

13 State Bank's Accounts for 2001-02

13.1 Annual Accounts

During the year 2001-02 SBP has accomplished another strategic goal to segregate its core and retail businesses. SBP Banking Services Corporation, a 100% owned subsidiary of State Bank of Pakistan, was established with effect from 2nd of January 2002. The Corporation is responsible to carry out retail business such as currency management, banking for federal and provincial government, management of prize bonds etc. on behalf of State Bank of Pakistan. During the year SBP has also formally taken over the control of National Institute of Banking and Finance (Guarantee) Limited. NIBAF will be exclusively responsible to cater the training needs of the State Bank of Pakistan and SBP- Banking Services Corporation. The Accounts of NIBAF will be consolidated with the Accounts of State Bank of Pakistan from the financial year 2002-03.

Table 13.1: Summary of Profit and Loss Account

	2002	2001
' 000' Rupees		
A. Incomes		
Discount, interest/mark-up and/or return earned	38,819,096	64,143,082
Interest/mark-up expense	(5,794,502)	(11,120,405)
Sub total	33,024,594	53,022,677
Commission	347,209	296,858
Dividend income	336,777	261,120
Other operating income	472,763	407,427
Gross earnings	34,181,343	53,988,082
Net gain/(loss) on foreign exchange transactions	8,937,276	(49,168,208)
Net earnings	43,118,619	4,819,874
Other and exceptional income	291,710	23,307,911
Total income for the year	43,410,329	28,127,785
B. Expenditure: -		
Note printing charges	1,535,765	1,371,544
Agency commission	1,167,102	1,094,012
SDR charges	345,355	557,240
Sub total	3,048,222	3,022,796
Salaries, pension & other benefits	2,182,225	2,237,705
ERIS/SERIS, retirement benefits	1,620,000	--
Depreciation	490,756	409,566
Other items.	1,277,919	1,190,083
Sub total	5,570,900	3,837,354
Total expenditure	8,619,122	6,860,150
Net profit for the year	34,791,207	21,267,635
Provision for retirement benefits and employees' compensated absences	2,494,300	3,333,388
Provisions for loans, investments etc	5,425,671	2,266,612
Loans and advances written off	1,402,252	--
Sub total	(9,322,223)	(5,600,000)
Transferred from reserve fund	3,000,000	5,600,000
Available for appropriation	28,468,984	21,267,635
C. Appropriations		
Amount set aside for payment of dividend at the rate of 10 per cent per annum	10,000	10,000
Surplus payable to the federal government	28,458,984	21,257,635
Total	28,468,984	21,267,635

The consolidated Financial Statements of State Bank of Pakistan for the year 2001-02 duly audited by external auditors, have been presented on following pages of the report:

Profit and Loss Account-----	228
Balance Sheets-----	226,227
Cash flow statement-----	229
Changes in Equity-----	230
Notes to the Accounts-----	231 to 259

The executive summary of Accounts is as follows:

13.2 Income And Expenditure Account

Gross Income

For the year under review, the gross income of the Bank declined by 36% compared to previous year. The decline was mainly attributable to reduction in holding of Market Treasury Bills and rate of interest thereon {holdings: Rs 199.7 billion in 2002, Rs 487.3 billion in 2001} (rate of interest 5.6450 % in 2002, 12.8756 % in 2001). Net earnings however increased from Rs 4.8 billion to Rs 43.1 billion due to exchange gain of Rs 8.9 billion during the year as compared to exchange loss of Rs 49.2 billion during preceding year. The exchange gain for the year was mainly due to appreciation of Pak rupees against US Dollar and other international currencies (Exchange rate 1 US \$ = Rs 60.0244 on 30th June 2002 and Rs. 63.9825 per US dollar on 30th June 2001).

Corporate Cost:

During the year corporate costs increased by about 10%; the cost of printing currency notes increased by about 12% against last year due to increase in cost and volume of notes and agency commission to National Bank of Pakistan increased by about 7% on account of increased government transactions through them. The SDR charges decreased by 35% on account of reduction of interest rate.

Establishment Cost

Expenses on salaries and benefits declined by 2.5%, after netting off against increase, on account of annual increments and promotions, against last year due to reduction in numbers of employees as a result of early retirement.

An amount of Rs 1.6 billion was paid to employees opted for early retirement schemes ERIS/SERIS during the year under review. These payments have been charged to Profit and Loss Account. The amount of depreciation increased by 19.8% due revaluation of assets carried out as per IAS. Other charges increased by 7% due to normal increase in property tax, utilities etc.

Net Profit

Net profit for the year jumped from Rs 21.3 billion as of last year to Rs 34.8 billion for the year under review.

Provisions & Write-Off

An amount of Rs 2.5 billion has been provided on account of retirement benefits and employees' compensated absences. The amounts are best estimates based on actuarial valuation. As part of its policy of prudence an amount of Rs 2.3 billion has been provided against loans given to BEL (Banker Equity Limited), which is under liquidation. Loans and Advances amounting to Rs 1.4 billion outstanding against defunct NDFC have been written off during the year. A further amount of Rs 3.1 billion has been provided against sale shares of UBL; difference of cost and value realizable on dis-

investments of 51% shareholding. These provisions and write-off were partially met by transfer of Rs 3.0 billion from Bank's Reserve Fund.

Appropriations

The net available balance for the year for appropriation thus worked out to Rs 28.5 billion as compared to Rs 21.3 billion in financial year 2001 which has been appropriated as follows: -

	billion Rupees
Dividend @ Rs 10/- per share	0.010
Surplus payable to the Federal Government	28.459

13.3 Consolidated Balance Sheet of the Banking and Issue Departments: -

13.3.1 Banking Department: -

The Consolidated balance sheet of the Banking department showing position as at 30th June 2002 is set out on page No 227 of the report.

Assets

On the Assets side, 'Foreign Currency Reserves' increased by 116.4% over last year. The increase has been a result of increased remittances in post 11th September scenario. (An amount of Rs 245.3 billion has been shown as approved Foreign Exchange in Balance Sheet of Issue Department against issue of currency out of total Forex Reserve at Rs 287.8 billion). 'Special Drawing Rights' increased from Rs 281.4 million at end June 2001 to Rs 509.6 million at end June 2002. 'Reserve Tranche' with International Monetary Fund under Quota arrangements' stood at Rs 9.0 million at year-end level as compared to Rs 8.9 million at last year-end level. Total investments declined from 670.8 billion to Rs 384.7 billion during the year under review; showing a decrease of Rs 286.1 billion, which was mainly due to decline in holdings of MTBs (MTBs valuing at Rs 170.4 billion has been shown in Balance Sheet of Issue Department as assets against liabilities of Currency in circulation). 'Loans, advances and bills of exchange' declined to Rs 183.0 billion at end June 2002 from Rs 202.8 billion at the end of June 2001. Balances due from the Governments of India and Bangladesh (Former East Pakistan) increased to Rs 3.4 billion from Rs 3.2 over the previous year due to accrual of interest on over due amounts from Bangladesh (former East Pakistan) during the year. 'Fixed Assets' decreased to Rs 8.3 billion at end June 2002 from Rs 8.4 billion at end June 2001 showing decrease of Rs 0.1 billion due to depreciation of assets. 'Other Assets' decreased from Rs 47.4 billion at end June 2001 to Rs 27.6 billion at end June 2002 due to closure of SWAP arrangements.

Liabilities

On the liabilities side, Bills payable declined by Rs 110.9 million during the year. The Current accounts of the Federal Government and provincial governments increased from Rs 45.0 billion as of last year to Rs 56.3 billion as on 30th June 2002. The balance of the Federal government was higher at Rs 29.5 billion on 30th June 2002 as compared to Rs 23.5 billion last year. As for the current account of the Provincial Governments, the Government of Punjab, NWFP, Balochistan and AJK had credit balance of Rs 16.6 billion, Rs 4.2 billion, Rs 5.3 billion and Rs 1.7 billion as on 30th June 2002 respectively against credit balances of Rs 11.1 billion, Rs 3.7 billion, Rs 3.3 billion and Rs 1.4 billion as on 30th June 2001. While the current accounts of Governments of Sindh, had debit balance of Rs 1.0 billion as on 30th June 2002 as against credit balance of Rs 1.9 billion last year.

Deposits of banks and Financial Institutions declined by Rs 32.2 billion (Rs 133.0 billion from Rs 165.2 billion as of last year) due to repayment of Special Rupee Deposits Accounts which were contra accounts to FE-45 Deposits of Banks and Financial Institutions. During the year US \$ 527 million were repaid against FE-45 Deposits. Other Deposits, including counterpart funds, Special Debt

Repayments Accounts and funds received for re-structuring of banking sector, decreased from Rs 275.3 billion at the end of June 2001 to Rs 80.7 billion at the end of June 2002, due to return of Rs 194.0 billion to Government held under Special Debt Repayment accounts. The amount payable to International Monetary Fund increased to Rs 113.1 billion in FY 2002 from Rs 95.8 billion in FY 2001. The increase is due to receipt of tranches under PRGF arrangement with IMF. The 'Other Liabilities' decreased by Rs 36.2 billion from Rs 62.0 billion at end June 2001 to Rs 25.8 billion at end June 2002. Deferred Liabilities-Staff retirement benefits increased from 6.3 billion at end June 2001 to Rs 7.9 billion at end June 2002 due to provision made on the report of actuarial review (required under IAS-19), while 'Deferred income' on account of FSDIP grant for computerisation stood at Rs 480.8 million at end June 2002 as compared with Rs 272.5 million at end June 2001.

The Net Assets Are Represented By

- 1) Share Capital which remained unchanged at Rs 0.1 billion,
- 2) Capital Receipts stood unchanged at Rs 1.5 billion which represent the allocation of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF).
- 3) After transfer of Rs 3.0 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, investments and write-off, the Reserve Fund declined to Rs 16.7 billion from Rs 19.7 billion.
- 4) Unrealised appreciation on Gold Reserves increased from Rs 33.3 billion to Rs 37.0 billion.
- 5) Surplus on Revaluation of Fixed assets stood unchanged at Rs 6.9 billion on 30th June 2002.

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.

13.3.2 Issue Department

The balance sheet of Issue department of State Bank of Pakistan has been produced on pages No 226 of the Report. The total amount of Liabilities against currency stood at Rs 458.4 billion as of 30th June 2002, which is higher by 16.6%. On the "Assets side", the value of 'Gold Reserves held by the Bank' (Gold Coin and Bullion) increased from Rs.35.6 billion (on 30th June, 2001) to Rs.39.4 billion as on 30th June, 2002 due to purchase of confiscated gold from Government, and appreciation booked on revaluation of gold at the market rate (London afternoon fixing) as on 29th June, 2002 (30th June, market being closed due to Saturday). 'Foreign Currency Reserves' (Approved Foreign Exchange) increased from Rs.111.0 billion to Rs.245.3 billion over the year. The balance of 'Indian Notes representing assets receivable from the Reserve Bank of India' decreased from Rs.0.6 billion to Rs.0.5 billion due to depreciation of India Rupee in terms of Pakistan Rupee. Holding of 'Investment in Securities' (GOP Securities) decreased from Rs.243.2 billion to Rs.170.4 billion mainly due to transfer of these securities from Issue to Banking Department against adjustment on account of appreciation booked on revaluation on gold holdings and increase in foreign exchange reserves, partly offset by transfer of these securities from Banking to Issue Department on account of expansion of currency. The 'Assets held with the Reserve Bank of India pending transfer to Pakistan' increased from Rs.0.9 billion to Rs.1.0 billion mainly due to appreciation booked on revaluation of Gold Coin and Bullion, Sterling Securities partly offset by depreciation booked on revaluation of India Rupee Securities and India Rupee coin in terms of Pakistan Rupee.

13.4 Coinage:

Rupee coins in circulation amounted to Rs.0.7 billion as on 30th June 2002 as against Rs.0.6 billion a year ago. The circulation increased due to issuance of Rupee 1 and 2 coins in place of as Re.1/- and Rs.2/- notes which ceased to be legal tender from 1st January 2002. The increase in circulation of Rupee coins was partly offset due to withdrawal of One Rupee Notes whose circulation at the end of 30th June, 2001 amounted to Rs.0.1 billion and stands nil at the end of this year. The circulation of

coins of the denomination lower than one rupee including old half Rupee and quarter Rupee coins, in circulation as on 30th June, 2002 remained un-changed at last year's end-June level of Rs.0.7 billion.

13.5 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:

	billion Rupees
Against Notes in Circulation as on 30 th June, 1948	0.5
Against India Notes Retired there after.	1.3
Total	1.8

Out of Rs.1.8 billion, the State Bank of Pakistan received Assets of Rs.1.3 billion and the balance is yet to be transferred by the Reserve Bank of India.

13.6 Auditors

The Accounts for the year 2001-2002 were audited by Messrs. Hussain Rehman and A.F. Fergusons, Chartered Accountants.

**ANNUAL ACCOUNTS
FOR
2001-2002**

**Consolidated
Financial
Statements
*2002***

**STATE BANK OF PAKISTAN
& ITS SUBSIDIARY**

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS

We have audited the annexed balance sheets of the Issue and Banking Departments of the **State Bank of Pakistan** as at June 30, 2002 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 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 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.

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. 5,668.544 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. 1,731.716 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.

Except for the financial effect of the matter stated in the 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, 2002 and of the profit, its cash flows and changes in equity for the year then ended.

Without further qualifying our opinion, we draw attention to notes 7.2.3 and 7.2.4, which state the reasons for not making any provision for diminution in the value of the investments held by the Bank in the shares of United Bank Limited and Habib Bank Limited as at June 30, 2002.

A.F.Ferguson & Co.
Chartered Accountants

Husain Rahman
Chartered Accountants

Karachi, the 27th day of September 2002.

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARY - ISSUE DEPARTMENT
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2002**

	Note	2002 (Rupees'000)	2001
ASSETS			
Gold reserves held by the Bank	3	39,378,223	35,617,683
Foreign currency reserves	4	245,300,329	111,027,187
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	5	528,640	580,676
- Rupee coins	6	1,738,021	1,726,702
		2,266,661	2,307,378
Investment in securities	7	170,389,508	243,187,199
Commercial papers	8	78,500	78,500
Assets held with the Reserve Bank of India	9	961,283	896,174
		458,374,504	393,114,121
LIABILITIES			
Bank notes issued	10	458,374,504	393,114,121

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY - BANKING DEPARTMENT
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002	2001
		(Rupees'000)	
ASSETS			
Local currency	6	126,622	177,598
Foreign currency reserves	4	42,454,293	21,934,215
Special Drawing Rights	11	509,591	281,419
		43,090,506	22,393,232
Reserve tranche with the International Monetary Fund under quota arrangements	12	9,001	8,864
Investments	7	214,347,596	427,569,842
Loans, advances and commercial papers	13	183,024,990	202,809,264
Balances due from the Governments of India and Bangladesh (former East Pakistan)	14	3,429,262	3,237,048
Fixed assets:			
- Operating fixed assets	15	8,055,460	8,105,678
- Capital work-in-progress	16	257,057	288,755
		8,312,517	8,394,433
Other assets	17	27,651,356	47,455,350
Total assets		479,865,228	711,868,033
LIABILITIES			
Bills payable		323,293	434,206
Current accounts of the Government*	18	56,292,623	45,007,583
Deposits of banks and financial institutions	19	132,950,113	165,176,194
Other deposits and accounts	20	80,692,401	275,295,359
Payable to the International Monetary Fund	21	113,053,034	95,801,871
Other liabilities	22	25,825,247	62,059,426
		409,136,711	643,774,639
Deferred liability - staff retirement benefits	23	7,934,975	6,280,136
Deferred income	24	480,754	272,535
Total liabilities		417,552,440	650,327,310
Net assets		62,312,788	61,540,723
Share capital	25	100,000	100,000
Capital receipt	26	1,525,958	1,525,958
Reserves	27	16,700,000	19,700,000
		18,325,958	21,325,958
Unrealised appreciation on gold reserves	28	37,033,311	33,261,246
Surplus on revaluation of fixed assets	15	6,953,519	6,953,519
		62,312,788	61,540,723
Contingencies and commitments	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.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2002**

	Note	2002	2001
		(Rupees' 000)	
Discount, interest/mark-up and/or return earned	30	38,819,096	64,143,082
Interest/mark-up expense	31	5,794,502	11,120,405
		<u>33,024,594</u>	<u>53,022,677</u>
Commission	32	347,209	296,858
Exchange gain / (loss)	33	8,937,276	(49,168,208)
Dividend income		336,777	261,120
Other operating income	34	472,763	407,427
		<u>43,118,619</u>	<u>4,819,874</u>
Direct operating expenses			
Note printing charges	35	1,535,765	1,371,544
Agency commission	36	1,167,102	1,094,012
Provisions for:			
- loans and advances		2,281,014	1,584,216
- diminution in value of investments		3,144,657	282,396
- reimbursement of agricultural losses under Agricultural Loans Scheme		-	400,000
		<u>5,425,671</u>	<u>2,266,612</u>
Loans and advances written off		1,402,252	-
		<u>33,587,829</u>	<u>87,706</u>
Establishment costs	37	7,987,784	6,933,467
OPERATING PROFIT / (LOSS)		25,600,045	(6,845,761)
Other income	38	291,710	13,060,465
		<u>25,891,755</u>	<u>6,214,704</u>
Other charges	39	422,771	794,515
PROFIT BEFORE EXCEPTIONAL ITEM		25,468,984	5,420,189
Exceptional item		-	10,247,446
NET PROFIT FOR THE YEAR		<u>25,468,984</u>	<u>15,667,635</u>
Transferred from Reserve Fund		3,000,000	5,600,000
AVAILABLE FOR APPROPRIATION		<u>28,468,984</u>	<u>21,267,635</u>
Appropriations:			
Dividend to the Government of Pakistan @ Rs 10 per share (2001: Rs 10 per share)		10,000	10,000
BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN		<u>28,458,984</u>	<u>21,257,635</u>

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2002**

	Note	2002 (Rupees '000)	2001
Profit for the year after non-cash items	40	36,913,254	13,197,871
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(137)	(8,864)
Investments		292,715,477	(69,331,556)
Loans, advances and commercial papers		16,101,008	24,692,924
Foreign currency reserves not included in cash and cash equivalents		(377,558)	(156,371)
Indian notes representing assets receivable from the Reserve Bank of India		52,036	(82,045)
Assets held with the Reserve Bank of India		(4,519)	(37,488)
Other assets - net		19,654,879	(14,356,843)
		328,141,186	(59,280,243)
Increase/(decrease) in liabilities			
Bank notes issued		65,311,359	19,297,495
Bills payable		(110,913)	21,666
Current accounts of the Government		11,285,040	1,200,405
Deposits of banks and financial institutions		(32,226,081)	(1,942,110)
Other deposits and accounts		(194,602,958)	47,410,145
Payable to the International Monetary Fund		17,251,163	43,717,422
Other liabilities - net		(39,777,221)	11,594,543
		(172,869,611)	121,299,566
		192,184,829	75,217,194
Retirement benefits and employees' compensated absences paid		(2,047,720)	(1,118,458)
Dividend income received		485,892	167,943
Gold purchased		(49,065)	-
Fixed capital expenditure		(84,321)	(60,865)
Proceeds from disposal of fixed assets		8,235	47,126
		(1,686,979)	(964,254)
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Surplus profits paid to the Government of Pakistan		(26,000,000)	(20,000,000)
		(26,010,000)	(20,010,000)
Increase in cash and cash equivalents for the year		164,487,850	54,242,940
Cash and cash equivalents at the beginning of the year		134,315,803	80,072,863
Cash and cash equivalents at the end of the year	41	<u>298,803,653</u>	<u>134,315,803</u>

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2002

	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, 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 Government	-	-	-	-	-	-	-	-	-	-	(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	-	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
Net profit for the year	-	-	-	-	-	-	-	-	-	-	25,468,984	25,468,984
Transferred from reserves to the profit and loss account	-	-	(3,000,000)	-	-	-	-	-	-	-	3,000,000	-
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profits transferred to the Government	-	-	-	-	-	-	-	-	-	-	(28,458,984)	(28,458,984)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	3,772,065	-	-	3,772,065
Balance at June 30, 2002	100,000	1,525,958	5,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	37,033,311	6,953,519	-	62,312,788

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2002**

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 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 of 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 between the Government and certain institutions.

The Bank has two subsidiaries as at June 30, 2002:

- SBP Banking Services Corporation, established during the year as mentioned in note 1.1; and
- National Institute of Banking and Finance (Guarantee) Limited, which remained inoperative during the year as mentioned in note 7.2.5 and has accordingly not been consolidated.

1.1 Transfer of assets and liabilities to SBP Banking Services Corporation

During the year the Bank has constituted a wholly owned subsidiary, SBP Banking Services Corporation, which is responsible for carrying out certain functions and activities principally related to public dealings on behalf of the Bank. These functions and related assets, liabilities and employees were transferred to the Corporation with effect from January 2, 2002 in accordance with the provisions of Transfer Order dated December 29, 2001. The transfer order was approved by the Governor of the Bank under section 15 of the Ordinance.

In consideration for the transfer of fixed and other assets, the Corporation issued 491 fully paid ordinary shares of Rs 1.0 million each to the Bank based on the estimated value of assets transferred. In addition, 509 fully paid ordinary shares of Rs 1.0 million each were

also issued by the Corporation against cash. The actual value of fixed assets transferred has been determined by the Bank as of December 31, 2001 and the differential between the estimated and actual values amounting to Rs 269.579 million has been settled through current account maintained between the Bank and the Corporation.

The employee related loans, advances and liabilities including pension, gratuity and provident fund balances pertaining to employees transferred to the Corporation amounted to Rs 1,265.942 million as of January 2, 2002 (net liability) which have also been settled between the Bank and the Corporation through the current account maintained between them.

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 for adoption by the Central Board of the Bank under the powers conferred by the State Bank of Pakistan Act, 1956.

The consolidated financial statements include the accounts of State Bank of Pakistan and SBP Banking Services Corporation, which have been consolidated on a line-by-line basis.

All inter-group balances and transactions have been eliminated.

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 note 2.6 and 2.7 have been included at revalued amounts.

2.3 Bank notes and rupee coins

The liability of the Bank towards bank notes issued as a 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 notes is charged to the current profit and loss account. Any unissued 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 of Pakistan. These coins are purchased from the Government at the respective face values. The unissued 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 prorata 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 on these securities.

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 tangible assets except freehold land and capital work-in-progress are stated at cost or revalued amounts less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at revalued amount less any accumulated impairment losses 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.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation 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.

2.8 Deferred income

Grants received on account of capital expenditure incurred under modernisation and reforms programme are recorded as deferred income. These are amortised over the useful life of the relevant asset.

2.9 Staff retirement benefits

The Bank and its subsidiary 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 benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

Annual provisions are made 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

Annual provision is made 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 recognized as income on receipt basis.
- Dividend income is recognised when the Bank's right to receive 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/loss under these arrangements is recognised on accrual basis.

2.13 Taxation

The income of the Bank is exempt from tax under section 49 of the State Bank of Pakistan Act, 1956 while the income of the subsidiary is exempt from tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001.

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 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 International Monetary Fund (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 contribution for 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 the 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.

2.16 Cash and cash equivalents

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

2.17 Provisions

Provisions are recognised when the Bank 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.

	Net content in troy ounces	2002 (Rupees' 000)	2001 (Rupees' 000)
3. Gold reserves held by the Bank			
Opening balance	2,057,201	35,617,683	31,002,043
Additions during the year	2,570	49,065	-
Appreciation arising from revaluation during the year - note 28		3,711,475	4,615,640
	<u>2,059,771</u>	<u>39,378,223</u>	<u>35,617,683</u>

4. Foreign currency reserves

Securities	18,249,366	177,814
Current accounts	14,494,057	9,939,049
Deposit accounts	255,011,199	122,844,539
	<u>287,754,622</u>	<u>132,961,402</u>

The above foreign exchange has been held as follows:

- Issue Department	245,300,329	111,027,187
- Banking Department	42,454,293	21,934,215
	<u>287,754,622</u>	<u>132,961,402</u>

- 4.1** The above include assets valuing Rs 163.293 million recoverable from the Government of India as at June 30, 2002 (2001: Rs 179.366 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 1.6 to 3.9 percent per annum.

	2002 (Rupees' 000)	2001 (Rupees' 000)
5. Indian notes representing assets receivable from the Reserve Bank of India	<u>528,640</u>	<u>580,676</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.

2002 **2001**
(Rupees' 000)

6. Local currency

Bank notes held by the Banking Department - note 10	126,622	177,598
Rupee coins	1,738,021	1,726,702
	<u>1,864,643</u>	<u>1,904,300</u>
Less: Rupee coins held as assets of the Issue Department - note 6.1	1,738,021	1,726,702
	<u><u>126,622</u></u>	<u><u>177,598</u></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, 2002.

2002 **2001**
(Rupees' 000)

7. Investments

Government securities - note 7.1

Treasury bills :		
Market Treasury Bills	199,690,268	487,297,549
Adhoc Treasury Bills	122,830,242	125,301,611
	<u>322,520,510</u>	<u>612,599,160</u>
Federal Investment Bonds	3,824,750	4,994,117
Pakistan Investment Bonds	182,000	-
Federal and Provincial Government scrips	3,613,715	3,623,958
	<u>330,140,975</u>	<u>621,217,235</u>

Banks and financial institutions

Ordinary shares - note 7.2		
- Listed	1,195,411	225,301
- Unlisted	39,882,871	41,249,501
	<u>41,078,282</u>	<u>41,474,802</u>
Advance against issue of share capital	16,650,000	8,000,000
Term Finance Certificates	282,400	282,400
	<u>58,010,682</u>	<u>49,757,202</u>

Subsidiary

National Institute of Banking and Finance (Guarantee) Limited - note 7.2.5	7,500	-
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Other investments

Certificates of Deposits	112,351	172,351
Others	5,000	5,000
	<u>117,351</u>	<u>177,351</u>

	<u>388,276,508</u>	<u>671,151,788</u>
Less: Provision for diminution in value of investments	3,539,404	394,747
	<u>384,737,104</u>	<u>670,757,041</u>
Less: Investment in securities held as assets of the Issue Department	170,389,508	243,187,199
	<u><u>214,347,596</u></u>	<u><u>427,569,842</u></u>

7.1 Investment in securities

The above include investments amounting to Rs 330,140.975 million (2001: Rs 621,217.235 million) secured by Government guarantees. The following is a profile of return on securities during the year:

	% per annum
Market Treasury Bills	5.6450 to 12.8756
Adhoc Treasury Bills	0.5 and 5
Federal Investment Bonds	15
Federal and Provincial Government scrips	3 to 16
	2002 2001
	(Rupees' 000)

7.2 Investment in shares of banks and financial institutions

	Holding more than 50 %			
	2002	2001		
Listed investments - note 7.2.1				
- Muslim Commercial Bank Limited	-	-	15,301	225,301
- National Bank of Pakistan - note 7.2.2	88.36%	-	1,180,110	-
			1,195,411	225,301
Unlisted investments - note 7.2.2				
- United Bank Limited - note 7.2.3	99.58%	99.58%	22,386,331	22,386,331
- Habib Bank Limited - note 7.2.4	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%	-	1,366,630
- Federal Bank for Cooperative	75.00%	75.00%	150,000	150,000
- Equity Participation Fund	65.81%	65.81%	102,000	102,000
			37,828,839	39,195,469
- Others with holding less than 50%			2,054,032	2,054,032
			39,882,871	41,249,501
			41,078,282	41,474,802

7.2.1 The market value of these shares are as follows:

Muslim Commercial Bank Limited	401,264	857,711
National Bank of Pakistan	6,773,366	-

7.2.2 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.

7.2.3 The break-up value of the Bank's investment in United Bank Limited (UBL) amounted to Rs 1,232.648 million as at December 31, 2001 based on the financial statements of UBL for the year then ended. During the year, the Government of Pakistan, through the Privatisation Commission, offered 51% shares in UBL for sale to private investors as part of the Privatisation Plan of UBL. The cost of this investment (including advance for issue of shares) amounted to Rs 15,494.657 million while the Government has received the highest offer of Rs 12,350 million for this equity stake. Accordingly, the Bank has made a provision of Rs 3,144.657 million to account for the loss which will arise upon disposal of 51% shares in UBL. No provision has been made for any diminution in the value of the remaining shares as the management is confident that the privatisation of UBL will enhance its value and the Bank will not incur any losses at the time of disposal of the remaining shares in UBL.

7.2.4 The break-up value of the Bank's investment in Habib Bank Limited (HBL) amounted to Rs 12,692.043 million at December 31, 2001 based on the financial statements of HBL for the year ended on this date while the cost of this investment (including advance for issue of shares) was Rs 19,986.185 million. The Bank has offered 51% shares in HBL for sale to private investors and the management is confident that the Bank will not incur any losses at the time of disposal of investment in HBL. Accordingly, no provision has been made for diminution in value of Rs 7,294.142 million as at December 31, 2001.

7.2.5 National Institute of Banking and Finance (Guarantee) Limited (NIBAF) had discontinued its business with effect from February 13, 1997 and resolved to go into members' voluntary winding up. However, during the year the Bank has acquired the control of the company. NIBAF is currently in the process of reorganisation and will recommence its operations in the near future. Accordingly, the Bank's investment in NIBAF amounting to Rs 7.500 million, which was written off in prior years, has now been restated.

	2002	2001
	(Rupees' 000)	
8. Commercial papers	<u>78,500</u>	<u>78,500</u>

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.

	2002	2001
	(Rupees' 000)	
9. Assets held with the Reserve Bank of India		
Gold reserves		
- Opening balance	581,470	506,118
- Appreciation arising from revaluation during the year - note 28	60,590	75,352
	642,060	581,470
Sterling securities	303,157	297,077
Government of India securities	12,400	13,621
Rupee coins	3,666	4,006
	<u>961,283</u>	<u>896,174</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.

	2002	2001
	(Rupees' 000)	
10. Bank notes issued		
Notes held with the Banking Department - note 6	126,622	177,598
Notes in circulation	458,247,882	392,936,523
	<u>458,374,504</u>	<u>393,114,121</u>

	2002	2001
	(Rupees' 000)	
11. Special Drawing Rights	<u>509,591</u>	<u>281,419</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, 2002. 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.

	2002	2001
	(Rupees' 000)	
12. Reserve tranche with the International Monetary Fund under quota arrangements		
Quota allocated by the International Monetary Fund	78,806,730	80,105,702
Less: liability under quota arrangements	78,797,729	80,096,838
	<u>9,001</u>	<u>8,864</u>

13. Loans, advances and commercial papers		
Government - note 13.2	14,140,000	20,640,000
Government owned / controlled financial institutions - note 13.4	120,157,737	117,538,708
Private sector financial institutions - note 13.5	47,680,096	60,956,075
	167,837,833	178,494,783
Employees	<u>4,990,887</u>	<u>5,337,197</u>
	186,968,720	204,471,980
Provision for doubtful balances - note 13.7	<u>3,865,230</u>	<u>1,584,216</u>
	183,103,490	202,887,764
Less: Commercial papers - note 8	78,500	78,500
	<u>183,024,990</u>	<u>202,809,264</u>

13.1 The above include loans and advances amounting to Rs 181,977.833 million (2001: Rs 199,134.783 million) which are secured either by Government guarantees or by demand promissory notes.

13.2 Loans and advances to the Government

	Total	
	2002	2001
	------(Rupees'000)-----	
Federal Government	13,500,000	16,500,000
Provincial Governments		
- Punjab	-	-
- Sindh	-	2,900,000
- North West Frontier Province	-	-
- Balochistan	640,000	1,240,000
	640,000	4,140,000
	<u>14,140,000</u>	<u>20,640,000</u>

13.3 The mark-up was charged on Federal and Provincial Government accounts during the year at various rates ranging between 6.3124 to 12.0057 percent per annum.

13.4 Loans and advances to Government owned/ controlled financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	------(Rupees'000)-----					
Agricultural sector	55,163,836	54,607,049	-	-	55,163,836	54,607,049
Industrial sector	3,282,405	3,896,146	2,594,566	4,236,374	5,876,971	8,132,520
Export sector	17,529,797	19,148,788	3,567	3,567	17,533,364	19,152,355
Housing sector	66,907	66,907	15,257,300	16,496,300	15,324,207	16,563,207
Others	14,084,759	6,817,310	12,174,600	12,266,267	26,259,359	19,083,577
	<u>90,127,704</u>	<u>84,536,200</u>	<u>30,030,033</u>	<u>33,002,508</u>	<u>120,157,737</u>	<u>117,538,708</u>

The above include amounts aggregating to Rs 507.566 million (2001: Rs 504.681 million) which were recoverable from various financial institutions operating in former East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.5 Loans and advances to private sector financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	------(Rupees'000)-----					
Industrial sector	211,222	346,233	3,673,652	3,739,237	3,884,874	4,085,470
Export sector	42,043,739	56,323,413	-	-	42,043,739	56,323,413
Others	1,751,483	547,192	-	-	1,751,483	547,192
	<u>44,006,444</u>	<u>57,216,838</u>	<u>3,673,652</u>	<u>3,739,237</u>	<u>47,680,096</u>	<u>60,956,075</u>

13.1 The above include loans and advances amounting to Rs 181,977.833 million (2001: Rs 199,134.783 million) which are secured either by Government guarantees or by demand promissory notes.

13.2 Loans and advances to the Government

	Total	
	2002	2001
	------(Rupees'000)-----	
Federal Government	13,500,000	16,500,000
Provincial Governments		
- Punjab	-	-
- Sindh	-	2,900,000
- North West Frontier Province	-	-
- Balochistan	640,000	1,240,000
	640,000	4,140,000
	<u>14,140,000</u>	<u>20,640,000</u>

13.3 The mark-up was charged on Federal and Provincial Government accounts during the year at various rates ranging between 6.3124 to 12.0057 percent per annum.

13.4 Loans and advances to Government owned/ controlled financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	------(Rupees'000)-----					
Agricultural sector	55,163,836	54,607,049	-	-	55,163,836	54,607,049
Industrial sector	3,282,405	3,896,146	2,594,566	4,236,374	5,876,971	8,132,520
Export sector	17,529,797	19,148,788	3,567	3,567	17,533,364	19,152,355
Housing sector	66,907	66,907	15,257,300	16,496,300	15,324,207	16,563,207
Others	14,084,759	6,817,310	12,174,600	12,266,267	26,259,359	19,083,577
	<u>90,127,704</u>	<u>84,536,200</u>	<u>30,030,033</u>	<u>33,002,508</u>	<u>120,157,737</u>	<u>117,538,708</u>

The above include amounts aggregating to Rs 507.566 million (2001: Rs 504.681 million) which were recoverable from various financial institutions operating in former East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.5 Loans and advances to private sector financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	------(Rupees'000)-----					
Industrial sector	211,222	346,233	3,673,652	3,739,237	3,884,874	4,085,470
Export sector	42,043,739	56,323,413	-	-	42,043,739	56,323,413
Others	1,751,483	547,192	-	-	1,751,483	547,192
	<u>44,006,444</u>	<u>57,216,838</u>	<u>3,673,652</u>	<u>3,739,237</u>	<u>47,680,096</u>	<u>60,956,075</u>

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

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

	2002	2001
	(Rupees' 000)	
13.7 Movement of provision		
Opening balance	1,584,216	-
Provision made during the year	2,281,014	1,584,216
Closing balance	<u>3,865,230</u>	<u>1,584,216</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	2,568,890	2,376,676
	3,388,809	3,196,595
	<u>3,429,262</u>	<u>3,237,048</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, 2001	Additions / revaluation (deletions) during the year	Cost or revalued amount at June 30, 2002	Accumulated depreciation at July 1, 2001	Charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation / amortisation at June 30, 2002	Net book value at June 30, 2002	Annual rate of depreciation / amortisation %
Rupees '000								
Tangible assets								
Freehold land	966,606	-	966,606	-	-	-	966,606	-
Leasehold land	5,136,018	-	5,136,018	7,917	115,993	123,910	5,012,108	over the term of lease
Building on freehold land	784,394	2,922	787,316	106,898	45,217	152,115	635,201	5
Building on leasehold land	1,092,468	21,508 (4)	1,113,972	68,557	69,129	137,686	976,286	5
Furniture and fixtures	77,984	17,453 (17)	95,420	32,439	8,004	40,443	54,977	10
Office equipment	652,907	26,302 (513)	678,696	425,849	114,134 (38)	539,945	138,751	20
EDP equipment	95,171	337,405 (2,916)	429,660	74,342	123,133	197,475	232,185	33.33
Motor vehicles	56,824	7,681 (7,000)	57,505	40,692	4,505 (5,756)	39,441	18,064	20
Library books	636	-	636	636	-	636	-	
	8,863,008	413,271 (10,450)	9,265,829	757,330	480,115 (5,794)	1,231,651	8,034,178	
Intangible asset								
Computer software	-	31,923	31,923	-	10,641	10,641	21,282	33.33
2002	8,863,008	445,194 (10,450)	9,297,752	757,330	490,756 (5,794)	1,242,292	8,055,460	
2001	1,848,799	67,259 6,953,519 (6,569)	8,863,008	350,981	409,566 (3,217)	757,330	8,105,678	

15.1 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. Out of this surplus, Rs. 6,778.398 million remains undepreciated at June 30, 2002 and has been included in the carrying value of the related assets.

	2002	2001
	(Rupees' 000)	
16. Capital work-in-progress		
Building on freehold land	-	1,246
Building on leasehold land	8,745	13,879
Office equipment	2,018	2,166
EDP equipment	182	204,921
Intangible assets	246,112	66,543
	<u>257,057</u>	<u>288,755</u>

17. Other assets

Amounts due from financial institutions under currency swap arrangements - note 17.1	10,945,061	34,834,993
Accrued interest/ mark-up and return	3,689,150	11,217,074
Exchange gain recoverable under risk coverage scheme - net	228,219	-
Share of profit under profit and loss sharing arrangements - net	483,693	-
Stationery and stamps on hand	17,152	20,044
Other advances, deposits and prepayments	531,849	45,671
Others	11,756,232	1,337,568
	<u>27,651,356</u>	<u>47,455,350</u>

- 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.

	2002	2001
	(Rupees' 000)	
18. Current accounts of the Government		
Federal Government - note 18.1	29,532,746	23,531,410
Provincial Governments		
- Punjab - note 18.2	16,568,627	11,121,297
- Sindh - note 18.3	(953,942)	1,917,607
- North West Frontier Province - note 18.4	4,155,734	3,692,003
- Balochistan - note 18.5	5,328,239	3,308,561
	25,098,658	20,039,468
Government of Azad Jammu and Kashmir	1,661,219	1,436,705
	<u>56,292,623</u>	<u>45,007,583</u>

	2002	2001
	(Rupees' 000)	
18.1 Federal Government		
Non-Food account	11,693,816	596,166
Food account	405,107	2,617,621
Zakat Fund account	22,108,382	24,330,478
Railways - Ways and means advances	(4,701,598)	(3,857,072)
Fertilizer account	(229,011)	(285,363)
Saudi Arab special loan account	4,124	4,124
Pakistan Baitul Mal Fund account	85	85
Pakistan Railways special account	246,565	107,106
Government deposit account no. XII	5,276	18,265
	<u>29,532,746</u>	<u>23,531,410</u>
18.2 Provincial Government - Punjab		
Non-Food account	(6,077,565)	(3,928,650)
Food account	1,349,109	1,359,298
Zakat Fund account	398,726	329,555
District Government account no. IV	8,518,997	-
Social action program	12,379,360	13,361,094
	<u>16,568,627</u>	<u>11,121,297</u>
18.3 Provincial Government - Sindh		
Non-Food account	(3,250,398)	1,438,582
Food account	508,306	402,625
Zakat Fund account	123,247	76,400
District Government account no. IV	1,664,903	-
	<u>(953,942)</u>	<u>1,917,607</u>
18.4 Provincial Government - NWFP		
Non-Food account	1,451,942	3,142,124
Food account	13,636	549,397
Zakat Fund account	3,022	482
District Government account no. IV	2,687,134	-
	<u>4,155,734</u>	<u>3,692,003</u>
18.5 Provincial Government - Baluchistan		
Non-Food account	2,845,862	3,155,684
Food account	344,694	149,184
Zakat Fund account	2,908	3,693
District Government account no. IV	2,134,775	-
	<u>5,328,239</u>	<u>3,308,561</u>

	2002	2001
	(Rupees' 000)	
19. Deposits of banks and financial institutions		
Foreign currency		
- Scheduled banks	21,475,584	35,935,378
- Held under CRR scheme	28,221,731	25,518,958
	49,697,315	61,454,336
Local currency		
- Scheduled banks	82,293,239	101,355,563
- Non-banking financial institutions	959,559	2,366,295
	83,252,798	103,721,858
	<u>132,950,113</u>	<u>165,176,194</u>

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

	% per annum
- Foreign currency	1.14 to 2.86
- Local currency	10.99 to 15.62

	2002	2001
	(Rupees' 000)	
20. Other deposits and accounts		
Foreign currency		
- Foreign central banks	27,012,767	28,793,914
- International organisation	18,007,320	15,995,625
- Others	12,517	-
	45,032,604	44,789,539
Local currency		
- Special debt repayment - note 20.2	15,182,626	204,400,267
- Government - note 20.3	18,464,962	23,845,034
- Others	2,012,209	2,260,519
	35,659,797	230,505,820
	<u>80,692,401</u>	<u>275,295,359</u>

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

	% per annum
- Foreign central banks	2.17 to 5.92
- International organisation	4 to 4.5

20.2 These represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan. During the current year a major portion out of this was adjusted with retirement of market treasury bills in accordance with the instructions 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.

	2002	2001
	(Rupees' 000)	
21. Payable to the International Monetary Fund		
Borrowings under:		
- Fund facilities - note 21.1	70,810,494	63,551,531
- Other credit schemes - note 21.2	42,242,471	32,250,189
	113,052,965	95,801,720
Current account for administrative charges	69	151
	<u>113,053,034</u>	<u>95,801,871</u>

21.1 These facilities are secured by demand promissory notes issued by the Government of Pakistan.

21.2 This includes Rs 1,198.572 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 to this arrangement.

	2002	2001
	(Rupees' 000)	
22. Other liabilities		
Foreign currency		
Amounts due to financial institutions under currency swap arrangements - note 17.1	10,204,148	38,980,572
Accrued interest and discount	394,096	579,212
Charges on allocation of SDR	53,000	81,000
Others	2,032	-
	10,653,276	39,640,784
Local currency		
Overdue mark-up and return	3,326,782	2,823,881
Unearned exchange risk fee	1,100,000	2,000,000
Remittance clearance account	31,282	135,224
Exchange loss payable under exchange risk coverage scheme	-	6,881,991
Share of loss under profit and loss sharing arrangements	-	952,579
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	2,699,898	2,116,850
Others	5,074,943	4,569,051
	15,171,971	22,418,642
	<u>25,825,247</u>	<u>62,059,426</u>

	2002	2001
	(Rupees' 000)	
22.1 Other accruals and provisions		
Interest, mark-up and discount	380,276	670,132
Printing charges	14,235	64,452
Agency commission	286,776	248,514
Provision for employees' compensated absences	1,500,000	602,000
Others	518,611	531,752
	<u>2,699,898</u>	<u>2,116,850</u>

23. Deferred liability - staff retirement benefits		
Provident fund scheme	811,145	769,136
Gratuity	97,000	30,000
Pension	6,032,000	4,642,000
Benevolent fund scheme	805,830	701,000
Post retirement medical benefits	189,000	138,000
	<u>7,934,975</u>	<u>6,280,136</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, 2001	Charge for the year	Payments made during the year	Recognised liability as at June 30, 2002
	-----Rupees ('000)-----			
Gratuity	30,000	74,000	7,000	97,000
Pension	4,642,000	2,875,000	1,485,000	6,032,000
Benevolent	701,000	353,000	248,170	805,830
Post retirement medical benefits	138,000	108,000	57,000	189,000
	<u>5,511,000</u>	<u>3,410,000</u>	<u>1,797,170</u>	<u>7,123,830</u>
				2002
				2001
				(Rupees' 000)

24. Deferred income		
Opening balance	272,535	-
Grants received during the year	329,175	277,803
Amortisation during the year	(120,956)	(5,268)
Closing balance	<u>480,754</u>	<u>272,535</u>

25. Share capital			
Number of shares			
Authorised share capital			
<u>1,000,000</u> Ordinary shares of Rs 100 each	<u>100,000</u>	<u>100,000</u>	
Issued, subscribed and paid-up capital			
<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 th the State of Hyderabad.

	2002	2001
	(Rupees' 000)	
26. Capital receipt		
Allocation of Special Drawing Rights	<u>1,525,958</u>	<u>1,525,958</u>
27. Reserves		
Reserve Fund - note 27.1	5,400,000	8,400,000
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>16,700,000</u>	<u>19,700,000</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.

	2002	2001
	(Rupees' 000)	
28. Unrealised appreciation on gold reserves		
Opening balance	33,261,246	28,570,254
Appreciation arising from revaluation during the year:		
- held by the Bank - note 3	3,711,475	4,615,640
- held with the Reserve Bank of India - note 9	60,590	75,352
	3,772,065	4,690,992
	<u>37,033,311</u>	<u>33,261,246</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.

	2002	2001
	(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	16,153,310	15,833,436
ii) Government owned/controlled bodies and authorities	107,665,549	116,950,167
<p>Guarantees amounting to Rs 115,135.310 million (2001: 131,226.205 million) are secured by counter guarantees either from the Government of Pakistan or local financial institutions.</p>		
<p>b) 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.</p>		
c) Other claims against the Bank not acknowledged as debts	843,364	429,195
Commitments		
Forward exchange contracts for sale	18,898,027	78,509,151
Repurchase and outright sale of securities	41,577,177	40,828,203
Import letters of credit	95,921,553	272,233,596

	2002	2001
	(Rupees' 000)	
30. Discount, interest/mark-up and/or return earned		
Market Treasury Bills - net	26,640,337	45,940,702
Adhoc Treasury Bills	624,468	446,737
Other Government securities	1,036,745	1,918,471
Loans and advances to Government	1,420,818	2,830,043
Loans and advances to banks and financial institutions	2,122,624	8,498,858
Share of profit on finances under profit and loss sharing arrangements - net	2,456,662	-
Foreign currency deposits	4,134,121	3,903,382
Foreign currency Treasury Bills	284,616	501,779
Others	98,705	103,110
	<u>38,819,096</u>	<u>64,143,082</u>
31. Interest/ mark-up expense		
Deposits	5,745,141	10,080,660
Share of loss on finances under profit and loss sharing arrangements - net	-	952,579
Others	49,361	87,166
	<u>5,794,502</u>	<u>11,120,405</u>
32. Commission income		
Market Treasury Bills	31,111	19,197
Draft /payment orders	117,901	92,170
Prize Bonds and National Saving Certificates	95,715	105,092
Management of public debts	55,017	43,107
Others	47,465	37,292
	<u>347,209</u>	<u>296,858</u>
33. Exchange gain/ (loss)		
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	(4,596,425)	(5,869,572)
- Open market operations (including currency swap arrangements)	(662,102)	(20,158,963)
- Forward covers under Exchange Risk Coverage Scheme	8,213,411	(31,270,105)
- Payable to the International Monetary Fund	(925,604)	(6,107,686)
- SDRs	8,320	2,686,847
- Others	285,831	673,616
	2,323,431	(60,045,863)
Exchange risk fee income	6,613,845	10,877,655
	<u>8,937,276</u>	<u>(49,168,208)</u>
34. Other operating income		
Penalties levied on banks and financial institutions	458,999	386,805
License/ CIB fee recovered	13,374	14,769
Others	390	5,853
	<u>472,763</u>	<u>407,427</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 %; (2001: 0.15 %) of the total amount of collection and remittances handled by NBP.

	2002	2001
	(Rupees' 000)	
37. Establishment costs		
Salaries and other benefits	2,182,225	2,237,705
Retirement benefits and employees' compensated absences	4,600,559	3,522,237
Daily wages staff	7,803	5,300
Medical allowances	193,919	251,804
Overtime allowance	10,785	11,428
Rent and taxes	20,112	31,168
Insurance	1,551	4,329
Electricity, gas and water charges	101,612	97,786
Depreciation - note 15	490,756	409,566
Repairs to Bank's property	14,567	12,506
Repairs to Bank's vehicles	1,940	1,970
Repairs to mechanical/ electrical equipment	18,260	14,702
Directors' fee	1,441	886
Auditors' remuneration - note 37.3	3,311	2,745
Legal and professional charges	34,673	23,841
Travelling expenses	20,702	13,068
Daily expenses	35,716	37,946
Passages	14,656	12,972
Fuel charges	9,821	9,630
Conveyance charges	7,623	7,296
Postages	4,746	3,071
Telegram/ telex	20,980	16,818
Telephone	38,202	34,863
Training	11,093	40,000
Examination/ testing services	1,047	2,617
Remittance of treasure	28,371	22,785
Stationery	17,521	13,160
Books and newspapers	4,784	3,474
Advertisement	2,960	5,611
Bank Guards	29,715	27,091
Uniforms	18,193	21,766
Others	38,140	33,326
	<u>7,987,784</u>	<u>6,933,467</u>

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

- an un-funded 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 un-funded pension scheme;
- an un-funded contributory benevolent fund scheme; and
- an un-funded 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, 2002:

- Expected rate of increase in salary 8.89 percent per annum
- Expected rate of discount 11.0 percent per annum
- Pension increase at the rate of 2.7 percent per annum
- Benevolent fund grants and contributions at the rate of 2.7 percent per annum
- Medical cost trend 5.71 percent per annum

The transitional liability arising on adoption of IAS is being amortised over a period of five years with effect from July 1, 1999 except for the liability pertaining to employees transferred to SBP Banking Services Corporation which has been fully recognised during the year.

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 net loss	Unrecognised transitional liability
-----Rupees ('000)-----				
Gratuity	98,000	97,000	(19,000)	14,000
Pension	6,586,000	6,032,000	-	554,000
Benevolent	832,830	805,830	-	27,000
Post retirement medical benefits	248,000	189,000	-	59,000
	<u>7,764,830</u>	<u>7,123,830</u>	<u>(19,000)</u>	<u>654,000</u>

The accumulated provision as at June 30, 2002 includes an amount of Rs 2,742 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 recognised	Past service cost	Total
-----Rupees ('000)-----					
Gratuity	3,000	14,000	57,000	-	74,000
Pension	251,000	872,000	1,213,000	539,000	2,875,000
Benevolent	36,000	111,000	206,000	-	353,000
Post retirement medical benefits	7,000	33,000	68,000	-	108,000
	<u>297,000</u>	<u>1,030,000</u>	<u>1,544,000</u>	<u>539,000</u>	<u>3,410,000</u>

37.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2002 using the Projected Unit Credit Method. An amount of Rs 1,101 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	2002	2001
------(Rupees' 000)-----				
Audit fee	1,500	500	2,000	2,000
Special certifications/ examinations and sundry advisory services	590	21	611	245
Out of pocket expenses	600	100	700	500
Others	-	-	-	-
	<u>2,690</u>	<u>621</u>	<u>3,311</u>	<u>2,745</u>

	2002	2001
	(Rupees' 000)	
38. Other income		
Profit on disposal of fixed assets	3,579	221,774
Liabilities and provisions no longer required written back - net	-	12,770,161
Profit on disposal of investments	141,424	55,287
Amortisation of deferred income - note 24	120,956	5,268
Others	25,751	7,975
	<u>291,710</u>	<u>13,060,465</u>
39. Other charges		
Charges on allocation of SDR	345,355	557,240
Others	77,416	237,275
	<u>422,771</u>	<u>794,515</u>
40. Profit for the year after non-cash items		
Profit for the year	25,468,984	15,667,635
Adjustments for:		
Exceptional item	-	(10,247,446)
Depreciation	490,756	409,566
Amortisation of deferred income	(120,956)	(5,268)
Provision for:		
- retirement benefits and employees' compensated absences	4,600,559	3,522,237
- loans and advances	2,281,014	1,584,216
- reimbursement of agricultural losses under Agricultural Loans Scheme	-	400,000
- share of (profit) / loss under profit and loss sharing arrangements	(1,436,272)	952,579
- diminution in value of investments	3,144,657	282,396
Loans and advance written off	1,402,252	-
Profit on disposal of fixed assets	(3,579)	(221,774)
Restatement of investment in NIBAF	(7,500)	-
Dividend income	(336,777)	(261,120)
Other accruals and provisions - net	1,430,116	1,114,850
	<u>36,913,254</u>	<u>13,197,871</u>
41. Cash and cash equivalents		
Rupee coins	1,738,021	1,726,702
Foreign currency reserves	286,723,344	132,307,682
Special Drawing Rights	509,591	281,419
Securities acquired under agreements to re-sell	9,832,697	-
	<u>298,803,653</u>	<u>134,315,803</u>

42. 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)-----							
Financial assets							
Rupee coins	-	-	-	1,738,021	-	1,738,021	1,738,021
Foreign currency reserves	286,886,637	495,684	287,382,321	-	372,301	372,301	287,754,622
Special Drawing Rights	509,591	-	509,591	-	-	-	509,591
Reserve tranche with the International Monetary Fund							
under quota arrangements	9,001	-	9,001	-	-	-	9,001
Investments	200,690,328	129,450,649	330,140,977	15,494,657	39,093,970	54,588,627	384,729,604
Loans, advances and bills of exchange	130,132,816	33,175,694	163,308,510	1,675,042	18,119,938	19,794,980	183,103,490
Balances due from Governments of India and							
Bangladesh (former East Pakistan)	2,568,890	-	2,568,890	860,372	-	860,372	3,429,262
Indian notes representing assets receivable from							
the Reserve Bank of India	-	-	-	528,640	-	528,640	528,640
Assets held with the Reserve Bank of India	315,557	-	315,557	3,666	-	3,666	319,223
Other assets	-	-	-	16,691,835	10,945,061	27,636,896	27,636,896
	<u>621,112,820</u>	<u>163,122,027</u>	<u>784,234,847</u>	<u>36,992,233</u>	<u>68,531,270</u>	<u>105,523,503</u>	<u>889,758,350</u>
Financial liabilities							
Bank notes in circulation	-	-	-	-	458,247,882 **	458,247,882	458,247,882
Bills payable	-	-	-	323,293	-	323,293	323,293
Current accounts of the Government	-	-	-	56,292,623	-	56,292,623	56,292,623
Deposits of banks and financial institutions	31,693,262	-	31,693,262	101,256,851	-	101,256,851	132,950,113
Other deposits and accounts	-	45,032,604	45,032,604	35,659,797	-	35,659,797	80,692,401
Payable to the International Monetary Fund	24,195,014	88,858,020	113,053,034	-	-	-	113,053,034
Other liabilities	-	-	-	14,521,099	10,204,148	24,725,247	24,725,247
	<u>55,888,276</u>	<u>133,890,624</u>	<u>189,778,900</u>	<u>208,053,663</u>	<u>468,452,030</u>	<u>676,505,693</u>	<u>866,284,593</u>

* includes finances provided under profit and loss sharing arrangements

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

42.1 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 42.1.1 to 42.1.4. 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.

42.1.1 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 minimize its exposure to this risk. The Bank's management, the Central Borad and the investement committee has set appropriate duration limits and a separate department deals with the monitoring af the Bank's interest/ mark-up rate risk exposure based on these limits.

42.1.2 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.

42.1.3 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 assests is detemined 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.

42.1.4 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 positions of the banking system including advancing and withdrawal of funds from the banking 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.

42.1.5 Fair value of assets and liabilities

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

	2002	2001
43. Number of employees		
Number of employees at June 30	<u>7,158</u>	<u>7,691</u>

44. 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.

45. Date of Authorisation

These financial statements were authorised for issue on 25th September 2002 by the Central Board of Directors of the Bank.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**Financial
Statements
*2002***

STATE BANK OF PAKISTAN

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS

We have audited the annexed balance sheets of the Issue and Banking Departments of the **State Bank of Pakistan** as at June 30, 2002 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 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 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.

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. 5,668.544 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. 1,731.716 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.

Except for the financial effect of the matter stated in the 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, 2002 and of the profit, its cash flows and changes in equity for the year then ended.

Without further qualifying our opinion, we draw attention to notes 7.2.3 and 7.2.4, which state the reasons for not making any provision for diminution in the value of the investments held by the Bank in the shares of United Bank Limited and Habib Bank Limited as at June 30, 2002.

A.F.Ferguson & Co.
Chartered Accountants

Husain Rahman
Chartered Accountants

Karachi, the 27th day of September 2002.

**STATE BANK OF PAKISTAN - ISSUE DEPARTMENT
BALANCE SHEET
AS AT JUNE 30, 2002**

	Note	2002 (Rupees'000)	2001
ASSETS			
Gold reserves held by the Bank	3	39,378,223	35,617,683
Foreign currency reserves	4	245,300,329	111,027,187
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	5	528,640	580,676
- Rupee coins	6	1,738,021	1,726,702
		2,266,661	2,307,378
Investment in securities	7	170,389,508	243,187,199
Commercial papers	8	78,500	78,500
Assets held with the Reserve Bank of India	9	961,283	896,174
		<u>458,374,504</u>	<u>393,114,121</u>
LIABILITIES			
Bank notes issued	10	<u>458,374,504</u>	<u>393,114,121</u>

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN - BANKING DEPARTMENT
BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002	2001
(Rupees'000)			
ASSETS			
Local currency	6	126,622	177,598
Foreign currency reserves	4	42,454,293	21,934,215
Special Drawing Rights	11	509,591	281,419
		<u>43,090,506</u>	<u>22,393,232</u>
Reserve tranche with the International Monetary Fund under quota arrangements	12	9,001	8,864
Investments	7	214,828,732	427,569,842
Loans, advances and bills of exchange	13	178,881,813	202,809,264
Balances due from the Governments of India and Bangladesh (former East Pakistan)	14	3,429,262	3,237,048
Fixed assets:			
- Operating fixed assets	15	7,899,803	8,105,678
- Capital work-in-progress	16	254,857	288,755
		<u>8,154,660</u>	<u>8,394,433</u>
Other assets	17	27,638,147	47,455,350
Total assets		<u>476,032,121</u>	<u>711,868,033</u>
LIABILITIES			
Bills payable		323,293	434,206
Current accounts of the Government*	18	56,292,623	45,007,583
Current account of SBP Banking Services Corporation		2,450,017	-
Deposits of banks and financial institutions	19	132,950,113	165,176,194
Other deposits and accounts	20	80,692,401	275,295,359
Payable to the International Monetary Fund	21	113,053,034	95,801,871
Other liabilities	22	24,472,021	62,059,426
		<u>410,233,502</u>	<u>643,774,639</u>
Deferred liability - staff retirement benefits	23	3,005,077	6,280,136
Deferred income	24	480,754	272,535
Total liabilities		<u>413,719,333</u>	<u>650,327,310</u>
Net assets		<u>62,312,788</u>	<u>61,540,723</u>
Share capital	25	100,000	100,000
Capital receipt	26	1,525,958	1,525,958
Reserves	27	16,700,000	19,700,000
		<u>18,325,958</u>	<u>21,325,958</u>
Unrealised appreciation on gold reserves	28	37,033,311	33,261,246
Surplus on revaluation of fixed assets	15	6,953,519	6,953,519
		<u>62,312,788</u>	<u>61,540,723</u>
Contingencies and commitments	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.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**STATE BANK OF PAKISTAN
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2002**

	Note	2002	2001
		(Rupees' 000)	
Discount, interest/mark-up and/or return earned	30	38,794,648	64,143,082
Interest/mark-up expense	31	5,794,502	11,120,405
		<u>33,000,146</u>	<u>53,022,677</u>
Commission	32	347,209	296,858
Exchange gain / (loss)	33	8,937,276	(49,168,208)
Dividend income		336,777	261,120
Profit transferred from SBP Banking Services Corporation	37.3	24,487	-
Other operating income	34	472,763	407,427
		<u>43,118,658</u>	<u>4,819,874</u>
Direct operating expenses			
Note printing charges	35	1,535,765	1,371,544
Agency commission	36	1,167,102	1,094,012
Provisions for:			
- loans and advances		2,281,014	1,584,216
- diminution in value of investments		3,144,657	282,396
- reimbursement of agricultural losses under Agricultural Loans Scheme		-	400,000
		<u>5,425,671</u>	<u>2,266,612</u>
Loans and advances written off		1,402,252	-
		<u>33,587,868</u>	<u>87,706</u>
Establishment costs	37	7,987,784	6,933,467
OPERATING PROFIT / (LOSS)		25,600,084	(6,845,761)
Other income	38	291,671	13,060,465
		<u>25,891,755</u>	<u>6,214,704</u>
Other charges	39	422,771	794,515
PROFIT BEFORE EXCEPTIONAL ITEM		25,468,984	5,420,189
Exceptional item		-	10,247,446
NET PROFIT FOR THE YEAR		<u>25,468,984</u>	<u>15,667,635</u>
Transferred from Reserve Fund		3,000,000	5,600,000
AVAILABLE FOR APPROPRIATION		<u>28,468,984</u>	<u>21,267,635</u>
Appropriations:			
Dividend to the Government of Pakistan @ Rs 10 per share (2001: Rs 10 per share)		10,000	10,000
BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN		<u>28,458,984</u>	<u>21,257,635</u>

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**STATE BANK OF PAKISTAN
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2002**

	Note	2002 (Rupees '000)	2001
Profit for the year after non-cash items	40	35,726,223	13,197,871
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(137)	(8,864)
Investments		293,234,341	(69,331,556)
Loans, advances and bills of exchange		16,149,761	24,692,924
Foreign currency reserves not included in cash and cash equivalents		(377,558)	(156,371)
Indian notes representing assets receivable from the Reserve Bank of India		52,036	(82,045)
Assets held with the Reserve Bank of India		(4,519)	(37,488)
Other assets - net		19,649,823	(14,356,843)
		328,703,747	(59,280,243)
Increase/(decrease) in liabilities			
Bank notes issued		65,311,359	19,297,495
Bills payable		(110,913)	21,666
Current accounts of the Government		11,285,040	1,200,405
Current account of SBP Banking Services Corporation		2,450,017	-
Deposits of banks and financial institutions		(32,226,081)	(1,942,110)
Other deposits and accounts		(194,602,958)	47,410,145
Payable to the International Monetary Fund		17,251,163	43,717,422
Other liabilities - net		(39,630,447)	11,594,543
		(170,272,820)	121,299,566
		194,157,150	75,217,194
Retirement benefits and employees' compensated absences paid		(1,986,131)	(1,118,458)
Payment to SBP Banking Services Corporation	40.1	(1,535,521)	-
Investment made in SBP Banking Services Corporation		(509,000)	-
Dividend income received		485,892	167,943
Gold purchased		(49,065)	-
Fixed capital expenditure		(73,588)	(60,865)
Proceeds from disposal of fixed assets		8,113	47,126
		(3,659,300)	(964,254)
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Surplus profits paid to the Government of Pakistan		(26,000,000)	(20,000,000)
		(26,010,000)	(20,010,000)
Increase in cash and cash equivalents for the year		164,487,850	54,242,940
Cash and cash equivalents at the beginning of the year		134,315,803	80,072,863
Cash and cash equivalents at the end of the year	41	298,803,653	134,315,803

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2002

	Share capital	Capital receipt	Reserve Fund	Kurat Credit Fund	Reserves					Unrealised appreciation on gold reserves	Surplus on revaluation of fixed assets	Profit and loss account	Total
					Industrial Credit Fund	Export Credit Fund	Loans Guarantee Fund	Housing Credit Fund					
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 Government	-	-	-	-	-	-	-	-	-	-	(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	-	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	
Net profit for the year	-	-	-	-	-	-	-	-	-	-	25,468,984	25,468,984	
Transferred from reserves to the profit and loss account	-	-	(3,000,000)	-	-	-	-	-	-	-	3,000,000	-	
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	
Balance profits transferred to the Government	-	-	-	-	-	-	-	-	-	-	(28,458,984)	(28,458,984)	
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	3,772,065	-	-	3,772,065	
Balance at June 30, 2002	100,000	1,525,958	5,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	37,033,311	6,953,519	-	62,312,788	

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**STATE BANK OF PAKISTAN
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2002**

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 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 of 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 between the Government and certain institutions.

1.1 Transfer of assets and liabilities to SBP Banking Services Corporation

During the year the Bank has constituted a wholly owned subsidiary, SBP Banking Services Corporation, which is responsible for carrying out certain functions and activities principally related to public dealing on behalf of the Bank. These functions and related assets, liabilities and employees were transferred to the Corporation with effect from January 2, 2002 in accordance with the provisions of Transfer Order dated December 29, 2001. The transfer order was approved by the Governor of the Bank under section 15 of the Ordinance.

In consideration for the transfer of fixed and other assets, the Corporation issued 491 fully paid ordinary shares of Rs 1.0 million each to the Bank based on the estimated value of assets transferred. In addition, 509 fully paid ordinary shares of Rs 1.0 million each were also issued by the Corporation against cash. The actual value of fixed assets transferred has been determined by the Bank as of December 31, 2001 and the differential between the estimated and actual values amounting to Rs 269.579 million has been settled through current account maintained between the Bank and the Corporation.

The employee related loans, advances and liabilities including pension, gratuity and provident fund balances pertaining to employees transferred to the Corporation amounted to Rs 1,265.942 million as of January 2, 2002 (net liability) which have also been settled between the Bank and the Corporation through the current account maintained between them.

The details of the above assets and liabilities and the values at which these have been transferred to the Corporation are given in note 40.1 of these accounts.

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 for adoption by the Central Board of the Bank under the powers conferred by the State Bank of Pakistan Act, 1956.

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 note 2.6 and 2.7 have been included at revalued amounts.

2.3 Bank notes and rupee coins

The liability of the Bank towards bank notes issued as a 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 notes is charged to the current profit and loss account. Any unissued 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 of Pakistan. These coins are purchased from the Government at the respective face values. The unissued 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 prorata 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 on these securities.

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 tangible assets except freehold land and capital work-in-progress are stated at cost or revalued amounts less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at revalued amount less any accumulated impairment losses 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.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation 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.

2.8 Deferred income

Grants received on account of capital expenditure incurred under modernisation and reforms programme 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 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 recognized as income on receipt basis.
- Dividend income is recognised when the Bank's right to receive 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/loss under these arrangements is recognised on accrual basis.

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 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 International Monetary Fund (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 contribution for 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 the 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.

2.16 Cash and cash equivalents

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

2.17 Provisions

Provisions are recognised when the Bank 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.

	Net content in troy ounces	2002 (Rupees' 000)	2001
3. Gold reserves held by the Bank			
Opening balance	2,057,201	35,617,683	31,002,043
Additions during the year	2,570	49,065	-
Appreciation arising from revaluation during the year - note 28		3,711,475	4,615,640
	<u>2,059,771</u>	<u>39,378,223</u>	<u>35,617,683</u>

4. Foreign currency reserves

Securities	18,249,366	177,814
Current accounts	14,494,057	9,939,049
Deposit accounts	255,011,199	122,844,539
	<u>287,754,622</u>	<u>132,961,402</u>

The above foreign exchange has been held as follows:

- Issue Department	245,300,329	111,027,187
- Banking Department	42,454,293	21,934,215
	<u>287,754,622</u>	<u>132,961,402</u>

4.1 The above include assets valuing Rs 163.293 million recoverable from the Government of India as at June 30, 2002 (2001: Rs 179.366 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 1.6 to 3.9 percent per annum.

	2002 (Rupees' 000)	2001
5. Indian notes representing assets receivable from the Reserve Bank of India	<u>528,640</u>	<u>580,676</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.

	2002	2001
	(Rupees' 000)	
6. Local currency		
Bank notes held by the Banking Department - note 10	126,622	177,598
Rupee coins	1,738,021	1,726,702
	<u>1,864,643</u>	<u>1,904,300</u>
Less: Rupee coins held as assets of the Issue Department - note 6.1	1,738,021	1,726,702
	<u><u>126,622</u></u>	<u><u>177,598</u></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, 2002.

	2002	2001
	(Rupees' 000)	
7. Investments		
Government securities - note 7.1		
Treasury bills :		
Market Treasury Bills	199,171,404	487,297,549
Adhoc Treasury Bills	122,830,242	125,301,611
	<u>322,001,646</u>	<u>612,599,160</u>
Federal Investment Bonds	3,824,750	4,994,117
Pakistan Investment Bonds	182,000	-
Federal and Provincial Government scrips	3,613,715	3,623,958
	<u>329,622,111</u>	<u>621,217,235</u>
Banks and financial institutions		
Ordinary shares - note 7.2		
- Listed	1,195,411	225,301
- Unlisted	39,882,871	41,249,501
Advance against issue of share capital	41,078,282	41,474,802
Term Finance Certificates	16,650,000	8,000,000
	282,400	282,400
	58,010,682	49,757,202
Subsidiaries		
SBP Banking Services Corporation	1,000,000	-
National Institute of Banking and Finance (Guarantee) Limited - note 7.2.5	7,500	-
	1,007,500	-
Other investments		
Certificates of Deposits	112,351	172,351
Others	5,000	5,000
	<u>117,351</u>	<u>177,351</u>
	388,757,644	671,151,788
Less: Provision for diminution in value of investments	3,539,404	394,747
	<u>385,218,240</u>	<u>670,757,041</u>
Less: Investment in securities held as assets of the Issue Department	170,389,508	243,187,199
	<u><u>214,828,732</u></u>	<u><u>427,569,842</u></u>

7.1 Investment in securities

The above include investments amounting to Rs 329,622.111 million (2001: Rs 621,217.235 million) secured by Government guarantees. The following is a profile of return on securities during the year:

	% per annum
Market Treasury Bills	5.6450 to 12.8756
Adhoc Treasury Bills	0.5 and 5
Federal Investment Bonds	15
Federal and Provincial Government scrips	3 to 16

7.2 Investment in shares of banks and financial institutions

	Holding more than 50 %		(Rupees' 000)	
	2002	2001	2002	2001
Listed investments - note 7.2.1				
- Muslim Commercial Bank Limited			15,301	225,301
- National Bank of Pakistan - note 7.2.2	88.36%	-	1,180,110	-
			1,195,411	225,301
Unlisted investments - note 7.2.2				
- United Bank Limited - note 7.2.3	99.58%	99.58%	22,386,331	22,386,331
- Habib Bank Limited - note 7.2.4	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%	-	1,366,630
- Federal Bank for Cooperative	75.00%	75.00%	150,000	150,000
- Equity Participation Fund	65.81%	65.81%	102,000	102,000
			37,828,839	39,195,469
- Others with holding less than or equal to 50%			2,054,032	2,054,032
			39,882,871	41,249,501
			41,078,282	41,474,802

7.2.1 The market values of these investments are as follows:

Muslim Commercial Bank Limited	401,264	857,711
National Bank of Pakistan	6,773,366	-

7.2.2 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.

7.2.3 The break-up value of the Bank's investment in United Bank Limited (UBL) amounted to Rs 1,232.648 million as at December 31, 2001 based on the financial statements of UBL for the year then ended. During the year, the Government of Pakistan, through the Privatisation Commission, offered 51% shares in UBL for sale to private investors as part of the Privatisation Plan of UBL. The cost of this investment (including advance for issue of shares) amounted to Rs 15,494.657 million while the Government has received the highest offer of Rs 12,350 million for this equity stake. Accordingly, the Bank has made a provision of Rs 3,144.657 million to account for the loss which will arise upon disposal of 51% shares in UBL. No provision has been made for any diminution in the value of the remaining shares as the management is confident that the privatisation of UBL will enhance its value and the Bank will not incur any losses at the time of disposal of the remaining shares in UBL.

7.2.4 The break-up value of the Bank's investment in Habib Bank Limited (HBL) amounted to Rs 12,692.043 million at December 31, 2001 based on the financial statements of HBL for the year ended on this date while the cost of this investment (including advance for issue of shares) was Rs 19,986.185 million. The Bank has offered 51% shares in HBL for sale to private investors and the management is confident that the Bank will not incur any losses at the time of disposal of investment in HBL. Accordingly, no provision has been made for diminution in value of Rs 7,294.142 million as at December 31, 2001.

7.2.5 National Institute of Banking and Finance (Guarantee) Limited (NIBAF) had discontinued its business with effect from February 13, 1997 and resolved to go into members' voluntary winding up. However, during the year the Bank has acquired the control of the company. NIBAF is currently in the process of reorganisation and will recommence its operations in the near future. Accordingly, the Bank's investment in NIBAF amounting to Rs 7.500 million, which was written off in prior years, has now been restated.

	2002	2001
	(Rupees' 000)	
8. Commercial papers	<u>78,500</u>	<u>78,500</u>

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.

	2002	2001
	(Rupees' 000)	
9. Assets held with the Reserve Bank of India		
Gold reserves		
- Opening balance	581,470	506,118
- Appreciation arising from revaluation during the year - note 28	60,590	75,352
	642,060	581,470
Sterling securities	303,157	297,077
Government of India securities	12,400	13,621
Rupee coins	3,666	4,006
	<u>961,283</u>	<u>896,174</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.

	2002	2001
	(Rupees' 000)	
10. Bank notes issued		
Notes held with the Banking Department - note 6	126,622	177,598
Notes in circulation	458,247,882	392,936,523
	<u>458,374,504</u>	<u>393,114,121</u>

	2002 (Rupees' 000)	2001
11. Special Drawing Rights	<u>509,591</u>	<u>281,419</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, 2002. 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.

	2002 (Rupees' 000)	2001
12. Reserve tranche with the International Monetary Fund under quota arrangements		
Quota allocated by the International Monetary Fund	78,806,730	80,105,702
Less: liability under quota arrangements	78,797,729	80,096,838
	<u>9,001</u>	<u>8,864</u>
13. Loans, advances and bills of exchange		
Government - note 13.2	14,140,000	20,640,000
Government owned / controlled financial institutions - note 13.4	120,157,737	117,538,708
Private sector financial institutions - note 13.5	47,680,096	60,956,075
	167,837,833	178,494,783
Employees	847,710	5,337,197
	182,825,543	204,471,980
Provision for doubtful balances - note 13.7	3,865,230	1,584,216
	178,960,313	202,887,764
Less: Commercial papers - note 8	78,500	78,500
	<u>178,881,813</u>	<u>202,809,264</u>

13.1 The above include loans and advances amounting to Rs 181,977.833 million (2001: Rs 199,134.783 million) which are secured either by Government guarantees or by demand promissory notes.

13.2 Loans and advances to the Government

	2002	2001
	(Rupees'000)	
Federal Government	13,500,000	16,500,000
Provincial Governments		
- Punjab	-	-
- Sindh	-	2,900,000
- North West Frontier Province	-	-
- Balochistan	640,000	1,240,000
	640,000	4,140,000
	<u>14,140,000</u>	<u>20,640,000</u>

13.3 The mark-up was charged on Federal and Provincial Government accounts during the year at various rates ranging between 6.3124 to 12.0057 percent per annum.

13.4 Loans and advances to Government owned/ controlled financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	----- (Rupees'000) -----					
Agricultural sector	55,163,836	54,607,049	-	-	55,163,836	54,607,049
Industrial sector	3,282,405	3,896,146	2,594,566	4,236,374	5,876,971	8,132,520
Export sector	17,529,797	19,148,788	3,567	3,567	17,533,364	19,152,355
Housing sector	66,907	66,907	15,257,300	16,496,300	15,324,207	16,563,207
Others	14,084,759	6,817,310	12,174,600	12,266,267	26,259,359	19,083,577
	<u>90,127,704</u>	<u>84,536,200</u>	<u>30,030,033</u>	<u>33,002,508</u>	<u>120,157,737</u>	<u>117,538,708</u>

The above include amounts aggregating to Rs 507.566 million (2001: Rs 504.681 million) which were recoverable from various financial institutions operating in former East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.5 Loans and advances to private sector financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	----- (Rupees'000) -----					
Industrial sector	211,222	346,233	3,673,652	3,739,237	3,884,874	4,085,470
Export sector	42,043,739	56,323,413	-	-	42,043,739	56,323,413
Others	1,751,483	547,192	-	-	1,751,483	547,192
	<u>44,006,444</u>	<u>57,216,838</u>	<u>3,673,652</u>	<u>3,739,237</u>	<u>47,680,096</u>	<u>60,956,075</u>

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

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

2002 2001
(Rupees' 000)

13.7 Movement of provision

Opening balance	1,584,216	-
Provision made during the year	2,281,014	1,584,216
Closing balance	<u>3,865,230</u>	<u>1,584,216</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	2,568,890	2,376,676
	3,388,809	3,196,595
	<u>3,429,262</u>	<u>3,237,048</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 or revalued amount at July 1, 2001	Additions / revaluation / (deletions) during the year	Cost or revalued amount at June 30, 2002	Accumulated depreciation/ amortisation at July 1, 2001	Charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation/ amortisation at June 30, 2002	Net book value at June 30, 2002	Annual rate of depreciation / amortisation %
----- Rupees '000 -----								
Tangible assets								
Freehold land	966,606	-	966,606	-	-	-	966,606	-
Leasehold land	5,136,018	-	5,136,018	7,917	115,993	123,910	5,012,108	over the term of lease
Building on freehold land	784,394	2,922	787,316	106,898	45,217	152,115	635,201	5
Building on leasehold land	1,092,468	21,508 (4)	1,113,972	68,557	69,129	137,686	976,286	5
Furniture and fixtures	77,984	15,507 (46,520)	46,971	32,439	5,848 (24,656)	13,631	33,340	10
Office equipment	652,907	20,953 (576,324)	97,536	425,849	64,522 (412,037)	78,334	19,202	20
EDP equipment	95,171	336,593 (51,950)	379,814	74,342	119,597 (33,863)	160,076	219,738	33.33
Motor vehicles	56,824	7,255 (25,236)	38,843	40,692	3,860 (21,749)	22,803	16,040	20
Library books	636	-	636	636	-	636	-	
	8,863,008	404,738 (700,034)	8,567,712	757,330	424,166 (492,305)	689,191	7,878,521	
Intangible asset								
Computer software	-	31,923	31,923	-	10,641	10,641	21,282	33.33
2002	8,863,008	436,661 (700,034)	8,599,635	757,330	434,807 (492,305)	699,832	7,899,803	
2001	1,848,799	67,259 6,953,519 (6,569)	8,863,008	350,981	409,566 (3,217)	757,330	8,105,678	

15.1 Deletions include assets transferred to SBP Banking Services Corporation as of January 2, 2002 at a mutually agreed value of Rs 203.156 million.

15.2 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. Out of this surplus, Rs 6,778.398 million remains undepreciated at June 30, 2002 and has been included in the carrying value of the related assets.

	2002 (Rupees' 000)	2001 (Rupees' 000)
16. Capital work-in-progress		
Building on freehold land	-	1,246
Building on leasehold land	8,745	13,879
Office equipment	-	2,166
EDP equipment	-	204,921
Intangible assets	246,112	66,543
	<u>254,857</u>	<u>288,755</u>
17. Other assets		
Amounts due from financial institutions under currency swap arrangements - note 17.1	10,945,061	34,834,993
Accrued interest/ mark-up and return	3,689,150	11,217,074
Exchange gain recoverable under risk coverage scheme - net	228,219	-
Share of profit under profit and loss sharing arrangements - net	483,693	-
Stationery and stamps on hand	17,152	20,044
Other advances, deposits and prepayments	518,640	45,671
Others	11,756,232	1,337,568
	<u>27,638,147</u>	<u>47,455,350</u>

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.

	2002 (Rupees' 000)	2001 (Rupees' 000)
18. Current accounts of the Government		
Federal Government - note 18.1	29,532,746	23,531,410
Provincial Governments		
- Punjab - note 18.2	16,568,627	11,121,297
- Sindh - note 18.3	(953,942)	1,917,607
- North West Frontier Province - note 18.4	4,155,734	3,692,003
- Balochistan - note 18.5	5,328,239	3,308,561
	25,098,658	20,039,468
Government of Azad Jammu and Kashmir	1,661,219	1,436,705
	<u>56,292,623</u>	<u>45,007,583</u>

	2002	2001
	(Rupees' 000)	
18.1 Federal Government		
Non-Food account	11,693,816	596,166
Food account	405,107	2,617,621
Zakat Fund account	22,108,382	24,330,478
Railways - Ways and means advances	(4,701,598)	(3,857,072)
Fertilizer account	(229,011)	(285,363)
Saudi Arab special loan account	4,124	4,124
Pakistan Baitul Mal Fund account	85	85
Pakistan Railways special account	246,565	107,106
Government deposit account no. XII	5,276	18,265
	<u>29,532,746</u>	<u>23,531,410</u>
18.2 Provincial Government - Punjab		
Non-Food account	(6,077,565)	(3,928,650)
Food account	1,349,109	1,359,298
Zakat Fund account	398,726	329,555
District Government account no. IV	8,518,997	-
Social action program	12,379,360	13,361,094
	<u>16,568,627</u>	<u>11,121,297</u>
18.3 Provincial Government - Sindh		
Non-Food account	(3,250,398)	1,438,582
Food account	508,306	402,625
Zakat Fund account	123,247	76,400
District Government account no. IV	1,664,903	-
	<u>(953,942)</u>	<u>1,917,607</u>
18.4 Provincial Government - NWFP		
Non-Food account	1,451,942	3,142,124
Food account	13,636	549,397
Zakat Fund account	3,022	482
District Government account no. IV	2,687,134	-
	<u>4,155,734</u>	<u>3,692,003</u>
18.5 Provincial Government - Baluchistan		
Non-Food account	2,845,862	3,155,684
Food account	344,694	149,184
Zakat Fund account	2,908	3,693
District Government account no. IV	2,134,775	-
	<u>5,328,239</u>	<u>3,308,561</u>

	2002	2001
	(Rupees' 000)	
19. Deposits of banks and financial institutions		
Foreign currency		
- Scheduled banks	21,475,584	35,935,378
- Held under CRR scheme	28,221,731	25,518,958
	49,697,315	61,454,336
Local currency		
- Scheduled banks	82,293,239	101,355,563
- Non-banking financial institutions	959,559	2,366,295
- Other financial institutions	-	-
- Others	-	-
	83,252,798	103,721,858
	<u>132,950,113</u>	<u>165,176,194</u>

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

	% per annum
- Foreign currency	1.14 to 2.86
- Local currency	10.99 to 15.62

	2002	2001
	(Rupees' 000)	
20. Other deposits and accounts		
Foreign currency		
- Foreign central banks	27,012,767	28,793,914
- International organisation	18,007,320	15,995,625
- Others	12,517	-
	45,032,604	44,789,539
Local currency		
- Special debt repayment - note 20.2	15,182,626	204,400,267
- Government - note 20.3	18,464,962	23,845,034
- Others	2,012,209	2,260,519
	35,659,797	230,505,820
	<u>80,692,401</u>	<u>275,295,359</u>

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

	% per annum
- Foreign central banks	2.17 to 5.92
- International organisation	4 to 4.5

20.2 These represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan. During the current year a major portion out of this was adjusted with retirement of market treasury bills in accordance with the instructions 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.

	2002	2001
	(Rupees' 000)	
21. Payable to the International Monetary Fund		
Borrowings under:		
- Fund facilities - note 21.1	70,810,494	63,551,531
- Other credit schemes - note 21.2	42,242,471	32,250,189
	113,052,965	95,801,720
Current account for administrative charges	69	151
	<u>113,053,034</u>	<u>95,801,871</u>

21.1 These facilities are secured by demand promissory notes issued by the Government of Pakistan.

21.2 This includes Rs 1,198.572 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.

	2002	2001
	(Rupees' 000)	
22. Other liabilities		
Foreign currency		
Amounts due to financial institutions under currency swap arrangements - note 17.1	10,204,148	38,980,572
Accrued interest and discount	394,096	579,212
Charges on allocation of SDR	53,000	81,000
Others	2,032	-
	10,653,276	39,640,784
Local currency		
Overdue mark-up and return	3,326,782	2,823,881
Unearned exchange risk fee	1,100,000	2,000,000
Remittance clearance account	31,282	135,224
Exchange loss payable under exchange risk coverage scheme	-	6,881,991
Share of loss under profit and loss sharing arrangements	-	952,579
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	1,430,116	2,116,850
Others	4,991,499	4,569,051
	13,818,745	22,418,642
	<u>24,472,021</u>	<u>62,059,426</u>

	2002	2001
	(Rupees' 000)	
22.1 Other accruals and provisions		
Interest, mark-up and discount	380,276	670,132
Printing charges	14,235	64,452
Agency commission	286,776	248,514
Provision for employees' compensated absences	279,000	602,000
Others	469,829	531,752
	<u>1,430,116</u>	<u>2,116,850</u>
23. Deferred liability - staff retirement benefits		
Provident fund scheme	140,077	769,136
Gratuity	23,000	30,000
Pension	2,482,000	4,642,000
Benevolent fund scheme	269,000	701,000
Post retirement medical benefits	91,000	138,000
	<u>3,005,077</u>	<u>6,280,136</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, 2001	Transferred to SBP Banking Services Corporation	Charge for the year	Payments made during the year	Recognised liability as at June 30, 2002
-----Rupees ('000)-----					
Gratuity	30,000	72,000	68,000	3,000	23,000
Pension	4,642,000	3,215,000	2,509,000	1,454,000	2,482,000
Benevolent	701,000	499,000	307,000	240,000	269,000
Post retirement medical benefits	138,000	89,000	99,000	57,000	91,000
	<u>5,511,000</u>	<u>3,875,000</u>	<u>2,983,000</u>	<u>1,754,000</u>	<u>2,865,000</u>

	2002	2001
	(Rupees' 000)	
24. Deferred income		
Opening balance	272,535	-
Grants received during the year	329,175	277,803
Amortisation during the year	(120,956)	(5,268)
Closing balance	<u>480,754</u>	<u>272,535</u>
25. Share capital		
Number of shares		
Authorised share capital		
<u>1,000,000</u> Ordinary shares of Rs 100 each	<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid-up capital		
<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.

	2002	2001
	(Rupees' 000)	
26. Capital receipt		
Allocation of Special Drawing Rights	<u>1,525,958</u>	<u>1,525,958</u>
27. Reserves		
Reserve Fund - note 27.1	5,400,000	8,400,000
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>16,700,000</u>	<u>19,700,000</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.

	2002	2001
	(Rupees' 000)	
28. Unrealised appreciation on gold reserves		
Opening balance	33,261,246	28,570,254
Appreciation arising from revaluation during the year:		
- held by the Bank - note 3	3,711,475	4,615,640
- held with the Reserve Bank of India - note 9	60,590	75,352
	3,772,065	4,690,992
	<u>37,033,311</u>	<u>33,261,246</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.

	2002	2001
	(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	16,153,310	15,833,436
ii) Government owned/controlled bodies and authorities	107,665,549	116,950,167
Guarantees amounting to Rs 115,135.310 million (2001: 131,226.205 million) are secured by counter guarantees either from the Government of Pakistan or local financial institutions.		
b) 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.		
c) Other claims against the Bank not acknowledged as debts	843,364	429,195
Commitments		
Forward exchange contracts for sale	18,898,027	78,509,151
Repurchase and outright sale of securities	41,577,177	40,828,203
Import letters of credit	95,921,553	272,233,596

	2002	2001
	(Rupees' 000)	
30. Discount, interest/mark-up and/or return earned		
Market Treasury Bills - net	26,630,473	45,940,702
Adhoc Treasury Bills	624,468	446,737
Other Government securities	1,036,745	1,918,471
Loans and advances to Government	1,420,818	2,830,043
Loans and advances to banks and financial institutions	2,122,624	8,498,858
Share of profit on finances under profit and loss sharing arrangements - net	2,456,662	-
Foreign currency deposits	4,134,121	3,903,382
Foreign currency Treasury Bills	284,616	501,779
Others	84,121	103,110
	<u>38,794,648</u>	<u>64,143,082</u>
31. Interest/ mark-up expense		
Deposits	5,745,141	10,080,660
Share of loss on finances under profit and loss sharing arrangements - net	-	952,579
Others	49,361	87,166
	<u>5,794,502</u>	<u>11,120,405</u>
32. Commission income		
Market Treasury Bills	31,111	19,197
Draft /payment orders	117,901	92,170
Prize Bonds and National Saving Certificates	95,715	105,092
Management of public debts	55,017	43,107
Others	47,465	37,292
	<u>347,209</u>	<u>296,858</u>
33. Exchange gain/ (loss)		
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	(4,596,425)	(5,869,572)
- Open market operations (including currency swap arrangements)	(662,102)	(20,158,963)
- Forward covers under Exchange Risk Coverage Scheme	8,213,411	(31,270,105)
- Payable to the International Monetary Fund	(925,604)	(6,107,686)
- SDRs	8,320	2,686,847
- Others	285,831	673,616
	2,323,431	(60,045,863)
Exchange risk fee income	6,613,845	10,877,655
	<u>8,937,276</u>	<u>(49,168,208)</u>
34. Other operating income		
Penalties levied on banks and financial institutions	458,999	386,805
License/ CIB fee recovered	13,374	14,769
Others	390	5,853
	<u>472,763</u>	<u>407,427</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 %; (2001: 0.15 %) of the total amount of collection and remittances handled by NBP.

37. Establishment costs

	Note	2002	2001
		(Rupees' 000)	
Salaries and other benefits		1,357,013	2,237,705
Retirement benefits and employees' compensated absences		3,748,438	3,522,237
Daily wages staff		5,102	5,300
Medical allowances		57,714	251,804
Overtime allowance		7,675	11,428
Rent and taxes		3,598	31,168
Insurance		1,518	4,329
Electricity, gas and water charges		64,933	97,786
Depreciation - note 15		434,807	409,566
Repairs to Bank's property		7,447	12,506
Repairs to Bank's vehicles		1,633	1,970
Repairs to mechanical/ electrical equipment		9,817	14,702
Directors' fee		1,441	886
Auditors' remuneration - note 37.6		1,811	2,745
Legal and professional charges		33,813	23,841
Travelling expenses		18,591	13,068
Daily expenses		30,818	37,946
Passages		10,709	12,972
Fuel charges		7,986	9,630
Conveyance charges		5,208	7,296
Postages		3,610	3,071
Telegram/ telex		20,980	16,818
Telephone		27,950	34,863
Training		11,093	40,000
Examination/ testing services		1,047	2,617
Remittance of treasure		12,221	22,785
Stationery		11,438	13,160
Books and newspapers		4,045	3,474
Advertisement		2,522	5,611
Bank Guards		6,067	27,091
Uniforms		6,765	21,766
Others		28,453	33,326
		5,946,263	6,933,467
Expenses allocated by SBP Banking Services Corporation	37.1	908,070	-
Expenses reimbursed to SBP Banking Services Corporation	37.2	1,133,451	-
		<u>7,987,784</u>	<u>6,933,467</u>

2002 **2001**
(Rupees' 000)

37.1 Expenses allocated by SBP Banking Services Corporation

Retirement benefits and employees' compensated absences	852,121	-
Depreciation	55,949	-
	<u>908,070</u>	<u>-</u>

37.2 Expenses reimbursed to SBP Banking Services Corporation

Salaries and other benefits	825,212	-
Daily wages staff	2,701	-
Medical allowances	136,205	-
Overtime allowance	3,110	-
Rent and taxes	16,514	-
Insurance	33	-
Electricity, gas and water charges	36,679	-
Repairs to Bank's property	7,120	-
Repairs to Bank's vehicles	307	-
Repairs to mechanical/ electrical equipment	8,443	-
Auditors' remuneration	1,500	-
Legal and professional charges	860	-
Travelling expenses	2,111	-
Daily expenses	4,898	-
Passages	3,947	-
Fuel charges	1,835	-
Conveyance charges	2,415	-
Postages	1,136	-
Telephone	10,252	-
Remittance of treasure	16,150	-
Stationery	6,083	-
Books and newspapers	739	-
Advertisement	438	-
Bank Guards	23,648	-
Uniforms	11,428	-
Others	9,687	-
	<u>1,133,451</u>	<u>-</u>

37.3 As mentioned in note 2, SBP Banking Services Corporation carries out certain functions and activities principally related to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while net profit of the Corporation for the period ended June 30, 2002, amounting to Rs 24.487 million has been transferred to the Bank.

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

- an un-funded 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 un-funded pension scheme;
- an un-funded contributory benevolent fund scheme; and
- an un-funded 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, 2002:

- Expected rate of increase in salary 8.89 percent per annum
- Expected rate of discount 11.0 percent per annum
- Pension increase at the rate of 2.7 percent per annum
- Benevolent fund grants and contributions at the rate of 2.7 percent per annum
- Medical cost trend 5.71 percent per annum

The transitional liability arising on adoption of IAS is being amortised over a period of five years with effect from July 1, 1999 except for the liability pertaining to employees transferred to SBP Banking Services Corporation which has been fully recognised during the year.

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 actuarial loss	Unrecognised transitional liability
-----Rupees ('000)-----				
Gratuity	21,000	23,000	(16,000)	14,000
Pension	3,036,000	2,482,000	-	554,000
Benevolent	296,000	269,000	-	27,000
Post retirement medical benefits	150,000	91,000	-	59,000
	3,503,000	2,865,000	(16,000)	654,000

The accumulated provision as at June 30, 2002 includes an amount of Rs 2,742 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 recognised	Past service cost	Total
-----Rupees ('000)-----					
Gratuity	2,000	9,000	57,000	-	68,000
Pension	149,000	608,000	1,213,000	539,000	2,509,000
Benevolent	22,000	79,000	206,000	-	307,000
Post retirement medical benefits	4,000	27,000	68,000	-	99,000
	177,000	723,000	1,544,000	539,000	2,983,000

37.5 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2002 using the Projected Unit Credit Method. An amount of Rs 736 million has been charged to the profit and loss account in this respect based on actuarial recommendation.

37.6 Auditors' remuneration

	A.F. FERGUSON & CO.	HUSAIN RAHMAN	2002	2001
-----Rupees ('000)-----				
Audit fee	500	500	1,000	2,000
Special certifications/ examinations and sundry advisory services	590	21	611	245
Out of pocket expenses	100	100	200	500
Others	-	-	-	-
	1,190	621	1,811	2,745

	2002	2001
	(Rupees' 000)	
38. Other income		
Profit on disposal of fixed assets	3,540	221,774
Liabilities and provisions no longer required written back - net	-	12,770,161
Profit on disposal of investments	141,424	55,287
Amortisation of deferred income - note 24	120,956	5,268
Others	25,751	7,975
	<u>291,671</u>	<u>13,060,465</u>
39. Other charges		
Charges on allocation of SDR	345,355	557,240
Others	77,416	237,275
	<u>422,771</u>	<u>794,515</u>
40. Profit for the year after non-cash items		
Profit for the year	25,468,984	15,667,635
Adjustments for:		
Exceptional item	-	(10,247,446)
Depreciation	434,807	409,566
Amortisation of deferred income	(120,956)	(5,268)
Provision for:		
- retirement benefits and employees' compensated absences	3,748,438	3,522,237
- loans and advances	2,281,014	1,584,216
- reimbursement of agricultural losses under Agricultural Loans Scheme	-	400,000
- share of loss / (profit) under profit and loss sharing arrangements	(1,436,272)	952,579
- diminution in value of investments	3,144,657	282,396
Loans and advance written off	1,402,252	-
Profit on disposal of fixed assets	(3,540)	(221,774)
Restatement of investment in NIBAF	(7,500)	-
Dividend income	(336,777)	(261,120)
Other accruals and provisions - net	1,151,116	1,114,850
	<u>35,726,223</u>	<u>13,197,871</u>
40.1 Transfer of assets and liabilities to SBP Banking Services Corporation		
Liabilities transferred :		
Liabilities against staff retirement benefits		
- Provident Fund	617,366	-
- Gratuity	72,000	-
- Pension	3,215,000	-
- Benevolent Fund	499,000	-
- Post retirement medical benefits	89,000	-
- Employees' compensated absences	868,000	-
	5,360,366	-
Adjustment for differential between the estimated and actual values of assets as mentioned in note 2 to these accounts	269,579	-
Assets transferred :		
Employee loans and advances	(4,094,424)	-
	<u>1,535,521</u>	<u>-</u>
41. Cash and cash equivalents		
Rupee coins	1,738,021	1,726,702
Foreign currency reserves	286,723,344	132,307,682
Special Drawing Rights	509,591	281,419
Securities acquired under agreements to re-sell	9,832,697	-
	<u>298,803,653</u>	<u>134,315,803</u>

42. 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)-----							
Financial assets							
Rupee coins				1,738,021		1,738,021	1,738,021
Foreign currency reserves	286,886,637	495,684	287,382,321		372,301	372,301	287,754,622
Special Drawing Rights	509,591		509,591			-	509,591
Reserve tranche with the International Monetary Fund under quota arrangements	9,001	-	9,001	-	-	-	9,001
Investments	200,171,464	129,450,649	329,622,113	15,494,657	39,093,970	54,588,627	384,210,740
Loans, advances and bills of exchange	130,119,805	32,997,132	163,116,937	1,428,531	14,414,845	15,843,376	178,960,313
Balances due from Governments of India and Bangladesh (former East Pakistan)	2,568,890	-	2,568,890	860,372	-	860,372	3,429,262
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	528,640	-	528,640	528,640
Assets held with the Reserve Bank of India	315,557	-	315,557	3,666	-	3,666	319,223
Other assets	-	-	-	16,691,835	10,945,061	27,636,896	27,636,896
	<u>620,580,945</u>	<u>162,943,465</u>	<u>783,524,410</u>	<u>36,745,722</u>	<u>64,826,177</u>	<u>101,571,899</u>	<u>885,096,309</u>
Financial liabilities							
Bank notes in circulation	-	-	-	-	458,247,882 **	458,247,882	458,247,882
Bills payable	-	-	-	323,293	-	323,293	323,293
Current accounts of the Government	-	-	-	56,292,623	-	56,292,623	56,292,623
Current account of SBP Banking Service Corporation	-	-	-	2,450,017	-	2,450,017	2,450,017
Deposits of banks and financial institutions	31,693,262	-	31,693,262	101,256,851	-	101,256,851	132,950,113
Other deposits and accounts	-	45,032,604	45,032,604	35,659,797	-	35,659,797	80,692,401
Payable to the International Monetary Fund	24,195,014	88,858,020	113,053,034	-	-	-	113,053,034
Other liabilities	-	-	-	13,167,873	10,204,148	23,372,021	23,372,021
	<u>55,888,276</u>	<u>133,890,624</u>	<u>189,778,900</u>	<u>209,150,454</u>	<u>468,452,030</u>	<u>677,602,484</u>	<u>867,381,384</u>

* includes finances provided under profit and loss sharing arrangements

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

42.1 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 42.1.1 to 42.1.4. 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.

42.1.1 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.

42.1.2 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.

42.1.3 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.

42.1.4 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.

42.1.5 Fair value of assets and liabilities

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

	2002	2001
43. Number of employees		
Number of employees at June 30	<u>1,231</u>	<u>7,691</u>

44. 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.

45. Date of Authorisation

These financial statements were authorised for issue on 25th September 2002 by the Central Board of Directors of the Bank.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

**Financial
Statements
*2002***

SBP BANKING SERVICES CORPORATION

REPORT OF THE AUDITORS

TO THE SHAREHOLDER

We have audited the annexed balance sheet of the **SBP Banking Services Corporation** as at June 30, 2002 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 period from January 2, 2002 to June 30, 2002 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 Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation. Our responsibility is to express an opinion on these statements based on our audit.

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:

- (a) in our opinion the balance sheet 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 Board of Directors of the Corporation; and
- (b) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, 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 Board of Directors of the Corporation, 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 Corporation's affairs as at June 30, 2002 and of the profit, its cash flows and changes in equity for the period from January 2, 2002 to June 30, 2002.

A.F.Ferguson & Co.
Chartered Accountants

Karachi, the 27th day of September 2002.

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002 (Rupees'000)
ASSETS		
Investment	3	518,864
Employees loans and advances		4,143,177
Prepaid expenses		13,209
Balance in current account with the State Bank of Pakistan		2,450,017
Tangible assets:		
- Operating fixed assets	4	155,657
- Capital work-in-progress	5	2,200
		157,857
Total assets		7,283,124
LIABILITIES		
Other liabilities	6	1,353,226
Deferred liability - staff retirement benefits	7	4,929,898
Total liabilities		6,283,124
Net Assets		1,000,000
REPRESENTED BY		
Share capital	8	1,000,000

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002

	Note	For the period ended June 30, 2002 (Rupees' 000)
Discount and interest earned	9	24,448
Net operating expenses	10	
Total expenses		2,041,521
Less: Reimbursed from the State Bank of Pakistan		1,133,451
Less: Allocated to the State Bank of Pakistan		908,070
		-
NET PROFIT FOR THE PERIOD		24,448
Profit on disposal of fixed assets		39
BALANCE TRANSFERRED TO THE STATE BANK OF PAKISTAN		24,487

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

**SBP BANKING SERVICES CORPORATION
CASH FLOW STATEMENT
FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002**

	Note	For the period ended June 30, 2002 (Rupees' 000)
Cash flow from operating activities		
Profit for the year after non-cash items	11	(192,532)
Expenses reimbursed by the State Bank of Pakistan		1,133,451
Balance profits paid to the State Bank of Pakistan		(24,487)
Retirement benefits and employees' compensated absences paid		(61,589)
		<hr/> 854,843
Increase in assets		
- Loans to employees		(48,753)
- Other assets - net		(13,209)
Increase in liabilities		
Other liabilities - net		132,226
Net cash inflow from operating activities		<hr/> 925,107
Cash flow from investing activities		
Fixed capital expenditure		(10,733)
Investment made		(509,000)
Receipt from the State Bank of Pakistan	12	1,535,521
Proceeds from disposal of fixed assets		122
Net cash inflow from investing activities		1,015,910
Cash inflow from financing activities		
Proceeds from issue of share capital		509,000
Increase in cash and cash equivalents for the period		<hr/> 2,450,017
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		<hr/> 2,450,017 <hr/>

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002

	Share capital	Profit and Loss Account	Total
	----- (Rupees '000) -----		
Issue of share capital	1,000,000	-	1,000,000
Profit for the period ended June 30, 2002	-	24,487	24,487
Balance profits transferred to the State Bank of Pakistan	-	(24,487)	(24,487)
Balance as at June 30, 2002	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

SBP BANKING SERVICES CORPORATION
NOTES TO THE ACCOUNTS
FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002

1. STATUS AND NATURE OF OPERATIONS

SBP Banking Services Corporation (the Corporation) has been constituted under the SBP Banking Services Corporation Ordinance, 2001 (the Ordinance) as a wholly owned subsidiary of the State Bank of Pakistan (SBP) and has 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.

1.1 Transfer of assets and liabilities from the State Bank of Pakistan

SBP has transferred the operational functions and related assets, liabilities and employees and their related benefits to the Corporation as of January 2, 2002 in accordance with the provisions of Transfer Order dated December 29, 2001, approved by the Governor of SBP under section 15 of the Ordinance.

In consideration for the transfer of moveable assets specified in the Transfer Order, the Corporation issued 491 fully paid ordinary shares of Rs 1.0 million each to SBP based on the estimated value of assets transferred. In addition, SBP contributed an amount of Rs 509 million in cash against issue of 509 fully paid ordinary shares of Rs 1.0 million each. The difference between actual value of assets subsequently determined by SBP and the estimated value amounting to Rs 269.579 million has been settled through current account maintained between the Corporation and SBP.

The employee related loans, advances and liabilities including pension, gratuity and provident fund balances pertaining to employees transferred to the Corporation amounted to Rs 1,265.942 million (net liability) which have also been settled through the current account maintained between the Corporation and SBP.

The details of the above assets and liabilities and the values at which these have been transferred to the Corporation are given in note 12 of these accounts.

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 (IAS) as applicable in Pakistan and approved for adoption by the Board of Directors of the Corporation, being consistent with the accounting framework approved by the Central Board of SBP for the preparation of the financial statements of SBP. The accounting policies used for the preparation of the financial statements of the Corporation are consistent with the accounting policies being used by the management of SBP for the preparation of its financial statements.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention.

2.3 Investments

Short-term investments in Government and other securities are stated at lower of cost and market value determined on an aggregate portfolio basis. The cost of securities is adjusted for any amortisation of premiums on a straight line basis over the period of maturity.

2.4 Fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses while capital work-in-progress is stated at cost.

Depreciation is calculated using 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. Gains and losses on disposal of fixed assets are included in income currently.

2.5 Provisions

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

2.6 Staff retirement benefits

The Corporation operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined SBP prior to 1975 and have opted to remain under the old scheme;
- b) an unfunded general contributory provident fund (new scheme) for all employees who joined SBP after 1975 and those employees who had joined SBP prior to 1975 but have opted for the new scheme;

c) following other staff retirement benefit schemes:

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

Annual provisions are made by the Corporation 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.

2.7 Compensated absences

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

2.8 Revenue recognition

Revenue is recognised on accrual basis.

2.9 Taxation

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

2.10 Cash and cash equivalents

Cash comprises 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.

3. Investment**2002**
(Rupees'000)**Government securities**

Market Treasury Bills

518,864

The above investment carries mark-up at the rate of 6.9 percent per annum.

4. Operating fixed assets

The following is a statement of operating assets:

	Additions during the period from January 2, 2002 to June 30, 2002	Deletions during the period from January 2, 2002 to June 30, 2002	Cost as at June 30, 2002	Charge for the period from January 2, 2002 to June 30, 2002	Accumulated depreciation on deletions	Accumulated Depreciation as at June 30, 2002	Net book value as at June 30, 2002	Annual rate of depreciation %
------(Rupees '000)-----								
Furniture and fixtures	23,808	15	23,793	2,156	-	2,156	21,637	10
Office equipment	169,229	68	169,161	49,612	-	49,612	119,549	20
EDP equipment	15,983	-	15,983	3,536	-	3,536	12,447	33.33
Motor vehicles	2,669	-	2,669	645	-	645	2,024	20
	<u>211,689</u>	<u>83</u>	<u>211,606</u>	<u>55,949</u>	<u>-</u>	<u>55,949</u>	<u>155,657</u>	

4.1 Additions include assets transferred from the State Bank of Pakistan as of January 2, 2002 at mutually agreed value of Rs 203.156 million.**5. Capital work-in-progress****2002**
(Rupees'000)

Office equipment

2,018

EDP equipment

182

2,200

2002
(Rupees'000)

6. Other liabilities

Accruals and provisions -note 4.1	1,269,782
Others	<u>83,444</u>
	<u><u>1,353,226</u></u>

6.1 Accruals and provisions

Provision for employees' compensated absences	1,221,000
Others	<u>48,782</u>
	<u><u>1,269,782</u></u>

7. Deferred liability - staff retirement benefits

Provident fund scheme	671,068
Gratuity	74,000
Pension	3,550,000
Benevolent fund scheme	536,830
Post retirement medical benefits	<u>98,000</u>
	<u><u>4,929,898</u></u>

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

	Liability transferred from SBP	Charge for the year	Payments during the year	Recognised liability as at June 30, 2002
----- Rupees '000 -----				
Gratuity	72,000	6,000	4,000	74,000
Pension	3,215,000	366,000	31,000	3,550,000
Benevolent fund scheme	499,000	46,000	8,170	536,830
Post retirement medical benefits	<u>89,000</u>	<u>9,000</u>	<u>-</u>	<u>98,000</u>
	<u><u>3,875,000</u></u>	<u><u>427,000</u></u>	<u><u>43,170</u></u>	<u><u>4,258,830</u></u>

8. Share capital	2002 (Rupees'000)
Number of shares	
Authorised share capital	
<u>1,000</u> Ordinary shares of Rs 1,000,000 each	<u>1,000,000</u>
Issued, subscribed and paid-up capital	
<u>1,000</u> Fully paid-up ordinary shares of Rs 1,000,000 each	<u>1,000,000</u>
9. Discount, interest/mark-up and/or return earned	For the period ended June 30, 2002 (Rupees'000)
Discount on Market Treasury Bills	9,864
Interest on staff loans	14,584
	<u>24,448</u>
10. Establishment costs	
Reimbursable from the State Bank of Pakistan	
Salaries	825,212
Daily wages staff	2,701
Medical allowance	136,205
Overtime allowance	3,110
Rent and taxes	16,514
Insurance	33
Electricity, gas and water charges	36,679
Repairs to office's property	7,120
Repairs to office's vehicles	307
Repairs to mechanical/ electrical equipment	8,443
Auditor's remuneration - note 10.3	1,500
Legal and professional charges	860
Travelling expenses	2,111
Daily expenses	4,898
Passages	3,947
Fuel charges	1,835
Conveyance charges	2,415
Postages	1,136
Telephone	10,252
Remittance of treasure	16,150
Stationery	6,083
Books and newspapers	739
Advertisement	438
Bank Guards	23,648
Uniforms	11,428
Others	9,687
	<u>1,133,451</u>
Allocable to the State Bank of Pakistan	
Retirement benefits and employees' compensated absences	852,121
Depreciation - note 4	55,949
	908,070
	<u>2,041,521</u>

10.1 As mentioned in note 2.6, the Corporation 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 SBP 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 Corporation 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, 2002:

- Expected rate of increase in salary 8.89 percent per annum
- Expected rate of discount 11.00 percent per annum
- Pension increase at the rate of 2.7 percent per annum
- Benevolent fund grants and contributions at the rate of 2.7 percent per annum
- Medical cost trend 5.71 percent per annum

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 actuarial loss
	------(Rupees '000)-----		
Gratuity	77,000	74,000	3,000
Pension	3,550,000	3,550,000	-
Benevolent fund scheme	536,830	536,830	-
Post retirement medical benefits	98,000	98,000	-
	<u>4,261,830</u>	<u>4,258,830</u>	<u>3,000</u>

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

	Current service cost	Interest cost	Total
	------(Rupees '000)-----		
Gratuity	1,000	5,000	6,000
Pension	102,000	264,000	366,000
Benevolent fund scheme	14,000	32,000	46,000
Post retirement medical benefits	3,000	6,000	9,000
	<u>120,000</u>	<u>307,000</u>	<u>427,000</u>

10.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2002 using the Projected Unit Credit Method. An amount of Rs 365 million has been charged to the profit and loss account in this respect based on actuarial recommendations.

10.3 Auditors' remuneration

	For the period ended June 30, 2002 (Rupees'000)
Audit fee	1,000
Out of pocket expenses	<u>500</u>
	<u>1,500</u>

11. Profit for the year after non-cash items

For the period
ended June 30,
2002

(Rupees'000)

Net profit for the period	24,487
Expenses reimbursed by the State Bank of Pakistan	(1,133,451)
Expenses allocated to the State Bank of Pakistan	(908,070)
	<u>(2,017,034)</u>
Adjustments for:	
Depreciation	55,949
Provision for retirement benefits and employees' compensated absences	852,121
Expenses allocated to the State Bank of Pakistan	908,070
Discount on Market Treasury Bills	(9,864)
Medical inventory consumed	18,265
Profit on disposal of fixed assets	(39)
	1,824,502
	<u>(192,532)</u>

12. Assets and liabilities transferred from the State Bank of Pakistan

	Transfer in consideration of issue of shares	Adjustments/ transfers through current account with SBP	Adjusted balance transferred
	------(Rupees '000)-----		
Operating fixed assets	472,735	(269,579)	203,156
Medicine inventory	18,265	-	18,265
Employee loans and advances	-	4,094,424	4,094,424
	<u>491,000</u>	<u>3,824,845</u>	<u>4,315,845</u>
Less: liabilities in respect of staff retirement benefits			
Provident Fund	-	617,366	617,366
Gratuity	-	72,000	72,000
Pension	-	3,215,000	3,215,000
Benevolent	-	499,000	499,000
Post retirement medical benefits	-	89,000	89,000
Employees' compensated absences	-	868,000	868,000
	-	5,360,366	5,360,366
	<u>491,000</u>	<u>(1,535,521)</u>	<u>(1,044,521)</u>

13. Financial assets and liabilities

	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)-----							
Financial assets							
Investments	518,864	-	518,864	-	-	-	518,864
Employee loans and advances	13,011	178,562	191,573	246,511	3,705,093	3,951,604	4,143,177
Balance in current account with the State Bank of Pakistan	-	-	-	2,450,017	-	2,450,017	2,450,017
	<u>531,875</u>	<u>178,562</u>	<u>710,437</u>	<u>2,696,528</u>	<u>3,705,093</u>	<u>6,401,621</u>	<u>7,112,058</u>
Financial liabilities							
Other liabilities	-	-	-	1,353,226	-	1,353,226	1,353,226
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,353,226</u>	<u>-</u>	<u>1,353,226</u>	<u>1,353,226</u>

13.1 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.

13.2 Liquidity risk

Liquidity risk is the risk that an enterprise 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.

13.3 Fair value of financial assets and liabilities

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

14. Number of employees

	2002
Number of employees at June 30, 2002	<u>5,927</u>

15. Date of authorisation for issue

These financial statements were authorised for issue on 25th September, 2002 by the Board of Directors of the Corporation.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director