrual basis. However, income on balances pertaining to transactions in former East Pakistan (now Bangladesh), doubtful loans and advances and overdue return on investments are recognised as income on receipt basis.

?? Dividend income is recognised when the Bank's right to receive the dividend is established.

?? All other revenues are recognised on accrual basis.

## **2.12 Finances under profit and loss sharing arrangements**

The Bank provides various finances to financial institutions under profit and loss sharing arrangements. Share of profit/losses under these arrangements is recognised on accrual basis based on the audited financial statements of the loanees.

## **2.13 Taxation**

The income of the Bank is exempt from tax under section 49 of the State Bank of Pakistan Act, 1956.

## **2.14 Foreign currency translation**

Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange prevailing at the balance sheet date or at contracted rates. However, certain balances with the International Monetary Fund (IMF) are revalued at the end of the Fund's financial year i.e. April 30 in accordance with the provisions of the Aide Memoire, a document of the IMF for accounting of transactions and balances with the Fund.

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the IMF referred to in note 2.15, which are transferred to the Government of Pakistan.

The Bank also provides forward covers to the commercial banks and financial institutions under the Exchange Risk Coverage Scheme at prescribed fees. The exchange differences arising under these arrangements and on currency swap transactions are recognised in the books of account on accrual basis.

## **2.15 Transactions and balances with the International Monetary Fund**

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards (IASs) and the guidelines contained in the Aide Memoire and specific arrangements entered into between the Bank and the Government. A summary of the policies followed by the Bank for recording of these transactions and balances is as follows:

?? The Government's quota with the IMF is recorded by the Bank as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.

?? Exchange gains or losses arising on revaluation of borrowings from the IMF are recognised in the profit and loss account except for gains or losses transferable to the Government under specific arrangements.

?? The cumulative allocation of SDRs by the IMF is treated as capital receipt and is not revalued.

?? Income or charges pertaining to balances with the IMF are taken to the Government account, except for the following which are taken to the profit and loss account:

?? charges on borrowings under Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF);

?? charges on net cumulative allocation of Special Drawing Rights; and

?? return on holdings of Special Drawing Rights.

The effect of the consequent changes in accounting policies has been accounted for in the net profit or loss for the current year and the comparative information has not been restated as it was considered impracticable to do so.

## **2.16 Cash and cash equivalents**

Cash and cash equivalents include cash and bank balances in current and deposit accounts and investment in securities realisable within three months.

	Net content in troy ounces	2001 (Rupees' 000)	2000
<b>3. Gold reserves held by the Bank</b>			
Opening balance	2,057,201	31,002,043	27,614,726
Additions during the year	-	-	96,464
Appreciation arising from revaluation during the year - note 28		4,615,640	3,290,853
	<u>2,057,201</u>	<u>35,617,683</u>	<u>31,002,043</u>

**4. Foreign currency reserves**

Securities	177,814	444,151
Current accounts	9,939,049	6,016,262
Deposit accounts	122,844,539	64,229,274
	<u>132,961,402</u>	<u>70,689,687</u>

The above foreign exchange has been held as follows:

- Issue Department	111,027,187	60,152,292
- Banking Department	21,934,215	10,537,395
	<u>132,961,402</u>	<u>70,689,687</u>

**4.1** The above include assets valuing Rs 179.366 million recoverable from the Government of India as at June 30, 2001 (2000: Rs 154.024 million). Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

**4.2** Interest was credited on deposit accounts during the year at various rates ranging between 3.64 to 6.68 percent per annum.

	2001 (Rupees' 000)	2000
<b>5. Indian notes representing assets receivable from the Reserve Bank of India</b>	<u>580,676</u>	<u>498,631</u>

These represent Pak Rupee equivalent of Indian rupee notes which remained in circulation in Pakistan until retirement from circulation and are to be repatriated to India under the Monetary Order from the Government of Pakistan. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

	2001	2000
	(Rupees' 000)	
<b>6. Local currency</b>		
Bank notes held by the Banking Department - note 10	177,598	99,633
Rupee coins	1,726,702	1,751,251
	<u>1,904,300</u>	<u>1,850,884</u>
Less: Rupee coins held as assets of the Issue Department - note 6.1	1,726,702	1,751,243
	<u>177,598</u>	<u>99,641</u>

**6.1** As mentioned in note 2.3, the Bank is responsible for issuing one and two rupee coins on behalf of the Government. The closing balance represents the face value of unissued coins held by the Bank as at June 30, 2001.

	2001	2000
	(Rupees' 000)	
<b>7. Investments</b>		
<b>Government securities - note 7.1</b>		
Treasury bills :		
Market Treasury Bills	487,297,549	458,525,417
Adhoc Treasury Bills - note 7.2	125,301,611	90,074,360
	<u>612,599,160</u>	<u>548,599,777</u>
Special Government Bonds	-	2,327,139
Federal Investment Bonds	4,994,117	5,352,117
Federal and Provincial Government scrips	3,623,958	3,623,958
	<u>621,217,235</u>	<u>559,902,991</u>
<b>Banks and financial institutions</b>		
Ordinary shares - note 7.3		
- Listed	225,301	235,301
- Unlisted	41,249,501	41,327,626
	41,474,802	41,562,927
Advance against issue of share capital	8,000,000	8,000,000
Term Finance Certificates	282,400	282,400
	49,757,202	49,845,327
<b>Other investments</b>		
Certificates of Deposits	172,351	172,351
Others	5,000	5,000
	177,351	177,351
	<u>671,151,788</u>	<u>609,925,669</u>
Less: Provision for diminution in value of investments	394,747	112,351
	<u>670,757,041</u>	<u>609,813,318</u>
Less: Investment in securities held as assets of the Issue Department	243,187,199	264,472,618
	<u>427,569,842</u>	<u>345,340,700</u>

### 7.1 Investment in securities

The above include investments amounting to Rs 621,217.235 million (2000: Rs 559,902.991 million) secured by Government guarantees. The following is a profile of return on these securities:

	<b>% per annum</b>
Market Treasury Bills	7.0925 to 12.8756
Adhoc Treasury Bills	0.5 and 5
Special Government Bonds	11 and 13
Federal Investment Bonds	15
Federal and Provincial Government scrips	3 to 16

- 7.2 During the year, the Government issued adhoc treasury bills amounting to Rs 35,200 million to the Bank. This represents exchange differential arising on fund facilities obtained from the International Monetary Fund. These facilities are recorded by the Bank as depository of the Government and the exchange differential and other charges incurred on these facilities are recovered from the Government.

**2001                      2000**  
**(Rupees' 000)**

### 7.3 Investment in shares of banks and financial institutions

Listed investments	<b>Holding more than 50 %</b>			
	<b>2001</b>	<b>2000</b>		
- Muslim Commercial Bank Limited - note 7.3.1			225,301	235,301
<b>Unlisted investments - note 7.3.2</b>				
- United Bank Limited - note 7.3.3	99.58%	99.58%	22,386,331	22,386,331
- Habib Bank Limited - note 7.3.3	98.42%	98.42%	11,986,185	11,986,185
- Agricultural Development Bank of Pakistan	99.69%	99.69%	3,204,323	3,204,323
- National Bank of Pakistan	93.36%	93.36%	1,366,630	1,366,630
- Federal Bank for Cooperative	75%	75%	150,000	150,000
			39,093,469	39,093,469
- Others with holding less than 50%			2,156,032	2,234,157
			41,249,501	41,327,626
			41,474,802	41,562,927

- 7.3.1 The market value of these shares amounted to Rs 779.737 million (2000: Rs 929.573 million) at June 30, 2001.

- 7.3.2 The investments in the above entities have been made under the specific directives of the Government in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. The management of the Bank does not exercise significant influence or control over these entities except for any regulatory influence or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates.

- 7.3.3 The break-up value of the Bank's investment in Habib Bank Limited (including advance subscription towards future issue of right shares) and United Bank Limited aggregated to Rs 21,176.6 million at December 31, 2000 based on the financial statements of these institutions for the year ended on this date. The cost of investment in these institutions at this date was Rs 42,372.5 million. No provision has been made for this diminution in value aggregating to Rs 21,195.9 million as the Government has expressed its intention to privatise these banks in the near future and the management is confident that the Bank will not incur any losses at the time of eventual disposal of its investment in the shares of these banks.

	2001	2000
	(Rupees' 000)	
<b>8. Internal bills of exchange and other commercial papers</b>		
Internal bills of exchange - note 8.1		
- Housing sector	-	10,000,000
- Industrial sector	-	5,000,000
	-	15,000,000
Other commercial papers - note 8.2	78,500	78,500
	<u>78,500</u>	<u>15,078,500</u>

**8.1** The amount of internal bills of exchange has been transferred from the Issue Department to the Banking Department during the year and has been shown as loans, advances and bills of exchange.

**8.2** These represent face value of certain commercial papers which are held in Bangladesh (former East Pakistan). The realisability of the underlying amount is subject to final settlement between the Governments of Pakistan and Bangladesh.

	2001	2000
	(Rupees' 000)	
<b>9. Assets held with the Reserve Bank of India</b>		
Gold reserves		
- Opening balance	506,118	452,302
- Appreciation arising from revaluation during the year - note 28	75,352	53,816
	581,470	506,118
Sterling securities	297,077	262,049
Government of India securities	13,621	11,697
Rupee coins	4,006	3,470
	<u>896,174</u>	<u>783,334</u>

The above assets were allocated to the Government of Pakistan as their share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Bank is subject to final settlement between the Governments of Pakistan and India.

	2001	2000
	(Rupees' 000)	
<b>10. Bank notes issued</b>		
Notes held with the Banking Department - note 6	177,598	99,633
Notes in circulation	392,936,523	373,639,028
	<u>393,114,121</u>	<u>373,738,661</u>

	2001	2000
	(Rupees' 000)	
<b>11. Special Drawing Rights</b>	<u>281,419</u>	<u>23,837</u>

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the Fund. In addition, the member countries can purchase SDRs from the IMF and other member countries in order to settle their various obligations. The above represents the rupee value of the SDRs held by the Bank as at June 30, 2001. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

	2001	2000
	(Rupees' 000)	
<b>12. Reserve tranche with the International Monetary Fund under quota arrangements</b>		
Quota allocated by the International Monetary Fund	80,105,702	-
Less: liability under quota arrangements	80,096,838	-
	<u>8,864</u>	<u>-</u>

The above balances have been recorded in accordance with the accounting policy adopted by the Bank during the year, as mentioned in note 2.15.

	2001	2000
	(Rupees' 000)	
<b>13. Loans, advances and bills of exchange</b>		
Government - note 13.2	20,640,000	43,538,535
Government owned/ controlled financial institutions - note 13.4	117,538,708	120,153,935
Private sector financial institutions - note 13.5	60,956,075	61,151,704
	178,494,783	181,305,639
Employees	5,337,197	4,320,730
	204,471,980	229,164,904
Provision for doubtful balances - note 13.7	1,584,216	-
	202,887,764	229,164,904
Less: Internal bills of exchange and other commercial papers - note 8	78,500	15,078,500
	<u>202,809,264</u>	<u>214,086,404</u>



**13.6** The interest/mark-up rate profile of the interest/mark-up bearing loans and advances is as follows:

	<b>% per annum</b>
Government owned/ controlled and private sector financial institutions	4 to 12
Staff loans	10

**2001                  2000**  
**(Rupees' 000)**

**13.7 Movement of provision**

Opening balance	-	-
Provision made during the year	1,584,216	-
Closing balance	<u>1,584,216</u>	<u>-</u>

**14. Balances due from the Governments of India and Bangladesh (former East Pakistan)**

**India**

- Advance against printing of notes	39,616	39,616
- Receivable from the Reserve Bank of India	837	837
	<u>40,453</u>	<u>40,453</u>

**Bangladesh (former East Pakistan)**

- Inter office balances	819,919	819,919
- Loans and advances - note 14.1	2,376,676	2,202,922
	3,196,595	3,022,841
	<u>3,237,048</u>	<u>3,063,294</u>

**14.1** These represent loans and advances provided to the Government of East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

## 15. Operating fixed assets

The following is a statement of operating fixed assets:

	Cost at July 1, 2000	Additions/ revaluation (deletions) during the year	Cost or revalued amount at June 30, 2001	Accumulated depreciation at July 1, 2000	Charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at June 30, 2001	Net book value at June 30, 2001	Annual rate of depreciation %
----- Rupees '000 -----								
Freehold land	20,454	-	966,606	-	-	-	966,606	-
		946,152						
Leasehold land	27,289	331	5,136,018	1,235	6,682	7,917	5,128,101	over the term of lease
		5,108,398						
Building on freehold land	593,791	2,841	784,394	50,290	56,608	106,898	677,496	5
		187,762						
Building on leasehold land	379,442	1,819	1,092,468	39,972	28,585	68,557	1,023,911	5
		711,207						
Furniture and fixtures	75,820	2,164	77,984	22,028	10,411	32,439	45,545	10
Office equipment	621,488	31,419	652,907	188,305	237,544	425,849	227,058	20
EDP equipment	74,632	20,539	95,171	20,050	54,292	74,342	20,829	33.33
Motor vehicles	55,247	8,146	56,824	29,101	14,808	40,692	16,132	20
		(6,569)			(3,217)			
Library books	636	-	636	-	636	636	-	
	1,848,799	67,259	8,863,008	350,981	409,566	757,330	8,105,678	
		6,953,519						
		(6,569)			(3,217)			

15.1 The Bank did not maintain separate records for cost and accumulated depreciation of assets (except for motor vehicles) as it was previously using diminishing balance method for calculating depreciation. Under the previous method, depreciation rate was applied on the written down value of the category of assets. During the year, the management has decided to change the method for calculating depreciation to straight line basis. In order to determine the cost and accumulated depreciation at July 1, 2000, a detailed exercise was conducted by the Bank in which the net book value at July 1, 1996 has been treated as the opening cost at that date. The additions and deletions for the period July 1, 1996 to June 30, 2000 have been adjusted from this cost to arrive at the cost at July 1, 2000. Accumulated depreciation at July 1, 2000 represents the depreciation charged for the period from July 1, 1996 to June 30, 2000.

15.2 The detailed records of cost and depreciation for assets deleted during the year, except for motor vehicles, are currently not available with the Bank. Accordingly, the whole of the disposal proceeds of these assets amounting to Rs 221.774 million have been credited to income during the year.

15.3 During the year the management revised the estimates of the useful lives for the above categories of assets and has decided to charge depreciation on straight line method instead of diminishing balance method, as explained above. The following is a summary of old and revised rates of depreciation for each of the above categories of assets:

	New rates	Old rates
	Percent per annum	
Leasehold land	Over the term of lease	5
Building on freehold land	5	5
Building on leasehold land	5	5
Furniture and fixtures	10	10
Office equipment	20	20
EDP equipment	33.33	20
Motor vehicles	20	14.25

This revision is based on the management's review of the expected future economic lives of these assets. Had the estimate not been revised, the depreciation charge for the year would have been lower by Rs 253.921 million. In addition library books amounting to Rs 0.636 million as at June 30, 2000 have been fully depreciated during the year.

15.4 Certain items of freehold land, leasehold land, building on freehold land and building on leasehold land were revalued on June 30, 2001 by Iqbal A. Nanjee & Co., Valuation and Engineering Consultants, on the basis of market value. The revaluation resulted in a surplus of Rs 6,953.519 million at that date. Of this surplus, Rs 6,945.516 million remains undepreciated at June 30, 2001 and has been included in the carrying value of the related assets.

	2001	2000
	(Rupees' 000)	
<b>16. Capital work-in-progress</b>		
Building on freehold land	1,246	13,691
Building on leasehold land	13,879	-
Office equipment	2,166	3,655
EDP equipment	204,921	-
Intangible assets	66,543	-
	288,755	17,346

**17. Other assets**

Amounts due from financial institutions under currency swap arrangements - note 17.1	34,834,993	21,900,833
Accrued interest/ mark-up and return	13,246,800	11,074,098
Stationery and stamps on hand	20,044	15,990
Other advances, deposits and prepayments	45,671	136,785
Others	1,337,568	957,259
	49,485,076	34,084,965
Less: Provision for doubtful balances	2,029,726	-
	47,455,350	34,084,965

**17.1** This represents the Bank's right to receive rupee counterpart of the foreign currency on the maturity of certain currency swap arrangements with commercial banks and non-banking financial institutions. The related obligation of the Bank to exchange foreign currency with the rupee counterpart has been disclosed in note 22.

	2001	2000
	(Rupees' 000)	
<b>18. Current accounts of the Government</b>		
Federal Government	23,531,410	23,325,420
Provincial Governments		
- Punjab	11,121,297	19,538,818
- Sindh	1,917,607	-
- North West Frontier Province	3,692,003	-
- Balochistan	3,308,561	-
	20,039,468	19,538,818
Government of Azad Jammu and Kashmir	1,436,705	942,940
	45,007,583	43,807,178

**2001                      2000**  
**(Rupees' 000)**

**19. Deposits of banks and financial institutions**

**Foreign currency**

- Scheduled banks	35,935,378	32,673,029
- Held under CRR/ FE-25 scheme	25,518,958	18,895,701
	61,454,336	51,568,730

**Local currency**

- Scheduled banks	101,355,563	112,932,123
- Non-banking financial institutions	2,366,295	2,617,451
	103,721,858	115,549,574
	165,176,194	167,118,304

**19.1** The interest / mark-up rate profile of the interest/ mark-up bearing deposits is as follows:

	<b>% per annum</b>
- Foreign currency	3.06 to 7.41
- Local currency	12.96 to 15.55

**2001                      2000**  
**(Rupees' 000)**

**20. Other deposits and accounts**

**Foreign currency**

- Foreign central banks	28,793,914	23,536,429
- International organisation	15,995,625	13,074,800
	44,789,539	36,611,229

**Local currency**

- Special debt repayment - note 20.2	204,400,267	166,550,184
- Government - note 20.3	23,845,034	21,955,465
- Others	2,410,820	2,768,336
	230,656,121	191,273,985
	275,445,660	227,885,214

**20.1** The interest rate profile of the interest bearing deposits is as follows:

	<b>% per annum</b>
- Foreign central banks	5.92 and 8.25
- International organisation	4

**20.2** These represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan .

**20.3** These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

	2001	2000
	(Rupees' 000)	
<b>21. Payable to the International Monetary Fund</b>		
Borrowings under:		
- Fund facilities - note 21.1	63,551,531	19,530,930
- Other credit schemes - note 21.2	32,250,189	32,553,353
	95,801,720	52,084,283
Current account for administrative charges	151	166
Allocation of Special Drawing Rights - note 26	-	11,773,404
	<u>95,801,871</u>	<u>63,857,853</u>

**21.1** These facilities are secured by demand promissory notes issued by the Government of Pakistan. During the year, the Bank has recorded an exchange differential of Rs 35,200 million on revaluation of the liability under these facilities as at June 30, 2001. This differential has been recovered from the Government in the form of Adhoc Treasury Bills issued to the Bank, as mentioned in note 7.2. The interest and related charges on these facilities amounting to Rs 2,988.4 million for the year ended June 30, 2001 ( 2000: Rs 2,479.3 million) has also been transferred to the Government account.

**21.2** This includes Rs 1,661.051 million in respect of the finance provided by the Saudi Fund for Development under Enhanced Structural Adjustment Facility (ESAF) programme of the International Monetary Fund (IMF). The amount is paid through the IMF as it acts as Trustee of the Saudi Fund in respect of this arrangement.

	2001	2000
	(Rupees' 000)	
<b>22. Other liabilities</b>		
<b>Foreign currency</b>		
Amounts due to financial institutions under currency swap arrangements - note 17.1	38,980,572	22,078,091
Accrued interest and discount	579,212	566,667
Charges on allocation of SDR	81,000	86,000
Others	-	43,362
	39,640,784	22,774,120
<b>Local currency</b>		
Overdue mark-up and return	2,823,881	2,773,133
Unearned exchange risk fee	2,000,000	2,000,000
Remittance clearance account	135,224	546,070
Exchange loss payable under exchange risk coverage scheme	6,881,991	360,058
Share of loss under profit and loss sharing arrangements	952,579	125,742
Dividend payable to the Government	10,000	10,000
Payable to Government in respect of privatisation proceeds	2,929,066	2,929,066
Other accruals and provisions - note 22.1	2,116,850	1,558,147
Others	4,418,750	14,301,864
	22,268,341	24,604,080
	<u>61,909,125</u>	<u>47,378,200</u>

	2001	2000
	(Rupees' 000)	
<b>22.1 Other accruals and provisions</b>		
Interest, mark-up and discount	670,132	1,053,251
Printing charges	64,452	124,880
Agency commission	248,514	174,646
Provision for employees' compensated absences	602,000	156,500
Others	531,752	48,870
	<u>2,116,850</u>	<u>1,558,147</u>
<b>23. Deferred liability - staff retirement benefits</b>		
Provident fund scheme	769,136	826,155
Gratuity	30,000	-
Pension	4,642,000	3,079,000
Benevolent fund scheme	701,000	416,702
Post retirement medical benefits	138,000	-
	<u>6,280,136</u>	<u>4,321,857</u>

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

	Net recognised liability as at July 1, 2000	Charge for the year	Payments made during the year	Recognised liability as at June 30, 2001
	-----Rupees ('000)-----			
Gratuity	-	72,000	42,000	30,000
Pension	3,079,000	2,253,000	690,000	4,642,000
Benevolent	416,702	361,000	76,702	701,000
Post retirement medical benefits	-	150,000	12,000	138,000
	<u>3,495,702</u>	<u>2,836,000</u>	<u>820,702</u>	<u>5,511,000</u>

		2001	2000
		(Rupees' 000)	
<b>24. Deferred income</b>			
Opening balance		-	-
Additions during the year		277,803	-
Amortisation during the year		(5,268)	-
Closing balance		<u>272,535</u>	<u>-</u>
<b>25. Share capital</b>			
<b>Number of shares</b>			
<b>Authorised share capital</b>			
<u>1,000,000</u>	Ordinary shares of Rs 100 each	<u>100,000</u>	<u>100,000</u>
<b>Issued, subscribed and paid-up capital</b>			
<u>1,000,000</u>	Fully paid-up ordinary shares of Rs 100 each	<u>100,000</u>	<u>100,000</u>

The entire share capital of the Bank is owned by the Government of Pakistan except for 200 shares held by the Central Bank of India (held by Deputy Custodian Enemy Property, Banking Supervision Department, State Bank of Pakistan) and 500 shares held by the State of Hyderabad

	2001	2000
	(Rupees' 000)	
<b>26. Capital receipt</b>		
Allocation of Special Drawing Rights	<u>1,525,958</u>	<u>-</u>

The allocation of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF) was previously being treated as a liability by the Bank and was being revalued every year. However, during the year this amount has been reclassified as part of equity. The reclassification has been made based on the correspondence received from the IMF and the guidelines laid down in the International Financial Statistics Manual of the IMF. Based on this correspondence and the guidelines, the management is of the view that this allocation does not represent actual (unconditional) liability to repay and is repayable only in the event of certain remote contingencies.

Accordingly, the cumulative allocation of SDRs amounting to Rs. 1,525.958 million at the historical rates of exchange as at June 30, 2001 has been reclassified as capital receipt and the aggregate exchange loss amounting to Rs 10,247.446 million incurred upon revaluation of this balance in prior years upto June 30, 2000 has been written back and credited to income account during the year, as disclosed in note 40.

	2001	2000
	(Rupees' 000)	
<b>27. Reserves</b>		
Reserve Fund - note 27.1	8,400,000	14,000,000
Rural Credit Fund	2,600,000	2,600,000
Industrial Credit Fund	1,600,000	1,600,000
Export Credit Fund	1,500,000	1,500,000
Loans Guarantee Fund	900,000	900,000
Housing Credit Fund	4,700,000	4,700,000
	<u>19,700,000</u>	<u>25,300,000</u>

**27.1 Reserve Fund**

This represents appropriations out of the annual profits of the Bank in accordance with the provisions of the State Bank of Pakistan Act, 1956 for the purpose of providing cover against risks relating to events which are contingent and non-foreseeable.

**27.2 Other Funds**

These represent appropriations out of the surplus profits of the Bank for certain specified purposes in accordance with the provisions of the State Bank of Pakistan Act, 1956 .

	2001	2000
	(Rupees' 000)	
<b>28. Unrealised appreciation on gold reserves</b>		
Opening balance	28,570,254	25,225,585
Appreciation arising from revaluation during the year:		
- held by the Bank - note 3	4,615,640	3,290,853
- held with the Reserve Bank of India - note 9	75,352	53,816
	4,690,992	3,344,669
	<u>33,261,246</u>	<u>28,570,254</u>

**28.1** Gold reserves are revalued under the State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulations at the closing market rate fixed on the last working day of the year in London.

Rupees '000

## 29. Contingencies and commitments

### Contingencies

Money for which the Bank is contingently liable:

a) Contingent liability in respect of guarantees given on behalf of:

i) Government	15,833,436
ii) Government owned/controlled bodies and authorities	116,950,167

Guarantees amounting to Rs 131,226.205 million are secured by counter guarantees either from the Government of Pakistan or local financial institutions.

b) The Bank has granted finances to Bankers Equity Limited (BEL) aggregating to Rs 3,608 million under the Locally Manufactured Machinery (LMM) Scheme as at June 30, 2001. BEL is currently in the process of liquidation and pending finalisation of the Bank's share in the liquidation proceeds of BEL, a provision of Rs 1,566 million has been made in these accounts as the management is confident that the eventual exposure of the Bank in this respect will not exceed this amount.

c) The liquidators of BCCI Overseas have filed a claim for the recovery of US\$ 50 million and interest thereon in respect of deposits placed by the entity which were simultaneously placed by the Bank with another entity of BCCI Group on similar terms and conditions under back to back arrangements. The liquidators contend that the Bank has set off these accounts although both the entities were separate concerns. However, the management contends that the Bank was entitled to consider and treat BCCI entities as forming part of a larger group in accordance with the legal advice obtained in this respect. The matter is currently pending for adjudication in the United States Court of Appeals and Grand Court of Cayman Islands. The management is confident that the eventual outcome of the matter will be in favour of the Bank and accordingly no provision has been made against the above claim of the BCCI liquidators.

d) Other claims against the Bank not acknowledged as debts

429,195

### Commitments

Forward exchange contracts for sale	78,509,151
Repurchase and outright sale of securities	40,828,203
Import letters of credit	272,233,596

	2001	2000
	(Rupees' 000)	
<b>30. Discount, interest/mark-up and/or return earned</b>		
Market Treasury Bills - net	45,940,702	39,531,521
Adhoc Treasury Bills	446,737	447,731
Other Government securities	1,918,471	3,475,662
Loans and advances to Government	2,830,043	3,512,711
Loans and advances to banks and financial institutions	8,498,858	9,080,752
Foreign currency deposits	3,903,382	4,230,026
Foreign currency Treasury Bills	501,779	269,822
Others	103,110	8,332
	<u>64,143,082</u>	<u>60,556,557</u>
<b>31. Interest/ mark-up expense</b>		
Deposits	10,080,660	7,725,072
Share of loss on finances under profit and loss sharing arrangements	952,579	125,742
Others	87,166	118,380
	<u>11,120,405</u>	<u>7,969,194</u>
<b>32. Commission income</b>		
Market Treasury Bills	19,197	15,887
Draft /payment orders	92,170	145,444
Prize Bonds and National Saving Certificates	105,092	55,119
Management of public debts	43,107	67,574
Others	37,292	13,624
	<u>296,858</u>	<u>297,648</u>
<b>33. Exchange gain/ (loss)</b>		
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	(5,869,572)	(85,270)
- Open market operations (including currency swap arrangements)	(20,158,963)	(5,917,400)
- Forward covers under Exchange Risk Coverage Scheme	(31,270,105)	(1,956,866)
- Payable to the International Monetary Fund	(6,107,686)	(19,509,797)
- SDRs	2,686,847	3,140,676
- Others	673,616	(308,325)
	(60,045,863)	(24,636,982)
Exchange risk fee income	10,877,655	10,746,316
	<u>(49,168,208)</u>	<u>(13,890,666)</u>
<b>34. Other operating income</b>		
Penalties levied on banks and financial institutions	386,805	808,286
License/ CIB fee recovered	14,769	22,303
Others	5,853	19,233
	<u>407,427</u>	<u>849,822</u>

**35. Note printing charges**

Note printing charges are payable to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.

**36. Agency commission**

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15 %; (2000: 0.10 %) of the total amount of collection and remittances handled by NBP.

	<b>2001</b>	<b>2000</b>
	<b>(Rupees' 000)</b>	
<b>37. Establishment costs</b>		
Salaries and other benefits	2,237,705	2,092,568
Retirement benefits and employees' compensated absences	3,522,237	480,043
Staff Welfare Fund	-	165,000
Daily wages staff	5,300	7,420
Medical allowances	251,804	196,827
Overtime allowance	11,428	11,313
Rent and taxes	31,168	28,797
Insurance	4,329	3,669
Electricity, gas and water charges	97,786	75,893
Depreciation - note 15	409,566	159,207
Repairs to Bank's property	12,506	15,142
Repairs to Bank's vehicles	1,970	1,394
Repairs to mechanical/ electrical equipment	14,702	12,975
Director's fee	886	372
Auditors' remuneration - note 37.3	2,745	462
Legal and professional charges	23,841	75,910
Travelling expenses	13,068	14,420
Daily expenses	37,946	25,566
Passages	12,972	17,882
Fuel charges	9,630	8,132
Conveyance charges	7,296	7,298
Postages	3,071	3,658
Telegram/ telex	16,818	21,488
Telephone	34,863	31,276
Training	40,000	2,751
Examination/ testing services	2,617	2,090
Remittance of treasure	22,785	19,165
Stationery	13,160	14,885
Books and newspapers	3,474	3,377
Advertisement	5,611	3,133
Bank Guards	27,091	27,406
Uniforms	21,766	18,981
Others	33,326	45,966
	<u>6,933,467</u>	<u>3,594,466</u>

**37.1** As mentioned in note 2.9 (c), the Bank operates the following staff retirement benefit schemes:

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

During the year the Bank has had actuarial valuations carried out for all the above schemes. Projected Unit Credit Method using the following significant assumptions was used for the valuations of these schemes as at June 30, 2001:

- Expected rate of increase in salary 11.8 percent per annum
- Expected rate of discount 14.0 percent per annum
- Pension increase at the rate of 5.6 percent per annum
- Benevolent fund grants and contributions at the rate of 5.6 percent per annum
- Medical cost trend 8.6 percent per annum

The above valuations were carried out consequent to the decision of the Bank to prepare its financial statements in accordance with the requirements of the International Accounting Standards (IASs). While carrying out the above valuations, the actuary has assumed July 1, 1999 to be the transition date as IAS 19 - Employee Benefits became effective from this date. The transitional liability arising on adoption of IAS is being amortised over a period of five years with effect from July 1, 1999. Accordingly the charge for the current year includes an amount of Rs 1,107 million relating to 1999-2000.

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

	Present value of the defined benefit obligation	Provisions made in respect of the staff retirement benefits	Unrecognised transitional liability
-----Rupees ('000)-----			
Gratuity	101,000	30,000	71,000
Pension	6,013,000	4,642,000	1,371,000
Benevolent	934,000	701,000	233,000
Post retirement medical benefits	265,000	138,000	127,000
	7,313,000	5,511,000	1,802,000

The accumulated provision as at June 30, 2001 includes an amount of Rs 1,198 million in respect of transitional liability recognised till that date.

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

	Current service cost	Interest cost	Transitional liability in respect of the current year	Charge in respect of 1999-2000	Total
-----Rupees ('000)-----					
Gratuity	3,000	15,000	23,000	31,000	72,000
Pension	181,000	760,000	457,000	855,000	2,253,000
Benevolent	14,000	117,000	77,000	153,000	361,000
Post retirement medical benefits	6,000	33,000	43,000	68,000	150,000
	204,000	925,000	600,000	1,107,000	2,836,000

### 37.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2001 using the Projected Unit Credit Method. An amount of Rs 645 million has been charged to the profit and loss account in this respect based on actuarial recommendation.

### 37.3 Auditors' remuneration

	A.F. FERGUSON & CO.	HUSAIN RAHMAN	2001	2000
-----Rupees ('000)-----				
Audit fee	1,000	1,000	2,000	350
Special certifications/ examinations and sundry advisory services	245	-	245	-
Out of pocket expenses	250	250	500	112
Others	-	-	-	-
	1,495	1,250	2,745	462

	2001	2000
	(Rupees' 000)	
<b>38. Other income</b>		
Profit on disposal of fixed assets	221,774	-
Liabilities and provisions no longer required written back - net	12,770,161	4,000,000
Profit on disposal of investments	55,287	-
Amortisation of deferred income - note 24	5,268	-
Others	7,975	28,043
	<u>13,060,465</u>	<u>4,028,043</u>
<b>39. Other charges</b>		
Charges on allocation of SDR	557,240	447,321
Others	237,275	1,681,994
	<u>794,515</u>	<u>2,129,315</u>
<b>40. Exceptional item</b>		
Exchange loss on allocation of SDRs in prior years written back - note 26	<u>10,247,446</u>	<u>-</u>
<b>41. Profit for the year after non-cash items</b>		
Profit for the year	15,667,635	36,088,868
Adjustments for:		
Exceptional item	(10,247,446)	-
Depreciation	409,566	159,207
Amortisation of deferred income	(5,268)	-
Provision for:		
- retirement benefits and employees' compensated absences	3,522,237	480,043
- loans and advances	1,584,216	-
- other receivables	2,029,726	-
- reimbursement of agricultural losses under Agricultural Loans Scheme	400,000	-
- share of loss under profit and loss sharing arrangements	952,579	-
- diminution in value of investments	282,396	-
Profit on disposal of fixed assets	(221,774)	-
Dividend income	(261,120)	(344,183)
Other accruals and provisions - net	1,114,850	1,558,147
	<u>15,227,597</u>	<u>37,942,082</u>
<b>42. Cash and cash equivalents</b>		
Rupee coins	1,726,702	1,751,251
Foreign currency reserves	132,307,682	70,192,338
Special Drawing Rights	281,419	23,837
Securities acquired under agreements to re-sell	-	8,105,437
	<u>134,315,803</u>	<u>80,072,863</u>

43. Interest/ mark-up rate risk

	Interest/ mark-up bearing *			Non interest/ mark-up bearing			Grand Total
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	
------(Rupees '000)-----							
<b>Financial assets</b>							
Rupee coins	-	-	-	1,726,702	-	1,726,702	1,726,702
Foreign currency reserves	132,487,048	474,354	132,961,402	-	-	-	132,961,402
Special Drawing Rights	281,419	-	281,419	-	-	-	281,419
Reserve tranche with the International Monetary Fund under quota arrangements	8,864	-	8,864	-	-	-	8,864
Investments	490,964,141	130,253,094	621,217,235	-	49,539,806	49,539,806	670,757,041
Loans, advances and bills of exchange	153,240,710	40,707,714	193,948,424	2,729,579	6,209,761	8,939,340	202,887,764
Balances due from Governments of India and Bangladesh (former East Pakistan)	2,376,676	-	2,376,676	860,372	-	860,372	3,237,048
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	580,676	-	580,676	580,676
Assets held with the Reserve Bank of India	310,698	-	310,698	4,006	-	4,006	314,704
Other assets	-	-	-	25,712,338	21,722,404	47,434,742	47,434,742
	<u>779,669,556</u>	<u>171,435,162</u>	<u>951,104,718</u>	<u>31,613,673</u>	<u>77,471,971</u>	<u>109,085,644</u>	<u>1,060,190,362</u>
<b>Financial liabilities</b>							
Bank notes in circulation	-	-	-	-	392,936,523 **	392,936,523	392,936,523
Bills payable	-	-	-	434,206	-	434,206	434,206
Current accounts of the Government	-	-	-	45,007,583	-	45,007,583	45,007,583
Deposits of banks and financial institutions	66,070,658	-	66,070,658	76,158,606	22,946,930	99,105,536	165,176,194
Other deposits and accounts	44,789,539	-	44,789,539	230,656,121	-	230,656,121	275,445,660
Payable to the International Monetary Fund	12,443,317	83,358,554	95,801,871	-	-	-	95,801,871
Other liabilities	-	-	-	35,339,845	24,569,280	59,909,125	59,909,125
	<u>123,303,514</u>	<u>83,358,554</u>	<u>206,662,068</u>	<u>387,596,361</u>	<u>440,452,733</u>	<u>828,049,094</u>	<u>1,034,711,162</u>

\* includes finances provided under profit and loss sharing arrangements

\*\* Bank notes have been assumed to have a maturity of more than one year.

### **43.1 Risk management policies**

The Bank is primarily subject to interest/mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 43.1.1 to 43.1.4. The Bank 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.

#### **43.1.1 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 Bank has adopted appropriate policies to minimise its exposure to this risk. The Bank's management, the Central Board and the investment committee has set appropriate duration limits and a separate department deals with the monitoring of the Bank's interest/ mark-up rate risk exposure based on these limits.

#### **43.1.2 Credit risk management**

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. Credit risk in the Bank's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by Government guarantees or by demand promissory notes. Geographical exposures are controlled by country limits and are updated as and when necessary with all limits formally reviewed on a periodic basis. The Bank's exposure to credit risk associated with foreign operations is managed by monitoring compliance with investment limits for counterparties. The Bank's credit risk mainly lies with exposure towards government sector and financial institutions.

Out of the total financial assets of Rs 1,060,190.362 million, the financial assets which are subject to credit risk amounted to Rs1,058,463.390 million.

#### **43.1.3 Currency risk management**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserves management function and the overall level of these assets is determined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Bank's compliance with the limits established for foreign currency positions is being regularly monitored by the management.

The Bank also holds from time to time, foreign currency assets and liabilities that arise from the implementation of domestic monetary policies. Any foreign currency exposure relating to these implementation activities are hedged through the use of foreign currency forwards, swaps and other transactions.

The Bank also enters into forward foreign exchange contracts with the commercial banks and financial institutions to hedge against the currency risk on foreign currency swap transactions.

#### **43.1.4 Liquidity risk management**

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. In order to reduce the level of liquidity risk arising out of the local currency activities, the Bank manages the daily liquidity position of the banking system including advancing and withdrawal of funds from the system for smoothening out daily peaks and troughs.

The risk arising out of the Bank's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations.

	<b>2001</b>	<b>2000</b>
<b>44. Number of employees</b>		
Number of employees at June 30	<u>7,691</u>	<u>8,008</u>

#### **45. General**

- The corresponding figures have been re-arranged and re-classified for comparison, wherever necessary.

- Figures have been rounded off to the nearest thousand rupees.

**Syed Nasrat Kamal**  
Director of Accounts

**Mukhtar Nabi Qureshi**  
Deputy Governor

**Ishrat Husain**  
Governor