

12 Consolidated Financial Statements of the SBP and its Subsidiaries

**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 SULTAN TRUST
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, 2004 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 separate joint opinions 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 financial 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 financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

Events have rendered impossible 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 included in the financial statements. Realisability of these assets amounting to Rs. 6,291.558 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. 1,930.008 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 finalization of the restructuring process of Zarai Taraqiati Bank Limited (ZTBL) 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 and UBL.

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

- (a) in our opinion the consolidated balance sheets and related consolidated profit and loss account, consolidated cash flow statement and consolidated 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 consolidated balance sheets, consolidated profit and loss account, consolidated cash flow statement and consolidated 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 affairs of the Bank and its subsidiaries as at June 30, 2004 and of the profit, their cash flows and changes in equity for the year then ended.

A. F. Ferguson & Co.
Chartered Accountants
Karachi
Date: September 7, 2004

Taseer Hadi Khalid & Co.
Chartered Accountants
Karachi
Date: September 7, 2004

State Bank of Pakistan and its Subsidiaries - Issue Department
Consolidated Balance Sheet

As at June 30, 2004

	<i>Note</i>	2004 (Rupees in '000)	2003
ASSETS			
Gold reserves held by the Bank	3	47,532,115	41,246,479
Foreign currency reserves	4	500,312,132	459,116,601
Special Drawing Rights of the International Monetary Fund	5	13,826,690	-
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	7	543,793	535,162
- Rupee coins	8	2,799,163	2,351,138
		3,342,956	2,886,300
Investment in securities	9	45,671,523	18,558,695
Commercial papers	10	78,500	78,500
Assets held with the Reserve Bank of India	11	1,139,741	1,004,469
		611,903,657	522,891,044
LIABILITIES			
Bank notes issued	12	611,903,657	522,891,044

The annexed notes 1 to 46 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan and its Subsidiaries - Banking Department
Consolidated Balance Sheet

As at June 30, 2004

	Note	2004	2003
(Rupees in '000)			
ASSETS			
Local currency	8	160,830	214,170
Foreign currency reserves	4	132,021,383	104,384,628
Earmarked foreign currency balances	6	3,780,277	53,113,531
Special Drawing Rights of the International Monetary Fund	5	-	14,092,081
		<u>135,962,490</u>	<u>171,804,410</u>
Reserve tranche with the International Monetary Fund under quota arrangements	13	10,062	9,560
Current account of the Government of Balochistan	19.5	5,533,119	-
Investments	9	124,986,262	134,543,853
Loans, advances and bills of exchange	14	200,225,826	174,734,753
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	3,846,494	3,631,027
Fixed assets:			
- Operating fixed assets	16	7,110,834	7,471,411
- Capital work-in-progress	17	365,202	278,899
		<u>7,476,036</u>	<u>7,750,310</u>
Other assets	18	12,911,864	25,716,668
Total assets		<u>490,952,153</u>	<u>518,190,581</u>
LIABILITIES			
Bills payable		494,365	671,931
Current accounts of the Government*	19	48,889,002	81,717,903
Deposits of banks and financial institutions	20	156,170,805	141,665,048
Other deposits and accounts	21	83,028,804	80,968,153
Payable to the International Monetary Fund	22	102,405,234	120,933,384
Other liabilities	23	20,313,153	18,905,465
		<u>411,301,363</u>	<u>444,861,884</u>
Deferred liability - staff retirement benefits	24	9,151,321	8,910,263
Deferred income	25	286,195	415,106
Total liabilities		<u>420,738,879</u>	<u>454,187,253</u>
Net assets		<u>70,213,274</u>	<u>64,003,328</u>
Share capital	26	100,000	100,000
Capital receipt	27	1,525,958	1,525,958
Reserves	28	16,714,474	16,714,474
		<u>18,340,432</u>	<u>18,340,432</u>
Unrealised appreciation on gold reserves	29	45,205,621	38,883,231
Surplus on revaluation of fixed assets	16.1	6,637,328	6,749,772
Minority interest		29,893	29,893
		<u>70,213,274</u>	<u>64,003,328</u>
Contingencies and commitments	30		

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

The annexed notes 1 to 46 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan and its Subsidiaries
Consolidated Profit and Loss Account
For the year ended June 30, 2004

	<i>Note</i>	2004	2003
		(Rupees in '000)	
Discount, interest / mark-up and / or return earned	31	11,734,111	21,159,843
Interest / mark-up expense	32	<u>(5,202,091)</u>	<u>(2,578,162)</u>
		6,532,020	18,581,681
Commission	33	496,454	322,991
Exchange gain / (loss) - net	34	755,172	(11,809,465)
Dividend income		1,422,058	1,168,526
Other operating income	35	<u>367,824</u>	<u>279,727</u>
		9,573,528	8,543,460
Direct operating expenses			
Note printing charges	36	(1,963,777)	(1,845,963)
Agency commission	37	(1,554,969)	(1,398,128)
Provision against loans and advances	14.4	<u>(566,906)</u>	<u>(500,000)</u>
		5,487,876	4,799,369
Establishment costs	38	<u>(6,073,234)</u>	<u>(6,183,361)</u>
OPERATING LOSS		(585,358)	(1,383,992)
Other income	39	<u>7,241,967</u>	<u>2,019,843</u>
		6,656,609	635,851
Other charges	40	<u>(548,111)</u>	<u>(596,540)</u>
NET PROFIT FOR THE YEAR		6,108,498	39,311
Surplus on revaluation of fixed assets realised on disposal	16.1	<u>112,444</u>	203,747
AVAILABLE FOR APPROPRIATION		6,220,942	243,058
Appropriation:			
Dividend to the Government of Pakistan @ Rs 10 per share (2003: Rs 10 per share)		(10,000)	(10,000)
Transferred to Reserve Fund		-	(14,474)
BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN		<u>6,210,942</u>	<u>218,584</u>

The annexed notes 1 to 46 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan and its Subsidiaries

Consolidated Cash Flow Statement

For the year ended June 30, 2004

	Note	2004	2003
		(Rupees in '000)	
Profit for the year after non-cash items	41	15,075,209	1,183,285
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(502)	(559)
Investments		(17,894,456)	231,664,449
Loans, advances and bills of exchange		(26,057,979)	8,060,054
Foreign currency reserves not included in cash and cash equivalents		(1,528,452)	(41,867)
Indian notes representing assets receivable from the Reserve Bank of India		(8,631)	(6,522)
Assets held with the Reserve Bank of India		(33,929)	(13,510)
Other assets - net		7,246,304	807,380
		(38,277,645)	240,469,425
Increase/(decrease) in liabilities			
Notes in circulation		89,012,613	64,516,540
Bills payable		(177,566)	348,638
Current accounts of the Government*		(38,362,020)	25,425,280
Deposits of banks and financial institutions		14,505,757	8,714,935
Other deposits and accounts		2,060,651	275,752
Payable to the International Monetary Fund		(18,528,150)	7,880,350
Other liabilities - net		(240,555)	(10,261,954)
		48,270,730	96,899,541
		25,068,294	338,552,251
Payment of retirement benefits and employees' compensated absences			
Receipt of dividend income		(2,123,594)	(1,371,566)
Gold purchased		1,431,808	1,170,781
Fixed capital expenditure		(64,589)	(48,012)
Fixed capital expenditure		(264,026)	(85,511)
Proceeds from disposal of fixed assets		272,923	288,433
		(747,478)	(45,875)
Dividend paid to the Government of Pakistan			
Surplus profits paid to the Government of Pakistan		(10,000)	(10,000)
		(6,210,942)	(218,584)
		(6,220,942)	(228,584)
Increase in cash and cash equivalents during the year			
		18,099,874	338,277,792
Cash and cash equivalents at beginning of the year			
		632,199,004	293,921,212
Cash and cash equivalents at end of the year			
	42	650,298,878	632,199,004

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

The annexed notes 1 to 46 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan and its Subsidiaries
Consolidated Statement of Changes in Equity
For the year ended June 30, 2004

	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				
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 ended June 30, 2003	-	-	-	-	-	-	-	-	-	-	39,311	39,311
Surplus on revaluation of fixed assets realised on disposal	-	-	-	-	-	-	-	-	-	(203,747)	203,747	-
Dividend to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Profit transferred to Reserve Fund	-	-	14,474	-	-	-	-	-	-	-	(14,474)	-
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(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
Net profit for the year ended June 30, 2004	-	-	-	-	-	-	-	-	-	-	6,108,498	6,108,498
Surplus on revaluation of fixed assets realised on disposal	-	-	-	-	-	-	-	-	-	(112,444)	112,444	-
Dividend to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(6,210,942)	(6,210,942)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	6,322,390	-	-	6,322,390
Balance at June 30, 2004	100,000	1,525,958	5,414,474	2,600,000	1,600,000	1,500,000	900,000	4,700,000	45,205,621	6,637,328	-	70,183,381

The annexed notes 1 to 46 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan & its Subsidiaries

Notes to the Consolidated Financial Statements

For the year ended June 30, 2004

1. STATUS AND NATURE OF OPERATIONS

1.1 State Bank of Pakistan (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.

1.2 The subsidiaries of the Bank and the nature of their respective activities are as follows:

/// SBP Banking Services Corporation – wholly owned subsidiary

SBP Banking Services Corporation was established under the SBP Banking Service Corporation Ordinance, 2001 and commenced its operations with effect from January 2, 2002. It is responsible for carrying out certain statutory and administrative functions and activities principally relating to public dealing on behalf of the State Bank of Pakistan.

/// National Institute of Banking and Finance (Guarantee) Limited - shareholding at 59.4%

National Institute of Banking and Finance (Guarantee) Limited was incorporated under the Companies Ordinance, 1984 as a private limited company limited by guarantee. The Institute is engaged in providing education and training in the field of banking, finance and allied areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

/// These financial statements 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 Group.

/// The consolidated financial statements include collectively the financial statements of the State Bank of Pakistan (Bank) and its subsidiaries (the Group). Financial statements of the subsidiaries have been consolidated on a line-by-line basis.

/// All inter-group balances and transactions have been eliminated.

2.2 Accounting convention

These financial statements 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 and certain employee benefits, as referred to in notes 2.9(c) and 2.10 have been stated at their present values.

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 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indications exist, the recoverable amount of such assets is estimated and the impairment loss recognised in the profit and loss account. Balances considered bad and irrecoverable are written off from the books of account.

Provisions against impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income / expense currently.

2.5 Investments

Investments in debt 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 marketable securities, other than debt securities mentioned above, are stated at the lower of cost and market value.

Investments in unlisted securities (other than debt securities mentioned above) are stated at cost less impairment losses, if any.

State Bank of Pakistan 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. On 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 price 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. Appreciation or depreciation, if any, 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 impairment losses, if any. Freehold land is stated at revalued amount less accumulated impairment losses, if any, 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 accumulated impairment losses, if any. 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 Group 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 Group to cover the obligations arising under these schemes based on actuarial recommendations. The actuarial valuations are carried out under the Projected Unit Credit Method. Unrecognised actuarial gains and losses are recognised in the profit and loss account over the expected average remaining working lives of the employees.

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

2.10 Compensated absences

The Group makes annual provision 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 are recorded on accrual basis. However, income on balances pertaining to transactions in former East Pakistan (now Bangladesh), doubtful loans and advances and overdue return on investments are recognised as income on receipt basis.

~~///~~ Dividend income is recognised when the Group's right to receive dividend is established.

~~///~~ Gains on disposal of securities are taken to profit and loss account currently.

~~///~~ 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 State Bank of Pakistan 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 transactions

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, referred to in note 2.15, which are transferred to the Government of Pakistan account.

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 International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards 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 Special Drawing Rights 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 Provisions

Provisions are recognised when the Group 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.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash, balances in the current and deposit accounts and securities that are realisable in known amounts of cash within three months and which are subject to insignificant changes in value.

2.18 Financial instruments

Financial assets and liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Any gain or loss on the derecognition of the financial assets and liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include foreign currency reserves, investments, loans and advances, government accounts, other deposit accounts and liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

2.19 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

	Net content in troy ounces	2004 (Rupees in '000)	2003
3. GOLD RESERVES HELD BY THE BANK			
Opening balance	2,062,180	41,246,479	39,378,223
Additions during the year	2,730	64,589	48,012
Appreciation during the year due to revaluation 29	-	6,221,047	1,820,244
	<u>2,064,910</u>	<u>47,532,115</u>	<u>41,246,479</u>

4. FOREIGN CURRENCY RESERVES

Securities		138,313,415	55,074,419
Deposit accounts 4.2		490,621,651	489,839,438
Current accounts 4.2		3,398,449	18,587,372
		<u>632,333,515</u>	<u>563,501,229</u>

The above foreign currency reserves are held as follows:

- Issue Department of the Bank		500,312,132	459,116,601
- Banking Department of the Bank		132,021,383	104,384,628
		<u>632,333,515</u>	<u>563,501,229</u>

- 4.1 At June 30, 2004, above assets included Rs. 167.974 million (2003: Rs. 165.307 million) recoverable from the Government of India. 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 0.97 to 4.52 (2003: 0.9 to 3.6) percent per annum.

5. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

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 the SDRs from the IMF and other member countries in order to settle their obligations. The above represents the rupee value of the SDRs held by the Bank at June 30, 2004. 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.

At June 30, 2004, the SDRs were held as follows:

By the Issue Department of the Bank		13,826,690	-
By the Banking Department of the Bank		-	14,092,081
		<u>13,826,690</u>	<u>14,092,081</u>

6. EARMARKED FOREIGN CURRENCY BALANCES

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

7. INDIAN NOTES REPRESENTING ASSETS RECEIVABLE FROM THE RESERVE BANK OF INDIA

These represent Pak Rupee equivalent of Indian rupee notes which were 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.

		2004	2003
		(Rupees in '000)	
8. LOCAL CURRENCY			
Bank notes held by the Banking Department of the Bank	12	160,830	214,170
Rupee coins		2,799,163	2,351,138
		<u>2,959,993</u>	<u>2,565,308</u>
Rupee coins held as assets of the Issue Department of the Bank	8.1	(2,799,163)	(2,351,138)
		<u>160,830</u>	<u>214,170</u>
8.1 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 at June 30, 2004.			
9. INVESTMENTS			
Government securities		9.1	
Market Treasury Bills		129,240,662	105,439,847
Federal Investment Bonds		2,150,000	2,150,000
Federal and Provincial Government scripts		2,740,000	3,326,947
Pakistan Investment Bonds		384,506	-
		<u>134,515,168</u>	<u>110,916,794</u>
Banks and other financial institutions			
Ordinary shares			
- Listed		1,100,807	1,147,537
- Unlisted		35,041,806	32,288,214
	9.2	<u>36,142,613</u>	<u>33,435,751</u>
Advance against issue of share capital		-	8,749,999
Term Finance Certificates		282,400	282,400
		<u>36,425,013</u>	<u>42,468,150</u>
Other investments			
Certificates of Deposits		112,351	112,351
		<u>171,052,532</u>	<u>153,497,295</u>
Provision against diminution in value of investments		(394,747)	(394,747)
		<u>170,657,785</u>	<u>153,102,548</u>
Investment in securities held as assets of the Issue Department of the Bank	9.3	(45,671,523)	(18,558,695)
		<u>124,986,262</u>	<u>134,543,853</u>

9.1 Investment in Government securities

These represent investments guaranteed / issued by the Government. The profile of return on securities during the year is as follows:

	2004 (% per annum)	2003
Market Treasury Bills	1.2116 to 4.3247	1.6389 to 6.4045
Federal Investment Bonds	15	15
Federal and Provincial Government scripts	3 to 16	3 to 16

9.2 Investment in shares of banks and other financial institutions

9.2.1

	<u>Holding more than 50%</u>			2004	2003
	2004 %	2003 %		(Rupees in '000)	
Listed investments					
National Bank of Pakistan	75.18	78.39	9.2.2	1,100,807	1,147,537
Unlisted investments					
Habib Bank Limited	73.05	98.42	9.2.3	14,739,777	11,986,185
Zarai Taraqati Bank Limited	99.69	99.69	9.2.4	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
				18,196,100	15,442,508
Other investments with holding less than or equal to 50%			9.2.5	16,845,706	16,845,706
				35,041,806	32,288,214
				36,142,613	33,435,751

9.2.1 Investments in 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 purposes 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.

9.2.2 Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2004 amounted to Rs. 24,604.850 million (2003: Rs. 8,781.527 million).

9.2.3 During the year, the Bank along with the Privatisation Commission, Government of Pakistan, entered into an agreement dated February 26, 2004 with The Aga Khan Fund for Economic Development S.A. (AKFED) for the transfer of ownership of 51% shares of Habib Bank Limited's (HBL) total paid-up capital to AKFED for USD 389.929 million. Under this agreement, the Bank has transferred ownership of 26% of HBL's total paid-up capital, proceeds of which amounting to USD 198.787 million have been received by the Bank resulting in a gain of Rs. 6,086.171 million, as mentioned in note 40.1 to the financial statements. Under the terms of this agreement, the title to remaining 25% shares will be transferred to AKFED after payments due there against have been received. These payments are due by February 25, 2005 and February 25, 2006 in two equal installments of USD 95.571 million each and carry mark-up at 2.5% above London Inter Bank offer rate on the unpaid amount.

The remaining 25% shares are presently in the name of the Bank which is entitled to any dividend and/ or bonus shares declared by HBL proportionate to these shares till the time their ownership is eventually transferred to AKFED upon compliance with the above-mentioned payment and other operational covenants prescribed in the agreement. In view of the above, the management of the Bank considers that risks and rewards of the remaining 25% shares still vests with the Bank as the transfer of their ownership is subject to compliance by AKFED with the above-mentioned conditions and, accordingly, the investment in these shares has not been derecognised during the year.

The break-up value of the Bank's investment in HBL amounted to Rs. 17,154.974 million at December 31, 2003 based on the financial statements of HBL for the year then ended.

9.2.4 This represents the cost of 99.69% holding in the shares of Zarai Taraqati Bank Limited (ZTBL - former Agricultural Development Bank of Pakistan). During the year, the Central Board of Bank has approved the restructuring of the Bank's exposure in ZTBL (including the investment in the shares of former ADBP) by its conversion into a term loan on certain terms and conditions. Terms of the loan have not been finalised which has delayed the conversion process. Pending the finalisation of this process, the balance continues to be disclosed as investment.

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

9.2.5 Other investments include Rs. 14,791.674 million (2003: Rs. 14,791.674 million) representing the cost of investment in the shares of United Bank Limited (UBL). The break-up value of this investment amounted to Rs. 6,759.768 million based on the financial statements of UBL for the year ended December 31, 2003 (2003: Rs. 5,390.394 million based on the financial statements for the year ended December 31, 2002). During the year ended June 30, 2002, 51% shares in UBL were sold at Rs. 47 per share as against the carrying value per share of Rs. 59 thereby resulting in a total loss of Rs. 3,144.657 million. The current carrying value per share of UBL remains at Rs. 59. However, no provision has been made in these financial statements in respect of this investment as 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.

9.3 These represent Market Treasury Bills allocated to the Issue Department of the Bank.

10. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2003: Rs. 78.5 million) 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).

11. ASSETS HELD WITH THE RESERVE

BANK OF INDIA		2004	2003
		(Rupees in '000)	
Gold reserves			
- Opening balance		671,736	642,060
- Appreciation from revaluation during the year	29	<u>101,343</u>	<u>29,676</u>
		<u>773,079</u>	<u>671,736</u>
Sterling securities			
Government of India securities		350,140	316,471
Rupee coins		12,757	12,553
		<u>3,765</u>	<u>3,709</u>
		<u>1,139,741</u>	<u>1,004,469</u>

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

12. BANK NOTES ISSUED

Notes held with the Banking Department of the Bank	8	160,830	214,170
Notes in circulation		<u>611,742,827</u>	<u>522,676,874</u>
		<u>611,903,657</u>	<u>522,891,044</u>

13. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

Quota allocated by the International Monetary Fund		88,097,392	83,716,673
Liability under quota arrangements		<u>(88,087,330)</u>	<u>(83,707,113)</u>
		<u>10,062</u>	<u>9,560</u>

14. LOANS, ADVANCES AND BILLS OF EXCHANGE

Government	14.1	12,000,000	12,040,000
Government owned / controlled financial institutions	14.2	<u>110,623,197</u>	<u>112,729,636</u>
Private sector financial institutions	14.3	<u>77,283,785</u>	<u>49,413,274</u>
		<u>187,906,982</u>	<u>162,142,910</u>
Employees		<u>5,059,663</u>	<u>4,725,756</u>
		<u>204,966,645</u>	<u>178,908,666</u>
Provision against doubtful balances	14.4	<u>(4,662,319)</u>	<u>(4,095,413)</u>
		<u>200,304,326</u>	<u>174,813,253</u>
Commercial papers	10	<u>(78,500)</u>	<u>(78,500)</u>
		<u>200,225,826</u>	<u>174,734,753</u>

		2004	2003
		(Rupees in '000)	
14.1	Loans and advances to the Government		
	Federal Government	12,000,000	12,000,000
	Provincial Government (of Balochistan)	-	40,000
		<u>12,000,000</u>	<u>12,040,000</u>

14.1.1 During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 1.3795 to 1.9197 (2003: 1.7035 to 6.379) percent per annum.

		(Rupees in '000)					
		Scheduled banks		Non-banking financial institutions		Total	
		2004	2003	2004	2003	2004	2003
	Agricultural sector	58,005,280	55,686,785	-	-	58,005,280	55,686,785
	Industrial sector	2,381,409	2,725,071	840,261	1,613,217	3,221,670	4,338,288
	Export sector	16,424,361	14,780,711	786,123	3,567	17,210,484	14,784,278
	Housing sector	66,907	66,907	12,607,300	14,157,300	12,674,207	14,224,207
	Others	10,629,456	11,563,145	8,882,100	12,132,933	19,511,556	23,696,078
		<u>87,507,413</u>	<u>84,822,619</u>	<u>23,115,784</u>	<u>27,907,017</u>	<u>110,623,197</u>	<u>112,729,636</u>

14.2.1 Above balances include Rs. 515.056 million (2003: Rs. 511.306 million) which are 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).

14.2.2 Exposure to the agricultural and industrial sectors respectively include Rs. 50,174.089 million and Rs. 1,083.124 million representing the cumulative Government guaranteed financing of Rs. 51,257.213 million (2003: Rs. 51,257.213 million) to Zarai Taraqiati Bank Limited (ZTBL). As mentioned in note 9.2.4, the restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalised in due course.

		(Rupees in '000)					
		Scheduled banks		Non-banking financial institutions		Total	
		2004	2003	2004	2003	2004	2003
	Industrial sector	499,796	153,752	3,577,792	3,577,792	4,077,588	3,731,544
	Export sector	69,409,072	41,952,396	587,000	10,000	69,996,072	41,962,396
	Others	3,210,125	3,719,334	-	-	3,210,125	3,719,334
		<u>73,118,993</u>	<u>45,825,482</u>	<u>4,164,792</u>	<u>3,587,792</u>	<u>77,283,785</u>	<u>49,413,274</u>

		2004	2003
		(Rupees in '000)	
14.4	Movement of provision		
	Opening balance	4,095,413	3,865,230
	Provision during the year	566,906	500,000
	Provision written back during the year	-	(269,817)
		<u>4,662,319</u>	<u>4,095,413</u>

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

		2004	2003
		(% per annum)	
	Government owned / controlled and private sector financial institutions	1.5 to 12	4 to 12
	Staff loans	10	10

		2004	2003
		(Rupees in '000)	
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
		40,453	40,453
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans and advances	15.2	2,986,117	2,770,650
		3,806,041	3,590,574
		3,846,494	3,631,027

15.1 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Governments of Bangladesh (former East Pakistan) and India.

15.2 These represent loans and advances provided to the Government of former East Pakistan.

16. OPERATING FIXED ASSETS

	Cost / revalued amount at July 1, 2003	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30, 2004	Accumulated depreciation / amortisation at July 1, 2003	Charge for the year / (accumulated depreciation on deletions) / transfers*	Accumulated depreciation/ amortisation at June 30, 2004	Net book value at June 30, 2004	(Rupees in '000)
								Annual rate of depreciation / amortisation %
Tangible assets								
Freehold land	917.806	- (109.924)	807.882	-	-	-	807.882	-
Leasehold land	4,996.893	-	4,996.893	228,147	110,250	338,397	4,658.496	over the term of lease
Building on freehold land	787.316	210 (7,557)	779.969	197.487	45.336 (2,345)	240.478	539.491	5
Building on leasehold land	1,100.839	28.934	1,129.773	202.757	69.282	272.039	857.734	5
Furniture and fixtures	117.131	21.170 (5,860)	132.441	49.325	10.873 (3,858)	56.340	76.101	10
Office equipment	693.530	43.763 (1,134) 2,634 *	738.793	648.200	22.172 (715) 1,427 *	671.084	67.709	20
EDP equipment	503.843	29.273 (64) (2,634) *	530.418	348.930	139.828 (1,427) *	487.331	43.087	33.33
Motor vehicles	60.984	60.731 (11,704)	110.011	43.001	12.679 (5,633)	50.047	59.964	20
Library books	712	14	726	712	14	726		
	9,179.054	184,095 (136,243)	9,226.906	1,718.559	410,434 (12,551)	2,116.442	7,110.464	
Intangible asset								
Computer software	32,260	207	32,467	21,344	10,753	32,097	370	33.33
2004	9,211,314	184,302 (136,243)	9,259,373	1,739,903	421,187 (12,551)	2,148,539	7,110,834	

	2004	2003
	(Rupees in '000)	
16.1 Surplus on revaluation of fixed assets		
Opening balance	6,749,772	6,953,519
Surplus realised on disposal of fixed assets	<u>(112,444)</u>	<u>(203,747)</u>
	<u>6,637,328</u>	<u>6,749,772</u>

Certain items of freehold land, leasehold land, buildings on freehold and 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. 6,121.173 million remains undepreciated at June 30, 2004 (2003: Rs. 6,404.136 million) and has been included in the carrying value of the related assets.

17. CAPITAL WORK-IN-PROGRESS

Building on freehold land	2,943	2,943
Building on leasehold land	44,529	4,447
Furniture and fixtures	15,830	1,900
Office equipment	34,944	2,771
EDP equipment	2,023	1,905
Intangible assets	<u>264,933</u>	<u>264,933</u>
	<u>365,202</u>	<u>278,899</u>

18. OTHER ASSETS

Amounts due from financial institutions under currency swap arrangements	18.1	2,674,429	2,717,230
Accrued interest / mark-up and return		935,986	884,060
Exchange gain recoverable under exchange risk coverage scheme		7,691	41,800
Stationery and stamps on hand		8,681	25,036
Other advances, deposits and prepayments		532,322	543,721
Balance receivable from the Government of Pakistan		5,692,379	9,494,275
Share of profit recoverable from Zarai Taraqiati Bank Limited under profit and loss sharing arrangements - net		-	5,548,751
Others		<u>3,060,376</u>	<u>6,461,795</u>
		<u>12,911,864</u>	<u>25,716,668</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.

19. CURRENT ACCOUNTS OF THE GOVERNMENT

Federal Government	19.1	14,681,524	48,841,890
Provincial Governments			
- Punjab	19.2	13,913,754	20,292,864
- Sindh	19.3	13,206,367	3,361,749
- North West Frontier Province (NWFP)	19.4	4,134,839	5,532,498
- Balochistan	19.5	-	1,198,843
		31,254,960	30,385,954
Government of Azad Jammu and Kashmir		<u>2,952,518</u>	<u>2,490,059</u>
		<u>48,889,002</u>	<u>81,717,903</u>

	2004	2003
	(Rupees in '000)	
19.1 Federal Government		
Non-food account	484,991	34,630,083
Food account	20,693	63,972
Zakat fund account	15,857,448	18,565,798
Railways - ways and means advances	19.6 (2,798,603)	(4,939,204)
Fertilizer account	44,137	(216,577)
Saudi Arab special loan account	4,124	4,124
Pakistan Baitul Mal fund account	85	85
Pakistan Railways special account	1,063,373	728,333
Government deposit account no. XII	5,276	5,276
	<u>14,681,524</u>	<u>48,841,890</u>
19.2 Provincial Government - Punjab		
Non-food account	(4,365,339)	(6,239,821)
Food account	1,254,266	1,057,546
Zakat fund account	50,117	7,772
District Government account no. IV	16,974,710	13,177,552
Social action program	-	12,289,815
	<u>13,913,754</u>	<u>20,292,864</u>
19.3 Provincial Government - Sindh		
Non-food account	9,483,511	(154,058)
Food account	108,558	211,914
Zakat fund account	75,083	144,917
District Government account no. IV	3,539,215	3,158,976
	<u>13,206,367</u>	<u>3,361,749</u>
19.4 Provincial Government - NWFP		
Non-food account	3,054,159	3,885,304
Food account	203,073	389,095
Zakat fund account	2,007	611
District Government account no. IV	875,600	1,257,488
	<u>4,134,839</u>	<u>5,532,498</u>
19.5 Provincial Government - Balochistan		
Non-food account	(9,865,206)	(2,526,162)
Food account	463,836	1,950
Zakat fund account	5	302,171
District Government account no. IV	3,868,246	3,420,884
	<u>(5,533,119)</u>	<u>1,198,843</u>
Classified as a receivable balance	19.6 5,533,119	-
Net credit balance	-	1,198,843
19.6	At the year end, these balances carried mark-up at 1.92 (2003: 1.7035) percent per annum.	

	2004	2003
	(Rupees in '000)	
20. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS		
Foreign currency		
Scheduled banks	14,212,278	19,885,202
Held under Capital Reserve Requirement scheme	<u>32,020,008</u>	<u>27,083,275</u>
	46,232,286	46,968,477
Local currency		
Scheduled banks	<u>108,946,952</u>	<u>94,076,143</u>
Non-banking financial institutions	<u>991,567</u>	<u>620,428</u>
	<u>109,938,519</u>	<u>94,696,571</u>
	<u>156,170,805</u>	<u>141,665,048</u>

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

	2004	2003
	(% per annum)	
Foreign currency	0.59 to 0.67	0.80 to 1.34
Local currency	0.99 to 1.70	10.67 to 14.79

	2004	2003
	(Rupees in '000)	
21. OTHER DEPOSITS AND ACCOUNTS		
Foreign currency		
Foreign central banks	26,172,872	26,015,103
International organisation	<u>14,539,525</u>	<u>14,451,875</u>
	40,712,397	40,466,978
Local currency		
Special debt repayment	21.2 <u>22,108,042</u>	<u>18,802,147</u>
Government	21.3 <u>17,952,963</u>	<u>19,817,965</u>
Others	<u>2,255,402</u>	<u>1,881,063</u>
	<u>42,316,407</u>	<u>40,501,175</u>
	<u>83,028,804</u>	<u>80,968,153</u>

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

	2004	2003
	(% per annum)	
Foreign central banks	1.36 to 1.79	1.39 to 2.21
International organisation	2.96 to 3.1	3.10 to 4.50

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.

		2004	2003
		(Rupees in '000)	
22. PAYABLE TO INTERNATIONAL MONETARY FUND			
Borrowings under:			
- Fund facilities	22.1	25,041,465	54,409,694
- Other credit schemes	22.2	<u>77,363,692</u>	<u>66,523,617</u>
		102,405,157	120,933,311
Current account for administrative charges		<u>77</u>	<u>73</u>
		<u>102,405,234</u>	<u>120,933,384</u>

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

22.2 This includes Rs. 255.676 million (2003: Rs.728.887 million) in respect of the finance provided by the Saudi Fund for Development (SFD) under Enhanced Structural Adjustment Facility programme of the International Monetary Fund (IMF). The amount has been paid through IMF in its capacity as a Trustee for SFD in respect of this arrangement.

23. OTHER LIABILITIES

Foreign currency

Amounts due to financial institutions under currency swap arrangements	18.1	2,617,115	2,601,338
Accrued interest and discount on deposits		243,021	256,799
Charges on allocation of Special Drawing Rights of IMF		42,000	38,000
Others		<u>4,603</u>	<u>2,888</u>
		2,906,739	2,899,025

Local currency

Overdue mark-up and return		3,444,098	3,223,263
Unearned exchange risk fee		12,183	67,030
Remittance clearance account		607,501	246
Exchange loss payable under exchange risk coverage scheme		45,721	-
Share of loss under profit and loss sharing arrangements		3,274,752	3,543,166
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	23.1	<u>3,744,498</u>	<u>3,093,916</u>
Others		3,338,595	3,139,753
		<u>17,406,414</u>	<u>16,006,440</u>
		<u>20,313,153</u>	<u>18,905,465</u>

		2004	2003
		(Rupees in '000)	
23.1	Other accruals and provisions		
	Interest, mark-up and discount	18,451	20,806
	Printing charges	10,064	147,187
	Agency commission	362,115	326,514
	Provision for employees' compensated absences	1,739,000	1,673,004
	Others	1,614,868	926,405
		<u>3,744,498</u>	<u>3,093,916</u>
24.	DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS		
	Provident fund scheme	906,742	852,658
	Gratuity	106,579	101,036
	Pension	6,980,000	6,744,560
	Benevolent fund scheme	814,000	848,184
	Post retirement medical benefits	344,000	363,825
		<u>9,151,321</u>	<u>8,910,263</u>

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

					(Rupees in '000)
	Net recognised liability at July 1, 2003	Charge for the year (note 38.4.3)	Payments during the year	Employees contribution	Net liability at June 30, 2004
Gratuity	101,036	11,000	(5,457)	-	106,579
Pension	6,744,560	1,009,000	(773,560)	-	6,980,000
Benevolent	848,184	113,000	(149,184)	2,000	814,000
Post retirement medical benefits	363,825	116,000	(135,825)	-	344,000
	<u>8,057,605</u>	<u>1,249,000</u>	<u>(1,064,026)</u>	<u>2,000</u>	<u>8,244,579</u>

		2004	2003
		(Rupees in '000)	
25.	DEFERRED INCOME		
	Opening balance	415,106	480,754
	Grants received during the year	6,579	69,381
	Amortisation during the year	(135,490)	(135,029)
	Closing balance	<u>286,195</u>	<u>415,106</u>

This represents grant received for capital expenditure and, as indicated in note 2.8 to these financial statements, is being amortised over the useful lives of the related assets.

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>
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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>
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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.

		2004	2003
		(Rupees in '000)	
27. CAPITAL RECEIPT			
Allocation of Special Drawing Rights of the International Monetary Fund		<u>1,525,958</u>	<u>1,525,958</u>
28. RESERVES			
Reserve Fund	28.1	5,414,474	5,414,474
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		<u>4,700,000</u>	<u>4,700,000</u>
		<u>16,714,474</u>	<u>16,714,474</u>

28.1 Reserve Fund

This represents appropriations made in the previous years out of the annual profits of the Bank and a subsidiary 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.

28.2 Other Funds

These represent appropriations made in the previous years 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.

29. UNREALISED APPRECIATION ON GOLD RESERVES

Opening balance		38,883,231	37,033,311
Appreciation on revaluation during the year:			
- held by the Bank	3	6,221,047	1,820,244
- held with the Reserve Bank of India	11	101,343	29,676
		<u>6,322,390</u>	<u>1,849,920</u>
		<u>45,205,621</u>	<u>38,883,231</u>

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.

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	32,059,794	31,723,775
ii) Government owned/controlled bodies and authorities	<u>73,620,783</u>	<u>103,829,076</u>
	<u>105,680,577</u>	<u>135,552,851</u>

Guarantees amounting to Rs. 105,680.577 million (2003: Rs. 131,792.185 million) are secured by counter guarantees either from the Government of Pakistan or local financial institutions.

b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal for the enhancement of their entitlement paid under the above scheme. During the year, the Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal, has filed a civil petition for leave to appeal in the Supreme Court of Pakistan which is pending for hearing. 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 in this respect. As the matter is currently under litigation, the disclosure of the financial effect of this matter has not been considered appropriate by the management.

	2004	2003
	(Rupees in '000)	
c) Other claims against the Bank not acknowledged as debts	<u>702,624</u>	<u>789,780</u>
30.2 Commitments		
Forward exchange contracts - sales	35,140,553	10,742,916
Forward exchange contracts - purchases	13,253,350	34,696,460
Repurchase and outright sale of securities	69,740,400	9,127,077
Import letters of credit	82,306,585	70,688,072
31. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	1,727,576	7,339,477
Other Government securities	439,911	603,590
Loans and advances to Government	358,734	406,938
Loans and advances to banks and financial institutions	1,533,753	3,632,247
Share of profit on finances under profit and loss sharing arrangements	676,494	2,591,419
Foreign currency deposits	6,067,452	5,567,318
Foreign currency securities	911,286	789,411
Adhoc Treasury Bills	-	211,775
Others	18,905	17,668
	<u>11,734,111</u>	<u>21,159,843</u>
32. INTEREST / MARK-UP EXPENSE		
Deposits	1,346,406	2,539,255
Share of loss on finances under profit and loss sharing arrangements	3,815,121	-
Others	40,564	38,907
	<u>5,202,091</u>	<u>2,578,162</u>
33. COMMISSION INCOME		
Market Treasury Bills	50,885	62,418
Draft / payment orders	238,509	46,479
Prize Bonds and National Saving Certificates	119,171	115,840
Management of public debts	68,238	63,397
Others	19,651	34,857
	<u>496,454</u>	<u>322,991</u>

	2004	2003
	(Rupees' 000)	
34. EXCHANGE GAIN / (LOSS) - net		
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	3,372,849	(12,951,336)
- Open market operations (including currency swap arrangements)	(38,963)	(1,730,900)
- Forward covers under Exchange Risk Coverage Scheme	(156,485)	1,206,876
- Payable to the International Monetary Fund (IMF)	(3,853,758)	(1,000,142)
- Special Drawing Rights of IMF	669,601	130,213
- Others	424,750	224,093
	417,994	(14,121,196)
Exchange risk fee income	337,178	2,311,731
	755,172	(11,809,465)
35. OTHER OPERATING INCOME		
Penalties levied on banks and financial institutions	360,677	279,472
License / Credit Information Bureau fee recovered	1,966	84
Others	5,181	171
	367,824	279,727
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% (2003: 0.15%) of the total amount of collection and remittances handled by NBP.		

	2004	2003
	(Rupees in '000)	
38. ESTABLISHMENT COSTS		
Salaries and other benefits	2,333,812	2,364,922
Retirement benefits and employees' compensated absences	2,376,564	2,478,345
Daily wages staff	6,508	6,536
Medical allowances	267,480	242,829
Overtime allowance	11,963	10,771
Rent and taxes	29,483	20,535
Insurance	4,516	2,300
Electricity, gas and water charges	119,527	103,427
Depreciation	16 421,187	513,980
Repairs to Bank's property	22,296	21,105
Repairs to Bank's vehicles	2,892	2,933
Repairs to mechanical / electrical equipment	9,594	17,428
Directors' fee	1,812	1,440
Auditors' remuneration	38.3 2,832	2,770
Legal and professional charges	58,449	41,025
Travelling expenses	28,482	28,777
Daily expenses	39,844	37,611
Passages	71,594	32,890
Fuel charges	7,475	7,620
Conveyance charges	6,287	7,052
Postage	5,437	4,558
Telegram / telex	14,923	11,517
Telephone	36,660	32,340
Training	10,886	11,534
Examination/ testing services	1,249	443
Remittance of treasure	31,773	32,161
Stationery	21,024	23,096
Books and newspapers	7,518	4,869
Advertisement	4,542	7,273
Bank guards	34,962	34,244
Uniforms	16,138	20,901
Others	65,525	56,129
	<u>6,073,234</u>	<u>6,183,361</u>

38.1 Staff retirement benefits

38.1.1 As mentioned in note 2.9 (c), the Group 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 actuarial valuations of the above defined benefit obligations were carried out at June 30, 2004 under the Projected Unit Credit Method using following significant assumptions:

- Expected rate of increase in salary 5.94 (2003: 5.94) percent per annum
- Expected rate of discount 8.00 (2003: 8.00) percent per annum
- Medical cost increase 2.86 (2003: 2.86) percent per annum

38.1.2 Present value of the obligations

Present values of obligations under the retirement benefit schemes and liabilities recognised thereagainst for the past services of the employees at June 30, 2004 based on actuarial valuation as of that date was as follows:

	(Rupees in '000)		
	Present value of the defined benefit obligation	Unrecognised actuarial gain/ (loss)	Provision made in respect of the staff retirement
Gratuity	85,914	20,665	106,579
Pension	7,106,000	(126,000)	6,980,000
Benevolent	958,000	(144,000)	814,000
Post retirement medical benefits	1,434,000	(1,090,000)	344,000
	<u>9,583,914</u>	<u>(1,339,335)</u>	<u>8,244,579</u>

38.1.3 Amount recognised in the profit and loss account

The amounts charged in the profit and loss account during the current year in respect of the above benefits are as follows:

	(Rupees in '000)					
	Current service cost	Interest cost	Transitional liability recognised in the current year	Actuarial (gain) /loss recognised	Employees contributions	Total
Gratuity	2,339	6,556	7,000	(4,895)	-	11,000
Pension	208,000	520,000	277,000	4,000	-	1,009,000
Benevolent	32,000	69,500	13,500	-	(2,000)	113,000
Post retirement medical benefits	14,000	51,500	29,500	21,000	-	116,000
	<u>256,339</u>	<u>647,556</u>	<u>327,000</u>	<u>20,105</u>	<u>(2,000)</u>	<u>1,249,000</u>

38.2 Employees' compensated absences

As at June 30, 2004, the Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 1,739 million (2003: Rs. 1,673 million). This amount has been recognised in the financial statements of the Bank. An amount of Rs. 181 million (2003: 237 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

38.3 Auditors' remuneration

	(Rupees in '000)				
	A. F. Ferguson & Co.	Taseer Hadi Khalid & Co.	Syed Husain & Co.	2004	2003
Audit fee	1,000	1,000	60	2,060	1,000
Special certifications / examinations and sundry advisory services	45	-	-	45	1,060
Out of pocket expenses	350	350	27	727	710
	<u>1,395</u>	<u>1,350</u>	<u>87</u>	<u>2,832</u>	<u>2,770</u>

	2004	2003
	(Rupees in '000)	
39. OTHER INCOME		
Gain on disposal of fixed assets	149,231	85,314
Liabilities and provisions written back - net	275	278,190
Gain on disposal of investments	39.1 6,928,678	591,228
Amortisation of deferred income	25 135,490	135,029
Others	28,293	930,082
	<u>7,241,967</u>	<u>2,019,843</u>
39.1 This includes Rs. 6,086.171 million in respect of the gain realised during the year on disposal of 26% of HBL's total paid-up capital to the Aga Khan Fund for Economic Development S.A., as mentioned in detail in note 9.2.3.		
40. OTHER CHARGES		
Charges on allocation of Special Drawing Rights	227,295	263,882
Others	320,816	332,658
	<u>548,111</u>	<u>596,540</u>
41. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS		
Profit for the year	6,108,498	39,311
Adjustments for:		
Depreciation	421,187	513,980
Amortisation of deferred income	(135,490)	(135,029)
Provision for:		
- retirement benefits and employees' compensated absences	2,376,564	2,478,345
- loans and advances	566,906	500,000
- share of loss / (profit) under profit and loss sharing arrangements	5,303,335	(2,102,204)
Liabilities and provisions no longer required written back	-	(278,190)
Gain on disposal of fixed assets	(149,231)	(85,314)
Dividend income	(1,422,058)	(1,168,526)
Other accruals and provisions - net	2,005,498	1,420,912
	<u>15,075,209</u>	<u>1,183,285</u>
42. CASH AND CASH EQUIVALENTS		
Local currency	2,959,993	2,565,308
Foreign currency reserves	629,731,918	562,428,084
Earmarked foreign currency balances	3,780,277	53,113,531
Special Drawing Rights of the International Monetary Fund	13,826,690	14,092,081
	<u>650,298,878</u>	<u>632,199,004</u>

43. **INTEREST/ MARK-UP RATE RISK**

Information about the Group's exposure to interest / mark-up rate risk based on contractual repricing and maturity dates, which ever is earlier is as follows:

(Rupees in '000)

	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	
Financial assets							
Local currency (including rupee coins)	-	-	-	2,959,993	-	2,959,993	2,959,993
Foreign currency reserves	626,501,442	2,036,533	628,537,975	3,398,449	397,091	3,795,540	632,333,515
Earmarked foreign currency balances	3,780,277	-	3,780,277	-	-	-	3,780,277
Special Drawing Rights of the International Monetary Fund	13,826,690	-	13,826,690	-	-	-	13,826,690
Reserve tranche with the International Monetary Fund under quota arrangements	10,062	-	10,062	-	-	-	10,062
Current account of the Government of Balochistan	5,533,119	-	5,533,119	-	-	-	5,533,119
Investments	131,775,168	2,740,000	134,515,168	2,522,312	33,620,305	36,142,617	170,657,785
Loans, advances and bills of exchange	3,000,000	9,000,000	12,000,000	188,220	785,836	974,056	12,974,056
Loans, advances and bills of exchange offices	92,901,781	16,518,314	109,420,095	71,839,715	6,070,458	77,910,173	187,330,268
Balances due from Governments of India and Bangladesh (former East Pakistan)	-	2,986,117	2,986,117	-	860,377	860,377	3,846,494
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	543,793	543,793	543,793
Assets held with the Reserve Bank of India	-	362,897	362,897	-	3,765	3,765	366,662
Other assets	53,420	-	53,420	10,149,700	2,674,429	12,824,129	12,877,549
	877,381,959	33,643,861	911,025,820	91,058,389	44,956,054	136,014,443	1,047,040,263
Financial liabilities							
Bank notes in circulation	-	-	-	-	611,903,657 **	611,903,657	611,903,657
Bills payable	-	-	-	494,365	-	494,365	494,365
Current accounts of the Government	-	-	-	48,889,002	-	48,889,002	48,889,002
Deposits of banks and financial institutions	23,990,362	-	23,990,362	132,180,443	-	132,180,443	156,170,805
Other deposits and accounts	-	40,712,397	40,712,397	42,316,407	-	42,316,407	83,028,804
Payable to International Monetary Fund	7,303,368	95,101,866	102,405,234	-	-	-	102,405,234
Other liabilities	-	-	-	16,266,853	4,034,115	20,300,968	20,300,968
	31,293,730	135,814,263	167,107,993	240,147,070	615,937,772	856,084,842	1,023,192,835
On balance sheet gap - 2004 (a)	<u>846,088,229</u>	<u>(102,170,402)</u>	<u>743,917,827</u>	<u>(149,088,681)</u>	<u>(570,981,718)</u>	<u>(720,070,399)</u>	<u>23,847,428</u>
On balance sheet gap - 2003 (a)	<u>793,650,276</u>	<u>(95,408,634)</u>	<u>698,241,642</u>	<u>(201,409,455)</u>	<u>(473,148,025)</u>	<u>(674,557,480)</u>	<u>23,684,162</u>

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

* 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 Group 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 Group 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 Group has adopted appropriate policies to minimise its exposure to this risk. The Group's management, the Central Board of the Bank and the investment committee has set appropriate duration limits and a separate department deals with the monitoring of the Group'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 Group'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 Group's exposure to credit risk associated with foreign operations is managed by monitoring compliance with investment limits for counterparties. The Group'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 Group'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 Group's compliance with the limits established for foreign currency positions is being regularly monitored by the management.

The Group 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 Group 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 Group 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 Group'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 financial assets and financial liabilities

The fair value of all financial assets and financial liabilities, except for investment accounted for at cost, is estimated to approximate their carrying values.

	2004	2003
44. NUMBER OF EMPLOYEES		
Number of employees at June 30	<u>6,850</u>	<u>6,782</u>

45. GENERAL

Figures have been rounded off to the nearest thousand rupees.

46. DATE OF AUTHORISATION

These financial statements were authorised for issue on September 7, 2004 by the Central Board of Directors of the Bank.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

13 **Financial Statements of the SBP**

**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 SULTAN TRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI**

AUDITORS' REPORT 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, 2004 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements'), 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 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 financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the 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 the 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. 6,291.558 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. 1,930.008 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 finalization of the restructuring process of Zarai Taraqiati Bank Limited (ZTBL) 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 and UBL.

Except for the financial effect of the matters 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, 2004 and of the profit, its cash flows and changes in equity for the year then ended.

A. F. Ferguson & Co.
Chartered Accountants
Karachi
Date: September 7, 2004

Taseer Hadi Khalid & Co.
Chartered Accountants
Karachi
Date: September 7, 2004

State Bank of Pakistan - Issue Department

Balance Sheet

As at June 30, 2004

	<i>Note</i>	2004	2003
		(Rupees in '000)	
ASSETS			
Gold reserves held by the Bank	3	47,532,115	41,246,479
Foreign currency reserves	4	500,312,132	459,116,601
Special Drawing Rights of the International Monetary Fund	5	13,826,690	-
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	7	543,793	535,162
- Rupee coins	8	2,799,163	2,351,138
		3,342,956	2,886,300
Investment in securities	9	45,671,523	18,558,695
Commercial papers	10	78,500	78,500
Assets held with the Reserve Bank of India	11	1,139,741	1,004,469
		611,903,657	522,891,044
LIABILITIES			
Bank notes issued	12	611,903,657	522,891,044

The annexed notes 1 to 47 form an integral part of these financial statements.

Ishrat Husain
 Governor

Tawfiq A. Husain
 Deputy Governor

Aftab Mustafa Khan
 Director Accounts

State Bank of Pakistan - Banking Department
Balance Sheet

As at June 30, 2004

		(Rupees in '000)	
	Note	2004	2003
ASSETS			
Local currency	8	160,830	214,170
Foreign currency reserves	4	132,021,383	104,384,628
Earmarked foreign currency balances	6	3,780,277	53,113,531
Special Drawing Rights of the International Monetary Fund	5	-	14,092,081
		<u>135,962,490</u>	<u>171,804,410</u>
Reserve tranche with the International Monetary Fund under quota arrangements	13	10,062	9,560
Current account of the Government of Balochistan	19.5	5,533,119	-
Investments	9	125,119,093	135,060,295
Loans, advances and bills of exchange	14	196,058,152	170,819,809
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	3,846,494	3,631,027
Fixed assets:			
- Operating fixed assets	16	7,022,397	7,385,590
- Capital work-in-progress	17	348,026	276,796
		<u>7,370,423</u>	<u>7,662,386</u>
Other assets	18	12,846,989	25,660,204
Total assets		<u>486,746,822</u>	<u>514,647,691</u>
LIABILITIES			
Bills payable		494,365	671,931
Current accounts of the Government*	19	48,889,002	81,717,903
Current account of SBP Banking Services Corporation		3,065,457	3,681,932
Current account of National Institute of Banking and Finance		3,199	10,544
Deposits of banks and financial institutions	20	156,170,805	141,665,048
Other deposits and accounts	21	83,028,804	80,968,153
Payable to the International Monetary Fund	22	102,405,234	120,933,384
Other liabilities	23	18,701,441	17,361,789
		<u>412,758,307</u>	<u>447,010,684</u>
Deferred liability - staff retirement benefits	24	3,533,413	3,262,940
Deferred income	25	286,195	415,106
Total liabilities		<u>416,577,915</u>	<u>450,688,730</u>
Net assets		<u>70,168,907</u>	<u>63,958,961</u>
Share capital	26	100,000	100,000
Capital receipt	27	1,525,958	1,525,958
Reserves	28	16,700,000	16,700,000
		<u>18,325,958</u>	<u>18,325,958</u>
Unrealised appreciation on gold reserves	29	45,205,621	38,883,231
Surplus on revaluation of fixed assets	16.1	6,637,328	6,749,772
		<u>70,168,907</u>	<u>63,958,961</u>
Contingencies and commitments	30		

* Government includes Federal and Provincial

The annexed notes 1 to 47 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan

Profit and Loss Account

For the year ended June 30, 2004

		(Rupees in '000)	
	Note	2004	2003
Discount, interest / mark-up and / or return earned	31	11,708,491	21,118,458
Interest / mark-up expense	32	<u>5,202,091</u>	<u>2,578,162</u>
		6,506,400	18,540,296
Commission	33	496,454	322,991
Exchange gain / (loss) - net	34	755,172	(11,809,465)
Dividend income		1,422,058	1,168,526
Profit transferred from SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited	35	42,841	49,472
Other operating income	36	<u>367,824</u>	<u>279,727</u>
		9,590,749	8,551,547
Direct operating expenses			
Note printing charges	37	1,963,777	1,845,963
Agency commission	38	1,554,969	1,398,128
Provision against loans and advances	14.4	<u>566,906</u>	<u>500,000</u>
		5,505,097	4,807,456
Establishment costs	39	<u>6,073,234</u>	<u>6,183,361</u>
OPERATING LOSS		(568,137)	(1,375,905)
Other income	40	<u>7,224,746</u>	<u>1,997,282</u>
		6,656,609	621,377
Other charges	41	<u>548,111</u>	<u>596,540</u>
NET PROFIT FOR THE YEAR		<u>6,108,498</u>	<u>24,837</u>
Surplus on revaluation of fixed assets realised on disposal	16.1	<u>112,444</u>	<u>203,747</u>
AVAILABLE FOR APPROPRIATION		<u>6,220,942</u>	<u>228,584</u>
Appropriation:			
Dividend to the Government of Pakistan @ Rs 10 per share (2003: Rs 10 per share)		10,000	10,000
BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN		<u><u>6,210,942</u></u>	<u><u>218,584</u></u>

The annexed notes 1 to 47 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan

Cash Flow Statement

For the year ended June 30, 2004

	Note	2004 (Rupees in '000)	2003
Profit / (loss) for the year after non-cash items	42	14,248,169	(134,407)
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(502)	(559)
Investments		(17,171,626)	231,599,250
Loans, advances and bills of exchange		(25,805,249)	7,831,821
Foreign currency reserves not included in cash and cash equivalents		(1,528,452)	(41,867)
Indian notes representing assets receivable from the Reserve Bank of India		(8,631)	(6,522)
Assets held with the Reserve Bank of India		(33,929)	(13,510)
Other assets - net		7,254,715	850,635
		(37,293,674)	240,219,248
Increase/(decrease) in liabilities			
Notes in circulation		89,012,613	64,516,540
Bills payable		(177,566)	348,638
Current accounts of the Government*		(38,362,020)	25,425,280
Current account of SBP Banking Services Corporation		(616,475)	1,231,915
Current account of National Institute of Banking and Finance (Guarantee) Limited		(7,345)	10,544
Deposits of banks and financial institutions		14,505,757	8,714,935
Other deposits and accounts		2,060,651	275,752
Payable to the International Monetary Fund		(18,528,150)	7,880,350
Other liabilities - net		(639,267)	(10,270,323)
		47,248,198	98,133,631
		24,202,693	338,218,472
Payment of retirement benefits and employees' compensated absences		(1,305,008)	(1,094,201)
Receipt of dividend income		1,431,808	1,170,781
Gold purchased		(64,589)	(48,012)
Fixed capital expenditure		(215,760)	(50,475)
Proceeds from disposal of fixed assets		271,672	309,811
		118,123	287,904
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Surplus profits paid to the Government of Pakistan		(6,210,942)	(218,584)
		(6,220,942)	(228,584)
Increase in cash and cash equivalents during the year		18,099,874	338,277,792
Cash and cash equivalents at beginning of the year		632,199,004	293,921,212
Cash and cash equivalents at end of the year	43	650,298,878	632,199,004

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

The annexed notes 1 to 47 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan
Statement of Changes in Equity
For the year ended June 30, 2004

(Rupees in '000)

	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
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 ended June 30, 2003	-	-	-	-	-	-	-	-	-	-	24,837	24,837
Surplus on revaluation of fixed assets realised on disposal	-	-	-	-	-	-	-	-	-	(203,747)	203,747	-
Dividend to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(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	5,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	38,883,231	6,749,772	-	63,958,961
Net profit for the year ended June 30, 2004	-	-	-	-	-	-	-	-	-	-	6,108,498	6,108,498
Surplus on revaluation of fixed assets realised on disposal	-	-	-	-	-	-	-	-	-	(112,444)	112,444	-
Dividend to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(6,210,942)	(6,210,942)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	6,322,390	-	-	6,322,390
Balance at June 30, 2004	<u>100,000</u>	<u>1,525,958</u>	<u>5,400,000</u>	<u>2,600,000</u>	<u>1,600,000</u>	<u>1,500,000</u>	<u>900,000</u>	<u>4,700,000</u>	<u>45,205,621</u>	<u>6,637,328</u>	<u>-</u>	<u>70,168,907</u>

The annexed notes 1 to 47 form an integral part of these financial statements.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan

Notes to the Financial Statements

For the year ended June 30, 2004

1. Status and Nature of Operations

State Bank of Pakistan (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.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

These financial statements 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.

2.2 Accounting convention

These financial statements 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 and certain employee benefits, as referred to in notes 2.9(c) and 2.10 have been stated at their present values.

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 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment losses recognised in the profit and loss account. Balances considered bad and irrecoverable are written off from the books of accounts.

Provisions against impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income / expense currently.

2.5 Investments

Investments in debt 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 marketable securities, other than debt securities mentioned above, are stated at the lower of cost and market value.

Investments in unlisted securities (other than debt securities mentioned above) and subsidiaries are stated at cost less impairment losses, if any.

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. On 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. Appreciation or depreciation, if any, 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 impairment losses, if any. Freehold land is stated at revalued amount less accumulated impairment losses, if any, 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 accumulated impairment losses, if any. 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 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 under the Projected Unit Credit Method. Unrecognised actuarial gains and losses are recognised in the profit and loss account over the expected average remaining working lives of the employees.

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

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

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

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

~~///~~ Gains on disposal of securities are taken to profit and loss account currently.

~~///~~ 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

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, referred to in note 2.15, which are transferred to the Government of Pakistan account.

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 International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards 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 Special Drawing Rights 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 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.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash, balances in the current and deposit accounts and securities that are realisable in known amounts of cash within three months and which are subject to insignificant changes in value.

2.18 Financial instruments

Financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Any gain or loss on the derecognition of the financial assets and liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include foreign currency reserves, investments, loans and advances, government accounts, other deposits accounts and liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

2.19 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

	Net content in troy ounces	2004 (Rupees in '000)	2003
3. GOLD RESERVES HELD BY THE BANK			
Opening balance	2,062,180	41,246,479	39,378,223
Additions during the year	2,730	64,589	48,012
Appreciation during the year due to revaluation 29	-	6,221,047	1,820,244
	<u>2,064,910</u>	<u>47,532,115</u>	<u>41,246,479</u>

4. FOREIGN CURRENCY RESERVES

Securities		138,313,415	55,074,419
Deposit accounts 4.2		490,621,651	489,839,438
Current accounts 4.2		3,398,449	18,587,372
		<u>632,333,515</u>	<u>563,501,229</u>

The above foreign currency reserves are held as follows:

- Issue Department		500,312,132	459,116,601
- Banking Department		132,021,383	104,384,628
		<u>632,333,515</u>	<u>563,501,229</u>

4.1 At June 30, 2004, above assets included Rs. 167.974 million (2003: Rs. 165.307 million) recoverable from the Government of India. 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 0.97 to 4.52 (2003: 0.9 to 3.6) percent per annum.

5. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

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 the SDRs from the IMF and other member countries in order to settle their obligations. The above represents the rupee value of the SDRs held by the Bank at June 30, 2004. 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.

At June 30, 2004, the SDRs were held as follows:

By the Issue Department		13,826,690	-
By the Banking Department		-	14,092,081
		<u>13,826,690</u>	<u>14,092,081</u>

6. EARMARKED FOREIGN CURRENCY BALANCES

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.

7. INDIAN NOTES REPRESENTING ASSETS RECEIVABLE FROM THE RESERVE BANK OF INDIA

These represent Pak Rupee equivalent of Indian rupee notes which were 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.

		2004	2003
		(Rupees in '000)	
8. LOCAL CURRENCY			
Bank notes held by the Banking Department	12	160,830	214,170
Rupee coins		2,799,163	2,351,138
		<u>2,959,993</u>	<u>2,565,308</u>
Rupee coins held as assets of the Issue Department	8.1	(2,799,163)	(2,351,138)
		<u>160,830</u>	<u>214,170</u>
8.1 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 at June 30, 2004.			
9. INVESTMENTS			
Government securities		9.1	
Market Treasury Bills		128,728,739	104,927,028
Federal Investment Bonds		2,150,000	2,150,000
Federal and Provincial Government scrips		2,740,000	3,326,947
		<u>133,618,739</u>	<u>110,403,975</u>
Banks and other financial institutions			
Ordinary shares		1,100,807	1,147,537
- Listed		35,041,806	32,288,214
- Unlisted		<u>36,142,613</u>	<u>33,435,751</u>
Advance against issue of share capital	9.2	-	8,750,000
Term Finance Certificates		282,400	282,400
		<u>36,425,013</u>	<u>42,468,151</u>
Subsidiaries			
SBP Banking Services Corporation - wholly owned subsidiary	9.3	1,000,000	1,000,000
National Institute of Banking and Finance (Guarantee) Limited (NIBAF) - shareholding at 59.4%		7,500	7,500
Advance against issue of share capital (NIBAF)		21,760	21,760
		<u>1,029,260</u>	<u>1,029,260</u>
Other investments			
Certificates of Deposits		112,351	112,351
		<u>171,185,363</u>	<u>154,013,737</u>
Provision against diminution in value of investments		(394,747)	(394,747)
		<u>170,790,616</u>	<u>153,618,990</u>
Investment in securities held as assets of the Issue Department	9.4	(45,671,523)	(18,558,695)
		<u>125,119,093</u>	<u>135,060,295</u>

9.1 Investment in Government securities

These represent investments guaranteed / issued by the Government. The profile of return on securities during the year is as follows:

	2004 (% per annum)	2003
Market Treasury Bills	1.2116 to 4.3247	1.6389 to 6.4045
Federal Investment Bonds	15	15
Federal and Provincial Government scrips	3 to 16	3 to 16

9.2 Investment in shares of banks and other financial institutions

9.2.1

	<u>Holding more than 50%</u>			2004	2003
	2004	2003		(Rupees in '000)	
	%	%			
Listed investments					
National Bank of Pakistan	75.18	78.39	9.2.2	1,100,807	1,147,537
Unlisted investments					
Habib Bank Limited	73.05	98.42	9.2.3	14,739,777	11,986,185
Zarai Taraqiati Bank Limited	99.69	99.69	9.2.4	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
				18,196,100	15,442,508
Other investments with holding less than or equal to 50%			9.2.5	16,845,706	16,845,706
				35,041,806	32,288,214
				36,142,613	33,435,751

9.2.1 Investments in 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 purposes 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.

9.2.2 Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2004 amounted to Rs. 24,604.850 million (2003: Rs. 8,781.527 million).

9.2.3 During the year, the Bank alongwith the Privatisation Commission, Government of Pakistan, entered into an agreement dated February 26, 2004 with The Aga Khan Fund for Economic Development S.A. (AKFED) for the transfer of ownership of 51% shares of Habib Bank Limited's (HBL) total paid-up capital to AKFED for USD 389.929 million. Under this agreement, the Bank has transferred ownership of 26% of HBL's total paid-up capital, proceeds of which amounting to USD 198.787 million have been received by the Bank resulting in a gain of Rs. 6,086.171 million, as mentioned in note 40.1 to the financial statements. Under the terms of this agreement, the title to remaining 25% shares will be transferred to AKFED after payments due there against have been received. These payments are due by February 25, 2005 and February 25, 2006 in two equal installments of USD 95.571 million each and carry mark-up at 2.5% above London Inter Bank offer rate on the unpaid amount.

The remaining 25% shares are presently in the name of the Bank which is entitled to any dividend and/ or bonus shares declared by HBL proportionate to these shares till the time their ownership is eventually transferred to AKFED upon compliance with the above-mentioned payment and other operational covenants prescribed in the agreement. In view of the above, the management of the Bank considers that risks and rewards of the remaining 25% shares still vests with the Bank as the transfer of their ownership is subject to compliance by AKFED with the above-mentioned conditions and, accordingly, the investment in these shares has not been derecognised during the year.

The break-up value of the Bank's investment in HBL amounted to Rs. 17,154.974 million at December 31, 2003 based on the financial statements of HBL for the year then ended.

9.2.4 This represents the cost of 99.69% holding in the shares of Zarai Taraqiati Bank Limited (ZTBL - former Agricultural Development Bank of Pakistan). During the year, the Central Board of Bank approved the restructuring of the Bank's exposure in ZTBL (including the investment in the shares of former ADBP) by its conversion into a term loan on certain terms and conditions. Terms of this loan have not been finalised which has delayed the conversion process. Pending the finalisation of this process, the balance continues to be disclosed as investment.

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

9.2.5 Other investments include Rs. 14,791.674 million (2003: Rs. 14,791.674 million) representing the cost of investment in the shares of United Bank Limited (UBL). The break-up value of this investment amounted to Rs. 6,759.768 million based on the financial statements of UBL for the year ended December 31, 2003 (2003: Rs. 5,390.394 million based on the financial statements for the year ended December 31, 2002). During the year ended June 30, 2002, 51% shares in UBL were sold at Rs. 47 per share as against the carrying value per share of Rs. 59 thereby resulting in a total loss of Rs. 3,144.657 million. The current carrying value per share of UBL remains at Rs. 59. However, no provision has been made in these financial statements in respect of this investment as 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.

9.3 The investment in SBP Banking Services Corporation has been made in 1,000 (2003: 1,000) ordinary shares of Rs. 1 million each.

9.4 These represent Market Treasury Bills allocated to the Issue Department.

10. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2003: Rs. 78.5 million) 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).

11. ASSETS HELD WITH THE RESERVE

BANK OF INDIA	2004	2003
	(Rupees in '000)	
Gold reserves		
- Opening balance	671,736	642,060
- Appreciation from revaluation during the year	29 101,343	29,676
	773,079	671,736
Sterling securities	350,140	316,471
Government of India securities	12,757	12,553
Rupee coins	3,765	3,709
	1,139,741	1,004,469

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

12. BANK NOTES ISSUED

Notes held with the Banking Department	8	160,830	214,170
Notes in circulation		611,742,827	522,676,874
		611,903,657	522,891,044

13. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

Quota allocated by the International Monetary Fund		88,097,392	83,716,673
Liability under quota arrangements		(88,087,330)	(83,707,113)
		10,062	9,560

14. LOANS, ADVANCES AND BILLS OF EXCHANGE

Government	14.1	12,000,000	12,040,000
Government owned / controlled financial institutions	14.2	110,623,197	112,729,636
Private sector financial institutions	14.3	77,283,785	49,413,274
		187,906,982	162,142,910
Employees		891,989	810,812
		200,798,971	174,993,722
Provision against doubtful balances	14.4	(4,662,319)	(4,095,413)
		196,136,652	170,898,309
Commercial papers	10	(78,500)	(78,500)
		196,058,152	170,819,809

		2004	2003
		(Rupees in '000)	
14.1	Loans and advances to the Government		
	Federal Government	12,000,000	12,000,000
	Provincial Government (of Balochistan)	-	40,000
		<u>12,000,000</u>	<u>12,040,000</u>

14.1.1 During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 1.3795 to 1.9197 (2003: 1.7035 to 6.379) percent per annum.

		(Rupees in '000)					
		Scheduled banks		Non-banking financial institutions		Total	
		2004	2003	2004	2003	2004	2003
	Agricultural sector <i>14.2.2</i>	58,005,280	55,686,785	-	-	58,005,280	55,686,785
	Industrial sector <i>14.2.2</i>	2,381,409	2,725,071	840,261	1,613,217	3,221,670	4,338,288
	Export sector	16,424,361	14,780,711	786,123	3,567	17,210,484	14,784,278
	Housing sector	66,907	66,907	12,607,300	14,157,300	12,674,207	14,224,207
	Others	10,629,456	11,563,145	8,882,100	12,132,933	19,511,556	23,696,078
		<u>87,507,413</u>	<u>84,822,619</u>	<u>23,115,784</u>	<u>27,907,017</u>	<u>110,623,197</u>	<u>112,729,636</u>

14.2.1 Above balances include Rs. 515.056 million (2003: Rs. 511.306 million) which are 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).

14.2.2 Exposure to the agricultural and industrial sectors respectively include Rs. 50,174.089 million and Rs. 1,083.124 million representing the cumulative Government guaranteed financing of Rs. 51,257.213 million (2003: Rs. 51,257.213 million) to Zarai Taraqati Bank Limited (ZTBL). As mentioned in note 9.2.4, the restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalised in due course.

		(Rupees in '000)					
		Scheduled banks		Non-banking financial institutions		Total	
		2004	2003	2004	2003	2004	2003
	Industrial sector	499,796	153,752	3,577,792	3,577,792	4,077,588	3,731,544
	Export sector	69,409,072	41,952,396	587,000	10,000	69,996,072	41,962,396
	Others	3,210,125	3,719,334	-	-	3,210,125	3,719,334
		<u>73,118,993</u>	<u>45,825,482</u>	<u>4,164,792</u>	<u>3,587,792</u>	<u>77,283,785</u>	<u>49,413,274</u>

		2004	2003
		(Rupees in '000)	
14.4	Movement of provision		
	Opening balance	4,095,413	3,865,230
	Provision during the year	566,906	500,000
	Provision written back during the year	-	(269,817)
		<u>4,662,319</u>	<u>4,095,413</u>

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

	2004	2003
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.5 to 12	4 to 12
Staff loans	10	10

		2004	2003
		(Rupees in '000)	
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
		40,453	40,453
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans and advances	15.2	2,986,117	2,770,650
		3,806,041	3,590,574
		3,846,494	3,631,027

15.1 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Governments of Bangladesh (former East Pakistan) and India.

15.2 These represent loans and advances provided to the Government of former East Pakistan.

16. OPERATING FIXED ASSETS

	Cost / revalued amount at July 1, 2003	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30, 2004	Accumulated depreciation / amortisation at July 1, 2003	Charge for the year / (accumulated depreciation on deletions) / transfers*	Accumulated depreciation/ amortisation at June 30, 2004	Net book value at June 30, 2004	Annual rate of depreciation / amortisation %
Tangible assets								
Freehold land	917,806	-	807,882	-	-	-	807,882	-
		(109,924)						
Leasehold land	4,996,893	-	4,996,893	228,147	110,250	338,397	4,658,496	over the term of lease
Building on freehold land	787,316	210	779,969	197,487	45,336	240,478	539,491	5
		(7,557)			(2,345)			
Building on leasehold land	1,100,839	28,934	1,129,773	202,757	69,282	272,039	857,734	5
Furniture and fixtures	48,061	19,028	61,525	11,629	4,856	13,029	48,496	10
		(5,564)			(3,456)			
Office equipment	72,551	25,546	100,467	63,986	7,697	72,879	27,588	20
		(264)			(231)			
		2,634 *			1,427 *			
EDP equipment	433,261	27,652	458,279	293,743	132,429	424,745	33,534	33.33
		-			(1,427) *			
		(2,634) *						
Motor vehicles	39,144	49,532	77,625	23,448	10,743	28,819	48,806	20
		(11,051)			(5,372)			
	8,395,871	150,902	8,412,413	1,021,197	380,593	1,390,386	7,022,027	
		(134,360)			(11,404)			
Intangible asset								
Computer software	32,260	207	32,467	21,344	10,753	32,097	370	33.33
2004	8,428,131	151,109	8,444,880	1,042,541	391,346	1,422,483	7,022,397	
		(134,360)			(11,404)			
2003	8,599,635	97,917	8,428,131	699,832	387,450	1,042,541	7,385,590	
		(269,421)			(44,741)			

	2004	2003
	(Rupees in '000)	
16.1 Surplus on revaluation of fixed assets		
Opening balance	6,749,772	6,953,519
Surplus realised on disposal of fixed assets	<u>(112,444)</u>	<u>(203,747)</u>
	<u>6,637,328</u>	<u>6,749,772</u>

Certain items of freehold land, leasehold land, buildings on freehold and 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. 6,121.173 million remains undepreciated at June 30, 2004 (2003: Rs. 6,404.136 million) and has been included in the carrying value of the related assets.

17. CAPITAL WORK-IN-PROGRESS

Building on freehold land	2,943	2,943
Building on leasehold land	44,529	4,447
Furniture and fixtures	6,432	827
Office equipment	27,346	1,803
EDP equipment	1,843	1,843
Intangible assets	<u>264,933</u>	<u>264,933</u>
	<u>348,026</u>	<u>276,796</u>

18. OTHER ASSETS

Amounts due from financial institutions under			
currency swap arrangements	18.1	2,674,429	2,717,230
Accrued interest / mark-up and return		935,986	884,060
Exchange gain recoverable under exchange			
risk coverage scheme		7,691	41,800
Stationery and stamps on hand		8,310	24,790
Other advances, deposits and prepayments		521,238	540,829
Balance receivable from the Government of Pakistan		5,692,379	9,493,838
Share of profit recoverable from Zarai Taraqati Bank Limited			
under profit and loss sharing arrangements - net		-	5,548,751
Others		<u>3,006,956</u>	<u>6,408,906</u>
		<u>12,846,989</u>	<u>25,660,204</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.

19. CURRENT ACCOUNTS OF THE GOVERNMENT

Federal Government	19.1	14,681,524	48,841,890
Provincial Governments			
- Punjab	19.2	13,913,754	20,292,864
- Sindh	19.3	13,206,367	3,361,749
- North West Frontier Province (NWFP)	19.4	4,134,839	5,532,498
- Balochistan	19.5	-	1,198,843
		31,254,960	30,385,954
Government of Azad Jammu and Kashmir		<u>2,952,518</u>	2,490,059
		<u>48,889,002</u>	<u>81,717,903</u>

	2004	2003
	(Rupees in '000)	
19.1 Federal Government		
Non-food account	484,991	34,630,083
Food account	20,693	63,972
Zakat fund account	15,857,448	18,565,798
Railways - ways and means advances	19.6 (2,798,603)	(4,939,204)
Fertilizer account	44,137	(216,577)
Saudi Arab special loan account	4,124	4,124
Pakistan Baitul Mal fund account	85	85
Pakistan Railways special account	1,063,373	728,333
Government deposit account no. XII	5,276	5,276
	<u>14,681,524</u>	<u>48,841,890</u>
19.2 Provincial Government - Punjab		
Non-food account	(4,365,339)	(6,239,821)
Food account	1,254,266	1,057,546
Zakat fund account	50,117	7,772
District Government account no. IV	16,974,710	13,177,552
Social action program	-	12,289,815
	<u>13,913,754</u>	<u>20,292,864</u>
19.3 Provincial Government - Sindh		
Non-food account	9,483,511	(154,058)
Food account	108,558	211,914
Zakat fund account	75,083	144,917
District Government account no. IV	3,539,215	3,158,976
	<u>13,206,367</u>	<u>3,361,749</u>
19.4 Provincial Government - NWFP		
Non-food account	3,054,159	3,885,304
Food account	203,073	389,095
Zakat fund account	2,007	611
District Government account no. IV	875,600	1,257,488
	<u>4,134,839</u>	<u>5,532,498</u>
19.5 Provincial Government - Balochistan		
Non-food account	(9,865,206)	(2,526,162)
Food account	463,836	1,950
Zakat fund account	5	302,171
District Government account no. IV	3,868,246	3,420,884
	<u>(5,533,119)</u>	<u>1,198,843</u>
Classified as a receivable balance	19.6 5,533,119	-
Net credit balance	-	1,198,843

19.6 At the year end, these balances carried mark-up at 1.92 (2003: 1.7035) percent per annum.

	2004	2003
	(Rupees in '000)	
20. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS		
Foreign currency		
Scheduled banks	14,212,278	19,885,202
Held under Capital Reserve Requirement scheme	<u>32,020,008</u>	<u>27,083,275</u>
	46,232,286	46,968,477
Local currency		
Scheduled banks	108,946,952	94,076,143
Non-banking financial institutions	991,567	620,428
	<u>109,938,519</u>	<u>94,696,571</u>
	<u>156,170,805</u>	<u>141,665,048</u>

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

	2004	2003
	(% per annum)	
Foreign currency	0.59 to 0.67	0.80 to 1.34
Local currency	0.99 to 1.70	10.67 to 14.79

	2004	2003
	(Rupees in '000)	
21. OTHER DEPOSITS AND ACCOUNTS		
Foreign currency		
Foreign central banks	26,172,872	26,015,103
International organisation	<u>14,539,525</u>	<u>14,451,875</u>
	40,712,397	40,466,978
Local currency		
Special debt repayment	21.2 22,108,042	18,802,147
Government	21.3 17,952,963	19,817,965
Others	2,255,402	1,881,063
	<u>42,316,407</u>	<u>40,501,175</u>
	<u>83,028,804</u>	<u>80,968,153</u>

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

	2004	2003
	(% per annum)	
Foreign central banks	1.36 to 1.79	1.39 to 2.21
International organisation	2.96 to 3.1	3.10 to 4.50

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.

	2004	2003
	(Rupees in '000)	
22. PAYABLE TO INTERNATIONAL MONETARY FUND		
Borrowings under:		
- Fund facilities	22.1 25,041,465	54,409,694
- Other credit schemes	22.2 77,363,692	66,523,617
	<u>102,405,157</u>	<u>120,933,311</u>
Current account for administrative charges	<u>77</u>	<u>73</u>
	<u>102,405,234</u>	<u>120,933,384</u>

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

22.2 This includes Rs. 255.676 million (2003: Rs.728.887 million) in respect of the finance provided by the Saudi Fund for Development (SFD) under Enhanced Structural Adjustment Facility programme of the International Monetary Fund (IMF). The amount has been paid through IMF in its capacity as a Trustee for SFD in respect of this arrangement.

23. OTHER LIABILITIES

Foreign currency

Amounts due to financial institutions under currency swap arrangements	18.1 2,617,115	2,601,338
Accrued interest and discount on deposits	243,021	256,799
Charges on allocation of Special Drawing Rights of IMF	42,000	38,000
Others	<u>4,603</u>	<u>2,888</u>
	<u>2,906,739</u>	<u>2,899,025</u>

Local currency

Overdue mark-up and return	3,444,098	3,223,263
Unearned exchange risk fee	12,183	67,030
Remittance clearance account	607,501	246
Exchange loss payable under exchange risk coverage scheme	45,721	-
Share of loss under profit and loss sharing arrangements	3,274,752	3,543,166
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	23.1 2,324,340	1,646,714
Others	<u>3,147,041</u>	<u>3,043,279</u>
	<u>15,794,702</u>	<u>14,462,764</u>
	<u>18,701,441</u>	<u>17,361,789</u>

		2004	2003
		(Rupees in '000)	
23.1	Other accruals and provisions		
	Interest, mark-up and discount	18,451	20,806
	Printing charges	10,064	147,187
	Agency commission	362,115	326,514
	Provision for employees' compensated absences	322,000	304,000
	Others	1,611,710	848,207
		<u>2,324,340</u>	<u>1,646,714</u>

24. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS

	Provident fund scheme	148,942	137,469
	Gratuity	22,471	19,471
	Pension	2,991,000	2,765,000
	Benevolent fund scheme	247,000	253,000
	Post retirement medical benefits	124,000	88,000
		<u>3,533,413</u>	<u>3,262,940</u>

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

(Rupees in '000)					
	Net recognised liability at July 1, 2003	Charge for the year (note 39.4.3)	Payments during the year	Employees contribution	Net liability at June 30, 2004
Gratuity	19,471	5,000	(2,000)	-	22,471
Pension	2,765,000	545,000	(319,000)	-	2,991,000
Benevolent	253,000	53,000	(61,000)	2,000	247,000
Post retirement medical benefits	88,000	87,000	(51,000)	-	124,000
	<u>3,125,471</u>	<u>690,000</u>	<u>(433,000)</u>	<u>2,000</u>	<u>3,384,471</u>

		2004	2003
		(Rupees in '000)	
25.	DEFERRED INCOME		
	Opening balance	415,106	480,754
	Grants received during the year	6,579	69,381
	Amortisation during the year	(135,490)	(135,029)
	Closing balance	<u>286,195</u>	<u>415,106</u>

This represents grant received for capital expenditure and, as indicated in note 2.8 to these financial statements, is being amortised over the useful lives of the related assets.

26. SHARE CAPITAL

Number of shares			
Authorised share capital			
1,000,000	Ordinary shares of Rs 100 each	<u>100,000</u>	100,000
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.

		2004	2003
		(Rupees in '000)	
27. CAPITAL RECEIPT			
Allocation of Special Drawing Rights of the International Monetary Fund		<u>1,525,958</u>	<u>1,525,958</u>
28. RESERVES			
Reserve Fund	28.1	5,400,000	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		<u>4,700,000</u>	<u>4,700,000</u>
		<u><u>16,700,000</u></u>	<u><u>16,700,000</u></u>

28.1 Reserve Fund

This represents appropriations made in the previous years 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 provision of cover against risks relating to events which are contingent and non-foreseeable.

28.2 Other Funds

These represent appropriations made in the previous years 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.

29. UNREALISED APPRECIATION ON GOLD RESERVES

Opening balance		38,883,231	37,033,311
Appreciation on revaluation during the year:			
- held by the Bank	3	<u>6,221,047</u>	1,820,244
- held with the Reserve Bank of India	11	<u>101,343</u>	29,676
		<u>6,322,390</u>	1,849,920
		<u><u>45,205,621</u></u>	<u><u>38,883,231</u></u>

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.

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		32,059,794	31,723,775
ii) Government owned / controlled bodies and authorities		<u>73,620,783</u>	<u>103,829,076</u>
		<u><u>105,680,577</u></u>	<u><u>135,552,851</u></u>

Guarantees amounting to Rs. 105,680.577 million (2003: Rs. 131,792.185 million) are secured by counter guarantees either from the Government of Pakistan or local financial institutions.

- b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal for the enhancement of their entitlement paid under the above scheme. During the year, the Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal, has filed a civil petition for leave to appeal in the Supreme Court of Pakistan which is pending for hearing. 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 in this respect. As the matter is currently under litigation, the disclosure of the financial effect of this matter has not been considered appropriate by the management.

	2004	2003
	(Rupees in '000)	
c) Other claims against the Bank not acknowledged as debts	<u>702,624</u>	<u>789,780</u>
30.2 Commitments		
Forward exchange contracts - sales	35,140,553	10,742,916
Forward exchange contracts - purchases	13,253,350	34,696,460
Repurchase and outright sale of securities	69,740,400	9,127,077
Import letters of credit	82,306,585	70,688,072
31. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	1,714,976	7,310,225
Other Government securities	439,911	603,590
Loans and advances to Government	358,734	406,938
Loans and advances to banks and financial institutions	1,533,753	3,632,247
Share of profit on finances under profit and loss sharing arrangements	676,494	2,591,419
Foreign currency deposits	6,067,452	5,567,318
Foreign currency securities	911,286	789,411
Adhoc Treasury Bills	-	211,775
Others	5,885	5,535
	<u>11,708,491</u>	<u>21,118,458</u>
32. INTEREST / MARK-UP EXPENSE		
Deposits	1,346,406	2,539,255
Share of loss on finances under profit and loss sharing arrangements	3,815,121	-
Others	40,564	38,907
	<u>5,202,091</u>	<u>2,578,162</u>
33. COMMISSION INCOME		
Market Treasury Bills	50,885	62,418
Draft / payment orders	238,509	46,479
Prize Bonds and National Saving Certificates	119,171	115,840
Management of public debts	68,238	63,397
Others	19,651	34,857
	<u>496,454</u>	<u>322,991</u>

	2004	2003
	(Rupees' 000)	
34. EXCHANGE GAIN / (LOSS) - net		
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	3,372,849	(12,951,336)
- Open market operations (including currency swap arrangements)	(38,963)	(1,730,900)
- Forward covers under Exchange Risk Coverage Scheme	(156,485)	1,206,876
- Payable to the International Monetary Fund (IMF)	(3,853,758)	(1,000,142)
- Special Drawing Rights of IMF	669,601	130,213
- Others	424,750	224,093
	417,994	(14,121,196)
Exchange risk fee income	337,178	2,311,731
	755,172	(11,809,465)

35. PROFIT TRANSFERRED FROM SBP BANKING SERVICES CORPORATION AND NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

SBP Banking Services Corporation	26,135	41,568
National Institute of Banking and Finance (Guarantee) Limited	16,706	7,904
	42,841	49,472

The above represents the net profit of subsidiaries for the year ended June 30, 2004 transferred to the Bank in accordance with the arrangements mentioned in note 39.3.

36. OTHER OPERATING INCOME

Penalties levied on banks and financial institutions	360,677	279,472
License / Credit Information Bureau fee recovered	1,966	84
Others	5,181	171
	367,824	279,727

37. NOTE PRINTING CHARGES

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

38. AGENCY COMMISSION

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15% (2003: 0.15%) of the total amount of collection and remittances handled by NBP.

	2004	2003
	(Rupees in '000)	
39. ESTABLISHMENT COSTS		
Salaries and other benefits	531,728	498,857
Retirement benefits and employees' compensated absences	1,582,008	1,379,672
Daily wages staff	145	317
Medical allowances	38,777	35,472
Overtime allowance	8,006	6,565
Rent and taxes	23,621	12,869
Insurance	3,285	1,567
Electricity, gas and water charges	15,323	693
Depreciation	16 391,346	387,450
Repairs to Bank's property	17,888	14,458
Repairs to Bank's vehicles	1,653	1,215
Repairs to mechanical / electrical equipment	4,865	13,636
Directors' fee	1,812	1,440
Auditors' remuneration	39.6 1,245	1,200
Legal and professional charges	55,844	39,364
Travelling expenses	21,020	15,822
Daily expenses	29,825	20,321
Passages	14,572	9,510
Fuel charges	5,281	5,205
Conveyance charges	3,039	2,861
Postages	2,090	1,718
Telegram / telex	14,923	11,517
Telephone	26,483	19,911
Training	7,179	5,331
Examination/ testing services	1,249	443
Remittance of treasure	1,001	3,680
Stationery	12,594	13,429
Books and newspapers	5,062	3,873
Advertisement	2,930	5,305
Uniforms	1,987	1,993
Others	38,775	30,652
	<u>2,865,556</u>	<u>2,546,346</u>
Expenses allocated by:		
SBP Banking Services Corporation	39.1 821,202	1,216,882
National Institute of Banking and Finance (Guarantee) Limited	3,196	49,821
	<u>824,398</u>	<u>1,266,703</u>
Expenses reimbursed to:		
SBP Banking Services Corporation	39.2 2,340,526	2,361,991
National Institute of Banking and Finance (Guarantee) Limited	42,754	8,321
	<u>2,383,280</u>	<u>2,370,312</u>
	<u>6,073,234</u>	<u>6,183,361</u>

	2004	2003
	(Rupees in '000)	
39.1 Expenses allocated by SBP Banking Services Corporation		
Retirement benefits and employees' compensated absences	794,556	1,098,673
Depreciation	<u>26,646</u>	<u>118,209</u>
	<u>821,202</u>	<u>1,216,882</u>
39.2 Expenses reimbursed to SBP Banking Services Corporation		
Salaries and other benefits	1,784,542	1,844,254
Daily wages staff	6,363	6,219
Medical allowances	227,767	206,544
Overtime allowance	3,957	4,206
Rent and taxes	5,857	7,653
Insurance	1,142	674
Electricity, gas and water charges	96,099	95,328
Repairs to Bank's property	4,408	2,498
Repairs to Bank's vehicles	1,239	1,130
Repairs to mechanical / electrical equipment	819	3,792
Auditors' remuneration	1,500	1,500
Legal and professional charges	2,237	1,370
Travelling expenses	6,154	11,410
Daily expenses	10,019	13,495
Recreation allowance	57,022	23,380
Fuel charges	2,194	2,415
Conveyance charges	3,145	4,191
Postage	2,450	2,787
Telephone	10,177	11,561
Remittance of treasure	30,772	28,481
Stationery	8,430	8,202
Books and newspapers	2,340	859
Advertisement	1,612	1,968
Bank guards	34,733	34,244
Uniforms	14,151	18,908
Others	<u>21,397</u>	<u>24,922</u>
	<u>2,340,526</u>	<u>2,361,991</u>

39.3 SBP Banking Services Corporation, a wholly owned subsidiary of the Bank, carries out certain functions and activities principally relating 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 year ended June 30, 2004, as mentioned in note 35, has also been transferred to the Bank. Similar treatment is also followed by the other subsidiary, National Institute of Banking and Finance (Guarantee) Limited, under arrangements mutually agreed with the Bank.

39.4 Staff retirement benefits

39.4.1 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 actuarial valuations of the above defined benefit obligations were carried out at June 30, 2004 under the projected Unit Credit Method using following significant assumptions:

- Expected rate of increase in salary 5.94 (2003: 5.94) percent per annum
- Expected rate of discount 8.00 (2003: 8.00) percent per annum
- Medical cost increase 2.86 (2003: 2.86) percent per annum

39.4.2 Present value of the obligations

Present values of obligations under the retirement benefit schemes and liabilities recognised thereagainst for the past services of the employees at June 30, 2004 based on actuarial valuation as of that date was as follows:

	(Rupees in '000)		
	Present value of the defined benefit obligation	Unrecognised actuarial gain/ (loss)	Provision made in respect of the staff retirement benefits
Gratuity	17,471	5,000	22,471
Pension	3,065,000	(74,000)	2,991,000
Benevolent	384,000	(137,000)	247,000
Post retirement medical benefits	945,000	(821,000)	124,000
	4,411,471	(1,027,000)	3,384,471

39.4.3 Amount recognised in the profit and loss account

The amounts charged in the profit and loss account during the current year in respect of the above benefits are as follows:

	(Rupees in '000)					
	Current service cost	Interest cost	Transitional liability recognised in the current year	Actuarial (gain) / loss recognised	Employees contributions	Total
Gratuity	-	1,000	7,000	(3,000)	-	5,000
Pension	40,000	229,000	277,000	(1,000)	-	545,000
Benevolent	5,000	28,500	13,500	8,000	(2,000)	53,000
Post retirement medical benefits	2,000	34,500	29,500	21,000	-	87,000
	47,000	293,000	327,000	25,000	(2,000)	690,000

39.5 Employees' compensated absences

As at June 30, 2004, the Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 322 million (2003: Rs. 304 million). This amount has been recognised in the financial statements of the Bank. An amount of Rs. 40 million (2003: 61 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

39.6 Auditors' remuneration

	(Rupees in '000)			
	A.F. Ferguson & Co.	Taseer Hadi Khalid & Co.	2004	2003
Audit fee	500	500	1,000	1,000
Special certifications/ examinations and sundry advisory services	45	-	45	-
Out of pocket expenses	100	100	200	200
	645	600	1,245	1,200

	2004	2003
	(Rupees in '000)	
40. OTHER INCOME		
Gain on disposal of fixed assets	148,716	85,131
Liabilities and provisions written back - net	275	278,190
Gain on disposal of investments	40.1 6,928,678	591,228
Amortisation of deferred income	25 135,490	135,029
Others	11,587	907,704
	<u>7,224,746</u>	<u>1,997,282</u>
40.1	This includes Rs. 6,086.171 million in respect of the gain realised during the year on disposal of 26% of HBL's total paid-up capital to the Aga Khan Fund for Economic Development S.A., as mentioned in detail in note 9.2.3.	
41. OTHER CHARGES		
Charges on allocation of Special Drawing Rights	227,295	263,882
Others	320,816	332,658
	<u>548,111</u>	<u>596,540</u>
42. PROFIT / (LOSS) FOR THE YEAR AFTER NON-CASH ITEMS		
Profit for the year	6,108,498	24,837
Adjustments for:		
Depreciation	391,346	387,450
Amortisation of deferred income	(135,490)	(135,029)
Provision for:		
- retirement benefits and employees' compensated absences	1,582,008	1,379,672
- loans and advances	566,906	500,000
- share of loss / (profit) under profit and loss sharing arrangements	5,303,335	(2,102,204)
Liabilities and provisions written back	-	(278,190)
Gain on disposal of fixed assets	(148,716)	(85,131)
Dividend income	(1,422,058)	(1,168,526)
Other accruals and provisions - net	2,002,340	1,342,714
	<u>14,248,169</u>	<u>(134,407)</u>
43. CASH AND CASH EQUIVALENTS		
Local currency	2,959,993	2,565,308
Foreign currency reserves	629,731,918	562,428,084
Earmarked foreign currency balances	3,780,277	53,113,531
Special Drawing Rights of International Monetary Fund	13,826,690	14,092,081
	<u>650,298,878</u>	<u>632,199,004</u>

44. **INTEREST/ MARK-UP RATE RISK**

Information about the Bank's exposure to interest / mark-up rate risk based on contractual repricing and maturity dates, which ever is earlier is as follows:

	(Rupees in '000)						
	<u>Interest/ mark-up bearing *</u>			<u>Non interest/ mark-up bearing</u>			<u>Grand Total</u>
	<u>Maturity upto one year</u>	<u>Maturity after one year</u>	<u>Total</u>	<u>Maturity upto one year</u>	<u>Maturity after one year</u>	<u>Total</u>	
Financial assets							
Local currency (including rupee coins)	-	-	-	2,959,993	-	2,959,993	2,959,993
Foreign currency reserves	626,501,442	2,036,533	628,537,975	3,398,449	397,091	3,795,540	632,333,515
Earmarked foreign currency balances	3,780,277	-	3,780,277	-	-	-	3,780,277
Special Drawing Rights of International Monetary Fund	13,826,690	-	13,826,690	-	-	-	13,826,690
Reserve tranche with the International Monetary Fund under quota arrangements	10,062	-	10,062	-	-	-	10,062
Current account of the Government of Balochistan	5,533,119	-	5,533,119	-	-	-	5,533,119
Investments	130,878,739	2,740,000	133,618,739	2,522,312	33,620,305	36,142,617	169,761,356
Loans, advances and bills of exchange	3,000,000	9,000,000	12,000,000	188,220	785,836	974,056	12,974,056
Loans, advances and bills of exchange offices	92,874,173	16,264,693	109,138,866	71,511,009	2,512,721	74,023,730	183,162,596
Balances due from Governments of India and Bangladesh (former East Pakistan)	-	2,986,117	2,986,117	-	860,377	860,377	3,846,494
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	543,793	543,793	543,793
Assets held with the Reserve Bank of India	-	362,897	362,897	-	3,765	3,765	366,662
Other assets	-	-	-	10,144,220	2,674,429	12,818,649	12,818,649
	<u>876,404,502</u>	<u>33,390,240</u>	<u>909,794,742</u>	<u>90,724,203</u>	<u>41,398,317</u>	<u>132,122,520</u>	<u>1,041,917,262</u>
Financial liabilities							
Bank notes in circulation	-	-	-	-	611,903,657 **	611,903,657	611,903,657
Bills payable	-	-	-	494,365	-	494,365	494,365
Current accounts of the Government	-	-	-	48,889,002	-	48,889,002	48,889,002
Current account of SBP Banking Services Corporation	-	-	-	3,065,457	-	3,065,457	3,065,457
Current account of National Institute of Banking and Finance (Guarantee) Limited	-	-	-	3,199	-	3,199	3,199
Deposits of banks and financial institutions	23,990,362	-	23,990,362	132,180,443	-	132,180,443	156,170,805
Other deposits and accounts	-	40,712,397	40,712,397	42,316,407	-	42,316,407	83,028,804
Payable to International Monetary Fund	7,303,368	95,101,866	102,405,234	-	-	-	102,405,234
Other liabilities	-	-	-	16,072,143	2,617,115	18,689,258	18,689,258
	<u>31,293,730</u>	<u>135,814,263</u>	<u>167,107,993</u>	<u>243,021,016</u>	<u>614,520,772</u>	<u>857,541,788</u>	<u>1,024,649,781</u>
On balance sheet gap - 2004 (a)	<u>845,110,772</u>	<u>(102,424,023)</u>	<u>742,686,749</u>	<u>(152,296,813)</u>	<u>(573,122,455)</u>	<u>(725,419,268)</u>	<u>17,267,481</u>
On balance sheet gap - 2003 (a)	<u>792,809,969</u>	<u>(95,367,128)</u>	<u>697,442,841</u>	<u>(205,151,931)</u>	<u>(475,238,591)</u>	<u>(680,390,522)</u>	<u>17,052,319</u>

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

* includes finances provided under profit and loss sharing arrangements.

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

44.1 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 44.1.1 to 44.1.4. 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.

44.1.1 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.

44.1.2 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.

44.1.3 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.

44.1.4 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.

44.1.5 Fair value of financial assets and financial liabilities

The fair value of all financial assets and financial liabilities, except for investment accounted for at cost, is estimated to approximate their carrying values.

	2004	2003
45. NUMBER OF EMPLOYEES		
Number of employees at June 30	<u>1,275</u>	<u>1,201</u>

46. GENERAL

Figures have been rounded off to the nearest thousand rupees.

47. DATE OF AUTHORISATION

These financial statements were authorised for issue on September 7, 2004 by the Central Board of Directors of the Bank.

Ishrat Husain
Governor

Tawfiq A. Husain
Deputy Governor

Aftab Mustafa Khan
Director Accounts

14 **Financial Statements of the SBP BSC**

**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 SULTAN
TRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI**

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the annexed balance sheet of the **SBP Banking Services Corporation** as at June 30, 2004 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 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, 2004 and of the profit, its cash flows and changes in equity for the year then ended.

Chartered Accountants
Karachi
Date: September 7, 2004

Chartered Accountants
Karachi
Date: September 7, 2004

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2004

	Note	2004	2003
		(Rupees'000)	
ASSETS			
Investments	3	896,429	512,819
Employee loans and advances		4,167,674	3,914,944
Prepaid expenses		5,682	2,429
Balance in current account with the State Bank of Pakistan		3,065,457	3,681,932
Tangible assets:			
- Operating fixed assets	4	74,933	70,785
- Capital work-in-progress	5	17,176	2,103
		92,109	72,888
Total assets		8,227,351	8,185,012
LIABILITIES			
Other liabilities	6	1,609,443	1,537,689
Deferred liabilities - staff retirement benefits	7	5,617,908	5,647,323
Total liabilities		7,227,351	7,185,012
Net assets		1,000,000	1,000,000
REPRESENTED BY			
Share capital	8	1,000,000	1,000,000

The annexed notes 1 to 14 form an integral part of these financial statements.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2004

	Note	2004 (Rupees' 000)	2003
Discount and interest earned	9	25,620	41,385
Net operating expenses - establishment costs	10		
Total expenses		3,161,728	3,578,873
Less: Reimbursed by the State Bank of Pakistan		2,340,526	2,361,991
Less: Allocated to the State Bank of Pakistan		821,202	1,216,882
		-	-
OPERATING PROFIT		25,620	41,385
Profit on disposal of fixed assets		515	183
BALANCE PROFIT TRANSFERRED TO THE STATE BANK OF PAKISTAN		26,135	41,568

The annexed notes 1 to 14 form an integral part of these financial statements.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

SBP BANKING SERVICES CORPORATION
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2004

	Note	2004	2003
		(Rupees' 000)	
Cash flow from operating activities			
Loss after non-cash items	11	(1,506,304)	(1,132,976)
Expenses reimbursed by the State Bank of Pakistan		2,340,526	2,361,991
Balance profit transferred to the State Bank of Pakistan		(26,135)	(41,568)
Retirement benefits and employees' compensated absences paid		(775,975)	(233,244)
Discount income received		<u>13,497</u>	<u>35,297</u>
		45,609	989,500
Decrease / (increase) in assets			
- Loans to employees		(252,730)	228,233
- Other assets - net		(3,253)	10,780
Increase in liabilities			
- Other liabilities - net		23,758	36,459
Net cash (outflow) / inflow from operating activities		<u>(186,616)</u>	<u>1,264,972</u>
Cash flow from investing activities			
Fixed capital expenditure		(46,603)	(33,439)
Investment made		(384,507)	-
Proceeds from disposal of fixed assets		1,251	382
Net cash outflow on investing activities		(429,859)	(33,057)
Net (decrease) / increase in cash and cash equivalents		(616,475)	1,231,915
Cash and cash equivalents at beginning of the year		3,681,932	2,450,017
Cash and cash equivalents at end of the year		<u>3,065,457</u>	<u>3,681,932</u>

The annexed notes 1 to 14 form an integral part of these financial statements.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2004

	Share capital	Profit and loss account	Total
	----- (Rupees '000) -----		
Balance as at June 30, 2002	1,000,000	-	1,000,000
Profit for the year ended June 30, 2003	-	41,568	41,568
Balance profit transferred to the State Bank of Pakistan	-	(41,568)	(41,568)
Balance as at June 30, 2003	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Profit for the year ended June 30, 2004	-	26,135	26,135
Balance profit transferred to the State Bank of Pakistan	-	(26,135)	(26,135)
Balance as at June 30, 2004	<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

The annexed notes 1 to 14 form an integral part of these financial statements.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1. STATUS AND NATURE OF OPERATIONS

SBP Banking Services Corporation (the Corporation) was constituted under the SBP Banking Services Corporation Ordinance, 2001 (the Ordinance) as a wholly owned subsidiary of the State Bank of Pakistan (SBP) and commenced its operations with effect from January 2, 2002. The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance mainly including:

- disbursing of loans and advances to the Government, banks, financial institutions and local authorities and facilitating in inter-bank settlement system;
- collecting revenue and making payments for and on behalf of and maintaining accounts of the Government, local bodies, authorities, companies, banks and other financial institutions;
- receipt, supply and exchange of bank notes and coins;
- dealing in prize bonds and other savings instruments of the Government; and
- operational work relating to management of debt and foreign exchange.

Any assets, liabilities, income and expenditure directly relating to the above activities are accounted for in the books of SBP while the cost incurred by the Corporation in carrying out the above activities are either reimbursed from or allocated to SBP and are accounted for as deduction from the expenditure while net profit / loss, if any, of the Corporation is transferred to / recovered from SBP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards (IASs) 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.

2.2 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain employee benefits, as referred to in notes 2.6 (c) and 2.7 have been stated at their present values.

2.3 Investments

Investment in Government securities are stated at cost. 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 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.

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 the following staff retirement benefits for employees transferred from SBP (transferred employees) and other employees:

- a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme;
- b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for the new scheme and other employees;
- c) the following other staff retirement benefit schemes:
 - an un-funded gratuity scheme for all employees other than the employees who opted for the new general provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
 - an un-funded pension scheme;
 - an un-funded contributory benevolent fund scheme; and
 - an un-funded post retirement medical benefit scheme.

Annual provisions are made by the 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 an accrual basis.

2.9 Taxation

The 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 comprise of cash on hand and balance in current account with the State Bank of Pakistan. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

2.11 Financial instruments

Financial assets and liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instrument. Any gain or loss on the derecognition of the financial assets and liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include investments, loans and advances, balance in the current account with the State Bank of Pakistan and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

2.12 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Corporation has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.13 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment losses are recognized in the profit and loss account.

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income / expense currently.

2004 **2003**
(Rupees'000)

3. Investments

Government securities

Market Treasury Bills	511,923	512,819
Pakistan Investment Bonds	<u>384,506</u>	<u>-</u>
	<u>896,429</u>	<u>512,819</u>

Market Treasury Bills carry mark-up at the rate of 2.0 percent per annum (2003: 2.7 percent per annum) while the Pakistan Investment Bonds carry mark-up at the rate of 8.0 percent per annum.

4. Operating fixed assets

The following is a statement of operating assets:

	Cost at July 1. 2003	Additions/ (deletions) during the year	Cost at June 30. 2004	Accumulated depreciation at July 1. 2003	Charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation at June 30. 2004	Net book value at June 30. 2004	Annual rate of depreciation %
------(Rupees '000)-----								
Furniture and fixtures	25,592	2,070 (296)	27,366	5,920	4,132 (402)	9,650	17,716	10
Office equipment	179,333	16,900 (870)	195,363	144,929	13,618 (484)	158,063	37,300	20
EDP equipment	35,591	1,360 (64)	36,887	20,524	7,129 -	27,653	9,234	33.33
Motor vehicles	2,805	11,200 (653)	13,352	1,163	1,767 (261)	2,669	10,683	20
2004	<u>243,321</u>	<u>31,530</u> <u>(1,883)</u>	<u>272,968</u>	<u>172,536</u>	<u>26,646</u> <u>(1,147)</u>	<u>198,035</u>	<u>74,933</u>	
2003	<u>211,606</u>	<u>33,536</u> <u>(1,821)</u>	<u>243,321</u>	<u>55,949</u>	<u>118,209</u> <u>(1,622)</u>	<u>172,536</u>	<u>70,785</u>	

	Note	2004	2003
(Rupees'000)			
5. Capital work-in-progress			
Furniture and fixtures		9,398	1,073
Office equipment		7,598	968
EDP equipment		180	62
		<u>17,176</u>	<u>2,103</u>
6. Other liabilities			
Accruals and provisions	6.1	1,419,834	1,447,202
Others		189,609	90,487
		<u>1,609,443</u>	<u>1,537,689</u>
6.1 Accruals and provisions			
Provision for employees' compensated absences		1,417,000	1,369,004
Others		2,834	78,198
		<u>1,419,834</u>	<u>1,447,202</u>
7. Deferred liabilities - staff retirement benefits			
Provident fund scheme		757,800	715,189
Gratuity		84,108	81,565
Pension		3,989,000	3,979,560
Benevolent fund scheme		567,000	595,184
Post retirement medical benefits		220,000	275,825
		<u>5,617,908</u>	<u>5,647,323</u>

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

	Recognised liability as at June 30, 2003	Charge for the year	Payments during the year	Recognised liability as at June 30, 2004
----- (Rupees '000) -----				
Gratuity	81,565	6,000	3,457	84,108
Pension	3,979,560	464,000	454,560	3,989,000
Benevolent fund scheme	595,184	60,000	88,184	567,000
Post retirement medical benefits	275,825	29,000	84,825	220,000
	<u>4,932,134</u>	<u>559,000</u>	<u>631,026</u>	<u>4,860,108</u>

	2004	2003
(Rupees'000)		
8. Share capital		
Number of shares		
2004	2003	
Authorised share capital		
<u>1,000</u>	<u>1,000</u>	Ordinary shares of Rs 1,000,000 each
		<u>1,000,000</u> <u>1,000,000</u>
Issued, subscribed and paid-up capital		
<u>1,000</u>	<u>1,000</u>	Fully paid-up ordinary shares of Rs 1,000,000 each
		<u>1,000,000</u> <u>1,000,000</u>

	Note	2004	2003
		(Rupees' 000)	
9. Discount and interest earned			
Discount on Government securities		12,600	29,252
Interest on staff loans		13,020	12,133
		<u>25,620</u>	<u>41,385</u>
10. Establishment costs			
Reimbursable from the State Bank of Pakistan			
Salaries and other benefits		1,784,542	1,844,254
Daily wages staff		6,363	6,219
Medical allowance		227,767	206,544
Overtime allowance		3,957	4,206
Rent and taxes		5,857	7,653
Insurance		1,142	674
Electricity, gas and water charges		96,099	95,328
Repairs to office property		4,408	2,498
Repairs to office vehicles		1,239	1,130
Repairs to mechanical / electrical equipment		819	3,792
Auditors' remuneration	10.3	1,500	1,500
Legal and professional charges		2,237	1,370
Travelling expenses		6,154	11,410
Daily expenses		10,019	13,495
Passages		57,022	23,380
Fuel charges		2,194	2,415
Conveyance charges		3,145	4,191
Postages		2,450	2,787
Telephone		10,177	11,561
Remittance of treasure		30,772	28,481
Stationery		8,430	8,202
Books and newspapers		2,340	859
Advertisement		1,612	1,968
Bank guards		34,733	34,244
Uniforms		14,151	18,908
Others		21,397	24,922
		<u>2,340,526</u>	<u>2,361,991</u>
Allocable to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences		794,556	1,098,673
Depreciation	4	26,646	118,209
		821,202	1,216,882
		<u>3,161,728</u>	<u>3,578,873</u>

10.1 As mentioned in note 2.6, the Corporation operates the following staff retirement benefit schemes:

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

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, 2004:

	Percent per annum
- Expected rate of increase in salary level	5.94%
- Expected rate of discount	8.00%
- Medical cost trend	2.86%

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	Provision made in respect of retirement benefits	Unrecognised actuarial gain / (loss)
	----- (Rupees '000) -----		
Gratuity	68,443	84,108	15,665
Pension	4,041,000	3,989,000	(52,000)
Benevolent fund scheme	574,000	567,000	(7,000)
Post retirement medical benefits	489,000	220,000	(269,000)
	<u>5,172,443</u>	<u>4,860,108</u>	<u>(312,335)</u>

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

	Current service cost	Actuarial gain	Interest cost	Total
------(Rupees '000)-----				
Gratuity	2,339	(1,895)	5,556	6,000
Pension	168,000	5,000	291,000	464,000
Benevolent fund scheme	27,000	(8,000)	41,000	60,000
Post retirement medical benefits	12,000	-	17,000	29,000
	<u>209,339</u>	<u>(4,895)</u>	<u>354,556</u>	<u>559,000</u>

10.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2004 using the Projected Unit Credit Method. An amount of Rs 141 million (2003: Rs 176 million) has been charged to the profit and loss account in this respect based on actuarial recommendations.

	A.F.Ferguson & Co.	Taseer Hadi Khalid & Co.	2004	2003
------(Rupees' 000)-----				
10.3 Auditors' remuneration				
Audit fee	500	500	1,000	1,000
Out of pocket expenses	<u>250</u>	<u>250</u>	<u>500</u>	<u>500</u>
	<u>750</u>	<u>750</u>	<u>1,500</u>	<u>1,500</u>

11. Loss after non-cash items

Net profit for the year	26,135	41,568
Expenses reimbursed by the State Bank of Pakistan	(2,340,526)	(2,361,991)
Expenses allocated to the State Bank of Pakistan	<u>(821,202)</u>	<u>(1,216,882)</u>
	(3,135,593)	(3,537,305)
Adjustments for:		
Depreciation	26,646	118,209
Provision for retirement benefits and employees' compensated absences	794,556	1,098,673
Expenses allocated to the State Bank of Pakistan	821,202	1,216,882
Discount on Government securities	(12,600)	(29,252)
Profit on disposal of fixed assets	(515)	(183)
	1,629,289	2,404,329
	<u>(1,506,304)</u>	<u>(1,132,976)</u>

Financial assets and liabilities

	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
	(Rupees '000)						
Financial assets							
Investments	896,429	-	896,429	-	-	-	896,429
Employee loans and advances	27,608	253,621	281,229	328,706	3,557,737	3,886,443	4,167,672
Balance in current account with the State Bank of Pakistan	-	-	-	3,065,457	-	3,065,457	3,065,457
	<u>924,037</u>	<u>253,621</u>	<u>1,177,658</u>	<u>3,394,163</u>	<u>3,557,737</u>	<u>6,951,900</u>	<u>8,129,558</u>
Financial liabilities							
Other liabilities	-	-	-	192,443	1,417,000	1,609,443	1,609,443
	<u>-</u>	<u>-</u>	<u>-</u>	<u>192,443</u>	<u>1,417,000</u>	<u>1,609,443</u>	<u>1,609,443</u>

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.

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.

Fair value of financial assets and liabilities

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

Number of employees	2004	2003
Number of employees as at June 30	<u>5,510</u>	<u>5,581</u>

Date of authorisation for issue

These financial statements were authorised for issue on September 7, 2004 by the Board of Directors of the Corporation.

Liaquat Durrani
Managing Director

Taslim Kazi
Director Accounts

15 Financial Statements of NIBAF

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **National Institute of Banking and Finance (Guarantee) Limited** as at June 30, 2004, and the related income and expenditure 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 company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. 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, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, cash flow statement and statement of changes in equity, together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2004 and of the surplus and its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Islamabad : September 7, 2004

SYED HUSAIN & CO.

Chartered Accountants

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
BALANCE SHEET

AS AT JUNE 30, 2004

		2004	2003
	Note	Rupees	Rupees
ASSETS			
NON CURRENT ASSETS			
Tangible operating fixed assets - at cost less accumulated depreciation	3	13,505,168	15,035,842
Balance in current account with State Bank of Pakistan		<u>3,199,083</u>	<u>10,544,898</u>
		16,704,251	25,580,740
CURRENT ASSETS			
Stocks - Stationary and other consumables		370,738	245,619
Advances, deposits, prepayments and other receivables	4	5,401,719	900,150
Cash and bank balances	5	<u>53,420,346</u>	<u>52,888,383</u>
		59,192,803	54,034,152
TOTAL ASSETS		<u>75,897,054</u>	<u>79,614,892</u>
EQUITY AND LIABILITIES			
EQUITY			
Authorized share capital			
20,000,000 (2003: 20,000,000) ordinary shares of Rupees 10 each		<u>200,000,000</u>	<u>200,000,000</u>
Issued, subscribed and paid up share capital			
07 (2003: 07) ordinary shares of Rupees 10 each fully paid up in cash		70	70
Accumulated surplus		<u>24,367,267</u>	<u>24,367,267</u>
		24,367,337	24,367,337
NON-CURRENT LIABILITIES			
Advance for issue of shares	6	49,260,760	49,260,760
CURRENT LIABILITIES			
Creditors, accrued and other liabilities	7	<u>2,268,957</u>	<u>4,486,795</u>
Advance fee received		-	1,500,000
		2,268,957	5,986,795
CONTINGENCIES AND COMMITMENTS			
		-	-
TOTAL EQUITY AND LIABILITIES		<u>75,897,054</u>	<u>79,614,892</u>

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2004

	Notes	2004 Rupees	2003 Rupees
INCOME	8	16,705,586	7,903,770
EXPENDITURE	9	45,949,758	58,142,656
DEFICIT BEFORE ALLOCATION TO STATE BANK OF PAKISTAN		(29,244,172)	(50,238,886)
EXPENSES REIMBURSABLE FROM / ALLOCATED TO STATE BANK OF PAKISTAN		45,949,758	58,142,656
LESS: INCOME ALLOCATED TO STATE BANK OF PAKISTAN		16,705,586	7,903,770
		<u>29,244,172</u>	<u>50,238,886</u>
DEFICIT FOR THE YEAR- BEFORE TAX		-	-
TAXATION:			
Current		-	-
Prior		-	-
		<u>-</u>	<u>-</u>
DEFICIT FOR THE YEAR - AFTER TAX		-	-
ACCUMULATED SURPLUS BROUGHT FORWARD		24,367,267	24,367,267
ACCUMULATED SURPLUS CARRIED FORWARD		<u>24,367,267</u>	<u>24,367,267</u>
BASIC EARNING PER SHARE	12	-	-

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2004

	2004	2003
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus before tax	-	-
Adjustments for non-cash items and other charges		
Expenses allocated to State Bank of Pakistan	3,195,921	8,321,198
(Gain)/Loss on disposal of fixed assets	-	(60)
Cash flow from operating activities before working capital changes	<u>3,195,921</u>	<u>8,321,138</u>
Cash flow from working capital changes		
Increase/(Decrease) in Current Liabilities:		
Creditors, accrued and other liabilities	(2,217,838)	(218,451,786)
Advance fee received	(1,500,000)	1,500,000
(Increase)/Decrease in Current Assets:		
Stocks	(125,119)	(245,619)
Advances, deposits, prepayments and other receivables	(4,501,569)	77,779
	<u>(8,344,526)</u>	<u>(217,119,626)</u>
Income tax paid	-	-
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(5,148,605)	(208,798,488)
CASH FLOW FROM INVESTING ACTIVITIES		
Addition/transfer of fixed assets	(1,665,247)	(23,358,180)
Proceeds from disposal of fixed assets	-	1,200
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,665,247)	(23,356,980)
CASH FLOW FROM FINANCING ACTIVITIES		
Current accounts with State Bank of Pakistan	7,345,815	(10,544,898)
Advance against issue of shares	-	21,760,790
NET CASH INFLOW FROM FINANCING ACTIVITIES	7,345,815	11,215,892
NET INCREASE/(DECREASE) IN CASH AND CASH AND CASH EQUIVALENTS	<u>531,963</u>	<u>(220,939,576)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>52,888,383</u>	<u>273,827,959</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>53,420,346</u></u>	<u><u>52,888,383</u></u>

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2004

	Advance for Issue of Shares	Share Capital	Accumulated Surplus	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at June 30, 2002	27,499,970	70	24,367,267	51,867,307
Consideration received during the year	21,760,790	-	-	21,760,790
Net profit for the year	-	-	-	-
Balance as at June 30, 2003	<u>49,260,760</u>	<u>70</u>	<u>24,367,267</u>	<u>73,628,097</u>
Net profit for the year	-	-	-	-
Balance as at June 30, 2004	<u>49,260,760</u>	<u>70</u>	<u>24,367,267</u>	<u>73,628,097</u>

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

1. STATUS AND NATURE OF BUSINESS

National Institute of Banking and Finance (Guarantee) Limited (the Institute) was incorporated under the Companies Ordinance, 1984 on March 21, 1993 in Pakistan, as a Private Company Limited by Guarantee. The Institute is engaged in providing education an

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting Convention

These accounts have been prepared under the historical cost convention without any adjustment of the effect of inflation.

2.2 Basis of Preparation of Financial Statements

These financial statements have been prepared in compliance with requirements of the Companies Ordinance, 1984, circulars, notifications and orders issued by the regulatory authorities and International Accounting Standards as applicable in Pakistan.

Income generated by the Institute is allocated to State Bank of Pakistan. The expenses incurred by the Institute are also allocated to or reimbursed from State Bank of Pakistan.

2.3 Tangible Operating Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation on these assets is charged on the straight line method at rates specified in Note 3 of these accounts whereby the cost of assets is written off over their estimated useful lives.

Depreciation on additions and disposals is charged for the number of months for which assets remained in use in the year of addition/disposal.

Repair and maintenance costs are charged to income as and when incurred, whereas major renewals and improvements are capitalized. Gain/Loss on disposal of fixed assets is recognized in the income and expenditure account in the year of disposal.

2.4 Stationery and Computer Stock

These are valued at cost determined on first in first out basis.

2.5 Taxation

Income of the Institute, being a subsidiary of State Bank of Pakistan is exempted from tax under Section 49 of the State Bank of Pakistan Act, 1956. Further, income of the Institute is also exempted from income tax as per Clause 92 of Part-I of Schedule 2

2.6 Revenue Recognition

Education and training fee is recognized on completion of courses. Hostel income is recognized on providing of hostel accommodation and ancillary facilities.

Profit on PLS accounts and income from rent is recognized on accrual basis.

3 TANGIBLE OPERATING FIXED ASSETS

PARTICULARS	C O S T					D E P R E C I A T I O N					Written Down	
	As at				As at	Rate per Annum	As at	Adjustment for disposals	Depreciation for the year	As at	Value as on	
	July 1, 2003	Transfers	Additions	(Disposals)	June 30, 2004		July 1, 2003			Transfers		June 30, 2004
	July 1, 2003	Transfers	Additions	(Disposals)	June 30, 2004	July 1, 2003	Transfers	for disposals	for the year	June 30, 2004	June 30, 2004	
Furniture and fixtures	18,822,814	-	71,750	-	18,894,564	10%	7,120,498	-	-	1,885,446	9,005,944	9,888,620
EDP equipment	1,127,403	-	261,690	-	1,389,093	33.33%	800,427	-	-	269,919	1,070,346	318,747
Office equipment	29,646,906	-	1,318,053	-	30,964,959	20%	27,285,498	-	-	857,309	28,142,807	2,822,152
Vehicles	3,041,902	-	-	-	3,041,902	20%	2,396,760	-	-	169,493	2,566,253	475,649
Library books	711,997	-	13,754	-	725,751	100%	711,997	-	-	13,754	725,751	-
2004	53,351,022	-	1,665,247	-	55,016,269		38,315,180	-	-	3,195,921	41,511,101	13,505,168
2003	-	51,754,832	1,597,390	(1,200)	53,351,022		-	29,994,042	(60)	8,321,198	38,315,180	15,035,842

3.1 During the year ended June 30, 2003, cost (Rs. 51,754,832) and accumulated depreciation (Rs. 29,994,042) of the assets in use of the Institute (except land and buildings), were transferred by State Bank of Pakistan.

3.2 State Bank of Pakistan owns land and building of the Institute. No amount, for its use, has been charged by State Bank of Pakistan to the Institute.

	2004	2003
	Rupees	Rupees
4. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
These are unsecured but considered good:		
Receivable against training programmes	5,007,542	437,118
Accrued profit on PLS accounts	233,663	395,863
Prepayments	114,699	38,055
Advances to staff against expenses	41,815	29,114
Security Deposits	4,000	-
	<u>5,401,719</u>	<u>900,150</u>
5. CASH AND BANK BALANCES		
Cash in hand	-	106,146
Cash with banks on deposit accounts	53,420,346	52,782,237
	<u>53,420,346</u>	<u>52,888,383</u>
6. ADVANCE FOR ISSUE OF SHARES		
State Bank of Pakistan	29,260,770	29,260,770
National Bank of Pakistan	19,999,990	19,999,990
	<u>49,260,760</u>	<u>49,260,760</u>
7. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	1,139,243	2,870,533
Traveling and training costs payable	316,040	578,366
Payable to training institutions	-	356,785
Accrued charges	324,041	288,160
Salaries/stipends payable	243,211	182,008
Auditor's remuneration	70,000	70,000
Withholding tax payable	2,252	29,307
Other liabilities	174,170	111,636
	<u>2,268,957</u>	<u>4,486,795</u>
8. INCOME		
Hostel income	12,447,408	6,192,359
Education and training fee	3,066,060	557,841
Other income (Note 8.1)	1,192,118	1,153,570
	<u>16,705,586</u>	<u>7,903,770</u>

	2004	2003
	Rupees	Rupees
8.1 OTHER INCOME		
Profit on PLS accounts	475,909	1,024,718
Gain on disposal of fixed assets	-	60
Miscellaneous income	716,209	128,792
	<u>1,192,118</u>	<u>1,153,570</u>

9. EXPENDITURE

Reimbursable from State Bank of Pakistan:

Salaries, wages and other benefits	17,542,070	21,811,175
Electricity, gas and water	8,105,191	7,406,414
Training costs	3,706,864	6,203,140
Repair and maintenance	3,910,189	4,148,810
Boarding/lodging catering and allied expenses	3,146,103	3,794,810
Printing and stationery	1,160,537	1,464,581
Traveling and conveyance	1,308,478	1,544,533
Medical expenses	936,204	813,440
Telecommunication	896,917	868,493
Vehicle running expenses	626,823	587,682
Legal and professional charges	367,800	290,804
Disinfectants and general consumables	160,577	177,996
Security services/charges	229,219	225,482
Newspapers and periodicals	116,320	136,806
Insurance expense	88,883	59,224
Auditors' remuneration		
Audit fee	60,000	60,000
Out of pocket expenses	27,060	10,000
	87,060	70,000
Postage and courier	103,063	52,889
Entertainment	136,750	42,977
Rent, rates and taxes	5,198	12,707
Others	119,591	109,495
	<u>42,753,837</u>	<u>49,821,458</u>

Allocated to the State Bank of Pakistan:

Depreciation (Note: 3)	3,195,921	8,321,198
	<u>45,949,758</u>	<u>58,142,656</u>

9.1 Number of employees of the Institute at the end of the year was 65 (2003: 70).

10. TRANSACTIONS WITH HOLDING UNDERTAKING

Expenses incurred on behalf of holding undertaking	6,530,749	4,263,939
Amount disbursed by holding company on behalf of the company	42,753,837	49,821,458

Maximum aggregate amount due from holding undertaking at the end of any month during the year was Rupees 3,199,083 (2003: 10,544,898)

11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

11.1 Financial assets and liabilities of the Institute are as under:

	2004						2003	
	Interest bearing			Non Interest Bearing				
	With in one year	One year to five year	Subtotal	With in one year	One year to five year	Subtotal		Total
Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Financial Assets								
Advances and other receivables	-	-	-	5,245,205	-	5,245,205	5,245,205	862,095
Due from SBP	-	-	-	-	3,199,083	3,199,083	3,199,083	10,544,898
Cash and Bank balance	53,420,346	-	53,420,346	-	-	-	53,420,346	52,888,383
	<u>53,420,346</u>		<u>53,420,346</u>	<u>5,245,205</u>	<u>3,199,083</u>	<u>8,444,288</u>	<u>61,864,634</u>	<u>64,295,376</u>
Financial Liabilities								
Creditors accrued and other liabilities	-	-	-	2,266,705	-	2,266,705	2,266,705	4,457,488
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,266,705</u>	<u>-</u>	<u>2,266,705</u>	<u>2,266,705</u>	<u>4,457,488</u>
Net financial assets (liabilities)	<u>53,420,346</u>		<u>53,420,346</u>	<u>2,978,500</u>	<u>3,199,083</u>	<u>6,177,583</u>	<u>59,597,929</u>	<u>59,837,888</u>

11.2 Effective Markup Rate

Effective markup rate for the current year for financial assets is 0.75% to 1.00% per annum. Financial liabilities are not subjected to any mark up rate.

11.3 Exposure to Credit Risk and Mark up Rate Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The Institute believes that it is not exposed to major concentration of credit risk and significant ma

11.4 Fair Value of Financial Instruments

The estimated fair values of financial instruments are not significantly different from their book values as shown in these financial statements.

	2004	2003
	Rupees	Rupees
12. EARNING PER SHARE -BASIC		
There is no dilutive effect on the basic earning per share, which is as under:		
Profit for the year - After Tax (Rupees)	-	-
Shares in issue (Numbers)	7	7
Basic earning per share (Rupees)	-	-

13. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors of the Institute and authorized for issue on September 7, 2004.

14. CORRESPONDING FIGURES

14.1 The corresponding figures have been re-arranged and re-classified for comparison,

14.2 Figures have been rounded off to the nearest rupees.

MANAGING DIRECTOR

DIRECTOR