

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

**TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS
1st FLOOR, SHEIKH SULTANTRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI**

AUDITORS' REPORT TO THE SHAREHOLDERS

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

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

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

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

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

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

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

Chartered Accountants
Karachi
Date: 17th October 2003.

Chartered Accountants
Karachi
Date: 17th October 2003.

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES - ISSUE DEPARTMENT
BALANCE SHEET
AS AT JUNE 30, 2003

	Note	2003 (Rupees'000)	2002
ASSETS			
Gold reserves held by the Bank	3	41,246,479	39,378,223
Foreign currency reserves	4	459,116,601	245,300,329
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	6	535,162	528,640
- Rupee coins	7	2,351,138	1,738,021
		2,886,300	2,266,661
Investment in securities	8	18,558,695	170,389,508
Commercial papers	9	78,500	78,500
Assets held with the Reserve Bank of India	10	1,004,469	961,283
		522,891,044	458,374,504
LIABILITIES			
Bank notes issued	11	522,891,044	458,374,504

The annexed notes form an integral part of these accounts.

Ishrat Husain
Governor

R. A. Chughtai
Deputy Governor

Muhammed Saleem Rehmani
Director Accounts

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES - BANKING DEPARTMENT
BALANCE SHEET
AS AT JUNE 30, 2003

	Note	2003	2002
		(Rupees'000)	
ASSETS			
Local currency	7	214,170	126,622
Foreign currency reserves	4	104,384,628	42,454,293
Earmarked foreign currency balances	5	53,113,531	4,823,634
Special Drawing Rights	12	14,092,081	509,591
		<u>171,804,410</u>	<u>47,914,140</u>
Reserve tranche with the International Monetary Fund under quota arrangements	13	9,560	9,001
Investments	8	134,204,634	214,347,596
Loans, advances and bills of exchange	14	174,734,753	183,024,990
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	3,631,027	3,429,262
Fixed assets:			
- Operating fixed assets	16	7,471,411	8,055,460
- Capital work-in-progress	17	278,899	257,057
		<u>7,750,310</u>	<u>8,312,517</u>
Other assets	18	25,716,668	24,726,303
Total assets		<u>517,851,362</u>	<u>481,763,809</u>
LIABILITIES			
Bills payable		671,931	323,293
Current accounts of the Government*	19	81,717,903	56,292,623
Deposits of banks and financial institutions	20	141,665,048	132,950,113
Other deposits and accounts	21	80,968,153	80,692,401
Payable to the International Monetary Fund	22	120,933,384	113,053,034
Other liabilities	23	18,566,246	27,723,828
		<u>444,522,665</u>	<u>411,035,292</u>
Deferred liabilities - staff retirement benefits	24	8,910,263	7,934,975
Deferred income	25	415,106	480,754
Total liabilities		<u>453,848,034</u>	<u>419,451,021</u>
Net assets		<u>64,003,328</u>	<u>62,312,788</u>
Share capital	26	100,000	100,000
Capital receipt	27	1,525,958	1,525,958
Reserves	28	16,714,474	16,700,000
		<u>18,340,432</u>	<u>18,325,958</u>
Unrealised appreciation on gold reserves	29	38,883,231	37,033,311
Surplus on revaluation of fixed assets	16.1	6,749,772	6,953,519
Minority interest		29,893	-
		<u>64,003,328</u>	<u>62,312,788</u>
Contingencies and commitments	30		

*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.

Ishrat Husain
Governor

R. A. Chughtai
Deputy Governor

Muhammed Saleem Rehmani
Director Accounts

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2003

	Note	2003	2002
		(Rupees' 000)	
Discount, interest/mark-up and/or return earned	31	21,159,843	38,723,366
Interest/mark-up expense	32	2,578,162	5,794,502
		18,581,681	32,928,864
Commission	33	322,991	347,209
Exchange gain / (loss)	34	(11,809,465)	9,033,006
Dividend income		1,168,526	336,777
Other operating income	35	279,727	472,763
		8,543,460	43,118,619
Direct operating expenses			
Note printing charges	36	1,845,963	1,535,765
Agency commission	37	1,398,128	1,167,102
Provisions for:			
- loans and advances		500,000	2,281,014
- diminution in the value of investments		-	3,144,657
		500,000	5,425,671
Loans and advances written off		-	1,402,252
		4,799,369	33,587,829
Establishment costs	38	6,183,361	7,987,784
		(1,383,992)	25,600,045
OPERATING PROFIT/ (LOSS)			
Other income	39	2,019,843	291,710
		635,851	25,891,755
Other charges	40	596,540	422,771
		39,311	25,468,984
NET PROFIT FOR THE YEAR			
Surplus on revaluation realised on disposal of fixed assets	16.1	203,747	-
		243,058	25,468,984
Transferred from Reserve Fund		-	3,000,000
AVAILABLE FOR APPROPRIATION		243,058	28,468,984
Appropriations:			
Dividend to the Government of Pakistan @ Rs 10 per share (2002: Rs 10 per share)		10,000	10,000
Transferred to Reserve Fund		(14,474)	-
BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN		218,584	28,458,984

The annexed notes form an integral part of these accounts.

Ishrat Husain
Governor

R. A. Chughtai
Deputy Governor

Muhammed Saleem Rehmani
Director Accounts

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2003

	Note	2003	2002
		(Rupees '000)	
Profit for the year after non-cash items	41	1,183,285	38,043,936
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(559)	(137)
Investments		232,003,668	282,882,780
Loans, advances and bills of exchange		8,060,054	16,101,008
Foreign currency reserves not included in cash and cash equivalents		(41,867)	(377,558)
Indian notes representing assets receivable from the Reserve Bank of India		(6,522)	52,036
Assets held with the Reserve Bank of India		(13,510)	(4,519)
Other assets - net		807,380	23,318,393
		240,808,644	321,972,003
Increase/(decrease) in liabilities			
Notes in circulation		64,516,540	65,437,981
Bills payable		348,638	(110,913)
Current accounts of the Government		25,425,280	11,285,040
Deposits of banks and financial institutions		8,714,935	(32,226,081)
Other deposits and accounts		275,752	(194,602,958)
Payable to the International Monetary Fund		7,880,350	17,251,163
Other liabilities - net		(10,601,173)	(39,777,221)
		96,560,322	(172,742,989)
		338,552,251	187,272,950
Retirement benefits and employees' compensated absences paid		(1,371,566)	(2,018,282)
Dividend income received		1,170,781	485,892
Gold purchased		(48,012)	(49,065)
Fixed capital expenditure		(85,511)	(84,321)
Proceeds from disposal of fixed assets		288,433	8,235
		(45,875)	(1,657,541)
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Surplus profit paid to the Government of Pakistan		(218,584)	(26,000,000)
		(228,584)	(26,010,000)
Increase in cash and cash equivalents for the year		338,277,792	159,605,409
Cash and cash equivalents at beginning of the year		293,921,212	134,315,803
Cash and cash equivalents at end of the year	42	632,199,004	293,921,212

The annexed notes form an integral part of these accounts.

Ishrat Husain
Governor

R. A. Chughtai
Deputy Governor

Muhammed Saleem Rehmani
Director Accounts

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2003

	Share capital	Capital receipt	Reserve Fund	Rural Credit Fund	Industrial Credit Fund	Export Credit Fund	Loans Guarantee Fund	Housing Credit Fund	Unrealised appreciation on gold reserves	Surplus on revaluation of fixed assets	Profit and loss account	Total
	(Rupees '000)											
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 profit 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
Net profit for the year	-	-	-	-	-	-	-	-	-	-	39,311	39,311
Surplus on revaluation realised on disposal of fixed assets	-	-	-	-	-	-	-	-	-	(203,747)	203,747	-
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Profit transferred to Reserve Fund	-	-	14,474	-	-	-	-	-	-	-	(14,474)	-
Balance profit transferred to the Government	-	-	-	-	-	-	-	-	-	-	(218,584)	(218,584)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	1,849,920	-	-	1,849,920
Balance at June 30, 2003	100,000	1,525,958	5,414,474	2,600,000	1,600,000	1,500,000	900,000	4,700,000	38,883,231	6,749,772	-	63,973,435

The annexed notes form an integral part of these accounts.

Ishrat Husain
Governor

R. A. Chughtai
Deputy Governor

Muhammed Saleem Rehmani
Director Accounts

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2003

1. STATUS AND NATURE OF OPERATIONS

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

- implementing the monetary and fiscal policies;
- issuing of currency;
- facilitation of free competition and stability in the financial system;
- licensing and supervision of credit institutions;
- organisation and management of the inter-bank settlement system and promotion of smooth functioning of payment systems;
- providing 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, 2003:

- SBP Banking Services Corporation; and
- National Institute of Banking and Finance (Guarantee) Limited which has become operative during the year and has accordingly been consolidated.

The Bank owns 100% of the share capital of SBP Banking Services Corporation and 59.4% of the share capital of National Institute of Banking and Finance (Guarantee) Limited.

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) approved for adoption by the Central Board of the Bank. Under the powers conferred by the State Bank of Pakistan Act, 1956, the Central Board approved IAS 1 to IAS 38 from those applicable in Pakistan for adoption by the Bank.

The consolidated financial statements include the accounts of the State Bank of Pakistan and its subsidiaries. The financial statements of subsidiaries 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 notes 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 bank notes lying with the Bank are not reflected in the books of account.

The Bank also issues coins of various denominations on behalf of the Government of Pakistan. These coins are purchased from the Government at their 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 Government securities are stated at cost. The cost of securities is adjusted for any amortisation of discounts or premiums on a straight-line basis over the period to maturity.
- Investments in listed securities are stated at the lower of cost and market value determined on a portfolio basis.
- Investments in unlisted securities are stated at cost less provision for any diminution in value. This provision is made only if there is a permanent impairment in the value of these investments.

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 (Repo) 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 discount, 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 the 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 retained earnings.

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. Gains 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 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 subsidiaries operate:

- 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

- Discount, 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. The income of SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited is also exempt from tax under Section 25 of the SBP Banking Services Corporation Ordinance, 2001 and section 49 of the State Bank of Pakistan Act, 1956 respectively.

2.14 Foreign currency translation

Transactions denominated in foreign currencies are translated to Pak Rupees at the foreign exchange rate ruling at the date of transaction. 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.

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 exchange differences arising under Exchange Risk Coverage Scheme 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 credit schemes other than fund facilities;
 - 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, balances in the current and deposit accounts and securities realisable in cash 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	2003 (Rupees' 000)	2002
3. Gold reserves held by the Bank			
Opening balance	2,059,771	39,378,223	35,617,683
Additions during the year	2,409	48,012	49,065
Appreciation arising from revaluation during the year - note 29		1,820,244	3,711,475
	<u>2,062,180</u>	<u>41,246,479</u>	<u>39,378,223</u>

4. Foreign currency reserves

Securities	55,074,419	18,249,366
Current accounts	18,587,372	14,494,057
Deposit accounts	489,839,438	255,011,199
	<u>563,501,229</u>	<u>287,754,622</u>

The above foreign currency reserves have been held as follows:

- Issue Department	459,116,601	245,300,329
- Banking Department	104,384,628	42,454,293
	<u>563,501,229</u>	<u>287,754,622</u>

4.1 The above include assets valuing Rs 165.307 million recoverable from the Government of India as at June 30, 2003 (2002: Rs 163.293 million). Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

4.2 The balance in current and deposit accounts carry interest at various rates ranging between 0.9 to 3.6 (2002: 1.6 to 3.9) percent per annum.

	2003 (Rupees' 000)	2002
5. Earmarked foreign currency balances	<u>53,113,531</u>	<u>4,823,634</u>

These represent certain foreign currency balances held with the banks and financial institutions which are earmarked to meet specific foreign currency liabilities and commitments of the Bank.

	2003 (Rupees' 000)	2002
6. Indian notes representing assets receivable from the Reserve Bank of India	<u>535,162</u>	<u>528,640</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.

	2003	2002
	(Rupees' 000)	
7. Local currency		
Bank notes held by the Banking Department - note 11	214,170	126,622
Rupee coins	2,351,138	1,738,021
	<u>2,565,308</u>	<u>1,864,643</u>
Less: Rupee coins held as assets of the Issue Department - note 7.1	2,351,138	1,738,021
	<u>214,170</u>	<u>126,622</u>

- 7.1** As mentioned in note 2.3, the Bank is responsible for issuing coins of various denominations on behalf of the Government. The closing balance represents the face value of unissued coins held by the Bank as at June 30, 2003.

	2003	2002
	(Rupees' 000)	
8. Investments		
Government securities - note 8.1		
Treasury bills :		
Market Treasury Bills	105,439,847	199,690,268
Adhoc Treasury Bills	-	122,830,242
	<u>105,439,847</u>	<u>322,520,510</u>
Federal Investment Bonds	2,150,000	3,824,750
Pakistan Investment Bonds	-	182,000
Federal and Provincial Government scrips	3,326,947	3,613,715
	<u>110,916,794</u>	<u>330,140,975</u>
Banks and financial institutions		
Ordinary shares - note 8.2		
- Listed	808,318	1,195,411
- Unlisted	32,288,214	39,882,871
	<u>33,096,532</u>	<u>41,078,282</u>
Advance against issue of share capital	8,749,999	16,650,000
Term Finance Certificates	282,400	282,400
	<u>42,128,931</u>	<u>58,010,682</u>
Subsidiary		
National Institute of Banking and Finance (Guarantee) Limited	-	7,500
Other investments		
Certificates of Deposits	112,351	112,351
Others	-	5,000
	<u>112,351</u>	<u>117,351</u>
	<u>153,158,076</u>	<u>388,276,508</u>
Less: Provision for diminution in the value of investments	394,747	3,539,404
	<u>152,763,329</u>	<u>384,737,104</u>
Less: Investment in securities held as assets of the Issue Department	18,558,695	170,389,508
	<u>134,204,634</u>	<u>214,347,596</u>

8.1 Investment in securities

The above include investments amounting to Rs 110,916.794 million (2002: Rs 330,140.975 million) secured by Government guarantees. The following is a profile of return on securities during the year:

	2003	2002
	% per annum	
Market Treasury Bills	1.6389 to 6.4045	5.6450 to 12.8756
Adhoc Treasury Bills	0.5 and 5	0.5 and 5
Federal Investment Bonds	15	15
Federal and Provincial Government scrips	3 to 16	3 to 16

8.2 Investment in shares of banks and financial institutions

	2003	2002		
	Holding more than 50 %			
Listed investments				
- Muslim Commercial Bank Limited	-	-	-	15,301
- National Bank of Pakistan - note 8.2.1	78.39%	88.36%	808,318	1,180,110
			808,318	1,195,411
Unlisted investments				
- United Bank Limited	-	99.58%	-	22,386,331
- Habib Bank Limited - note 8.2.3	98.42%	98.42%	11,986,185	11,986,185
- Zarai Taraqiati Bank Limited (formerly Agricultural Development Bank of Pakistan) - 8.2.4	99.69%	99.69%	3,204,323	3,204,323
- Federal Bank for Cooperatives	75.00%	75.00%	150,000	150,000
- Equity Participation Fund	65.81%	65.81%	102,000	102,000
			15,442,508	37,828,839
- Others with holding less than or equal to 50%			16,845,706	2,054,032
			32,288,214	39,882,871
			33,096,532	41,078,282

8.2.1 The market value of the Bank's investment in the shares of National Bank of Pakistan amounted to Rs 8,781.527 million as at June 30, 2003 (2002: Rs 6,773.366 million).

- 8.2.2** 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.
- 8.2.3** The break-up value of the Bank's investment in the shares of Habib Bank Limited (HBL) amounted to Rs 19,522.062 million at December 31, 2002 based on the financial statements of HBL for the year then ended while the cost of investment (including advance for issue of shares) was Rs 19,986.185 million.
- 8.2.4** This represents the cost of 99.69% holding in the shares of the former Agricultural Development Bank of Pakistan (ADBP). During the year, the Government promulgated the Agricultural Development Bank of Pakistan (Reorganization & Conversion) Ordinance, 2002 dated October 4, 2002 in order to revitalise the operations of the former ADBP. Pursuant to this Ordinance, the assets, contracts, liabilities, proceedings and undertakings of the former ADBP have been transferred to Zarai Taraqiati Bank Limited (ZTBL), a public limited company constituted under the Ordinance. The Government has also issued an Order under this Ordinance which envisages that the investment in shares of the former ADBP in the books of SBP is to be converted into a subordinated loan. The terms of this subordinated loan have not been finalised which has delayed the conversion process. Pending finalisation of this process, the balance continues to be disclosed as investment.

In addition to the above investment, the unsecured exposure of the Bank towards ZTBL includes Rs 5,548.751 million in respect of share of profit receivable on government guaranteed financing amounting to Rs 51,257.213 million provided to the former ADBP. This includes profit amounting to Rs 1,800 million accrued in the current year while the balance amount of Rs 3,748.751 million pertains to the years ended 2000-2001 and 2001-2002 which is expected to be converted into a term loan under the restructuring of ZTBL currently in progress. The accrual for the current year is based on the management estimate of ZTBL profits and on the assumption that any restructuring cost will not affect the Bank's share of profit, as the accounts of ZTBL have not been finalised to date.

The management is confident that the interest of the Bank will be completely safeguarded in the restructuring process of ZTBL which will result in conversion of ZTBL into a commercially viable entity capable of generating sufficient profits and cashflows to repay its obligations towards the Bank.

- 8.2.5** Others include Rs.14,791.674 million (2002: Rs 22,386.331 million) being the cost of investment in the shares of United Bank Limited (UBL). The break-up value of this investment amounted to Rs 5,390.394 million based on the financial statements of UBL for the year ended December 31, 2002. This position is subsequent to sale of 51% shares in UBL at Rs 47 per share as against its cost of Rs 59 per share with a consequential loss of Rs 3,144.657 million which was recognised in the books of account during the previous year. The management is confident that the cost of the remaining investment will be recovered in full as privatisation of UBL will enhance its value and substantial future profits are likely to be earned by UBL. Accordingly, no provision has been made in these accounts in respect of this investment.

	2003	2002
	(Rupees' 000)	
9. 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 (former East Pakistan).

	2003	2002
	(Rupees' 000)	
10. Assets held with the Reserve Bank of India		
Gold reserves		
- Opening balance	642,060	581,470
- Appreciation arising from revaluation during the year - note 29	29,676	60,590
	671,736	642,060
Sterling securities	316,471	303,157
Government of India securities	12,553	12,400
Rupee coins	3,709	3,666
	<u>1,004,469</u>	<u>961,283</u>

The above assets were allocated to the Government of Pakistan as its 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.

	2003	2002
	(Rupees' 000)	
11. Bank notes issued		
Notes held with the Banking Department - note 7	214,170	126,622
Notes in circulation	522,676,874	458,247,882
	<u>522,891,044</u>	<u>458,374,504</u>

	2003	2002
	(Rupees' 000)	
12. Special Drawing Rights	14,092,081	509,591

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, 2003. 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.

	2003	2002
	(Rupees' 000)	
13. Reserve tranche with the International Monetary Fund under quota arrangements		
Quota allocated by the International Monetary Fund	83,716,673	78,806,730
Less: liability under quota arrangements	83,707,113	78,797,729
	<u>9,560</u>	<u>9,001</u>

14. Loans, advances and bills of exchange		
Government - note 14.1	12,040,000	14,140,000
Government owned / controlled financial institutions - note 14.3	112,729,636	120,157,737
Private sector financial institutions - note 14.4	49,413,274	47,680,096
	162,142,910	167,837,833
Employees	4,725,756	4,990,887
	178,908,666	186,968,720
Provision for doubtful balances - note 14.6	4,095,413	3,865,230
	174,813,253	183,103,490
Less: Commercial papers - note 9	78,500	78,500
	<u>174,734,753</u>	<u>183,024,990</u>

14.1 Loans and advances to the Government

Federal Government	12,000,000	13,500,000
Provincial Government - Baluchistan	40,000	640,000
	<u>12,040,000</u>	<u>14,140,000</u>

14.2 The mark-up was charged on Federal and Provincial Government accounts during the year at various rates ranging between 1.7035 to 6.3790 (2002: 6.3124 to 12.0057) percent per annum.

14.3 Loans and advances to Government owned/ controlled financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2003	2002	2003	2002	2003	2002
	------(Rupees'000)-----					
Agricultural sector - note 14.3.2	55,686,785	55,163,836	-	-	55,686,785	55,163,836
Industrial sector	2,725,071	3,282,405	1,613,217	2,594,566	4,338,288	5,876,971
Export sector	14,780,711	17,529,797	3,567	3,567	14,784,278	17,533,364
Housing sector	66,907	66,907	14,157,300	15,257,300	14,224,207	15,324,207
Others	11,563,145	14,084,759	12,132,933	12,174,600	23,696,078	26,259,359
	<u>84,822,619</u>	<u>90,127,704</u>	<u>27,907,017</u>	<u>30,030,033</u>	<u>112,729,636</u>	<u>120,157,737</u>

14.3.1 The above include amounts aggregating to Rs 511.306 million (2002: Rs 507.566 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).

14.3.2 This includes Rs 51,257.213 million (2002: Rs 51,257.213 million) in respect of government guaranteed financing provided to the former ADBP (now ZTBL). As mentioned in note 8.2.4, the restructuring of ZTBL is in progress and the detailed terms of repayment of this financing are expected to be finalised in due course.

14.4 Loans and advances to private sector financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2003	2002	2003	2002	2003	2002
	------(Rupees'000)-----					
Industrial sector	153,752	211,222	3,577,792	3,673,652	3,731,544	3,884,874
Export sector	41,952,396	42,043,739	10,000	-	41,962,396	42,043,739
Others	3,719,334	1,751,483	-	-	3,719,334	1,751,483
	<u>45,825,482</u>	<u>44,006,444</u>	<u>3,587,792</u>	<u>3,673,652</u>	<u>49,413,274</u>	<u>47,680,096</u>

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

	2003	2002
	% per annum	
Government owned/ controlled and private sector financial institutions	4 to 12	4 to 12
Staff loans	10	10

	2003	2002
	(Rupees' 000)	
14.6 Movement of provision		
Opening balance	3,865,230	1,584,216
Provision made during the year	500,000	2,281,014
Provision written back during the year	(269,817)	-
	<u>4,095,413</u>	<u>3,865,230</u>

15. 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	819,924	819,919
- Loans and advances - note 15.1	2,770,650	2,568,890
	3,590,574	3,388,809
	<u>3,631,027</u>	<u>3,429,262</u>

15.1 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).

16. Operating fixed assets

The following is a statement of operating fixed assets:

	Cost or revalued amount at July 1, 2002	Additions/ revaluation/ (deletions) during the year	Cost or revalued amount at June 30, 2003	Accumulated depreciation/ amortisation at July 1, 2002	Charge for the year/ (accumulated depreciation on deletion)	Accumulated depreciation/ amortisation at June 30, 2003	Net book value at June 30, 2003	Annual rate of depreci- ation / amortisation %
Rupees '000								
Tangible assets								
Freehold land	966,606	- - (48,800)	917,806	-	- -	-	917,806	-
Leasehold land	5,136,018	- - (139,125)	4,996,893	123,910	112,151 (7,914)	228,147	4,768,746	over the term of lease
Building on freehold land	787,316	- - -	787,316	152,115	45,372 -	197,487	589,829	5
Building on leasehold land	1,113,972	10,995 - (24,128)	1,100,839	137,686	68,810 (3,739)	202,757	898,082	5
Furniture and fixtures	95,420	22,999 - (1,288)	117,131	40,443	9,662 (780)	49,325	67,806	10
Office equipment	678,696	15,519 - (685)	693,530	539,945	108,745 (490)	648,200	45,330	20
EDP equipment	429,660	74,347 - (164)	503,843	197,475	151,707 (252)	348,930	154,913	33.33
Motor vehicles	57,505	8,777 - (5,298)	60,984	39,441	6,754 (3,194)	43,001	17,983	20
Library books	636	76 - -	712	636	76 -	712	-	
	9,265,829	132,713 - (219,488)	9,179,054	1,231,651	503,277 (16,369)	1,718,559	7,460,495	
Intangible assets								
Computer software	31,923	337 - -	32,260	10,641	10,703 -	21,344	10,916	33.33
2003	9,297,752	133,050 - (219,488)	9,211,314	1,242,292	513,980 (16,369)	1,739,903	7,471,411	
2002	8,863,008	445,194 - (10,450)	9,297,752	757,330	490,756 (5,794)	1,242,292	8,055,460	

	2003	2002
	(Rupees' 000)	
16.1 Surplus on revaluation of fixed assets		
Opening balance	6,953,519	6,953,519
Surplus on revaluation realised on disposal of fixed assets	(203,747)	-
	<u>6,749,772</u>	<u>6,953,519</u>

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 6,404.136 million (2002: Rs 6,778.398 million) remains undepreciated at June 30, 2003 and has been included in the carrying value of the related assets.

	2003	2002
	(Rupees' 000)	
17. Capital work-in-progress		
Building on freehold land	2,943	-
Building on leasehold land	4,447	8,745
Furniture and fixtures	1,900	2,018
Office equipment	2,771	-
EDP equipment	1,905	182
Intangible assets	264,933	246,112
	<u>278,899</u>	<u>257,057</u>
18. Other assets		
Amounts due from financial institutions under currency swap arrangements - note 18.1	2,717,230	10,945,061
Accrued interest/ mark-up and return	884,060	1,791,674
Exchange gain recoverable under exchange risk coverage scheme - net	41,800	228,219
Share of profit recoverable from Zarai Taraqiati Bank Limited (formerly Agricultural Development Bank of Pakistan) under profit and loss sharing arrangements - note 8.2.4	5,548,751	4,279,750
Stationery and stamps on hand	25,036	17,152
Other advances, deposits and prepayments	543,721	531,849
Receivable from the Government	9,494,275	-
Others	6,461,795	6,932,598
	<u>25,716,668</u>	<u>24,726,303</u>

- 18.1** 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 23.

	2003	2002
	(Rupees' 000)	
19. Current accounts of the Government		
Federal Government - note 19.1	48,841,890	29,532,746
Provincial Governments		
- Punjab - note 19.2	20,292,864	16,568,627
- Sindh - note 19.3	3,361,749	(953,942)
- North West Frontier Province - note 19.4	5,532,498	4,155,734
- Baluchistan - note 19.5	1,198,843	5,328,239
	30,385,954	25,098,658
Government of Azad Jammu and Kashmir	2,490,059	1,661,219
	<u>81,717,903</u>	<u>56,292,623</u>
19.1 Federal Government		
Non-Food Account	34,630,083	11,693,816
Food Account	63,972	405,107
Zakat Fund Account	18,565,798	22,108,382
Railways- Ways and means advances	(4,939,204)	(4,701,598)
Fertilizer account	(216,577)	(229,011)
Saudi Arab special loan account	4,124	4,124
Pakistan Baitul Mal Fund account	85	85
Pakistan Railways special account	728,333	246,565
Government deposit account no. XII	5,276	5,276
	<u>48,841,890</u>	<u>29,532,746</u>
19.2 Provincial Government - Punjab		
Non-Food Account	(6,239,821)	(6,077,565)
Food Account	1,057,546	1,349,109
Zakat Fund Account	7,772	398,726
District Government account no. IV	13,177,552	8,518,997
Social action program	12,289,815	12,379,360
	<u>20,292,864</u>	<u>16,568,627</u>
19.3 Provincial Government - Sindh		
Non-Food Account	(154,058)	(3,250,398)
Food Account	211,914	508,306
Zakat Fund Account	144,917	123,247
District Government account no. IV	3,158,976	1,664,903
	<u>3,361,749</u>	<u>(953,942)</u>
19.4 Provincial Government - NWFP		
Non-Food Account	3,885,304	1,451,942
Food Account	389,095	13,636
Zakat Fund Account	611	3,022
District Government account no. IV	1,257,488	2,687,134
	<u>5,532,498</u>	<u>4,155,734</u>

	2003	2002
	(Rupees' 000)	
19.5 Provincial Government - Baluchistan		
Non-Food Account	(2,526,162)	2,845,862
Food Account	1,950	344,694
Zakat Fund Account	302,171	2,908
District Government account no. IV	3,420,884	2,134,775
	<u>1,198,843</u>	<u>5,328,239</u>

20. Deposits of banks and financial institutions

Foreign currency

- Scheduled banks	19,885,202	21,475,584
- Held under CRR scheme	27,083,275	28,221,731
	46,968,477	49,697,315

Local currency

- Scheduled banks	94,076,143	82,293,239
- Non-banking financial institutions	620,428	959,559
	94,696,571	83,252,798
	<u>141,665,048</u>	<u>132,950,113</u>

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

	2003	2002
	% per annum	
- Foreign currency	0.80 to 1.34	1.14 to 2.86
- Local currency	10.67 to 14.79	10.99 to 15.62

	2003	2002
	(Rupees' 000)	
21. Other deposits and accounts		
Foreign currency		
- Foreign central banks	26,015,103	27,012,767
- International organisation	14,451,875	18,007,320
- Others	-	12,517
	40,466,978	45,032,604
Local currency		
- Special debt repayment - note 21.2	18,802,147	15,182,626
- Government - note 21.3	19,817,965	18,464,962
- Others	1,881,063	2,012,209
	40,501,175	35,659,797
	<u>80,968,153</u>	<u>80,692,401</u>

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

	2003	2002
	% per annum	
- Foreign central banks	1.39 to 2.21	2.17 to 5.92
- International organisation	3.1 to 4.5	4.0 to 4.5

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

21.3 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.

2003 2002
(Rupees' 000)

22. Payable to the International Monetary Fund

Borrowings under:

- Fund facilities - note 22.1
- Other credit schemes - note 22.2

54,409,694	70,810,494
66,523,617	42,242,471
120,933,311	113,052,965
73	69
<u>120,933,384</u>	<u>113,053,034</u>

Current account for administrative charges

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

22.2 This includes Rs 728.887 million (2002: 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 in its capacity as Trustee of the Saudi Fund in respect of this arrangement.

2003 2002
(Rupees' 000)

23. Other liabilities

Foreign currency

Amounts due to financial institutions under currency swap arrangements - note 18.1

Accrued interest and discount

Charges on allocation of SDR

Others

2,601,338	10,204,148
256,799	394,096
38,000	53,000
2,888	2,032
2,899,025	10,653,276

Local currency

Overdue mark-up and return

Unearned exchange risk fee

Remittance clearance account

Share of loss under profit and loss sharing arrangements

Dividend payable to the Government

Payable to the Government in respect of privatisation proceeds

Other accruals and provisions - note 23.1

Others

3,223,263	3,326,782
67,030	1,100,000
246	31,282
3,543,166	3,845,369
10,000	10,000
2,929,066	2,929,066
3,093,916	2,699,898
2,800,534	3,128,155
<u>15,667,221</u>	<u>17,070,552</u>
<u>18,566,246</u>	<u>27,723,828</u>

	2003	2002
	(Rupees' 000)	
23.1 Other accruals and provisions		
Interest, mark-up and discount	20,806	380,276
Printing charges	147,187	14,235
Agency commission	326,514	286,776
Provision for employees' compensated absences	1,673,004	1,500,000
Others	926,405	518,611
	<u>3,093,916</u>	<u>2,699,898</u>
24. Deferred liabilities - staff retirement benefits		
Provident fund scheme	852,658	811,145
Gratuity	101,036	97,000
Pension	6,744,560	6,032,000
Benevolent fund scheme	848,184	805,830
Post retirement medical benefits	363,825	189,000
	<u>8,910,263</u>	<u>7,934,975</u>

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

	Net recognised liability as at July 1, 2002	Charge for the year	Payments made during the year	Recognised liability as at June 30, 2003
	-----Rupees ('000)-----			
Gratuity	97,000	17,160	13,124	101,036
Pension	6,032,000	1,167,000	454,440	6,744,560
Benevolent	805,830	129,000	86,646	848,184
Post retirement medical benefits	189,000	290,000	115,175	363,825
	<u>7,123,830</u>	<u>1,603,160</u>	<u>669,385</u>	<u>8,057,605</u>

	2003	2002
	(Rupees' 000)	
25. Deferred income		
Opening balance	480,754	272,535
Grants received during the year	69,381	329,175
Amortisation during the year	(135,029)	(120,956)
	<u>415,106</u>	<u>480,754</u>

		2003	2002
		(Rupees' 000)	
26. 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 which are in the name of 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.

		2003	2002
		(Rupees' 000)	
27. Capital receipt			
	Allocation of Special Drawing Rights	<u>1,525,958</u>	<u>1,525,958</u>
28. Reserves			
	Reserve Fund - note 28.1	5,414,474	5,400,000
	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>16,714,474</u>	<u>16,700,000</u>
28.1 Reserve Fund			

This includes Rs 5,400 million in respect of 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. The balance amount of Rs 14.474 million represents income arising on consolidation of National Institute of Banking and Finance (Guarantee) Limited during the year.

28.2 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.

	2003	2002
	(Rupees' 000)	
29. Unrealised appreciation on gold reserves		
Opening balance	37,033,311	33,261,246
Appreciation arising from revaluation during the year:		
- held by the Bank - note 3	1,820,244	3,711,475
- held with the Reserve Bank of India - note 10	29,676	60,590
	1,849,920	3,772,065
	<u>38,883,231</u>	<u>37,033,311</u>

29.1 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.

	2003	2002
	(Rupees' 000)	
30. Contingencies and commitments		
30.1 Contingencies		
Money for which the Bank is contingently liable:		
a) Contingent liability in respect of guarantees given on behalf of:		
i) Government	31,723,775	16,153,310
ii) Government owned/controlled bodies and authorities	103,829,076	107,665,549
	<u>135,552,851</u>	<u>123,818,859</u>

Guarantees amounting to Rs 131,792.185 million (2002: 115,135.310 million) are secured by counter guarantees either from the Government of Pakistan or local financial institutions. The Bank is in the process of obtaining counter guarantees from the Government for the remaining amount of Rs 3,760.666 million

- b) Certain employees of the Bank, retired under Voluntary Golden Handshake Scheme in 1997, have filed a petition in the Supreme Court of Pakistan claiming that certain retirement benefits are required to be paid to them at enhanced salary levels in addition to the benefits already paid to them as per the scheme. The petition is currently pending in the Supreme Court and the management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made. As the matter is currently under litigation the disclosure of the financial effect of this matter is not considered appropriate.
- c) Other claims against the Bank not acknowledged as debts

30.2 Commitments		
Forward exchange contracts for purchase	34,696,460	-
Forward exchange contracts for sale	10,742,916	18,898,027
Repurchase and outright sale of securities	9,127,077	41,577,177
Import letters of credit	70,688,072	95,921,553

	2003	2002
	(Rupees' 000)	
31. Discount, interest/mark-up and/or return earned		
Market Treasury Bills - net	7,339,477	26,640,337
Adhoc Treasury Bills	211,775	624,468
Other Government securities	603,590	1,036,745
Loans and advances to Government	406,938	1,420,818
Loans and advances to banks and financial institutions	3,632,247	3,282,744
Share of profit on finances under profit and loss sharing arrangements - n	2,591,419	1,296,542
Foreign currency deposits	5,567,318	4,038,391
Foreign currency Treasury Bills	789,411	284,616
Others	17,668	98,705
	<u>21,159,843</u>	<u>38,723,366</u>
32. Interest/ mark-up expense		
Deposits	2,539,255	5,745,141
Others	38,907	49,361
	<u>2,578,162</u>	<u>5,794,502</u>
33. Commission income		
Market Treasury Bills	62,418	31,111
Draft /payment orders	46,479	117,901
Prize Bonds and National Saving Certificates	115,840	95,715
Management of public debts	63,397	55,017
Others	34,857	47,465
	<u>322,991</u>	<u>347,209</u>
34. Exchange gain/ (loss)		
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	(12,951,336)	(4,596,425)
- Open market operations (including currency swap arrangements)	(1,730,900)	(566,372)
- Forward covers under Exchange Risk Coverage Scheme	1,206,876	8,213,411
- Payable to the International Monetary Fund	(1,000,142)	(925,604)
- SDRs	130,213	8,320
- Others	224,093	285,831
	<u>(14,121,196)</u>	<u>2,419,161</u>
Exchange risk fee income	2,311,731	6,613,845
	<u>(11,809,465)</u>	<u>9,033,006</u>
35. Other operating income		
Penalties levied on banks and financial institutions	279,472	458,999
License/ CIB fee recovered	84	13,374
Others	171	390
	<u>279,727</u>	<u>472,763</u>

36. Note printing charges

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

37. Agency commission

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15 % (2002: 0.15 %) of the total amount of collection and remittances handled by NBP.

38. Establishment costs

2003 2002
(Rupees' 000)

Salaries and other benefits	2,364,922	2,211,663
Retirement benefits and employees' compensated absences	2,478,345	4,571,121
Daily wages staff	6,536	7,803
Medical allowances	242,829	193,919
Overtime allowance	10,771	10,785
Rent and taxes	20,535	20,112
Insurance	2,300	1,551
Electricity, gas and water charges	103,427	101,612
Depreciation - note 16	513,980	490,756
Repairs to Bank property	21,105	14,567
Repairs to Bank's vehicles	2,933	1,940
Repairs to mechanical/ electrical equipment	17,428	18,260
Directors' fee	1,440	1,441
Auditors' remuneration - note 38.3	2,770	3,311
Legal and professional charges	41,025	34,673
Travelling expenses	28,777	20,702
Daily expenses	37,611	35,716
Passages	32,890	14,656
Fuel charges	7,620	9,821
Conveyance charges	7,052	7,623
Postages	4,558	4,746
Telegram/ telex	11,517	20,980
Telephone	32,340	38,202
Training	11,534	11,093
Examination/ testing services	443	1,047
Remittance of treasure	32,161	28,371
Stationery	23,096	17,521
Books and newspapers	4,869	4,784
Advertisement	7,273	2,960
Bank guards	34,244	29,715
Uniforms	20,901	18,193
Others	56,129	38,140
	<u>6,183,361</u>	<u>7,987,784</u>

38.1 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, 2003:

	Percent per annum
Expected rate of increase in salary	5.94%
Expected rate of discount	8.00%
Rate of benevolent fund grants and contributions	2.70%
Medical cost trend	2.86%

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 was fully recognised last 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 in respect of retirement benefits	Unrecognised actuarial gain / (loss)	Unrecognised transitional liability
	----- Rupees ('000) '-----			
Gratuity	86,814	101,036	21,222	7,000
Pension	7,064,560	6,744,560	(43,000)	277,000
Benevolent	994,184	848,184	(132,500)	13,500
Post retirement medical benefits	738,825	363,825	(345,500)	29,500
	<u>8,884,383</u>	<u>8,057,605</u>	<u>(499,778)</u>	<u>327,000</u>

The accumulated provision as at June 30, 2003 includes an amount of Rs 3,069 million (2002: 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	Actuarial (gain) / loss recognised	Total
	----- Rupees ('000) -----				
Gratuity	3,268	10,077	7,000	(3,185)	17,160
Pension	209,000	681,000	277,000	-	1,167,000
Benevolent	33,000	82,500	13,500	-	129,000
Post retirement medical benefits	13,000	19,500	29,500	228,000	290,000
	<u>258,268</u>	<u>793,077</u>	<u>327,000</u>	<u>224,815</u>	<u>1,603,160</u>

38.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2003 using the Projected Unit Credit Method. An amount of Rs 237 million (2002: Rs 1,101 million) has been charged to the profit and loss account in this respect based on actuarial recommendation.

38.3 Auditors' remuneration

	A. F. Ferguson & Co.	Taseer Hadi Khalid & Co.	Syed Husain & Co.	2003	2002
	----- (Rupees' 000) -----				
Audit fee	500	500		1,000	1,000
Special certifications/ examinations and sundry advisory services	-	-	-	-	611
Out of pocket expenses	350	350	10	710	700
Audit fee of subsidiaries	500	500	60	1,060	1,000
	<u>1,350</u>	<u>1,350</u>	<u>70</u>	<u>2,770</u>	<u>3,311</u>

	2003	2002
	(Rupees' 000)	
39. Other income		
Profit on disposal of fixed assets	85,314	3,579
Liabilities and provisions no longer required written back - net	278,190	-
Profit on disposal of investments	591,228	141,424
Amortisation of deferred income - note 25	135,029	120,956
Others - note 39.1	930,082	25,751
	<u>2,019,843</u>	<u>291,710</u>
39.1 This includes Rs 844.590 million being the reversal of liability in respect of the face value of Re 2 notes in circulation which is no longer payable subsequent to demonetisation of these notes.		
40. Other charges		
Charges on allocation of SDR	263,882	345,355
Others	332,658	77,416
	<u>596,540</u>	<u>422,771</u>
41. Profit for the year after non-cash items		
Profit for the year	39,311	25,468,984
Adjustments for:		
Depreciation	513,980	490,756
Amortisation of deferred income	(135,029)	(120,956)
Provision for:		
- retirement benefits and employees' compensated absences	2,478,345	4,571,121
- loans and advances	500,000	2,281,014
- share of loss / (profit) under profit and loss sharing arrangements	(2,102,204)	(276,152)
- diminution in value of investments	-	3,144,657
Loans and advance written off	-	1,402,252
Liabilities and provisions no longer required written back	(278,190)	-
Profit on disposal of fixed assets	(85,314)	(3,579)
Restatement of investment in NIBAF	-	(7,500)
Dividend income	(1,168,526)	(336,777)
Other accruals and provisions - net	1,420,912	1,430,116
	<u>1,183,285</u>	<u>38,043,936</u>
42. Cash and cash equivalents		
Local currency	2,565,308	1,864,643
Foreign currency reserves	562,428,084	286,723,344
Earmarked foreign currency balances	53,113,531	4,823,634
Special Drawing Rights	14,092,081	509,591
	<u>632,199,004</u>	<u>293,921,212</u>

43. Interest/ mark-up rate risk

	Interest/ mark-up bearing *			Non interest/ mark-up bearing			Grand Total
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	
----- (Rupees '000) -----							
Financial assets							
Local Currency	-	-	-	2,565,308	-	2,565,308	2,565,308
Foreign currency reserves	543,840,711	1,073,145	544,913,856	18,587,373	-	18,587,373	563,501,229
Earmarked foreign currency balances	53,113,531	-	53,113,531	-	-	-	53,113,531
Special Drawing Rights	14,092,081	-	14,092,081	-	-	-	14,092,081
Reserve tranche with the International Monetary Fund under quota arrangements	9,560	-	9,560	-	-	-	9,560
Investments	106,827,847	4,088,947	110,916,794	-	41,846,535	41,846,535	152,763,329
Loans, advances and bills of exchange	124,169,164	29,571,899	153,741,063	12,590,572	8,481,618	21,072,190	174,813,253
Balances due from Governments of India and Bangladesh (former East Pakistan)	2,770,650	-	2,770,650	860,377	-	860,377	3,631,027
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	535,162	-	535,162	535,162
Assets held with the Reserve Bank of India	329,024	-	329,024	3,709	-	3,709	332,733
Other assets	52,782	-	52,782	22,915,194	2,704,122	25,619,316	25,672,098
	<u>845,205,350</u>	<u>34,733,991</u>	<u>879,939,341</u>	<u>58,057,695</u>	<u>53,032,275</u>	<u>111,089,970</u>	<u>991,029,311</u>
Financial liabilities							
Bank notes in circulation	-	-	-	-	522,891,044 **	522,891,044	522,891,044
Bills payable	-	-	-	671,931	-	671,931	671,931
Current accounts of the Government	-	-	-	81,717,903	-	81,717,903	81,717,903
Deposits of banks and financial institutions	20,297,337	-	20,297,337	121,367,711	-	121,367,711	141,665,048
Other deposits and accounts	-	40,466,978	40,466,978	40,501,175	-	40,501,175	80,968,153
Payable to the International Monetary Fund	28,158,063	92,775,321	120,933,384	-	-	-	120,933,384
Other liabilities	-	-	-	14,344,344	4,153,342	18,497,686	18,497,686
	<u>48,455,400</u>	<u>133,242,299</u>	<u>181,697,699</u>	<u>258,603,064</u>	<u>527,044,386</u>	<u>785,647,450</u>	<u>967,345,149</u>

* includes finances provided under profit and loss sharing arrangements

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

43.1 Risk management policies

The Bank is primarily subject to interest/mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 43.1.1 to 43.1.4. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

43.1.1 Interest/mark-up rate risk management

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

43.1.2 Credit risk management

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

43.1.3 Currency risk management

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

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

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

43.1.4 Liquidity risk management

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

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

43.1.5 Fair value of assets and liabilities

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

44. Number of employees	2003	2002
Number of employees at June 30	<u>6,782</u>	<u>7,158</u>

45. General

- The corresponding figures have been re-arranged and re-classified for comparison, wherever necessary.
- Figures have been rounded off to the nearest thousand rupees.

46. Date of Authorisation

These financial statements were authorised for issue on 27th September 2003 by the Central Board of Directors of the Bank.

Ishrat Husain
Governor

R. A. Chughtai
Deputy Governor

Muhammed Saleem Rehmani
Director Accounts