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## Consolidated Financial Statements of SBP and its Subsidiaries

**M. YOUSUF ADIL SALEEM & CO.  
CHARTERED ACCOUNTANTS  
CAVISH COURT  
A-35, BLOCK 7 & 8, KCSHU  
SHAHRAH-E-FAISAL  
KARACHI**

**TASEER HADI KHALID & CO.  
CHARTERED ACCOUNTANTS  
1<sup>st</sup> 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, 2005 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 and Accounting Policy for Investments as stated in note 2.5 to the financial statements 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.

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:

During the year, Bank has made provision of Rs. 1,551 million relating to net assets recoverable from Reserve Bank of India, the Government of India and those pertaining to transactions in former East Pakistan. This provision has been recorded as other liability of the Banking Department and relevant assets and liabilities have not been netted off. Accordingly, assets of Issue Department and Banking Department are overstated by Rs. 2,028 million and Rs. 4,082 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 5,236 and Rs. 874 million respectively.

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 and Accounting Policy for Investment as stated in note 2.5 to the financial statements approved for adoption by the Central Board of the Bank and are further in accordance with accounting policies consistently applied except for change in accounting policy as stated in note 2.5 to the financial statements; 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 and Accounting Policy for Investment as stated in note 2.5 to the financial statements 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, 2005 and of the profit, their cash flows and changes in equity for the year then ended.

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**M. Yousuf Adil Saleem & Co.**  
**Chartered Accountants**  
**Karachi**  
**Date : 30 Aug 2005**

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**Taseer Hadi Khalid & Co.**  
**Chartered Accountants**  
**Karachi**  
**Date : 30 Aug 2005**

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

As at June 30, 2005

	<i>Note</i>	<b>2005</b>	2004
		<b>(Rupees in '000)</b>	
<b>ASSETS</b>			
Gold reserves held by the Bank	3	<b>53,870,004</b>	47,532,115
Foreign currency reserves	4	<b>472,513,815</b>	500,312,132
Special Drawing Rights of the International Monetary Fund	5	<b>11,794,613</b>	13,826,690
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	7	<b>592,981</b>	543,793
- Rupee coins	8	<b>2,961,213</b>	2,799,163
		<b>3,554,194</b>	3,342,956
Investments	10	<b>162,802,630</b>	45,671,523
Commercial papers	11	<b>78,500</b>	78,500
Assets held with the Reserve Bank of India	12	<b>1,251,952</b>	1,139,741
		<b><u>705,865,708</u></b>	<u>611,903,657</u>
<b>LIABILITY</b>			
Bank notes issued	13	<b><u>705,865,708</u></b>	<u>611,903,657</u>

The annexed notes 1 to 48 form an integral part of these financial statements.

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**Ishrat Husain**  
Governor

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**Mansur-ur-Rehman Khan**  
Deputy Governor

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**Aftab Mustafa Khan**  
Director Accounts

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

As at June 30, 2005

	Note	2005	2004
(Rupees in '000)			
<b>ASSETS</b>			
Local currency	8	145,618	160,830
Foreign currency reserves	4	139,513,286	132,021,383
Earmarked foreign currency balances	6	11,937,000	3,780,277
Special Drawing Rights of the International Monetary Fund	5	1,774,629	-
		<u>153,370,533</u>	<u>135,962,490</u>
Reserve tranche with the International Monetary Fund under quota arrangements	14	10,315	10,062
Securities purchased under agreement to resale	9	9,115,545	-
Current account of the Government of Balochistan	20.5	2,114,045	5,533,119
Investments	10	199,272,646	124,986,262
Loans, advances and bills of exchange	15	224,254,125	200,225,826
Balances due from the Governments of India and Bangladesh (former East Pakistan)	16	4,082,161	3,846,494
Property, plant and equipment	17	7,111,835	7,475,666
Intangible assets	18	20,871	370
Other assets	19	7,938,056	12,911,864
Total assets		<u>607,290,132</u>	<u>490,952,153</u>
<b>LIABILITIES</b>			
Bills payable		1,099,683	494,365
Current accounts of the Government	20	104,917,734	48,889,002
Securities sold under agreement to repurchase	21	1,208,613	-
Deposits of banks and financial institutions	22	196,312,269	156,170,805
Other deposits and accounts	23	86,622,086	83,028,804
Payable to the International Monetary Fund	24	96,653,981	102,405,234
Other liabilities	25	24,010,325	20,313,153
		<u>510,824,691</u>	<u>411,301,363</u>
Deferred liability - staff retirement benefits	26	9,779,959	9,151,321
Deferred income	27	414,061	286,195
Total liabilities		<u>521,018,711</u>	<u>420,738,879</u>
<b>Net assets</b>		<u>86,271,421</u>	<u>70,213,274</u>
Share capital	28	100,000	100,000
Allocation of special drawing rights of the International Monetary Fund		1,525,958	1,525,958
Reserves		16,714,474	16,714,474
Unappropriated profit		10,060,000	-
		<u>28,400,432</u>	<u>18,340,432</u>
Unrealised appreciation on gold reserves	30	51,646,593	45,205,621
Surplus on revaluation of property, plant and equipment	17.2	6,194,503	6,637,328
Minority interest		29,893	29,893
		<u>86,271,421</u>	<u>70,213,274</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	31		

The annexed notes 1 to 48 form an integral part of these financial statements.

Ishrat Husain  
Governor

Mansur-ur-Rehman Khan  
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, 2005

	Note	2005	2004
(Rupees in '000)			
Discount, interest / mark-up and / or return earned	32	29,757,649	11,734,111
Interest / mark-up expense	33	2,284,108	5,202,091
		<u>27,473,541</u>	<u>6,532,020</u>
Commission income	34	692,958	496,454
Exchange gain- net	35	13,827,713	755,172
Dividend income		1,502,639	1,422,058
Other operating income-net	36	327,904	367,824
		<u>43,824,755</u>	<u>9,573,528</u>
Direct operating expenses			
Note printing charges	37	2,486,249	1,963,777
Agency commission	38	1,743,991	1,554,969
Provision for:			
- loans, advances and other assets		4,687,861	566,906
- diminution in value of investments		395,129	-
- other doubtful assets		1,551,419	-
		<u>6,634,409</u>	<u>566,906</u>
		<u>32,960,106</u>	<u>5,487,876</u>
General administrative and other expenses	39	5,779,637	6,073,234
<b>OPERATING PROFIT/ (LOSS)</b>		<u>27,180,469</u>	<u>(585,358)</u>
Other income	40	4,203,976	7,241,967
		<u>31,384,445</u>	<u>6,656,609</u>
Other charges	41	335,209	548,111
<b>NET PROFIT FOR THE YEAR</b>		<u><u>31,049,236</u></u>	<u><u>6,108,498</u></u>

The annexed notes 1 to 48 form an integral part of these financial statements.

Ishrat Husain  
Governor

Mansur-ur-Rehman Khan  
Deputy Governor

Aftab Mustafa Khan  
Director Accounts

## State Bank of Pakistan and its Subsidiaries

### Consolidated Cash Flow Statement

For the year ended June 30, 2005

	Note	2005 (Rupees in '000)	2004
<b>Profit for the year after non-cash items</b>	42	41,289,935	15,075,209
(Increase) / decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(253)	(502)
Investments		(155,428,609)	(17,894,456)
Discount income received		18,590	-
Securities purchased under agreement to resell		(9,115,545)	-
Loans, advances and bills of exchange		(28,106,793)	(26,057,979)
Foreign currency reserves not included in cash and cash equivalents		(138,799)	(1,528,452)
Indian notes representing assets receivable from the Reserve Bank of India		(49,188)	(8,631)
Assets held with the Reserve Bank of India		(9,129)	(33,929)
Other assets - net		(4,043,773)	1,035,362
		(196,873,499)	(44,488,587)
Increase / (decrease) in liabilities			
Notes in circulation		93,962,051	89,012,613
Bills payable		605,318	(177,566)
Current accounts of the Government		59,447,806	(38,362,020)
Deposits of banks and financial institutions		40,141,464	14,505,757
Securities sold under agreement to re-purchase		(68,109,552)	-
Other deposits and accounts		3,593,282	2,060,651
Payable to the International Monetary Fund		(5,751,253)	(18,528,150)
Other liabilities - net		17,658,252	(240,555)
		141,547,368	48,270,730
		(14,036,196)	18,857,352
Payment of retirement benefits and employees' compensated absences		(479,566)	(2,123,594)
Receipt of dividend income		1,502,639	1,431,808
Gold purchased		-	(64,589)
Fixed capital expenditure		(352,766)	(264,026)
Proceeds from property, plant and equipment		976,789	272,923
		1,647,096	(747,478)
Dividend paid		(10,000)	(10,000)
Increase in cash and cash equivalents		(12,399,100)	18,099,874
Cash and cash equivalents at beginning of the year		650,298,878	632,199,004
Cash and cash equivalents at end of the year	43	637,899,778	650,298,878

The annexed notes 1 to 48 form an integral part of these financial statements.

Ishrat Husain  
Governor

Mansur-ur-Rehman Khan  
Deputy Governor

Aftab Mustafa Khan  
Director Accounts

State Bank of Pakistan  
Consolidated Statement of Changes in Equity  
For the year ended June 30, 2005

(Rupees in '000)

	Share capital	Allocation of SDR of the IMF	Reserves						Unrealised appreciation on gold reserves	Surplus on revaluation of Property, Plant and Equipment	Unappropriated profit	Total
			Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund				
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 property, plant and equipment realised on disposal	-	-	-	-	-	-	-	-	-	(112,444)	112,444	-
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	6,322,390	-	-	6,322,390
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(6,210,942)	(6,210,942)
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
Net profit for the year ended June 30, 2005	-	-	-	-	-	-	-	-	-	-	31,049,236	31,049,236
Surplus on revaluation of property, plant and equipment realised on disposal	-	-	-	-	-	-	-	-	-	(442,825)	442,825	-
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	6,440,972	-	-	6,440,972
Balance transferable to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(21,422,061)	(21,422,061)
Balance at June 30, 2005	100,000	1,525,958	5,414,474	2,600,000	1,600,000	1,500,000	900,000	4,700,000	51,646,593	6,194,503	10,060,000 *	86,241,528

\* The Central Board has proposed to transfer the Rs. 10,000 million to the Reserve fund after approval of the Federal Government. Further, as per Board's decision an amount of Rs. 60 million has been earmarked for incentive bonus to employees of the Bank, to be decided by management of the Bank.

The annexed notes 1 to 48 form an integral part of these financial statements.

\_\_\_\_\_  
Ishrat Husain  
Governor

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Mansur-ur-Rehman Khan  
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, 2005*

### **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 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 Statement of compliance**

- These financial statements have been prepared in accordance with the requirements of the International Accounting Standards (IASs) and investment policy as stated in note 2.5 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 and policy for investments as stated in note 2.5 for adoption by the Bank.

- 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 investments, gold reserves and certain fixed assets, as referred to in notes 2.5, 2.6 and 2.7 have been included at revalued amounts.

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

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of notes is charged to the profit and loss account as and when incurred. 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 (GoP). These coins are purchased from the GoP at their respective face values. The unissued coins form part of the assets of the Issue Department.

## **2.4 Impairment**

The carrying amounts of the Bank's assets are 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. An impairment loss is recognised in profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. 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 in the profit and loss account.

## **2.5 Investments**

During the year, the Bank has changed its accounting policy regarding investments. This change has been made in order to give a more appropriate presentation and measurement of investments. Earlier Bank measured investment in debt securities at cost and other securities at lower of cost or market value. In revised policy, these are initially measured at cost being the fair value of consideration given. Transaction costs are included in the initial measurement of investments. Subsequent to initial measurement, the Bank measures and classifies its investments under the following categories:

### *Held for trading:*

These securities are either acquired for generating a profit from short term fluctuation in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These instruments are subsequently re-measured to fair value. All related realized and unrealized gains and losses are recognised in the profit and loss account.

All purchases and sales of investments categorised as held-for-trading that required delivery with the time frame established by regulation or market convention ('regular way' purchases and sale') are recognised at the trade date, which is the date bank commits to purchase or sell the investment. Other wise transactions are treated as derivative until settlement occurs.

In accordance with the allowed alternative treatment specified in International Accounting Standard 8 "Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies", the effect of this change in accounting policies has been recognised in the current year and the comparative information has not been restated. Had the accounting policy not been changed, the net profit for the year and the carrying value of trading portfolio would have been higher by an amount of Rs. 1,153 million. Restated proforma information assumes that the new policy had always been in use is given in note 45 to these financial statements.

*Held to maturity:*

These are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity other than loans and receivables. These securities are carried at amortized cost, less impairment losses, if any and premiums and/or discounts are accounted for using effective interest method.

All regular way purchases and sale are recognised at the trade date, which is the date bank commits to purchase or sell the investment. Other wise transactions are treated as derivative until settlement occurs.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and present value of expected future cash flows discounted at the financial statement's original effective interest rate.

The change in policy has no impact on the value of these securities and profit and loss of the Bank.

*Loans and receivables:*

These are financial assets created by the Bank by providing money directly to a debtor. Subsequent to initial recognition, these investments are carried at amortized cost and premiums and/or discounts are accounted for effective interest method.

All loans and advances are recognised when cash is advanced to borrowers. When a loan is uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the profit and loss account.

An allowance for impairment is established if there is evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans and advances. The amount of the provision is the difference between the carrying amount and the amount recoverable from guarantees and collateral, discounted at the original effective interest rate of loans and advances.

The change in policy has no impact on the value of these securities and profit and loss of the Bank.

*Available for sale securities (AFS):*

These are the securities which do not fall in any of the above three categories. Subsequent to initial recognition the changes in fair value of these securities is taken to equity except the strategic investments including investments in National Bank of Pakistan and United Bank of Pakistan and investments in securities the fair value of which cannot be determined reliably. Gain or loss on changes in fair value is kept in equity until the investments are sold or disposed off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in the equity is included in profit and loss account. The strategic investments and investments in securities the fair value of which cannot be determined reliably are stated at cost.

The change in policy has no impact on the valuation of securities and profit and loss of the Bank.

Fair value of the financial instruments classified as held-for-trading and available for sale is their quoted bid price at the balance sheet date.

Financial instruments classified as held-for-trading or available-for-sale are de-recognised by the Bank on the date it commits to sell the investments. Securities held-to-maturity is derecognised on the day these are transferred by the Bank. Gains and losses on de-recognition of held for trading, held to maturity and AFS securities are taken to profit and loss account.

*Derivative financial instruments:*

The Bank enters into derivative financial instruments, which include forwards and currency swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 31 while the asset and liability portion of a currency swap are presented in Other assets and Other liabilities in notes 19 and 25 to the financial statements. The resultant gains or losses from derivatives are included in the profit and loss account.

*Collateralised borrowings / lending*

During the year the Bank has changed its accounting policy regarding collateralised borrowings / lending. This change has been made in order to give a more appropriate presentation and measurement of investments. Earlier in case of outright sale or sale under repurchase (Repo) obligations, the securities were being 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 were being reinstated at their respective original cost and in case of purchase under resale obligations, the securities were being 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.

In revised policy where securities are sold subject to a commitment to purchase them at a pre-determined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received in “Securities sold under agreement to repurchase”. Conversely, securities purchased under analogous commitment to resell are not recognised on the balance sheet and a consideration paid is recorded in “Securities purchased under agreement to resell”. The difference between the sell and repurchase price in the repurchase transactions and the purchase price and sale price in reverse repurchase transaction represents an expense and income respectively and recognised in the profit and loss account on an accrual basis.

The change in policy has no impact on the profit and loss of the Bank.

## **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 equity under the head of “unrealised appreciation on gold reserves” account. Appreciation realised on disposal of gold is credited to the profit and loss account.

## **2.7 Property, plant and equipment**

Property, plant and equipment 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 on property, plant and equipment are charged to profit and loss account applying the straight-line method whereby the cost of an asset is written off over its estimated useful life.

Depreciation on additions is charged to the profit and loss account 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 / disposed off. 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.

## **2.8 Intangibles**

Intangible assets are amortised using straight-line method over the period of three years. Where the carrying amount of an asset exceeds its estimated recoverable amount it is written down immediately to its recoverable amount.

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

## **2.9 Compensated absences**

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

## **2.10 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.

Obligations for contributions to defined contribution provident plans are recognised as an expense in the profit and loss account as incurred.

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.

## **2.11 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.

## **2.12 Revenue recognition**

- Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset. 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.

### **2.13 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.

### **2.14 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.

### **2.15 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 2.16, 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.

Commitments for outstanding forward foreign exchange contracts disclosed in note 31 to the financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

### **2.16 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.

## **2.17 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.

## **2.18 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.

## **2.19 Financial instruments**

Financial assets and liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises financial asset when the enterprise loses control of the contractual rights that comprise the financial asset. The Group derecognises a financial liability when the liability is extinguished, discharged, cancelled or expired.

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.

## **2.20 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	2005 (Rupees in '000)	2004
<b>3. GOLD RESERVES HELD BY THE BANK</b>			
Opening balance	<b>2,046,910</b>	<b>47,532,115</b>	41,246,479
Additions during the year	-	-	64,589
Appreciation during the year due to revaluation 30	-	<b>6,337,889</b>	6,221,047
	<b>2,046,910</b>	<b>53,870,004</b>	<b>47,532,115</b>

#### 4. FOREIGN CURRENCY RESERVES

Investments	4.1	<b>180,148,679</b>	138,313,415
Deposit accounts	4.3 & 4.4	<b>424,007,949</b>	490,621,651
Current accounts	4.3	<b>7,870,473</b>	3,398,449
		<b>612,027,101</b>	<b>632,333,515</b>

The above foreign currency reserves are held as follows:

- Issue Department		<b>472,513,815</b>	500,312,132
- Banking Department		<b>139,513,286</b>	132,021,383
		<b>612,027,101</b>	<b>632,333,515</b>

#### 4.1 Investments

Held for trading	4.4	<b>178,482,597</b>	57,121,116
Held to maturity		<b>1,484,500</b>	1,446,523
Available for sale		<b>181,582</b>	79,745,776
		<b>180,148,679</b>	<b>138,313,415</b>

**4.2** At June 30, 2005, above assets included Rs. 183.167 million (2004: Rs. 167.974 million) recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

**4.3** The balance in current and deposit accounts carry interest at various rates ranging between 1.04 to 4.77 (2004: 0.97 to 4.52) percent per annum.

**4.4** These include investments made in international market through reputable Fund Managers. The activities of the Fund Managers are being monitored through custodians. Market value of these investments as at June 30, 2005 is equivalent to USD 3,263.8 million.

**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, 2005. 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, 2005, the SDRs were held as follows:	<b>2005</b>	2004
	<b>(Rupees in '000)</b>	
By the Issue Department	<b>11,794,613</b>	13,826,690
By the Banking Department	<b>1,774,629</b>	-
	<b><u>13,569,242</u></b>	<b><u>13,826,690</u></b>

**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.

**8. LOCAL CURRENCY**

Bank notes held by the Banking Department	<i>13</i>	<b>145,618</b>	160,830
Rupee coins		<b>2,961,213</b>	2,799,163
		<b>3,106,831</b>	2,959,993
Rupee coins held as assets of the Issue Department	<i>8.1</i>	<b>(2,961,213)</b>	(2,799,163)
		<b><u>145,618</u></b>	<b><u>160,830</u></b>

**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, 2005.

## 9. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreement lendings and carry markup at the rate of 5.65 to 7.98 (2004: Nil) percent per annum.

10. INVESTMENTS	2005	2004
	(Rupees in '000)	
<i>Loans and receivables originated by the Bank -</i>		
<i>Government securities</i>	10.1	
Market Treasury Bills (MTBs)	10.2 <b>329,003,605</b>	129,240,662
Federal Investment Bonds	-	2,150,000
Federal Government scrip	<b>2,740,000</b>	2,740,000
	<b><u>331,743,605</u></b>	<u>134,130,662</u>
<i>Available for sale investments</i>		
<b>Investment in Banks and other financial institutions</b>		
Ordinary shares		
- Listed	15,892,481	1,100,807
- Unlisted	14,449,809	35,041,806
	10.3 <b>30,342,290</b>	36,142,613
Term Finance Certificates	282,400	282,400
Certificates of Deposits	112,351	112,351
	<b>30,737,041</b>	36,537,364
Investment held to maturity-Pakistan Investment Bonds	384,506	384,506
	<b><u>362,865,152</u></b>	<u>171,052,532</u>
Provision against diminution in value of investments	<b>(789,876)</b>	(394,747)
	<b><u>362,075,276</u></b>	<u>170,657,785</u>
Investment - MTBs held as assets of the issue department	<b>(162,802,630)</b>	(45,671,523)
	<b><u><u>199,272,646</u></u></b>	<u><u>124,986,262</u></u>

### 10.1 Investment in Government securities

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

	2005 (% per annum)	2004
Market Treasury Bills	<b>2.0756 to 7.9447</b>	1.2116 to 4.3247
Federal Investment Bonds	<b>15</b>	15
Federal Government scrip	<b>3</b>	3 to 16

**10.2** This includes securities having carrying value of Rs. 1,234.030 million (2004: Rs. 69,740.461 million) given as collateral under repurchase agreement borrowing arrangements.

### 10.3 Investments in shares of banks and other financial institutions

10.3.1

	2005 %	2004 %		2005 (Rupees in '000)	2004
<b>Listed</b>					
National Bank of Pakistan	<b>75.18</b>	75.18	10.3.2	<b>1,100,807</b>	1,100,807
United Bank Limited	<b>48.69</b>	-	10.3.3	<b>14,791,674</b>	-
				<b>15,892,481</b>	1,100,807
<b>Unlisted</b>					
Habib Bank Limited	<b>60.55</b>	73.05	10.3.4	<b>12,217,465</b>	14,739,777
Zarai Taraqiati Bank Limited	-	99.69		-	3,204,323
Federal Bank for Cooperatives	<b>75.00</b>	75.00		<b>150,000</b>	150,000
Equity Participation Fund	<b>65.81</b>	65.81		<b>102,000</b>	102,000
				<b>12,469,465</b>	18,196,100
Other investments with holding less than or equal to 50%				<b>1,980,344</b>	16,845,706
				<b>14,449,809</b>	35,041,806
				<b>30,342,290</b>	36,142,613

**10.3.1** 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, or joint ventures.

- 10.3.2** Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2005 amounted to Rs. 47,966.850 million (2004: Rs. 24,604.850 million).
- 10.3.3** The market value of the Bank's investment in the shares of United Bank Limited (listed during the year) as at June 30, 2005 as per recent available quotation amounted to Rs. 17,023.116 million (2004: Cost of Rs. 14,791.674 million).
- 10.3.4** Last 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 had transferred ownership of 26% of HBL's total paid up capital last year. Further ownership of 12.5% shares has been transferred during the year proceeds of which amounting to USD 102.956 million have been received during the year resulting in a gain of Rs. 3,587.239 million, as mentioned in note 40.1 to the financial statements. Under the terms of this agreement, the title of remaining 12.5% shares will be transferred to AKFED after payment of USD 95.571 million due there against has been received. This payment is due by February 25, 2006 and carry mark-up at 2.5% above London Inter Bank offer rate on the unpaid amount.

The remaining 12.5% 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 12.5% 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 the shares of HBL amounted to Rs. 18,883.430 million at 31 December 2004 based on the financial statements of HBL for the year then ended.

- 10.4** The investment in SBP Banking Services Corporation has been made in 1,000 (2004: 1,000) ordinary shares of Rs. 1 million each.

## **11. COMMERCIAL PAPERS**

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2004: 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).

<b>12. ASSETS HELD WITH THE RESERVE BANK OF INDIA</b>		<b>2005</b>	<b>2004</b>
		<b>(Rupees in '000)</b>	
Gold reserves			
- Opening balance		<b>773,079</b>	671,736
- Appreciation from revaluation during the year	30	<b>103,083</b>	101,343
		<b>876,162</b>	773,079
Sterling securities		<b>357,794</b>	350,140
Government of India securities		<b>13,910</b>	12,757
Rupee coins		<b>4,086</b>	3,765
		<b>1,251,952</b>	1,139,741

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.

### **13. BANK NOTES ISSUED**

Notes held with the Banking Department	8	<b>145,618</b>	160,830
Notes in circulation		<b>705,720,090</b>	611,742,827
		<b>705,865,708</b>	611,903,657

### **14. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS**

Quota allocated by the International Monetary Fund		<b>90,311,785</b>	88,097,392
Liability under quota arrangements		<b>(90,301,470)</b>	(88,087,330)
		<b>10,315</b>	10,062

### **15. LOANS, ADVANCES AND BILLS OF EXCHANGE**

Government	15.1	<b>20,700,000</b>	12,000,000
Government owned / controlled financial institutions	15.2	<b>113,234,829</b>	110,623,197
Private sector financial institutions	15.3	<b>92,829,411</b>	77,283,785
		<b>206,064,240</b>	187,906,982
Employees		<b>6,309,198</b>	5,059,663
		<b>233,073,438</b>	204,966,645
Provision against doubtful balances		<b>(8,740,813)</b>	(4,662,319)
		<b>224,332,625</b>	200,304,326
Commercial papers held in issue department	11	<b>(78,500)</b>	(78,500)
		<b>224,254,125</b>	200,225,826

<b>15.1 Loans and advances to the Governments</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Federal Government	<b>12,000,000</b>	12,000,000
Provincial Government - Balochistan	<b>8,700,000</b>	-
	<b><u>20,700,000</u></b>	<b><u>12,000,000</u></b>

**15.1.1** During the year, mark-up on above was charged at various rates ranging between 2.0581 to 6.9282 (2004: 1.3795 to 1.9197) percent per annum.

**15.2 Loans and advances to Government owned / controlled financial institutions**

	<b>Scheduled banks</b>		<b>Non-banking financial institutions</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	----- (Rupees in '000) -----					
Agricultural sector 15.2.2	<b>60,590,768</b>	58,005,280	-	-	<b>60,590,768</b>	58,005,280
Industrial sector 15.2.2	<b>2,158,045</b>	2,381,409	<b>595,007</b>	840,261	<b>2,753,052</b>	3,221,670
Export sector	<b>21,780,804</b>	16,424,361	-	786,123	<b>21,780,804</b>	17,210,484
Housing sector	<b>66,907</b>	66,907	<b>11,242,300</b>	12,607,300	<b>11,309,207</b>	12,674,207
Others	<b>12,985,936</b>	10,629,456	<b>3,815,062</b>	8,882,100	<b>16,800,998</b>	19,511,556
	<b><u>97,582,460</u></b>	<u>87,507,413</u>	<b><u>15,652,369</u></b>	<u>23,115,784</u>	<b><u>113,234,829</u></b>	<u>110,623,197</u>

**15.2.1** Above balances include Rs. 518.806 million (2004: Rs. 515.056 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).

**15.2.2** 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 (2004: Rs. 51,257.213 million) to Zarai Taraqiati Bank Limited (ZTBL).

**15.3 Loans and advances to private sector financial institutions**

	<b>Scheduled banks</b>		<b>Non-banking financial institutions</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	----- (Rupees in '000) -----					
Industrial sector	-	499,796	<b>3,577,792</b>	3,577,792	<b>3,577,792</b>	4,077,588
Export sector	<b>87,744,637</b>	69,409,072	-	587,000	<b>87,744,637</b>	69,996,072
Others	<b>1,506,982</b>	3,210,125	-	-	<b>1,506,982</b>	3,210,125
	<b><u>89,251,619</u></b>	<u>73,118,993</u>	<b><u>3,577,792</u></b>	<u>4,164,792</u>	<b><u>92,829,411</u></b>	<u>77,283,785</u>

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

	<b>2005</b>	<b>2004</b>
	<b>(% per annum)</b>	
Government owned / controlled and private sector financial institutions	<b>1.5 to 12</b>	1.5 to 12
Staff loans	<b>10</b>	10

**16. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)**

**2005 2004**  
**(Rupees in '000)**

**India**

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

**Bangladesh (former East Pakistan)**

Inter office balances		<b>819,924</b>	819,924
Loans and advances	16.1	<b>3,221,784</b>	2,986,117
		<b>4,041,708</b>	3,806,041
		<b>4,082,161</b>	3,846,494

16.1 These represent loans and advances provided to the Government of Bangladesh (former East Pakistan).

16.2 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.

**17. PROPERTY, PLANT AND EQUIPMENT**

Operating fixed assets	17.1	<b>6,588,659</b>	7,110,464
Capital work-in-progress	17.3	<b>523,176</b>	365,202
		<b>7,111,835</b>	7,475,666

**17.1 Operating fixed assets**

	Cost / revalued amount at July 1, 2004	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30, 2005	Accumulated depreciation at July 1, 2004	Depreciation for the year on deletions) / transfers*	Accumulated depreciation at June 30, 2005	Net book value at June 30, 2005	Annual rate of depreciation %
----- (Rupees in '000) -----								
Freehold land	807,882	19,500	827,382	-	-	-	827,382	-
Leasehold land	4,996,893	-	4,603,327	338,397	109,086	428,476	4,174,851	over the term of lease
		(393,566)			(19,007)			
Building on freehold land	779,969	1,993	781,962	240,478	44,973	285,451	496,511	5
Building on leasehold land	1,129,773	5,202	1,064,676	272,039	70,651	311,092	753,584	5
		(70,299)			(31,598)			
Furniture and fixtures	132,441	9,645	136,622	56,340	11,732	65,726	70,896	10
		(5,464)			(2,346)			
Office equipment	738,793	79,828	767,623	671,084	33,002	653,119	114,504	20
		(50,998)			(50,967)			
EDP equipment	530,418	216,502	694,468	487,331	111,867	598,382	96,086	33.33
		(1,258)			(816)			
		(51,194) *			-			
Motor vehicles	110,011	16,659	113,411	50,047	16,001	58,566	54,845	20
		(13,259)			(7,482)			
Library Book	726	-	726	726	-	726	-	-
<b>2005</b>	<b>9,226,906</b>	<b>349,329</b>	<b>8,990,197</b>	<b>2,116,442</b>	<b>397,312</b>	<b>2,401,538</b>	<b>6,588,659</b>	
		<b>(534,844)</b>			<b>(112,216)</b>			
		<b>(51,194)</b>			<b>-</b>			
<b>2004</b>	<b>9,179,054</b>	<b>184,095</b>	<b>9,226,906</b>	<b>1,718,559</b>	<b>410,434</b>	<b>2,116,442</b>	<b>7,110,464</b>	
		<b>(136,243)</b>			<b>(12,551)</b>			



## 17.2 Surplus on revaluation of property, plant and equipment

	2005	2004
	(Rupees in '000)	
Opening balance	6,637,328	6,749,772
Surplus realised on disposal	(442,825)	(112,444)
	<u>6,194,503</u>	<u>6,637,328</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, an independent valuer, 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. 5,718.411 million remains undepreciated at June 30, 2005 (2004: Rs. 6,121.173 million) and has been included in the carrying value of the related assets.

## 17.3 Capital work-in-progress

Building on freehold land	-	2,943
Building on leasehold land	141,103	44,529
Furniture and fixtures	31,843	15,830
Office equipment	69,576	34,944
EDP equipment	15,721	2,023
Intangible assets	264,933	264,933
	<u>523,176</u>	<u>365,202</u>

## 18. INTANGIBLE ASSETS

	Cost / revalued amount at July 1, 2004	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2005	Accumulated amortisation at July 1, 2004	Amortisation for the year / on deletions	Accumulated amortisation at June 30, 2005	Net book value at June 30, 2005	Annual rate of amortisation %	
------(Rupees in '000)-----									
Software	2005	32,467	65,864	98,331	32,097	45,363	77,460	20,871	33.33
	2004	32,260	207	32,467	21,344	10,753	32,097	370	

## 19. OTHER ASSETS

	2005	2004	
	(Rupees in '000)		
Amounts due from financial institutions under currency swap arrangements	19.1	2,710,157	2,674,429
Accrued interest / mark-up and return		2,309,390	935,986
Exchange gain recoverable under exchange risk coverage scheme		7,691	7,691
Stationery and stamps on hand		49,732	8,681
Other advances, deposits and prepayments		1,303,194	532,322
Balance receivable from the Government of Pakistan		343,805	5,692,379
Others		1,214,087	3,060,376
		<u>7,938,056</u>	<u>12,911,864</u>

19.1 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 25.

## 20. CURRENT ACCOUNTS OF THE GOVERNMENTS

Federal Government	20.1	59,285,743	14,681,524
Provincial Governments			
- Punjab	20.2	19,606,971	13,913,754
- Sindh	20.3	22,971,702	13,206,367
- North West Frontier Province (NWFP)	20.4	2,484,464	4,134,839
- Balochistan	20.5	-	-
		45,063,137	31,254,960
Government of Azad Jammu and Kashmir		568,854	2,952,518
		<u>104,917,734</u>	<u>48,889,002</u>

<b>20.1 Federal Government</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Non-food account	184,642	484,991
Food account	13,616	20,693
Zakat fund account	13,867,615	15,857,448
Railways - ways and means advances	20.6 (3,211,416)	(2,798,603)
Fertilizer account	34,399	44,137
Saudi Arab special loan account	4,124	4,124
Pakistan Baitul Mal fund account	253,366	85
Pakistan Railways special account	1,736,538	1,063,373
Government deposit account no. XII	5,276	5,276
Special transfer account	37,616,343	-
UN reimbursement account	8,781,240	-
	<u>59,285,743</u>	<u>14,681,524</u>
<b>20.2 Provincial Government - Punjab</b>		
Non-food account	(2,134,153)	(4,365,339)
Food account	1,004,477	1,254,266
Zakat fund account	101,542	50,117
District Government account no. IV	20,635,105	16,974,710
	<u>19,606,971</u>	<u>13,913,754</u>
<b>20.3 Provincial Government - Sindh</b>		
Non-food account	17,578,105	9,483,511
Food account	35,901	108,558
Zakat fund account	75,084	75,083
District Government account no. IV	5,282,612	3,539,215
	<u>22,971,702</u>	<u>13,206,367</u>
<b>20.4 Provincial Government - NWFP</b>		
Non-food account	1,072,476	3,054,159
Food account	760,235	203,073
Zakat fund account	412	2,007
District Government account no. IV	651,341	875,600
	<u>2,484,464</u>	<u>4,134,839</u>
<b>20.5 Provincial Government - Balochistan</b>		
Non-food account	(3,840,510)	(9,865,206)
Food account	58,481	463,836
Zakat fund account	2	5
District Government account no. IV	1,667,982	3,868,246
	<u>(2,114,045)</u>	<u>(5,533,119)</u>
Classified as a receivable balance	20.6 2,114,045	5,533,119
Net credit balance	-	-

**20.6** At the year end, these balances carried mark-up at 6.93 (2004: 1.92) percent per annum.

**21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE**

This represents repurchase agreement borrowings and carry markup at the rate of 4.1584 to 7.4790 (2004: 3.6858 to 4.3230) percent per annum.

**22. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS**

**Foreign currency**

Scheduled banks	<b>15,920,332</b>	14,212,278
Held under Capital Reserve Requirement scheme	<b>41,135,858</b>	32,020,008
	<b>57,056,190</b>	46,232,286

**Local currency**

Scheduled banks	<b>137,804,690</b>	108,946,952
Non-banking financial institutions	<b>1,450,434</b>	991,567
Others	<b>955</b>	-
	<b>139,256,079</b>	109,938,519
	<b>196,312,269</b>	156,170,805

**22.1** The above deposits are free of interest except deposits under capital reserve requirements to the extent of eighty percent which are remunerated at the rates given below:

	<b>2005</b>	2004
	(% per annum)	
Foreign currency	<b>0.87 to 2.13</b>	0.59 to 0.67
Local currency	<b>1.98 to 2.59</b>	0.99 to 1.70

**23. OTHER DEPOSITS AND ACCOUNTS**

**2005**                      **2004**  
**(Rupees in '000)**

**Foreign currency**

Foreign central banks	<b>26,858,250</b>	26,172,872
International organisations	<b>14,921,250</b>	14,539,525
	<b>41,779,500</b>	40,712,397

**Local currency**

Special debt repayment	23.2 <b>23,755,341</b>	22,108,042
Government	23.3 <b>11,012,500</b>	17,952,963
Others	<b>10,074,745</b>	2,255,402
	<b>44,842,586</b>	42,316,407
	<b>86,622,086</b>	83,028,804

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

	<b>2005</b>	<b>2004</b>
	<b>(% per annum)</b>	
Foreign central banks	<b>1.79 to 3.6</b>	1.36 to 1.79
International organisation	<b>2.96 to 4.74</b>	2.96 to 3.1

**23.2** These are free of interest and represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan.

**23.3** 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.

**24. PAYABLE TO INTERNATIONAL MONETARY FUND**

**2005**                      **2004**  
**(Rupees in '000)**

## Borrowings under:

- Fund facilities	24.1 <b>7,814,222</b>	25,041,465
- Other credit schemes	24.2 <b>88,839,730</b>	77,363,692
	<b>96,653,952</b>	102,405,157
Current account for administrative charges	<b>29</b>	77
	<b>96,653,981</b>	102,405,234

**24.1** These facilities are secured by demand promissory notes issued by the Government of Pakistan and periodic charges thereon are chargeable to the Government of Pakistan.

**24.2** This includes Rs. Nil (2004: Rs. 255.676 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.

<b>24.3</b> Interest profile of payable to IMF is as under:	<b>2005</b>	<b>2004</b>
	( <b>% per annum</b> )	
Fund facilities	<b>1.72 to 2.40</b>	1.39 to 1.72
Other credit schemes	<b>0.5</b>	0.5

## **25. OTHER LIABILITIES**

<b>Foreign currency</b>	<b>2005</b>	<b>2004</b>
	( <b>Rupees in '000</b> )	
Amounts due to financial institutions under currency swap arrangements	<b>2,685,825</b>	2,617,115
Accrued interest and discount on deposits	<b>463,941</b>	243,021
Charges on allocation of Special Drawing Rights of IMF	<b>62,372</b>	42,000
Others	<b>14,557</b>	4,603
	<b>3,226,695</b>	2,906,739

### **Local currency**

Overdue mark-up and return	<b>3,512,589</b>	3,444,098
Unearned exchange risk fee	<b>12,328</b>	12,183
Remittance clearance account	<b>556,497</b>	607,501
Exchange loss payable under exchange risk coverage scheme	<b>5,217</b>	45,721
Balance payable to the Government of Pakistan	<b>3,935,947</b>	-
Share of loss under profit and loss sharing arrangements	<b>-</b>	3,274,752
Dividend payable	<b>10,000</b>	10,000
Payable to Government in respect of privatisation proceeds	<b>2,929,066</b>	2,929,066
Other accruals and provisions	<b>6,141,836</b>	3,744,498
Others	<b>3,680,150</b>	3,338,595
	<b>20,783,630</b>	17,406,414
	<b>24,010,325</b>	20,313,153

### **25.1 Other accruals and provisions**

Interest payable	<b>18,201</b>	18,451
Printing charges	<b>173,138</b>	10,064
Agency commission	<b>418,469</b>	362,115
Provision for employees' compensated absences	<b>2,031,000</b>	1,739,000
Provision for other doubtful assets	<b>1,551,419</b>	-
Other provisions	<b>1,205,895</b>	1,499,308
Others	<b>743,714</b>	115,560
	<b>6,141,836</b>	3,744,498

**25.2 Movement of other provisions**

	2005	2004
	(Rupees in '000)	
Opening balance	1,124,308	400,000
Provision during the year	110,400	1,267,019
Reversed during the year	(28,813)	(542,711)
Closing balance	<u>1,205,895</u>	<u>1,124,308</u>

	Home remittance	Agriculture loan	Others (note 25.2.1)	Total
	------(Rupees in '000)-----			
Opening balance	150,000	232,289	742,019	1,124,308
Provision during the year	110,363	-	37	110,400
Reversed during the year	-	(28,813)	-	(28,813)
Closing balance	<u>260,363</u>	<u>203,476</u>	<u>742,056</u>	<u>1,205,895</u>

25.2.1 This represent provision made against various contingencies comprising litigation against the Bank.

**26. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS**

	2005	2004
	(Rupees in '000)	
Gratuity	86,471	106,579
Pension	7,397,000	6,980,000
Benevolent fund scheme	866,000	814,000
Post retirement medical benefits	441,000	344,000
	39.1.3	8,244,579
Provident fund scheme	989,488	906,742
	<u>9,779,959</u>	<u>9,151,321</u>

**27. DEFERRED INCOME**

Opening balance	286,195	415,106
Grants received during the year	220,402	6,579
Amortisation during the year	(92,536)	(135,490)
Closing balance	<u>414,061</u>	<u>286,195</u>

This represents grant received for capital expenditure and, as indicated in note 2.11 to these financial statements, is being amortised over the useful lives of the related assets.

**28. SHARE CAPITAL**

<b>Number of shares</b>			
	<b>Authorised share capital</b>		
<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
	<b>Issued, subscribed and paid-up capital</b>		
<u>1,000,000</u>	Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>

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

## 29. RESERVES

### 29.1 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.

### 29.2 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.

30. UNREALISED APPRECIATION ON GOLD RESERVES	2005	2004
	(Rupees in '000)	
Opening balance	45,205,621	38,883,231
Appreciation on revaluation during the year:		
- held by the Bank	3 6,337,889	6,221,047
- held with the Reserve Bank of India	12 103,083	101,343
	6,440,972	6,322,390
	<u>51,646,593</u>	<u>45,205,621</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.

## 31. CONTINGENCIES AND COMMITMENTS

### 31.1 Contingencies

a) Contingent liability in respect of guarantees given on behalf of:		
i) Government	23,406,428	32,059,794
ii) Government owned / controlled bodies and authorities	104,019,357	73,620,783
	<u>127,425,785</u>	<u>105,680,577</u>

Above guarantees 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. 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.
- c) A claim of Rs. 1,600 million has been lodged against the Bank which has not been acknowledged by the Bank. The Bank has a counter claim of Rs. 493 million. With the mutual agreement of both the parties, matter has been referred to the Arbitrator. Management is confident that the Bank will not incur any liability on this account; as such no provision has been made against the claim.
- d) Other claims against the Bank not acknowledged as debts

<u>685,603</u>	<u>702,624</u>
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<b>31.2 Commitments</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Forward exchange contracts - sales	<b>78,643,672</b>	35,140,553
Forward exchange contracts - purchases	<b>58,229,197</b>	13,253,350
Repurchase and outright sale of securities	<b>1,258,632</b>	69,740,400
Import letters of credit	<b>81,205,385</b>	82,306,585
ESAF commitment with IMF	<b>173,528</b>	227,081
<b>32. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED</b>		
Market Treasury Bills - net	<b>9,892,132</b>	1,727,576
Other Government securities	<b>255,845</b>	439,911
Loans and advances to Government	<b>997,720</b>	358,734
Share of profit on finances under profit and loss sharing arrangements	<b>3,578,551</b>	2,210,247
Foreign currency deposits	<b>9,245,706</b>	6,067,452
Foreign currency securities	<b>5,778,084</b>	911,286
Others	<b>9,611</b>	18,905
	<b><u>29,757,649</u></b>	<b><u>11,734,111</u></b>
<b>33. INTEREST / MARK-UP EXPENSE</b>		
Deposits	<b>2,235,276</b>	1,346,406
Share of loss on finances under profit and loss sharing arrangements	<b>-</b>	3,815,121
Others	<b>48,832</b>	40,564
	<b><u>2,284,108</u></b>	<b><u>5,202,091</u></b>
<b>34. COMMISSION INCOME</b>		
Market Treasury Bills	<b>103,373</b>	50,885
Draft / payment orders	<b>284,216</b>	238,509
Prize Bonds and National Saving Certificates	<b>149,410</b>	119,171
Management of public debts	<b>66,343</b>	68,238
Others	<b>89,616</b>	19,651
	<b><u>692,958</u></b>	<b><u>496,454</u></b>



<b>35. EXCHANGE GAIN - net</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees' 000)</b>	
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	<b>15,815,128</b>	3,372,849
- Open market operations (including currency swap arrangements)	<b>185,266</b>	(38,963)
- Forward covers under Exchange Risk Coverage Scheme	<b>(360,255)</b>	(156,485)
- Payable to the International Monetary Fund (IMF)	<b>(2,240,929)</b>	(3,853,758)
- Special Drawing Rights of IMF	<b>297,653</b>	669,601
- Others	<b>(123,712)</b>	424,750
	<u><b>13,573,151</b></u>	<u>417,994</u>
Exchange risk fee income	<b>254,562</b>	337,178
	<u><b>13,827,713</b></u>	<u><b>755,172</b></u>
<b>36 OTHER OPERATING INCOME- net</b>		
Penalties levied on banks and financial institutions	<b>444,416</b>	360,677
License / Credit Information Bureau fee recovered	<b>26,807</b>	1,966
Profit on sale of securities	<b>399,537</b>	-
Gain / (loss) on remeasurement of securities	<b>(543,336)</b>	-
Others	<b>480</b>	5,181
	<u><b>327,904</b></u>	<u><b>367,824</b></u>

**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% (2004: 0.15%) of the total amount of collection and remittances handled by NBP.

<b>39. GENERAL ADMINISTRATIVE AND OTHER EXPENSES</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Salaries, wages and other benefits	<b>2,956,438</b>	2,621,575
Retirement benefits and employees' compensated absences	<b>1,385,001</b>	2,376,564
Contribution to SBP Employees' Welfare Trust	<b>10,000</b>	-
Rent and taxes	<b>21,714</b>	29,483
Insurance	<b>5,551</b>	4,516
Electricity, gas and water charges	<b>114,920</b>	119,527
Depreciation	<i>17.1</i> <b>397,312</b>	410,434
Amortisation of intangible assets	<b>45,363</b>	10,753
Repairs and maintenance	<b>105,327</b>	34,782
Auditors' remuneration	<i>39.4</i> <b>3,292</b>	2,832
Legal and professional charges	<b>291,403</b>	58,449
Traveling and recreation expenses	<b>102,874</b>	100,076
Daily expenses	<b>36,952</b>	39,844
Fuel charges	<b>8,292</b>	7,475
Conveyance charges	<b>9,662</b>	6,287
Postages, telegram / telex and telephone	<b>76,335</b>	57,020
Training	<b>22,977</b>	10,886
Examination/ testing services	<b>66</b>	1,249
Remittance of treasure	<b>31,972</b>	31,773
Stationery	<b>16,355</b>	21,024
Books and newspapers	<b>9,476</b>	7,518
Advertisement	<b>5,715</b>	4,542
Uniforms	<b>17,632</b>	16,138
Others	<b>105,008</b>	100,487
	<b><u>5,779,637</u></b>	<b><u>6,073,234</u></b>

### **39.1 Staff retirement benefits**

**39.1.1** As mentioned in note 2.10, 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, 2005 under the projected Unit Credit Method using following significant assumptions:

- Expected rate of increase in salary 9.5 (2004: 5.94) percent per annum
- Expected rate of discount 11.6 (2004: 8.00) percent per annum
- Medical cost increase 6.3 (2004: 2.86) percent per annum

### 39.1.2 Present value of the obligations

Present values of obligations under the retirement benefit schemes and liabilities recognised there against for the past services of the employees at June 30, 2005 based on actuarial valuation as of that date was as follows:

	2005		
	Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of the staff retirement benefits
	----- (Rupees in '000) -----		
Gratuity	92,000	(5,000)	87,000
Pension	8,247,000	(850,000)	7,397,000
Benevolent	1,008,000	(142,000)	866,000
Post retirement medical benefits	2,221,000	(1,790,000)	431,000
	<u>11,568,000</u>	<u>(2,787,000)</u>	<u>8,781,000</u>

39.1.3 The following is a movement in the net recognised liability in respect of the defined benefit schemes

	Net recognised liability at 1 July 2004	Charge for the year (note 39.2)	Payments during the year	Employees contribution	Net liability at 30 June 2005
	----- (Rupees in '000) -----				
Gratuity	106,579	3,000	(23,108)	-	86,471
Pension	6,980,000	780,000	(363,000)	-	7,397,000
Benevolent	814,000	106,000	(56,000)	2,000	866,000
Post retirement medical benefits	344,000	207,000	(110,000)	-	441,000
	<u>8,244,579</u>	<u>1,096,000</u>	<u>(552,108)</u>	<u>2,000</u>	<u>8,790,471</u>

### 39.2 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:

	Current service cost	Interest cost	Actuarial (gain) / loss recognised	Employees contributions	Total
----- (Rupees in '000) -----					
Gratuity	2,000	6,000	(5,000)	-	3,000
Pension	217,000	554,000	9,000	-	780,000
Benevolent	34,000	74,000	-	(2,000)	106,000
Post retirement medical benefits	29,000	110,000	68,000	-	207,000
	<u>282,000</u>	<u>744,000</u>	<u>72,000</u>	<u>(2,000)</u>	<u>1,096,000</u>

### 39.3 Employees' compensated absences

As at June 30, 2005, the Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 2,031 million (2004: Rs. 1,739 million). An amount of Rs. 295 million (2004: 181 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

### 39.4 Auditors' remuneration

	Taseer Hadi Khalid & Co.	M. Yousuf Adil Saleem & Co.	Syed Hussain & Co.	2005	2004
----- (Rupees in '000) -----					
<b>State Bank of Pakistan</b>					
Audit fee	625	625	-	1,250	1,000
Special certifications / examinations and sundry advisory services	-	-	-	-	45
Out of pocket expenses	100	100	-	200	200
	<u>725</u>	<u>725</u>	<u>-</u>	<u>1,450</u>	<u>1,245</u>
<b>SBP Banking Services Corporation</b>					
Audit fee	625	625	-	1,250	1,000
Out of pocket expenses	250	250	-	500	500
	<u>875</u>	<u>875</u>	<u>-</u>	<u>1,750</u>	<u>1,500</u>
<b>National Institute of Banking and Finance (Guarantee) Limited</b>					
Audit fee	-	-	60	60	60
Out of pocket expenses	-	-	32	32	27
	<u>-</u>	<u>-</u>	<u>92</u>	<u>92</u>	<u>87</u>
	<u>1,600</u>	<u>1,600</u>	<u>92</u>	<u>3,292</u>	<u>2,832</u>

<b>40. OTHER INCOME</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Gain on disposal of property, plant and equipment	<b>504,227</b>	149,231
Liabilities and provisions written back - net	-	275
Gain on disposal of investments	<i>40.1</i> <b>3,559,403</b>	6,928,678
Amortisation of deferred income	<i>27</i> <b>92,536</b>	135,490
Others	<b>47,810</b>	28,293
	<b><u>4,203,976</u></b>	<b><u>7,241,967</u></b>
<b>40.1</b>	This includes Rs. 3,587.239 million (2004: Rs. 6,086.171 million) in respect of the gain realised during the year on disposal of 12.5% (2004: 26%) of HBL's total paid-up capital to the Aga Khan Fund for Economic Development S.A., as mentioned in detail in note 10.3.4.	
<b>41. OTHER CHARGES</b>		
Charges on allocation of Special Drawing Rights	<b>335,194</b>	227,295
Others	<b>15</b>	320,816
	<b><u>335,209</u></b>	<b><u>548,111</u></b>
<b>42. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS</b>		
Profit for the year	<b>31,049,236</b>	6,108,498
Adjustments for:		
Depreciation	<b>397,313</b>	410,434
Amortisation of intangible assets	<b>45,363</b>	10,753
Amortisation of deferred income	<b>(92,536)</b>	(135,490)
Provision for:		
- retirement benefits and employees' compensated absences	<b>1,385,001</b>	2,376,564
- loans, advances and other assets	<b>4,687,861</b>	566,906
- share of loss / (profit) under profit and loss sharing arrangements	-	5,303,335
- other doubtful assets	<b>1,551,419</b>	-
- investments	<b>395,129</b>	-
Gain on disposal of property, plant and equipment	<b>(504,227)</b>	(149,231)
Dividend income	<b>(1,502,639)</b>	(1,422,058)
Other accruals and provisions - net	<b>3,878,015</b>	2,005,498
	<b><u>41,289,935</u></b>	<b><u>15,075,209</u></b>
<b>43. CASH AND CASH EQUIVALENTS</b>		
Local currency	<b>3,106,831</b>	2,959,993
Foreign currency reserves	<b>609,286,705</b>	629,731,918
Earmarked foreign currency balances	<b>11,937,000</b>	3,780,277
Special Drawing Rights of International Monetary Fund	<b>13,569,242</b>	13,826,690
	<b><u>637,899,778</u></b>	<b><u>650,298,878</u></b>

#### 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:

	Interest/ mark-up bearing			Non interest/ mark-up bearing			(Rupees in '000)
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	Grand Total
<b>Financial assets</b>							
Local currency (including rupee coins)	-	-	-	3,106,831	-	3,106,831	3,106,831
Foreign currency reserves	602,006,472	2,150,157	604,156,629	7,463,400	407,072	7,870,472	612,027,101
Earmarked foreign currency balances	11,937,000	-	11,937,000	-	-	-	11,937,000
Special Drawing Rights of International Monetary Fund	13,569,242	-	13,569,242	-	-	-	13,569,242
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	10,315	-	10,315	10,315
Securities purchased under an agreement to resale	9,115,549	-	9,115,549	-	-	-	9,115,549
Current account of the Government of Balochistan	-	-	-	2,114,045	-	2,114,045	2,114,045
Investments	329,003,605	3,124,506	332,128,111	-	29,947,165	29,947,165	362,075,276
Loans, advances and bills of exchange	72,885,430	17,812,893	90,698,323	62,989,234	70,567,191	133,556,425	224,254,748
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	592,891	592,891	592,891
Assets held with the Reserve Bank of India	-	375,791	375,791	-	-	-	375,791
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	3,221,784	3,221,784	-	-	-	3,221,784
Other assets	-	-	-	5,892,452	1,769,463	7,661,915	7,661,915
	<u>1,038,517,298</u>	<u>26,685,131</u>	<u>1,065,202,429</u>	<u>81,576,277</u>	<u>103,283,782</u>	<u>184,860,059</u>	<u>1,250,062,488</u>
<b>Financial liabilities</b>							
Bank notes in circulation	-	-	-	3,941,642	701,924,066 *	705,865,708	705,865,708
Bills payable	-	-	-	1,099,683	-	1,099,683	1,099,683
Current accounts of the Government	-	-	-	104,917,734	-	104,917,734	104,917,734
Securities sold under an agreement to repurchase	1,208,613	-	1,208,613	-	-	-	1,208,613
Deposits of banks and financial institutions	-	30,005,462	30,005,462	79,687,556	86,619,251	166,306,807	196,312,269
Other deposits and accounts	51,815,966	-	51,815,966	34,806,120	-	34,806,120	86,622,086
Payable to International Monetary Fund	8,586,565	88,067,416	96,653,981	-	-	-	96,653,981
Other liabilities	-	-	-	13,902,836	6,966,139	20,868,975	20,868,975
	<u>61,611,144</u>	<u>118,072,878</u>	<u>179,684,022</u>	<u>238,355,571</u>	<u>795,509,456</u>	<u>1,033,865,027</u>	<u>1,213,549,049</u>
<b>On balance sheet gap - 2005</b>	<u>976,906,154</u>	<u>(91,387,747)</u>	<u>885,518,407</u>	<u>(156,779,294)</u>	<u>(692,225,674)</u>	<u>(849,004,968)</u>	<u>36,513,439</u>

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

#### 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.

#### **44.2 Portfolio risk management**

The Bank has appointed external managers to invest a part of the foreign exchange reserves in international fixed income securities. The external managers are selected after conducting a thorough due diligence by the Bank and externally hired investment consultants, and appointed after the approval of the Board. The mandates awarded to the managers require them to out form the benchmarks which are based on fixed income global aggregate indices. The benchmarks are customized to exclude certain securities, currencies, and maturities to bring it to an acceptable level of risk and within the Bank's approved risk appetite. Managers are provided investment guidelines within which they have to generate excess returns over the benchmark. Such investment guidelines define acceptable level of risk by setting levels and permitting types of fixed income securities, duration, currencies, maximum issuer limits by issuer types and credit ratings, and other risk parameters. The volatility and quality of portfolio performance is managed through ex-ante and ex-post tracking error, and information ratio, which is part of the investment guidelines. Safe custody of the portfolio is provided through carefully selected global custodians who are independent of the portfolio managers. The custodians also provide valuation, compliance, corporate actions, tax reclamation and recovery, and other value added services which are typically provided by such custodians. The valuations provided by the custodians are reconciled with the portfolio managers, and recorded accordingly.

#### 44.3 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 and certain fixed assets which were revalued in the year 2001, is estimated to approximate their carrying values.

#### 45. PROFORMA INFORMATION

Restated proforma information as referred in note 2.5 of the financial statements is presented below:

##### 45.1 Extract of the profit and loss account

	For the year ended		Restated	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Discount, interest / mark-up and / or return earned	29,757,649	11,734,111	29,745,154	11,746,606
Interest / mark-up expense	2,284,108	5,202,091	2,284,108	5,202,091
	<u>27,473,541</u>	<u>6,532,020</u>	<u>27,461,046</u>	<u>6,544,515</u>
Commission income	692,958	496,454	692,958	496,454
Exchange gain - net	13,827,713	755,172	13,796,322	786,563
Dividend income	1,502,639	1,422,058	1,502,639	1,422,058
Other operating income	327,904	367,824	332,387	363,341
	<u>43,824,755</u>	<u>9,573,528</u>	<u>43,785,352</u>	<u>9,612,931</u>
Direct operating expenses	10,864,649	4,085,652	10,864,649	4,085,652
	<u>32,960,106</u>	<u>5,487,876</u>	<u>32,920,703</u>	<u>5,527,279</u>
General administrative and other expenses	5,779,637	6,073,234	5,779,637	6,073,234
<b>OPERATING PROFIT / (LOSS)</b>	<b>27,180,469</b>	<b>(585,358)</b>	<b>27,141,066</b>	<b>(545,955)</b>
Other income	4,203,976	7,241,967	4,203,976	7,241,967
	<u>31,384,445</u>	<u>6,656,609</u>	<u>31,345,042</u>	<u>6,696,012</u>
Other charges	335,209	548,111	335,209	548,111
<b>NET PROFIT FOR THE YEAR</b>	<b>31,049,236</b>	<b>6,108,498</b>	<b>31,009,833</b>	<b>6,147,901</b>

##### 45.2 Extract of the statement of unappropriated profit

	For the year ended		Restated	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	(Rupees in '000)			
Opening unappropriated profit as previously reported	-	-	39,403	-
Profit for the year	31,049,236	6,108,498	31,009,833	6,147,901
Appropriations	432,825	102,444	432,825	102,444
Unappropriated profit and loss restated	31,482,061	6,210,942	31,482,061	6,250,345
Balance transferable/ transferred to the Government	(21,422,061)	(6,210,942)	(21,422,061)	(6,210,942)
Unappropriated profit and loss restated	<u>10,060,000</u>	<u>-</u>	<u>10,060,000</u>	<u>39,403</u>



<b>46. NUMBER OF EMPLOYEES</b>	<b>2005</b>	2004
Number of employees at June 30,	<u><u>6,851</u></u>	<u><u>6,850</u></u>

**47. DATE OF AUTHORISATION**

These financial statements were authorised for issue on August 30, 2005 by the Central Board of Directors of the Bank.

**48. GENERAL**

Figures have been rounded off to the nearest thousand rupees.

\_\_\_\_\_  
**Ishrat Husain**  
**Governor**

\_\_\_\_\_  
**Mansur-ur-Rehman Khan**  
**Deputy Governor**

\_\_\_\_\_  
**Aftab Mustafa Khan**  
**Director Accounts**



# **15** **Financial Statements of SBP**

**M. YOUSUF ADIL SALEEM & CO.**  
**CHARTERED ACCOUNTANTS**  
**CAVISH COURT**  
**A-35, BLOCK 7 & 8, KCSHU**  
**SHAHRAH-E-FAISAL**  
**KARACHI**

**TASEER HADI KHALID & CO.**  
**CHARTERED ACCOUNTANTS**  
**1<sup>st</sup> 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, 2005 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 and Accounting Policy for Investments as stated in note 2.5 to the financial statements approved for adoption by the Central Board of the Bank. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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:

During the year, Bank has made a provision of Rs. 1,551 million relating to net assets recoverable from Reserve Bank of India, the Government of India and those pertaining to transactions in former East Pakistan. This provision has been recorded as other liability of the Banking Department and relevant assets and liabilities have not been netted off. Accordingly, assets of Issue Department and Banking Department are overstated by Rs. 2,028 million and Rs. 4,082 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 5,236 and Rs. 874 million respectively.

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 and Accounting Policy for Investment as stated in note 2.5 to the financial statements approved for adoption by the Central Board of the Bank and are further in accordance with accounting policies consistently applied except for change in accounting policy as stated in note 2.5 to the financial statements; 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 and Accounting Policy for Investment as stated in note 2.5 to the financial statements 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, 2005 and of the profit, the cash flows and changes in equity for the year then ended.

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**M. Yousuf Adil Saleem & Co.**  
**Chartered Accountants**  
**Karachi**  
**Date : 30 Aug 2005**

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**Taseer Hadi Khalid & Co.**  
**Chartered Accountants**  
**Karachi**  
**Date : 30 Aug 2005**

## State Bank of Pakistan - Issue Department

### Balance Sheet

As at June 30, 2005

	<i>Note</i>	<b>2005</b>	2004
		<b>(Rupees in '000)</b>	
<b>ASSETS</b>			
Gold reserves held by the Bank	3	<b>53,870,004</b>	47,532,115
Foreign currency reserves	4	<b>472,513,815</b>	500,312,132
Special Drawing Rights of the International Monetary Fund	5	<b>11,794,613</b>	13,826,690
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	7	<b>592,981</b>	543,793
- Rupee coins	8	<b>2,961,213</b>	2,799,163
		<b>3,554,194</b>	3,342,956
Investments	10	<b>162,802,630</b>	45,671,523
Commercial papers	11	<b>78,500</b>	78,500
Assets held with the Reserve Bank of India	12	<b>1,251,952</b>	1,139,741
		<b><u>705,865,708</u></b>	<u>611,903,657</u>
<b>LIABILITY</b>			
Bank notes issued	13	<b><u>705,865,708</u></b>	<u>611,903,657</u>

The annexed notes 1 to 50 form an integral part of these financial statements.

\_\_\_\_\_  
Ishrat Husain  
Governor

\_\_\_\_\_  
Mansur-ur-Rehman Khan  
Deputy Governor

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Aftab Mustafa Khan  
Director Accounts

State Bank of Pakistan - Banking Department  
Balance Sheet

As at June 30, 2005

	Note	2005	2004
		(Rupees in '000)	
<b>ASSETS</b>			
Local currency	8	145,618	160,830
Foreign currency reserves	4	139,513,286	132,021,383
Earmarked foreign currency balances	6	11,937,000	3,780,277
Special Drawing Rights of the International Monetary Fund	5	1,774,629	-
		<u>153,370,533</u>	<u>135,962,490</u>
Reserve tranche with the International Monetary Fund			
under quota arrangements	14	10,315	10,062
Securities purchased under agreement to resale	9	9,115,545	-
Current account of the Government of Balochistan	20.5	2,114,045	5,533,119
Current account with National Institute of Banking and Finance (Guarantee) Limited		1,521	-
Investments	10	199,368,400	125,119,093
Loans, advances and bills of exchange	15	219,092,298	196,058,152
Balances due from the Governments of India and Bangladesh (former East Pakistan)	16	4,082,161	3,846,494
Property, plant and equipment	17	6,943,113	7,370,053
Intangible assets	18	20,871	370
Other assets	19	7,799,971	12,471,989
Total assets		<u>601,918,773</u>	<u>486,371,822</u>
<b>LIABILITIES</b>			
Bills payable		1,099,683	494,365
Current accounts of the Government	20	104,917,734	48,889,002
Current accounts with subsidiaries	21	3,445,805	3,068,656
Securities sold under agreement to repurchase	22	1,208,613	-
Deposits of banks and financial institutions	23	196,312,269	156,170,805
Other deposits and accounts	24	86,622,086	83,028,804
Payable to the International Monetary Fund	25	96,653,981	102,405,234
Other liabilities	26	21,473,518	18,326,441
		<u>511,733,689</u>	<u>412,383,307</u>
Deferred liability - staff retirement benefits	27	3,543,969	3,533,413
Deferred income	28	414,061	286,195
Total liabilities		<u>515,691,719</u>	<u>416,202,915</u>
<b>Net assets</b>		<u>86,227,054</u>	<u>70,168,907</u>
Share capital	29	100,000	100,000
Allocation of special drawing rights of the International Monetary Fund		1,525,958	1,525,958
Reserves		16,700,000	16,700,000
Unappropriated profit		10,060,000	-
		<u>28,385,958</u>	<u>18,325,958</u>
Unrealised appreciation on gold reserves	31	51,646,593	45,205,621
Surplus on revaluation of property, plant and equipment	17.2	6,194,503	6,637,328
		<u>86,227,054</u>	<u>70,168,907</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	32		

The annexed notes 1 to 50 form an integral part of these financial statements.

Ishrat Husain  
Governor

Mansur-ur-Rehman Khan  
Deputy Governor

Aftab Mustafa Khan  
Director Accounts

State Bank of Pakistan  
Profit and Loss Account  
For the year ended June 30, 2005

	Note	2005	2004
		(Rupees in '000)	
Discount, interest / mark-up and / or return earned	33	29,733,360	11,708,491
Interest / mark-up expense	34	2,284,108	5,202,091
		<u>27,449,252</u>	<u>6,506,400</u>
Commission income	35	692,958	496,454
Exchange gain- net	36	13,827,713	755,172
Dividend income		1,502,639	1,422,058
Profit transferred from subsidiaries	37	51,383	42,841
Other operating income-net	38	327,904	367,824
		<u>43,851,849</u>	<u>9,590,749</u>
Direct operating expenses			
Note printing charges	39	2,486,249	1,963,777
Agency commission	40	1,743,991	1,554,969
Provision for:			
- loans, advances and other assets		4,687,861	566,906
- diminution in value of investments		395,129	-
- other doubtful assets		1,551,419	-
		<u>6,634,409</u>	<u>566,906</u>
		<u>32,987,200</u>	<u>5,505,097</u>
General administrative and other expenses	41	5,779,637	6,073,234
<b>OPERATING PROFIT/ (LOSS)</b>		<u>27,207,563</u>	<u>(568,137)</u>
Other income	42	4,176,882	7,224,746
		<u>31,384,445</u>	<u>6,656,609</u>
Other charges	43	335,209	548,111
<b>NET PROFIT FOR THE YEAR</b>		<u><u>31,049,236</u></u>	<u><u>6,108,498</u></u>

The annexed notes 1 to 50 form an integral part of these financial statements.

\_\_\_\_\_  
**Ishrat Husain**  
Governor

\_\_\_\_\_  
**Mansur-ur-Rehman Khan**  
Deputy Governor

\_\_\_\_\_  
**Aftab Mustafa Khan**  
Director Accounts



# State Bank of Pakistan

## Cash Flow Statement

For the year ended June 30, 2005

	Note	2005	2004
		(Rupees in '000)	
<b>Profit for the year after non-cash items</b>	44	<b>39,722,038</b>	14,248,169
(Increase) / decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(253)	(502)
Investments		(162,758,209)	(17,171,626)
Securities purchased under agreement to resell		(9,115,545)	-
Loans, advances and bills of exchange		(27,112,640)	(25,805,249)
Foreign currency reserves not included in cash and cash equivalents		(138,799)	(1,528,452)
Indian notes representing assets receivable from the Reserve Bank of India		(49,188)	(8,631)
Assets held with the Reserve Bank of India		(9,129)	(33,929)
		<b>4,062,651</b>	1,043,773
		(195,121,112)	(43,504,616)
Increase / (decrease) in liabilities			
Notes in circulation		<b>93,962,051</b>	89,012,613
Bills payable		<b>605,318</b>	(177,566)
Current accounts of the Government		<b>59,447,806</b>	(38,362,020)
Current account with subsidiaries		<b>332,287</b>	(623,820)
Deposits of banks and financial institutions		<b>40,141,464</b>	14,505,757
Securities sold under agreement to re-purchase		(68,109,552)	-
Other deposits and accounts		<b>3,593,282</b>	2,060,651
Payable to the International Monetary Fund		(5,751,253)	(18,528,150)
Other liabilities - net		<b>16,979,158</b>	(639,267)
		<b>141,200,561</b>	47,248,198
		(14,198,513)	17,991,751
Payment of retirement benefits and employees' compensated absences		(426,972)	(1,305,008)
Receipt of dividend income		<b>1,502,639</b>	1,431,808
Gold purchased		-	(64,589)
Fixed capital expenditure		(235,036)	(215,760)
Proceeds from disposal of property, plant and equipment		<b>968,782</b>	271,672
		<b>1,809,413</b>	118,123
Dividend paid		(10,000)	(10,000)
Increase in cash and cash equivalents		(12,399,100)	18,099,874
Cash and cash equivalents at beginning of the year		<b>650,298,878</b>	632,199,004
Cash and cash equivalents at end of the year	45	<b>637,899,778</b>	650,298,878

The annexed notes 1 to 50 form an integral part of these financial statements.

**Ishrat Husain**  
Governor

**Mansur-ur-Rehman Khan**  
Deputy Governor

**Aftab Mustafa Khan**  
Director Accounts

State Bank of Pakistan  
Statement of Changes in Equity  
For the year ended June 30, 2005

	Share capital	Allocation of SDR of the IMF	Reserves						Unrealised appreciation on gold reserves	Surplus on revaluation of property, plant and equipment	Unappropriated profit	Total
			Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund				
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 property, plant and equipment realised on disposal	-	-	-	-	-	-	-	-	-	(112,444)	112,444	-
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	6,322,390	-	-	6,322,390
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(6,210,942)	(6,210,942)
Balance at June 30, 2004	100,000	1,525,958	5,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	45,205,621	6,637,328	-	70,168,907
Net profit for the year ended June 30, 2005	-	-	-	-	-	-	-	-	-	-	31,049,236	31,049,236
Surplus on revaluation of property, plant and equipment realised on disposal	-	-	-	-	-	-	-	-	-	(442,825)	442,825	-
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	6,440,972	-	-	6,440,972
Balance transferable to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(21,422,061)	(21,422,061)
Balance at June 30, 2005	100,000	1,525,958	5,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	51,646,593	6,194,503	10,060,000 *	86,227,054

\* The Central Board has proposed to transfer Rs. 10,000 million to the Reserve fund after approval of the Federal Government. Further, as per Board's decision an amount of Rs. 60 million has been earmarked for incentive bonus to employees of the Bank, to be decided by management of the Bank.

The annexed notes 1 to 50 form an integral part of these financial statements.

Ishrat Husain  
Governor

Mansur-ur-Rehman Khan  
Deputy Governor

Aftab Mustafa Khan  
Director Accounts

State Bank of Pakistan  
Notes to the Financial Statements  
*For the year ended June 30, 2005*

**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 Statement of compliance**

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards (IASs) and investment policy as stated in note 2.5 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 and policy for investments as stated in note 2.5 for adoption by the Bank.

**2.2 Accounting convention**

These financial statements have been prepared under the historical cost convention, except that investments, gold reserves and certain fixed assets, as referred to in notes 2.5, 2.6 and 2.7 have been included at revalued amounts.

**2.3 Bank notes and rupee coins**

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of notes is charged to the profit and loss account as and when incurred. 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 (GoP). These coins are purchased from the GoP at their respective face values. The unissued coins form part of the assets of the Issue Department.

## 2.4 Impairment

The carrying amounts of the bank's assets are 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. An impairment loss is recognised in profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. 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 in the profit and loss account.

## 2.5 Investments

During the year, the Bank has changed its accounting policy regarding investments. This change has been made in order to give a more appropriate presentation and measurement of investments. Earlier Bank measured investment in debt securities at cost and other securities at lower of cost or market value. In revised policy, these are initially measured at cost being the fair value of consideration given. Transaction costs are included in the initial measurement of investments. Subsequent to initial measurement, the Bank measures and classifies its investments under the following categories:

### *Held for trading:*

These securities are either acquired for generating a profit from short term fluctuation in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These instruments are subsequently re-measured to fair value. All related realized and unrealized gains and losses are recognised in the profit and loss account.

All purchases and sales of investments categorised as held-for-trading that required delivery with the time frame established by regulation or market convention ('regular way' purchases and sale') are recognised at the trade date, which is the date bank commits to purchase or sell the investment. Other wise transactions are treated as derivative until settlement occurs.

In accordance with the allowed alternative treatment specified in International Accounting Standard 8 "Net Profit or Loss for the period, Fundamental Errors and Changes in Accounting Policies", the effect of this change in accounting policies has been recognised in the current year and the comparative information has not been restated. Had the accounting policy not been changed, the net profit for the year and the carrying value of trading portfolio would have been higher by an amount of Rs. 1,153 million. Restated proforma information assumes that the new policy had always been in use is given in note 47 to these financial statements.

### *Held to maturity:*

These are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity other than loans and receivables. These securities are carried at amortized cost, less impairment losses, if any and premiums and/or discounts are accounted for using effective interest method.

All regular way purchases and sale are recognised at the trade date, which is the date bank commits to purchase or sell the investment. Other wise transactions are treated as derivative until settlement occurs.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and present value of expected future cash flows discounted at the financial statement's original effective interest rate.

The change in policy has no impact on the value of these securities and profit and loss of the Bank.

*Loans and receivables:*

These are financial assets created by the Bank by providing money directly to a debtor. Subsequent to initial recognition, these investments are carried at amortized cost and premiums and/or discounts are accounted for effective interest method

All loans and advances are recognised when cash is advanced to borrowers. When a loan is uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the provision for loan losses in the profit and loss account.

An allowance for impairment is established if there is evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans and advances. The amount of the provision is the difference between the carrying amount and the recoverable from guarantees and collateral, discounted at the original effective interest rate of loans and advances.

The change in policy has no impact on the value of these securities and profit and loss of the Bank.

*Available for sale securities (AFS):*

These are the securities which do not fall in any of the above three categories. Subsequent to initial recognition the changes in fair value of these securities is taken to equity except the strategic investments including investments in National Bank of Pakistan and United Bank of Pakistan and investments in securities the fair value of which cannot be determined reliably. Gain or loss on changes in fair value is kept in equity until the investments are sold or disposed off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in the equity is included in profit and loss account.

The change in policy has no impact on the valuation of securities and profit and loss of the Bank.

Fair value of the financial instruments classified as held-for-trading and available for sale is their quoted bid price at the balance sheet date.

Financial instruments classified as held-for-trading or available-for-sale are de-recognised by the Bank on the date it commits to sell the investments. Securities held-to-maturity is derecognised on the day these are transferred by the Bank. Gains and losses on de-recognition of held for trading, held to maturity and AFS securities are taken to profit and loss account.

*Derivative financial instruments:*

The Bank enters into derivative financial instruments, which include forwards and currency swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 32 while the asset and liability portion of a currency swap are presented in Other Assets and Other Liabilities in notes 19 and 26 to the financial statements. The resultant gains or losses from derivatives are included in the profit and loss account

*Collateralised borrowings / lending:*

During the year the Bank has changed its accounting policy regarding collateralised borrowings / lending. This change has been made in order to give a more appropriate presentation and measurement of investments. Earlier in case of outright sale or sale under repurchase (Repo) obligations, the securities were being 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 were being reinstated at their respective original cost and in case of purchase under resale obligations, the securities were being 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.

In revised policy where securities are sold subject to a commitment to purchase them at a pre-determined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received in "Securities sold under agreement to repurchase". Conversely, securities purchased under analogous commitment to resell are not recognised on the balance sheet and a consideration paid is recorded in "Securities purchased under agreement to resell". The difference between the sell and repurchase price in the repurchase transactions and the purchase price and sale price in reverse repurchase transaction represents an expense and income respectively and recognised in the profit and loss account on an accrual basis.

The change in policy has no impact on the profit and loss of the Bank.

## **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 equity under the head of "unrealised appreciation on gold reserves" account. Appreciation realised on disposal of gold is credited to the profit and loss account.

## **2.7 Property, plant and equipment**

Property, plant and equipment 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 on property, plant and equipment are charged to profit and loss account applying the straight-line method whereby the cost of an asset is written off over its estimated useful life.

Depreciation on additions is charged to the profit and loss account 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 / disposed off. 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.

## **2.8 Intangibles**

Intangible assets are amortised using straight-line method over the period of three years. Where the carrying amount of an asset exceeds its estimated recoverable amount it is written down immediately to its recoverable amount.

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

## **2.9 Compensated absences**

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

## **2.10 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.

Obligations for contributions to defined contribution provident plans are recognised as an expense in the profit and loss account as incurred.

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.

## **2.11 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.

## **2.12 Revenue recognition**

- Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset. 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.

## **2.13 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.

## **2.14 Taxation**

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

## **2.15 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.

Commitments for outstanding forward foreign exchange contracts disclosed in note 32 to the financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

## **2.16 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.

### **2.17 Provisions**

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

### **2.18 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.

### **2.19 Financial instruments**

Financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. The Bank derecognises financial asset when the enterprise loses control of the contractual rights that comprise the financial asset. The Bank derecognises a financial liability when the liability is extinguished, discharged, cancelled or expired

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.

### **2.20 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	2005 (Rupees in '000)	2004
<b>3. GOLD RESERVES HELD BY THE BANK</b>			
Opening balance	<b>2,046,910</b>	<b>47,532,115</b>	41,246,479
Additions during the year	-	-	64,589
Appreciation during the year due to revaluation 31	-	<b>6,337,889</b>	6,221,047
	<b>2,046,910</b>	<b>53,870,004</b>	47,532,115

#### 4. FOREIGN CURRENCY RESERVES

Investments	4.1	<b>180,148,679</b>	138,313,415
Deposit accounts	4.3 & 4.4	<b>424,007,949</b>	490,621,651
Current accounts	4.3	<b>7,870,473</b>	3,398,449
		<b>612,027,101</b>	632,333,515

The above foreign currency reserves are held as follows:

- Issue Department		<b>472,513,815</b>	500,312,132
- Banking Department		<b>139,513,286</b>	132,021,383
		<b>612,027,101</b>	632,333,515

#### 4.1 Investments

Held for trading	4.4	<b>178,482,597</b>	57,121,116
Held to maturity		<b>1,484,500</b>	1,446,523
Available for sale		<b>181,582</b>	79,745,776
		<b>180,148,679</b>	138,313,415

**4.2** At June 30, 2005, above assets included Rs. 183.167 million (2004: Rs. 167.974 million) recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

**4.3** The balance in current and deposit accounts carry interest at various rates ranging between 1.04 to 4.77 (2004: 0.97 to 4.52) percent per annum.

**4.4** These include investments made in international market through reputable Fund Managers. The activities of the Fund Managers are being monitored through custodians. Market value of these investments as at June 30, 2005 is equivalent to USD 3,263.8 million.

**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, 2005. 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, 2005, the SDRs were held as follows:

	<b>2005</b>	2004
	<b>(Rupees in '000)</b>	
By the Issue Department	<b>11,794,613</b>	13,826,690
By the Banking Department	<b>1,774,629</b>	-
	<b><u>13,569,242</u></b>	<b><u>13,826,690</u></b>

**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.

**8. LOCAL CURRENCY**

Bank notes held by the Banking Department	<i>13</i>	<b>145,618</b>	160,830
Rupee coins		<b><u>2,961,213</u></b>	<u>2,799,163</u>
		<b>3,106,831</b>	2,959,993
Rupee coins held as assets of the Issue Department	<i>8.1</i>	<b><u>(2,961,213)</u></b>	<u>(2,799,163)</u>
		<b><u>145,618</u></b>	<b><u>160,830</u></b>

- 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, 2005.

## 9. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings and carry markup at the rate of 5.65 to 7.98 (2004: Nil). percent per annum.

10. INVESTMENTS	2005	2004
	(Rupees in '000)	
<i>Loans and receivables originated by the Bank -</i>		
<i>Government securities</i>	10.1	
Market Treasury Bills (MTBs)	10.2 <b>328,454,605</b>	128,728,739
Federal Investment Bonds	-	2,150,000
Federal Government scrip	<b>2,740,000</b>	2,740,000
	<b><u>331,194,605</u></b>	<u>133,618,739</u>
<i>Available for sale investments</i>		
<b>Investment in Banks and other financial institutions</b>		
Ordinary shares		
- Listed	15,892,481	1,100,807
- Unlisted	14,449,809	35,041,806
	10.3 <b>30,342,290</b>	36,142,613
Term Finance Certificates	282,400	282,400
Certificates of Deposits	112,351	112,351
	<b>30,737,041</b>	36,537,364
	<b>361,931,646</b>	170,156,103
Provision against diminution in value of investments	<b>(789,876)</b>	(394,747)
	<b>361,141,770</b>	169,761,356
<b>Investment in subsidiaries</b>		
SBP Banking Services Corporation - wholly owned subsidiary	10.4 <b>1,000,000</b>	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
	<b>1,029,260</b>	1,029,260
	<b>362,171,030</b>	170,790,616
Investment - MTBs held as assets of the issue department	<b>(162,802,630)</b>	(45,671,523)
	<b>199,368,400</b>	125,119,093

### 10.1 Investment in Government securities

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

	2005 (% per annum)	2004
Market Treasury Bills	<b>2.0756 to 7.9447</b>	1.2116 to 4.3247
Federal Investment Bonds	<b>15</b>	15
Federal Government scrip	<b>3</b>	3 to 16

**10.2** This includes securities having carrying value of Rs. 1,234.030 million (2004: Rs. 69,740.461 million) given as collateral under repurchase agreement borrowing arrangements.

### 10.3 Investments in shares of banks and other financial institutions

10.3.1

	2005 %	2004 %		2005 (Rupees in '000)	2004
<b>Listed</b>					
National Bank of Pakistan	<b>75.18</b>	75.18	10.3.2	<b>1,100,807</b>	1,100,807
United Bank Limited	<b>48.69</b>	-	10.3.3	<b>14,791,674</b>	-
				<b>15,892,481</b>	1,100,807
<b>Unlisted</b>					
Habib Bank Limited	<b>60.55</b>	73.05	10.3.4	<b>12,217,465</b>	14,739,777
Zarai Taraqati Bank Limited	-	99.69		-	3,204,323
Federal Bank for Cooperatives	<b>75.00</b>	75.00		<b>150,000</b>	150,000
Equity Participation Fund	<b>65.81</b>	65.81		<b>102,000</b>	102,000
				<b>12,469,465</b>	18,196,100
Other investments with holding less than or equal to 50%				<b>1,980,344</b>	16,845,706
				<b>14,449,809</b>	35,041,806
				<b>30,342,290</b>	36,142,613

**10.3.1** 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, or joint ventures.

- 10.3.2** Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2005 amounted to Rs. 47,966.850 million (2004: Rs. 24,604.850 million).
- 10.3.3** The market value of the Bank's investment in the shares of United Bank Limited (listed during the year) as at June 30, 2005 as per recent available quotation amounted to Rs. 17,023.116 million (2004: Cost of Rs. 14,791.674 million).
- 10.3.4** Last 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 had transferred ownership of 26% of HBL's total paid up capital last year. Further ownership of 12.5% shares has been transferred during the year proceeds of which amounting to USD 102.956 million have been received during the year resulting in a gain of Rs. 3,587.239 million, as mentioned in note 42.1 to the financial statements. Under the terms of this agreement, the title of remaining 12.5% shares will be transferred to AKFED after payment of USD 95.571 million due there against has been received. This payment is due by February 25, 2006 and carries mark-up at 2.5% above London Inter Bank offer rate on the unpaid amount.

The remaining 12.5% 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 12.5% 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 the shares of HBL amounted to Rs. 18,883.430 million at 31 December 2004 based on the financial statements of HBL for the year then ended.

- 10.4** The investment in SBP Banking Services Corporation has been made in 1,000 (2004: 1,000) ordinary shares of Rs. 1 million each.

## **11. COMMERCIAL PAPERS**

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2004: 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).

<b>12. ASSETS HELD WITH THE RESERVE BANK OF INDIA</b>		<b>2005</b>	<b>2004</b>
		<b>(Rupees in '000)</b>	
Gold reserves			
- Opening balance		<b>773,079</b>	671,736
- Appreciation from revaluation during the year	31	<b>103,083</b>	101,343
		<b>876,162</b>	773,079
Sterling securities			
		<b>357,794</b>	350,140
Government of India securities		<b>13,910</b>	12,757
Rupee coins		<b>4,086</b>	3,765
		<b>1,251,952</b>	1,139,741

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.

### 13. BANK NOTES ISSUED

Notes held with the Banking Department	8	<b>145,618</b>	160,830
Notes in circulation		<b>705,720,090</b>	611,742,827
		<b>705,865,708</b>	611,903,657

### 14. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

Quota allocated by the International Monetary Fund		<b>90,311,785</b>	88,097,392
Liability under quota arrangements		<b>(90,301,470)</b>	(88,087,330)
		<b>10,315</b>	10,062

### 15. LOANS, ADVANCES AND BILLS OF EXCHANGE

Government	15.1	<b>20,700,000</b>	12,000,000
Government owned / controlled financial institutions	15.2	<b>113,234,829</b>	110,623,197
Private sector financial institutions	15.3	<b>92,829,411</b>	77,283,785
		<b>206,064,240</b>	187,906,982
Employees		<b>1,147,371</b>	891,989
		<b>227,911,611</b>	200,798,971
Provision against doubtful balances		<b>(8,740,813)</b>	(4,662,319)
		<b>219,170,798</b>	196,136,652
Commercial papers held in issue department	11	<b>(78,500)</b>	(78,500)
		<b>219,092,298</b>	196,058,152

**15.1 Loans and advances to the Governments**

	2005	2004
	(Rupees in '000)	
Federal Government	12,000,000	12,000,000
Provincial Government - Balochistan	8,700,000	-
	<u>20,700,000</u>	<u>12,000,000</u>

**15.1.1** During the year, mark-up on above balances was charged at various rates ranging between 2.0581 to 6.9282 (2004: 1.3795 to 1.9197) percent per annum.

**15.2 Loans and advances to Government owned / controlled financial institutions**

	Scheduled banks		Non-banking financial institutions		Total	
	2005	2004	2005	2004	2005	2004
	----- (Rupees in '000) -----					
Agricultural sector 15.2.2	60,590,768	58,005,280	-	-	60,590,768	58,005,280
Industrial sector 15.2.2	2,158,045	2,381,409	595,007	840,261	2,753,052	3,221,670
Export sector	21,780,804	16,424,361	-	786,123	21,780,804	17,210,484
Housing sector	66,907	66,907	11,242,300	12,607,300	11,309,207	12,674,207
Others	12,985,936	10,629,456	3,815,062	8,882,100	16,800,998	19,511,556
	<u>97,582,460</u>	<u>87,507,413</u>	<u>15,652,369</u>	<u>23,115,784</u>	<u>113,234,829</u>	<u>110,623,197</u>

**15.2.1** Above balances include Rs. 518.806 million (2004: Rs. 515.056 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).

**15.2.2** 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 (2004: Rs. 51,257.213 million) to Zarai Taraqiati Bank Limited (ZTBL).

**15.3 Loans and advances to private sector financial institutions**

	Scheduled banks		Non-banking financial institutions		Total	
	2005	2004	2005	2004	2005	2004
	----- (Rupees in '000) -----					
Industrial sector	-	499,796	3,577,792	3,577,792	3,577,792	4,077,588
Export sector	87,744,637	69,409,072	-	587,000	87,744,637	69,996,072
Others	1,506,982	3,210,125	-	-	1,506,982	3,210,125
	<u>89,251,619</u>	<u>73,118,993</u>	<u>3,577,792</u>	<u>4,164,792</u>	<u>92,829,411</u>	<u>77,283,785</u>

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

	2005	2004
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.5 to 12	1.5 to 12
Staff loans	10	10



**16. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)**

**2005 2004**  
**(Rupees in '000)**

**India**

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

**Bangladesh (former East Pakistan)**

Inter office balances		<b>819,924</b>	819,924
Loans and advances	16.1	<b>3,221,784</b>	2,986,117
		<b>4,041,708</b>	3,806,041
		<b>4,082,161</b>	3,846,494

**16.1** These represent loans and advances provided to the Government of Bangladesh (former East Pakistan).

**16.2** 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.

**17. PROPERTY, PLANT AND EQUIPMENT**

Operating fixed assets	17.1	<b>6,429,272</b>	7,022,027
Capital work-in-progress	17.3	<b>513,841</b>	348,026
		<b>6,943,113</b>	7,370,053

**17.1 Operating fixed assets**

	Cost / revalued amount at July 1, 2004	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30, 2005	Accumulated depreciation at July 1, 2004	Depreciation for the year on deletions / transfers*	Accumulated depreciation at June 30, 2005	Net book value at June 30, 2005	Annual rate of depreciation %
----- (Rupees in '000) -----								
Freehold land	807,882	19,500	827,382	-	-	-	827,382	-
		-						
Leasehold land	4,996,893	-	4,603,327	338,397	109,086	428,476	4,174,851	over the term of lease
		(393,566)			(19,007)			
Building on freehold land	779,969	1,993	781,962	240,478	44,973	285,451	496,511	5
		-			-			
Building on leasehold land	1,129,773	5,202	1,064,676	272,039	70,651	311,092	753,584	5
		(70,299)			(31,598)			
Furniture and fixtures	61,525	4,260	65,785	13,029	6,268	19,297	46,488	10
		-			-			
Office equipment	100,467	17,615	118,034	72,879	11,379	84,211	33,823	20
		(48)			(47)			
EDP equipment	458,279	160,485	567,143	424,745	91,613	516,316	50,827	33.33
		(427)			(42)			
		(51,194) *			-			
Motor vehicles	77,625	14,703	82,671	28,819	13,659	36,865	45,806	20
		(9,657)			(5,613)			
<b>2005</b>	<b>8,412,413</b>	<b>223,758</b>	<b>8,110,980</b>	<b>1,390,386</b>	<b>347,629</b>	<b>1,681,708</b>	<b>6,429,272</b>	
		<b>(473,997)</b>			<b>(56,307)</b>			
		<b>(51,194)</b>			<b>-</b>			
<b>2004</b>	<b>8,395,871</b>	<b>150,902</b>	<b>8,412,413</b>	<b>1,021,197</b>	<b>380,593</b>	<b>1,390,386</b>	<b>7,022,027</b>	
		<b>(134,360)</b>			<b>(11,404)</b>			

### 17.2 Surplus on revaluation of property, plant and equipment

	2005	2004
	(Rupees in '000)	
Opening balance	6,637,328	6,749,772
Surplus realised on disposal	(442,825)	(112,444)
	<u>6,194,503</u>	<u>6,637,328</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, an independent valuer, 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. 5,718.411 million remains undepreciated at June 30, 2005 (2004: Rs. 6,121.173 million) and has been included in the carrying value of the related assets.

### 17.3 Capital work-in-progress

Building on freehold land	-	2,943
Building on leasehold land	141,103	44,529
Furniture and fixtures	28,138	6,432
Office equipment	65,689	27,346
EDP equipment	13,978	1,843
Intangible assets	264,933	264,933
	<u>513,841</u>	<u>348,026</u>

### 18. INTANGIBLE ASSETS

	Cost / revalued amount at July 1, 2004	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2005	Accumulated amortisation at July 1, 2004	Amortisation for the year / on deletions)	Accumulated amortisation at June 30, 2005	Net book value at June 30, 2005	Annual rate of amortisation %
------(Rupees in '000)-----								
Software	2005 32,467	65,864	98,331	32,097	45,363	77,460	20,871	33.33
	2004 32,260	207	32,467	21,344	10,753	32,097	370	

### 19. OTHER ASSETS

	2005	2004
	(Rupees in '000)	
Amounts due from financial institutions under currency swap arrangements	19.1 2,710,157	2,674,429
Accrued interest / mark-up and return	2,300,140	935,986
Exchange gain recoverable under exchange risk coverage scheme	7,691	7,691
Stationery and stamps on hand	297	8,310
Other advances, deposits and prepayments	1,277,671	521,238
Balance receivable from the Government of Pakistan	343,805	5,692,379
Others	1,160,210	2,631,956
	<u>7,799,971</u>	<u>12,471,989</u>

19.1 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 26.

### 20. CURRENT ACCOUNTS OF THE GOVERNMENTS

Federal Government	20.1	59,285,743	14,681,524
Provincial Governments			
- Punjab	20.2	19,606,971	13,913,754
- Sindh	20.3	22,971,702	13,206,367
- North West Frontier Province (NWFP)	20.4	2,484,464	4,134,839
- Balochistan	20.5	-	-
		45,063,137	31,254,960
Government of Azad Jammu and Kashmir		568,854	2,952,518
		<u>104,917,734</u>	<u>48,889,002</u>

<b>20.1 Federal Government</b>		<b>2005</b>	<b>2004</b>
		<b>(Rupees in '000)</b>	
Non-food account		184,642	484,991
Food account		13,616	20,693
Zakat fund account		13,867,615	15,857,448
Railways - ways and means advances	20.6	(3,211,416)	(2,798,603)
Fertilizer account		34,399	44,137
Saudi Arab special loan account		4,124	4,124
Pakistan Baitul Mal fund account		253,366	85
Pakistan Railways special account		1,736,538	1,063,373
Government deposit account no. XII		5,276	5,276
Special transfer account		37,616,343	-
UN reimbursement account		8,781,240	-
		<u>59,285,743</u>	<u>14,681,524</u>
<b>20.2 Provincial Government - Punjab</b>			
Non-food account		(2,134,153)	(4,365,339)
Food account		1,004,477	1,254,266
Zakat fund account		101,542	50,117
District Government account no. IV		20,635,105	16,974,710
		<u>19,606,971</u>	<u>13,913,754</u>
<b>20.3 Provincial Government - Sindh</b>			
Non-food account		17,578,105	9,483,511
Food account		35,901	108,558
Zakat fund account		75,084	75,083
District Government account no. IV		5,282,612	3,539,215
		<u>22,971,702</u>	<u>13,206,367</u>
<b>20.4 Provincial Government - NWFP</b>			
Non-food account		1,072,476	3,054,159
Food account		760,235	203,073
Zakat fund account		412	2,007
District Government account no. IV		651,341	875,600
		<u>2,484,464</u>	<u>4,134,839</u>
<b>20.5 Provincial Government - Balochistan</b>			
Non-food account		(3,840,510)	(9,865,206)
Food account		58,481	463,836
Zakat fund account		2	5
District Government account no. IV		1,667,982	3,868,246
		<u>(2,114,045)</u>	<u>(5,533,119)</u>
Classified as a receivable balance	20.6	2,114,045	5,533,119
Net credit balance		-	-
<b>20.6</b>			
At the year end, these balances carried mark-up at 6.93 (2004: 1.92) percent per annum.			

<b>21. CURRENT ACCOUNTS WITH SUBSIDIARIES</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
SBP Banking Services Corporation	<b>3,445,805</b>	3,065,457
National Institute of Banking and Finance (Guarantee) Limited	-	3,199
	<u><b>3,445,805</b></u>	<u>3,068,656</u>

**22. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE**

This represents repurchase agreement borrowings and carry markup at the rate of 4.1584 to 7.4790 (2004: 3.6858 to 4.3230) percent per annum.

**23. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS**

**Foreign currency**

Scheduled banks	<b>15,920,332</b>	14,212,278
Held under Capital Reserve Requirement scheme	<b>41,135,858</b>	32,020,008
	<u><b>57,056,190</b></u>	<u>46,232,286</u>

**Local currency**

Scheduled banks	<b>137,804,690</b>	108,946,952
Non-banking financial institutions	<b>1,450,434</b>	991,567
Others	<b>955</b>	-
	<u><b>139,256,079</b></u>	<u>109,938,519</u>
	<u><b>196,312,269</b></u>	<u>156,170,805</u>

**23.1** The above deposits are free of interest except deposits under capital reserve requirements to the extent of eighty percent which are remunerated at the rates given below:

	<b>2005</b>	<b>2004</b>
	<b>(% per annum)</b>	
Foreign currency	<b>0.87 to 2.13</b>	0.59 to 0.67
Local currency	<b>1.98 to 2.59</b>	0.99 to 1.70

**24. OTHER DEPOSITS AND ACCOUNTS**

**2005**                      **2004**  
**(Rupees in '000)**

**Foreign currency**

Foreign central banks	<b>26,858,250</b>	26,172,872
International organisations	<b>14,921,250</b>	14,539,525
	<b>41,779,500</b>	40,712,397

**Local currency**

Special debt repayment	24.2	<b>23,755,341</b>	22,108,042
Government	24.3	<b>11,012,500</b>	17,952,963
Others		<b>10,074,745</b>	2,255,402
		<b>44,842,586</b>	42,316,407
		<b>86,622,086</b>	83,028,804

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

	<b>2005</b>	<b>2004</b>
	<b>(% per annum)</b>	
Foreign central banks	<b>1.79 to 3.6</b>	1.36 to 1.79
International organisations	<b>2.96 to 4.74</b>	2.96 to 3.1

**24.2** These are free of interest and represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan.

**24.3** 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.

**25. PAYABLE TO INTERNATIONAL MONETARY FUND**

**2005**                      **2004**  
**(Rupees in '000)**

## Borrowings under:

- Fund facilities	25.1	<b>7,814,222</b>	25,041,465
- Other credit schemes	25.2	<b>88,839,730</b>	77,363,692
		<b>96,653,952</b>	102,405,157
Current account for administrative charges		<b>29</b>	77
		<b>96,653,981</b>	102,405,234

**25.1** These facilities are secured by demand promissory notes issued by the Government of Pakistan and periodic charges thereon are chargeable to the Government of Pakistan.

**25.2** This includes Rs. Nil (2004: Rs. 255.676 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.

<b>25.3</b> Interest profile of payable to IMF is as under:	<b>2005</b>	<b>2004</b>
	( <b>% per annum</b> )	
Fund facilities	<b>1.72 to 2.40</b>	1.39 to 1.72
Other credit schemes	<b>0.5</b>	0.5

## **26. OTHER LIABILITIES**

### **Foreign currency**

		( <b>Rupees in '000</b> )	
Amounts due to financial institutions under currency swap arrangements	<i>19.1</i>	<b>2,685,825</b>	2,617,115
Accrued interest and discount on deposits		<b>463,941</b>	243,021
Charges on allocation of Special Drawing Rights of IMF		<b>62,372</b>	42,000
Others		<b>14,557</b>	4,603
		<b>3,226,695</b>	2,906,739

### **Local currency**

Overdue mark-up and return		<b>3,512,589</b>	3,444,098
Unearned exchange risk fee		<b>12,328</b>	12,183
Remittance clearance account		<b>556,497</b>	607,501
Exchange loss payable under exchange risk coverage scheme		<b>5,217</b>	45,721
Balance payable to the Government of Pakistan		<b>3,935,947</b>	-
Share of loss under profit and loss sharing arrangements		<b>-</b>	3,274,752
Dividend payable		<b>10,000</b>	10,000
Payable to Government in respect of privatisation proceeds		<b>2,929,066</b>	2,929,066
Other accruals and provisions	<i>26.1</i>	<b>4,207,554</b>	1,949,340
Others		<b>3,077,625</b>	3,147,041
		<b>18,246,823</b>	15,419,702
		<b>21,473,518</b>	18,326,441

### **26.1 Other accruals and provisions**

Interest payable		<b>18,201</b>	18,451
Printing charges		<b>173,138</b>	10,064
Agency commission		<b>418,469</b>	362,115
Provision for employees' compensated absences	<i>41.6</i>	<b>368,000</b>	322,000
Provision for other doubtful assets		<b>1,551,419</b>	-
Other provisions	<i>26.2</i>	<b>1,205,895</b>	1,124,308
Others		<b>472,432</b>	112,402
		<b>4,207,554</b>	1,949,340

26.2 Movement of other provisions	2005	2004
	(Rupees in '000)	
Opening balance	1,124,308	400,000
Provision during the year	110,400	1,267,019
Reversed during the year	(28,813)	(542,711)
Closing balance	<u>1,205,895</u>	<u>1,124,308</u>

	Home remittance	Agriculture loan	Others (note 26.2.1)	Total
----- (Rupees in '000) -----				
Opening balance	150,000	232,289	742,019	1,124,308
Provision during the year	110,363	-	37	110,400
Reversed during the year	-	(28,813)	-	(28,813)
Closing balance	<u>260,363</u>	<u>203,476</u>	<u>742,056</u>	<u>1,205,895</u>

26.2.1 This represents provision made against various contingencies comprising litigation against the Bank.

27. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS	2005	2004
	(Rupees in '000)	
Gratuity	15,471	22,471
Pension	2,961,000	2,991,000
Benevolent fund scheme	239,000	247,000
Post retirement medical benefits	164,000	124,000
	<i>41.4.3</i>	
Provident fund scheme	<u>3,379,471</u>	<u>3,384,471</u>
	<u>164,498</u>	<u>148,942</u>
	<u>3,543,969</u>	<u>3,533,413</u>

## 28. DEFERRED INCOME

Opening balance	286,195	415,106
Grants received during the year	220,402	6,579
Amortisation during the year	(92,536)	(135,490)
Closing balance	<u>414,061</u>	<u>286,195</u>

This represents grant received for capital expenditure and, as indicated in note 2.11 to these financial statements, is being amortised over the useful lives of the related assets.

## 29. SHARE CAPITAL

Number of shares		2005	2004
<b>Authorised share capital</b>			
<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
<b>Issued, subscribed and paid-up capital</b>			
<u>1,000,000</u>	Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>

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

### 30. RESERVES

#### 30.1 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.

#### 30.2 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.

31. UNREALISED APPRECIATION ON GOLD RESERVES	2005 (Rupees in '000)	2004
Opening balance	45,205,621	38,883,231
Appreciation on revaluation during the year:		
- held by the Bank	3 6,337,889	6,221,047
- held with the Reserve Bank of India	12 103,083	101,343
	6,440,972	6,322,390
	<u>51,646,593</u>	<u>45,205,621</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.

### 32. CONTINGENCIES AND COMMITMENTS

#### 32.1 Contingencies

a) Contingent liability in respect of guarantees given on behalf of:		
i) Government	23,406,428	32,059,794
ii) Government owned / controlled bodies and authorities	104,019,357	73,620,783
	<u>127,425,785</u>	<u>105,680,577</u>

Above guarantees 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. 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.

c) A claim of Rs. 1,600 million has been lodged against the Bank which has not been acknowledged by the Bank. The Bank has a counter claim of Rs. 493 million. With the mutual agreement of both the parties, matter has been referred to the Arbitrator. Management is confident that the Bank will not incur any liability on this account; as such no provision has been made against the claim.

d) Other claims against the Bank not acknowledged as debts	<u>685,603</u>	<u>702,624</u>
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<b>32.2 Commitments</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Forward exchange contracts - sales	<b>78,643,672</b>	35,140,553
Forward exchange contracts - purchases	<b>58,229,197</b>	13,253,350
Repurchase and outright sale of securities	<b>1,258,632</b>	69,740,400
Import letters of credit	<b>81,205,385</b>	82,306,585
ESAF commitment with IMF	<b>173,528</b>	227,081
<b>33. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED</b>		
Market Treasury Bills - net	<b>9,876,465</b>	1,714,976
Other Government securities	<b>255,845</b>	439,911
Loans and advances to Government	<b>997,720</b>	358,734
Share of profit on finances under profit and loss sharing arrangements	<b>3,578,551</b>	2,210,247
Foreign currency deposits	<b>9,245,706</b>	6,067,452
Foreign currency securities	<b>5,778,084</b>	911,286
Others	<b>989</b>	5,885
	<b><u>29,733,360</u></b>	<b><u>11,708,491</u></b>
<b>34. INTEREST / MARK-UP EXPENSE</b>		
Deposits	<b>2,235,276</b>	1,346,406
Share of loss on finances under profit and loss sharing arrangements	-	3,815,121
Others	<b>48,832</b>	40,564
	<b><u>2,284,108</u></b>	<b><u>5,202,091</u></b>
<b>35. COMMISSION INCOME</b>		
Market Treasury Bills	<b>103,373</b>	50,885
Draft / payment orders	<b>284,216</b>	238,509
Prize Bonds and National Saving Certificates	<b>149,410</b>	119,171
Management of public debts	<b>66,343</b>	68,238
Others	<b>89,616</b>	19,651
	<b><u>692,958</u></b>	<b><u>496,454</u></b>
<b>36. EXCHANGE GAIN - net</b>		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	<b>15,815,128</b>	3,372,849
- Open market operations (including currency swap arrangements)	<b>185,266</b>	(38,963)
- Forward covers under Exchange Risk Coverage Scheme	<b>(360,255)</b>	(156,485)
- Payable to the International Monetary Fund (IMF)	<b>(2,240,929)</b>	(3,853,758)
- Special Drawing Rights of IMF	<b>297,653</b>	669,601
- Others	<b>(123,712)</b>	424,750
	<b><u>13,573,151</u></b>	<b><u>417,994</u></b>
Exchange risk fee income	<b>254,562</b>	337,178
	<b><u>13,827,713</u></b>	<b><u>755,172</u></b>

<b>37. PROFIT TRANSFERRED FROM SUBSIDIARIES</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees' 000)</b>	
SBP Banking Services Corporation	<b>28,618</b>	26,135
National Institute of Banking and Finance (Guarantee) Limited	<b>22,765</b>	16,706
	<b><u>51,383</u></b>	<b><u>42,841</u></b>

The above represents the net profit of subsidiaries for the year ended June 30, 2005 transferred to the Bank in accordance with the arrangements mentioned in note 41.3.

**38. OTHER OPERATING INCOME- net**

Penalties levied on banks and financial institutions	<b>444,416</b>	360,677
License / Credit Information Bureau fee recovered	<b>26,807</b>	1,966
Profit on sale of securities	<b>399,537</b>	-
Gain / (loss) on remeasurement of securities	<b>(543,336)</b>	-
Others	<b>480</b>	5,181
	<b><u>327,904</u></b>	<b><u>367,824</u></b>

**39. NOTE PRINTING CHARGES**

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

**40. AGENCY COMMISSION**

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15% (2004: 0.15%) of the total amount of collection and remittances handled by NBP.

<b>41. GENERAL ADMINISTRATIVE AND OTHER EXPENSES</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Salaries, wages and other benefits	<b>656,925</b>	580,468
Retirement benefits and employees' compensated absences	<b>468,325</b>	1,582,008
Contribution to SBP Employees' Welfare Trust	<b>10,000</b>	-
Rent and taxes	<b>15,505</b>	23,621
Insurance	<b>4,082</b>	3,285
Electricity, gas and water charges	<b>12,480</b>	15,323
Depreciation	<i>17.1</i> <b>347,629</b>	380,593
Amortisation of intangible assets	<b>45,363</b>	10,753
Repairs and maintenance	<b>88,941</b>	24,406
Auditors' remuneration	<i>41.7</i> <b>1,450</b>	1,245
Legal and professional charges	<b>288,222</b>	55,844
Traveling and recreation expenses	<b>38,445</b>	35,592
Daily expenses	<b>29,840</b>	29,825
Fuel charges	<b>5,606</b>	5,281
Conveyance charges	<b>5,063</b>	3,039
Postages, telegram / telex and telephone	<b>64,776</b>	43,496
Training	<b>6,174</b>	7,179
Examination/ testing services	<b>66</b>	1,249
Remittance of treasure	<b>979</b>	1,001
Stationery	<b>8,802</b>	12,594
Books and newspapers	<b>8,536</b>	5,062
Advertisement	<b>5,361</b>	2,930
Uniforms	<b>1,957</b>	1,987
Others	<b>37,676</b>	38,775
	<b>2,152,203</b>	2,865,556
Expenses allocated by:		
- SBP Banking Services Corporation	<i>41.1</i> <b>963,403</b>	821,202
- National Institute of Banking and Finance (Guarantee) Limited	<b>2,960</b>	3,196
	<b>966,363</b>	824,398
Expenses reimbursed to:		
- SBP Banking Services Corporation	<i>41.2</i> <b>2,612,607</b>	2,340,526
- National Institute of Banking and Finance (Guarantee) Limited	<b>48,464</b>	42,754
	<b>2,661,071</b>	2,383,280
	<b>5,779,637</b>	6,073,234

#### **41.1 Expenses allocated by SBP Banking Services Corporation**

Retirement benefits and employees' compensated absences	<b>916,679</b>	794,556
Depreciation	<b>46,724</b>	26,646
	<b>963,403</b>	821,202

<b>41.2 Expenses reimbursed to SBP Banking Services Corporation</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Salaries, wages and other benefits	<b>2,279,555</b>	2,022,629
Rent and taxes	<b>6,199</b>	5,857
Insurance	<b>1,376</b>	1,142
Electricity, gas and water charges	<b>94,439</b>	96,099
Repairs and maintenance	<b>9,698</b>	6,466
Auditors' remuneration	<b>1,750</b>	1,500
Legal and professional charges	<b>2,776</b>	2,237
Traveling expenses	<b>3,856</b>	6,154
Daily expenses	<b>7,113</b>	10,019
Recreation allowance	<b>60,573</b>	57,022
Fuel charges	<b>2,057</b>	2,194
Conveyance charges	<b>2,802</b>	3,145
Postage and telephone	<b>10,280</b>	12,627
Training	<b>12,892</b>	-
Remittance of treasure	<b>30,994</b>	30,772
Stationery	<b>6,396</b>	8,430
Books and newspapers	<b>874</b>	2,340
Advertisement	<b>354</b>	1,612
Bank guards	<b>51,510</b>	34,733
Uniforms	<b>3,201</b>	14,151
Others	<b>23,912</b>	21,397
	<b><u>2,612,607</u></b>	<b><u>2,340,526</u></b>

**41.3** 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, 2005, as mentioned in note 37, 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.

#### **41.4 Staff retirement benefits**

- 41.4.1** As mentioned in note 2.10, 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, 2005 under the projected Unit Credit Method using following significant assumptions:

- Expected rate of increase in salary 9.5 (2004: 5.94) percent per annum
- Expected rate of discount 11.6 (2004: 8.00) percent per annum
- Medical cost increase 6.3 (2004: 2.86) percent per annum

#### 41.4.2 Present value of the obligations

Present values of obligations under the retirement benefit schemes and liabilities recognised there against for the past services of the employees at June 30, 2005 based on actuarial valuation as of that date was as follows:

	<b>2005</b>		
	<b>Present value of the defined benefit obligation</b>	<b>Unrecognised actuarial gain / (loss)</b>	<b>Provision made in respect of the staff retirement benefits</b>
	----- (Rupees in '000) -----		
Gratuity	18,000	(2,000)	16,000
Pension	3,482,000	(521,000)	2,961,000
Benevolent	381,000	(142,000)	239,000
Post retirement medical benefits	1,415,000	(1,261,000)	154,000
	<u>5,296,000</u>	<u>(1,926,000)</u>	<u>3,370,000</u>

41.4.3 The following is a movement in the net recognised liability in respect of the defined benefit schemes

	<b>Net recognised liability at 1 July 2004</b>	<b>Charge for the year (note 41.5)</b>	<b>Payments during the year</b>	<b>Employees contribution</b>	<b>Net liability at 30 June 2005</b>
	----- (Rupees in '000) -----				
Gratuity	22,471	(1,000)	(6,000)	-	15,471
Pension	2,991,000	282,000	(312,000)	-	2,961,000
Benevolent	247,000	42,000	(52,000)	2,000	239,000
Post retirement medical benefits	124,000	126,000	(86,000)	-	164,000
	<u>3,384,471</u>	<u>449,000</u>	<u>(456,000)</u>	<u>2,000</u>	<u>3,379,471</u>

#### 41.5 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:

	2005				Total
	Current service cost	Interest cost	Actuarial (gain) / loss recognised	Employees contributions	
----- (Rupees in '000) -----					
Gratuity	-	1,000	(2,000)	-	(1,000)
Pension	44,000	233,000	5,000	-	282,000
Benevolent	6,000	29,000	9,000	(2,000)	42,000
Post retirement medical benefits	5,000	72,000	49,000	-	126,000
	<u>55,000</u>	<u>335,000</u>	<u>61,000</u>	<u>(2,000)</u>	<u>449,000</u>

#### 41.6 Employees' compensated absences

As at June 30, 2005, the Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 368 million (2004: Rs. 322 million). An amount of Rs. 46 million (2004: 40 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

#### 41.7 Auditors' remuneration

	Taseer Hadi Khalid & Co.	M. Yousuf Adil Saleem & Co.	2005	2004
	----- (Rupees in '000) -----			
<b>State Bank of Pakistan</b>				
Audit fee	625	625	1,250	1,000
Special certifications / examinations and sundry advisory services	-	-	-	45
Out of pocket expenses	100	100	200	200
	<u>725</u>	<u>725</u>	<u>1,450</u>	<u>1,245</u>
<b>SBP Banking Services Corporation</b>				
Audit fee	625	625	1,250	1,000
Out of pocket expenses	250	250	500	500
	<u>875</u>	<u>875</u>	<u>1,750</u>	<u>1,500</u>
	<u>1,600</u>	<u>1,600</u>	<u>3,200</u>	<u>2,745</u>

<b>42. OTHER INCOME</b>	<b>2005</b>	<b>2004</b>
	<b>(Rupees in '000)</b>	
Gain on disposal of property, plant and equipment	<b>499,898</b>	148,716
Liabilities and provisions written back - net	-	275
Gain on disposal of investments	<i>42.1</i> <b>3,559,403</b>	6,928,678
Amortisation of deferred income	<i>28</i> <b>92,536</b>	135,490
Others	<b>25,045</b>	11,587
	<b><u>4,176,882</u></b>	<b><u>7,224,746</u></b>
<b>42.1</b> This includes Rs. 3,587.239 million (2004: Rs. 6,086.171 million) in respect of the gain realised during the year on disposal of 12.5% (2004: 26%) of HBL's total paid-up capital to the Aga Khan Fund for Economic Development S.A., as mentioned in detail in note 10.3.4.		
<b>43. OTHER CHARGES</b>		
Charges on allocation of Special Drawing Rights	<b>335,194</b>	227,295
Others	<b>15</b>	320,816
	<b><u>335,209</u></b>	<b><u>548,111</u></b>
<b>44. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS</b>		
Profit for the year	<b>31,049,236</b>	6,108,498
Adjustments for:		
Depreciation	<b>347,629</b>	380,593
Amortisation of intangible assets	<b>45,363</b>	10,753
Amortisation of deferred income	<b>(92,536)</b>	(135,490)
Provision for:		
- retirement benefits and employees' compensated absences	<b>467,972</b>	1,582,008
- loans, advances and other assets	<b>4,687,861</b>	566,906
- share of loss / (profit) under profit and loss sharing arrangements	-	5,303,335
- investments	<b>395,129</b>	-
- other doubtful assets	<b>1,551,419</b>	-
Gain on disposal of property, plant and equipment	<b>(499,898)</b>	(148,716)
Dividend income	<b>(1,502,639)</b>	(1,422,058)
Other accruals and provisions - net	<b>3,272,502</b>	2,002,340
	<b><u>39,722,038</u></b>	<b><u>14,248,169</u></b>
<b>45. CASH AND CASH EQUIVALENTS</b>		
Local currency	<b>3,106,831</b>	2,959,993
Foreign currency reserves	<b>609,286,705</b>	629,731,918
Earmarked foreign currency balances	<b>11,937,000</b>	3,780,277
Special Drawing Rights of International Monetary Fund	<b>13,569,242</b>	13,826,690
	<b><u>637,899,778</u></b>	<b><u>650,298,878</u></b>

#### 46. 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:

	2005						(Rupees in '000)
	Interest/ mark-up bearing			Non interest/ mark-up bearing			
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	
<b>Financial assets</b>							
Local currency (including rupee coins)	-	-	-	3,106,831	-	3,106,831	3,106,831
Foreign currency reserves	602,006,472	2,150,157	604,156,629	7,463,400	407,072	7,870,472	612,027,101
Earmarked foreign currency balances	11,937,000	-	11,937,000	-	-	-	11,937,000
Special Drawing Rights of International Monetary Fund	13,569,242	-	13,569,242	-	-	-	13,569,242
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	10,315	-	10,315	10,315
Securities purchased under an agreement to resale	9,115,549	-	9,115,549	-	-	-	9,115,549
Current account of the Government of Balochistan	-	-	-	2,114,045	-	2,114,045	2,114,045
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	1,521	-	1,521	1,521
Investments	328,454,605	2,740,000	331,194,605	-	29,947,165	29,947,165	361,141,770
Loans, advances and bills of exchange	72,871,678	17,688,000	90,559,678	62,546,299	65,986,321	128,532,620	219,092,298
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	592,891	592,891	592,891
Assets held with the Reserve Bank of India	-	375,791	375,791	-	-	-	375,791
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	3,221,784	3,221,784	-	-	-	3,221,784
Other assets	-	-	-	6,030,508	1,769,463	7,799,971	7,799,971
	<u>1,037,954,546</u>	<u>26,175,732</u>	<u>1,064,130,278</u>	<u>81,272,919</u>	<u>98,702,912</u>	<u>179,975,831</u>	<u>1,244,106,109</u>
<b>Financial liabilities</b>							
Bank notes in circulation	-	-	-	3,941,642	701,924,066 *	705,865,708	705,865,708
Bills payable	-	-	-	1,099,683	-	1,099,683	1,099,683
Current accounts of the Government	-	-	-	104,917,734	-	104,917,734	104,917,734
Securities sold under an agreement to repurchase	1,208,613	-	1,208,613	-	-	-	1,208,613
Current account with subsidiaries	3,455,805	-	3,455,805	-	-	-	3,455,805
Deposits of banks and financial institutions	-	30,005,462	30,005,462	79,687,556	86,619,251	166,306,807	196,312,269
Other deposits and accounts	51,815,966	-	51,815,966	34,806,120	-	34,806,120	86,622,086
Payable to International Monetary Fund	8,586,565	88,067,416	96,653,981	-	-	-	96,653,981
Other liabilities	-	-	-	13,032,737	5,303,139	18,335,876	18,335,876
	<u>65,066,949</u>	<u>118,072,878</u>	<u>183,139,827</u>	<u>237,485,472</u>	<u>793,846,456</u>	<u>1,031,331,928</u>	<u>1,214,471,755</u>
<b>On balance sheet gap</b>	<u>972,887,597</u>	<u>(91,897,146)</u>	<u>880,990,451</u>	<u>(156,212,553)</u>	<u>(695,143,544)</u>	<u>(851,356,097)</u>	<u>29,634,354</u>

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

### 46.1 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 46.1.1 to 46.1.4. 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.

#### 46.1.1 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.



#### **46.1.2 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.

#### **46.1.3 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.

#### **46.1.4 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.

#### **46.2 Portfolio risk management**

The Bank has appointed external managers to invest a part of the foreign exchange reserves in international fixed income securities. The external managers are selected after conducting a thorough due diligence by the Bank and externally hired investment consultants, and appointed after the approval of the Board. The mandates awarded to the managers require them to outform the benchmarks which are based on fixed income global aggregate indices. The benchmarks are customized to exclude certain securities, currencies, and maturities to bring it to an acceptable level of risk and within the Bank's approved risk appetite. Managers are provided investment guidelines within which they have to generate excess returns over the benchmark. Such investment guidelines define acceptable level of risk by setting levels and permitting types of fixed income securities, duration, currencies, maximum issuer limits by issuer types and credit ratings, and other risk parameters. The volatility and quality of portfolio performance is managed through ex-ante and ex-post tracking error, and information ratio, which is part of the investment guidelines. Safe custody of the portfolio is provided through carefully selected global custodians who are independent of the portfolio managers. The custodians also provide valuation, compliance, corporate actions, tax reclamation and recovery, and other value added services which are typically provided by such custodians. The valuations provided by the custodians are reconciled with the portfolio managers, and recorded accordingly.

### 46.3 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 and certain fixed assets which were revalued in the year 2001, is estimated to approximate their carrying values.

### 47. PROFORMA INFORMATION

Restated proforma information as referred in note 2.5 of the financial statements is presented below:

#### 47.1 Extract of the profit and loss account

	For the year ended		Restated	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Discount, interest / mark-up and / or return earned	29,733,360	11,708,491	29,720,865	11,720,986
Interest / mark-up expense	2,284,108	5,202,091	2,284,108	5,202,091
	<u>27,449,252</u>	<u>6,506,400</u>	<u>27,436,757</u>	<u>6,518,895</u>
Commission income	692,958	496,454	692,958	496,454
Exchange gain - net	13,827,713	755,172	13,796,322	786,563
Dividend income	1,502,639	1,422,058	1,502,639	1,422,058
Profit transferred from subsidiaries	51,383	42,841	51,383	42,841
Other operating income	327,904	367,824	332,387	363,341
	<u>43,851,849</u>	<u>9,590,749</u>	<u>43,812,446</u>	<u>9,630,152</u>
Direct operating expenses	10,864,649	4,085,652	10,864,649	4,085,652
	<u>32,987,200</u>	<u>5,505,097</u>	<u>32,947,797</u>	<u>5,544,500</u>
General administrative and other expenses	5,779,637	6,073,234	5,779,637	6,073,234
	<u>27,207,563</u>	<u>(568,137)</u>	<u>27,168,160</u>	<u>(528,734)</u>
<b>OPERATING PROFIT / (LOSS)</b>	<b>27,207,563</b>	<b>(568,137)</b>	<b>27,168,160</b>	<b>(528,734)</b>
Other income	4,176,882	7,224,746	4,176,882	7,224,746
	<u>31,384,445</u>	<u>6,656,609</u>	<u>31,345,042</u>	<u>6,696,012</u>
Other charges	335,209	548,111	335,209	548,111
<b>NET PROFIT FOR THE YEAR</b>	<b>31,049,236</b>	<b>6,108,498</b>	<b>31,009,833</b>	<b>6,147,901</b>

#### 47.2 Extract of the statement of unappropriated profit

	For the year ended		Restated	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	(Rupees in '000)			
Opening unappropriated profit as previously reported	-	-	39,403	-
Profit for the year	31,049,236	6,108,498	31,009,833	6,147,901
Appropriations	432,825	102,444	432,825	102,444
Unappropriated profit and loss restated	31,482,061	6,210,942	31,482,061	6,250,345
Balance transferable/ transferred to the Government	(21,422,061)	(6,210,942)	(21,422,061)	(6,210,942)
Unappropriated profit	<u>10,060,000</u>	<u>-</u>	<u>10,060,000</u>	<u>39,403</u>

<b>48. NUMBER OF EMPLOYEES</b>	<b>2005</b>	2004
Number of employees at June 30,	<u><b>1,351</b></u>	<u>1,275</u>

**49. DATE OF AUTHORISATION**

These financial statements were authorised for issue on August 30, 2005 by the Central Board of Directors of the Bank.

**50. GENERAL**

Figures have been rounded off to the nearest thousand rupees.

\_\_\_\_\_  
**Ishrat Husain**  
**Governor**

\_\_\_\_\_  
**Mansur-ur-Rehman Khan**  
**Deputy Governor**

\_\_\_\_\_  
**Aftab Mustafa Khan**  
**Director Accounts**



# **16** **Financial Statements of SBP BSC**

**M. YOUSUF ADIL SALEEM & CO.  
CHARTERED ACCOUNTANTS  
CAVISH COURT  
A-35, BLOCK 7 & 8, KCSHU  
SHAHRAH-E-FAISAL  
KARACHI**

**TASEER HADI KHALID & CO.  
CHARTERED ACCOUNTANTS  
1<sup>ST</sup> 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, 2005 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, 2005 and of the profit, its cash flows and changes in equity for the year then ended.

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**M. Yousuf Adil Saleem & Co.  
Chartered Accountants  
Karachi  
Date : 30 Aug 2005**

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**Taseer Hadi Khalid & Co.  
Chartered Accountants  
Karachi  
Date : 30 Aug 2005**

# SBP Banking Services Corporation

## Balance Sheet

As at June 30, 2005

	<i>Note</i>	<b>2005</b>	2004
		<b>(Rupees in '000)</b>	
<b>ASSETS</b>			
Investments	3	<b>933,506</b>	896,429
Employee loans and advances		<b>5,161,827</b>	4,167,674
Other assets		<b>70,706</b>	5,682
Balance in current account with the State Bank of Pakistan		<b>3,445,805</b>	3,065,457
Property, plant and equipment	4	<b>157,245</b>	92,109
<b>Total assets</b>		<b>9,769,089</b>	8,227,351
<b>LIABILITIES</b>			
Other liabilities	5	<b>2,533,099</b>	1,609,443
Deferred liabilities - staff retirement benefits	6	<b>6,235,990</b>	5,617,908
<b>Total liabilities</b>		<b>8,769,089</b>	7,227,351
<b>Net assets</b>		<b>1,000,000</b>	1,000,000
<b>REPRESENTED BY:</b>			
<b>Share capital</b>	7	<b>1,000,000</b>	1,000,000

The annexed notes 1 to 13 form an integral part of these financial statements.

\_\_\_\_\_  
**Liaqat Durrani**  
**Managing Director**

\_\_\_\_\_  
**Taslim Kazi**  
**Director Accounts**

# SBP Banking Services Corporation

## Profit and Loss Account

For the year ended June 30, 2005

	Note	2005	2004
		(Rupees in '000)	
Discount and interest earned	8	24,289	12,600
Net operating expenses - establishment costs	9		
Total expenses		<b>3,576,011</b>	3,161,728
Reimbursed by the State Bank of Pakistan		<b>(2,612,611)</b>	(2,340,526)
Allocated to the State Bank of Pakistan		<b>(963,400)</b>	(821,202)
		-	-
Gain on disposal of fixed assets		4,329	13,535
<b>BALANCE PROFIT TRANSFERRED TO THE STATE BANK OF PAKISTAN</b>		<b>28,618</b>	26,135

The annexed notes 1 to 13 form an integral part of these financial statements.

\_\_\_\_\_  
**Liaqat Durrani**  
Managing Director

\_\_\_\_\_  
**Taslim Kazi**  
Director Accounts



# SBP Banking Services Corporation

## Cash Flow Statement

For the year ended June 30, 2005

	<i>Note</i>	<b>2005</b>	2004
		<b>(Rupees in '000)</b>	
<b>Cash flow from operating activities</b>			
Loss after non-cash items	<i>10</i>	<b>(1,640,589)</b>	(1,506,304)
Expenses reimbursed by the State Bank of Pakistan		<b>2,612,611</b>	2,340,526
Balance profit transferred to the State Bank of Pakistan		<b>(28,618)</b>	(26,135)
Retirement benefits and employees' compensated absences paid		<b>(52,594)</b>	(775,975)
Discount income received		<b>18,590</b>	13,497
		<b>909,400</b>	45,609
(Increase) in assets			
- Loans to employees		<b>(994,153)</b>	(252,730)
- Other assets		<b>(65,024)</b>	(3,253)
Increase in liabilities			
- Other liabilities - net		<b>677,656</b>	23,758
Net cash from / (used to) operating activities		<b>527,879</b>	(186,616)
<b>Cash flow from investing activities</b>			
Fixed capital expenditure		<b>(115,538)</b>	(46,603)
Investment made		<b>(40,000)</b>	(384,507)
Proceeds from disposal of fixed assets		<b>8,007</b>	1,251
Net cash (used to) investing activities		<b>(147,531)</b>	(429,859)
Net increase / (decrease) in cash and cash equivalents		<b>380,348</b>	(616,475)
Cash and cash equivalents at beginning of the year		<b>3,065,457</b>	3,681,932
Cash and cash equivalents at end of the year		<b>3,445,805</b>	3,065,457

The annexed notes 1 to 13 form an integral part of these financial statements.

\_\_\_\_\_  
**Liaqat Durrani**  
**Managing Director**

\_\_\_\_\_  
**Taslim Kazi**  
**Director Accounts**

**SBP Banking Services Corporation**  
**Statement of Changes in Equity**  
*For the year ended June 30, 2005*

	<b>Share capital</b>	<b>Profit and loss account</b>	<b>Total</b>
	----- (Rupees in '000) -----		
Balance as at June 30, 2003	1,000,000	-	1,000,000
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>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Profit for the year ended June 30, 2005	-	28,618	28,618
Balance profit transferred to the State Bank of Pakistan	-	(28,618)	(28,618)
Balance as at June 30, 2005	<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

The annexed notes 1 to 13 form an integral part of these financial statements.

\_\_\_\_\_  
**Liaqat Durrani**  
**Managing Director**

\_\_\_\_\_  
**Taslim Kazi**  
**Director Accounts**

# SBP Banking Services Corporation

## Notes to the Financial Statements

*For the year ended June 30, 2005*

### **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.

#### **2.2 Accounting convention**

These financial statements have been prepared under the historical cost convention.

### **2.3 Investments**

Investment in Government securities are stated at cost less impairment, if any. The cost of securities is adjusted for any amortisation of premiums on a straight-line basis over the period of maturity.

### **2.4 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses while capital work-in-progress is stated at cost.

Depreciation on property, plant and equipment is charged to profit and loss account applying the straight-line method whereby the cost of an asset is written off over its estimated useful life.

Depreciation on additions is charged to the profit and loss account 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, the 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.

### 3. INVESTMENTS

		2005	2004
		(Rupees in '000)	
<b>Government securities</b>			
Market Treasury Bills	3.1	549,000	511,923
Pakistan Investment Bonds	3.2	384,506	384,506
		<u>933,506</u>	<u>896,429</u>

3.1 Market Treasury Bills carry mark-up at the rate of 5.7 percent per annum (2004: 2.0 percent per annum) and is due to maturity on March 2005.

3.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 percent per annum (2004: 8.0 percent per annum) and is due to mature in 2013.

### 4. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets	4.1	147,910	74,933
Capital work-in-progress	4.2	9,335	17,176
		<u>157,245</u>	<u>92,109</u>

#### 4.1 Operating fixed assets

The following is a statement of operating assets:

	Cost at July 1, 2004	Additions / (deletions) during the year	Cost at June 30, 2005	Accumulated depreciation at July 1, 2004	Charge for the year / (accumulated depreciation on deletions)	Accumulated depreciation at June 30, 2005	Net book value at June 30, 2005	Annual rate of depreciation %
----- (Rupees in '000) -----								
Furniture and fixtures	27,366	5,155 (2,716)	29,805	9,650	3,848 (826)	12,672	17,133	10
Office equipment	195,363	61,916 (50,335)	206,944	158,063	20,638 (50,335)	128,366	78,578	20
EDP equipment	36,887	54,352 (112)	91,127	27,653	20,038 (57)	47,634	43,493	33.33
Motor vehicles	13,352	1,956 (3,465)	11,843	2,669	2,200 (1,732)	3,137	8,706	20
<b>2005</b>	<b>272,968</b>	<b>123,379 (56,628)</b>	<b>339,719</b>	<b>198,035</b>	<b>46,724 (52,950)</b>	<b>191,809</b>	<b>147,910</b>	
<b>2004</b>	<b>243,321</b>	<b>31,530 (1,883)</b>	<b>272,968</b>	<b>172,536</b>	<b>26,646 (1,147)</b>	<b>198,035</b>	<b>74,933</b>	

<b>4.2</b>	<b>Capital work-in-progress</b>	<b>2005</b>	<b>2004</b>
		<b>(Rupees in '000)</b>	
	Furniture and fixtures	3,705	9,398
	Office equipment	3,887	7,598
	EDP equipment	1,743	180
		<u>9,335</u>	<u>17,176</u>
<b>5.</b>	<b>OTHER LIABILITIES</b>		
	Accruals and provisions	1,934,282	1,419,834
	Others	598,817	189,609
		<u>2,533,099</u>	<u>1,609,443</u>
<b>5.1</b>	<b>Accruals and provisions</b>		
	Provision for employees' compensated absences	1,663,000	1,417,000
	Others	271,282	2,834
		<u>1,934,282</u>	<u>1,419,834</u>
<b>6.</b>	<b>DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS</b>		
	Gratuity	71,000	84,108
	Pension	4,436,000	3,989,000
	Benevolent fund scheme	627,000	567,000
	Post retirement medical benefits	277,000	220,000
		<u>5,411,000</u>	<u>4,860,108</u>
	Provident fund scheme	824,990	757,800
		<u>6,235,990</u>	<u>5,617,908</u>
<b>7.</b>	<b>SHARE CAPITAL</b>		
	<b>Number of shares</b>		
	<b>2005</b>	<b>2004</b>	
	<b>1,000</b>	<b>1,000</b>	
			<b>Authorised share capital</b>
			Ordinary shares of Rs 1,000,000 each
			<u>1,000,000</u>
			<u>1,000,000</u>
			<b>Issued, subscribed and paid-up capital</b>
			Fully paid-up ordinary shares of
			Rs 1,000,000 each
			<u>1,000,000</u>
			<u>1,000,000</u>

8. Discount and interest earned	2005	2004
	(Rupees in '000)	
Discount on Government securities	15,667	12,600
Interest on staff loans	7,646	13,020
Others	976	-
	<u>24,289</u>	<u>25,620</u>
9. NET OPERATING EXPENSES - ESTABLISHMENT COSTS		
<b>Reimbursable from the State Bank of Pakistan</b>		
Salaries, wages and other benefits	2,279,552	2,022,629
Rent and taxes	6,200	5,857
Insurance	1,378	1,142
Electricity, gas and water charges	94,440	96,099
Repair and maintenance	9,699	6,466
Auditors' remuneration	9.5 1,750	1,500
Legal and professional charges	2,776	2,237
Travelling expenses	3,855	6,154
Daily expenses	7,112	10,019
Passages	60,574	57,022
Fuel charges	2,056	2,194
Conveyance charges	2,803	3,145
Postages, telegram /telex and telephone	10,563	12,627
Training	12,891	-
Remittance of treasure	30,993	30,772
Stationery	6,395	8,430
Books and newspapers	874	2,340
Advertisement	354	1,612
Bank guards	39,036	34,733
Uniforms	15,675	14,151
Others	23,635	21,397
	<u>2,612,611</u>	<u>2,340,526</u>
<b>Allocable to the State Bank of Pakistan</b>		
Retirement benefits and employees' compensated absences	916,676	794,556
Depreciation	4.1 46,724	26,646
	<u>963,400</u>	<u>821,202</u>
	<u>3,576,011</u>	<u>3,161,728</u>

9.1 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, 2005:

	Percent per annum
- Expected rate of increase in salary level	9.50%
- Expected rate of discount	11.60%
- Medical cost trend	6.30%



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

	<b>Recognised liability as at June 30, 2004</b>	<b>Charge for the year</b>	<b>Payments during the year</b>	<b>Recognised liability as at June 30, 2005</b>
	------(Rupees in '000)-----			
Gratuity	84,108	4,000	17,108	71,000
Pension	3,989,000	498,000	51,000	4,436,000
Benevolent fund scheme	567,000	64,000	4,000	627,000
Post retirement medical benefits	220,000	81,000	24,000	277,000
	<u>4,860,108</u>	<u>647,000</u>	<u>96,108</u>	<u>5,411,000</u>

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:

	<b>Present value of the defined benefit obligation</b>	<b>Provision made in respect of retirement benefits</b>	<b>Unrecognised actuarial gain / (loss)</b>
	------(Rupees in '000)-----		
Gratuity	74,000	71,000	(3,000)
Pension	4,765,000	4,436,000	(329,000)
Benevolent fund scheme	627,000	627,000	-
Post retirement medical benefits	806,000	277,000	(529,000)
	<u>6,272,000</u>	<u>5,411,000</u>	<u>(861,000)</u>

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

	<b>Current service cost</b>	<b>Actuarial gain</b>	<b>Interest cost</b>	<b>Total</b>
	------(Rupees in '000)-----			
Gratuity	2,000	(3,000)	5,000	4,000
Pension	173,000	4,000	321,000	498,000
Benevolent fund scheme	28,000	(9,000)	45,000	64,000
Post retirement medical benefits	24,000	19,000	38,000	81,000
	<u>227,000</u>	<u>11,000</u>	<u>409,000</u>	<u>647,000</u>

#### 9.4 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2005 using the Projected Unit Credit Method. An amount of Rs. 249 million (2004: Rs. 141 million) has been charged to the profit and loss account in this respect based on actuarial recommendations.

	M. Yousuf Adil Saleem & Co.	Taseer Hadi Khalid & Co.	2005	2004
<b>9.5 Auditors' remuneration</b>				
	----- (Rupees in '000) -----			
Audit fee	625	625	1,250	1,000
Out of pocket expenses	250	250	500	500
	<u>875</u>	<u>875</u>	<u>1,750</u>	<u>1,500</u>

#### 10. LOSS AFTER NON-CASH ITEMS

Net profit for the year	28,618	26,135
Expenses reimbursed by the State Bank of Pakistan	(2,612,611)	(2,340,526)
Expenses allocated to the State Bank of Pakistan	<u>(963,400)</u>	<u>(821,202)</u>
	<u>(3,547,393)</u>	<u>(3,135,593)</u>
Adjustments for:		
Depreciation	46,724	26,646
Provision for retirement benefits and employees' compensated absences	916,676	794,556
Expenses allocated to the State Bank of Pakistan	963,400	821,202
Discount on Government securities	(15,667)	(12,600)
Profit on disposal of fixed assets	<u>(4,329)</u>	<u>(515)</u>
	<u>1,906,804</u>	<u>1,629,289</u>
	<u>(1,640,589)</u>	<u>(1,506,304)</u>

#### 11. FINANCIAL ASSETS AND LIABILITIES

	Interest rate %	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 in '000) -----								
<b>Financial assets</b>								
Investments	5.7% - 8%	549,000	384,506	933,506	-	-	-	933,506
Employee loans and advances	10%	13,752	124,893	138,645	442,935	4,580,247	5,023,182	5,161,827
Balance in current account with the State Bank of Pakistan		-	-	-	3,445,805	-	3,445,805	3,445,805
		<u>562,752</u>	<u>509,399</u>	<u>1,072,151</u>	<u>3,888,740</u>	<u>4,580,247</u>	<u>8,468,987</u>	<u>9,541,138</u>
<b>Financial liabilities</b>								
Other liabilities		-	-	-	870,099	1,663,000	2,533,099	2,533,099
		<u>-</u>	<u>-</u>	<u>-</u>	<u>870,099</u>	<u>1,663,000</u>	<u>2,533,099</u>	<u>2,533,099</u>
<b>On balance sheet gap</b>		<u>562,752</u>	<u>509,399</u>	<u>1,072,151</u>	<u>3,018,641</u>	<u>2,917,247</u>	<u>5,935,888</u>	<u>7,008,039</u>

##### 11.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. The remaining balances are recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

##### 11.2 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk.

**11.3 Fair value of financial assets and liabilities**

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

<b>12. NUMBER OF EMPLOYEES</b>	<b>2005</b>	<b>2004</b>
Number of employees as at June 30	<u><b>5,452</b></u>	<u><b>5,510</b></u>

**13. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on 30 August 2005 by the Board of Directors of the Corporation.

\_\_\_\_\_  
**Liaqat Durrani**  
Managing Director

\_\_\_\_\_  
**Taslim Kazi**  
Director Accounts



# 17

## 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, 2005, 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, 2005 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: 06 September 2005**

**SYED HUSAIN & CO.**  
Chartered Accountants

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED**

**BALANCE SHEET AS AT JUNE 30, 2005**

		<b>2005</b>	<b>2004</b>
	<b>Note</b>	<b>Rupees</b>	<b>Rupees</b>
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Tangible operating fixed assets - at cost less accumulated depreciation	3	11,478,123	13,505,168
Balance in current account with State Bank of Pakistan		<u>(1,521,434)</u>	<u>3,199,083</u>
		9,956,689	16,704,251
<b>CURRENT ASSETS</b>			
Stocks - Stationary and other consumables		686,778	370,738
Advances, deposits, prepayments and other receivables	4	12,815,539	5,401,719
Cash and bank balances	5	53,875,753	53,420,346
		67,378,070	59,192,803
<b>TOTAL ASSETS</b>		<b><u>77,334,759</u></b>	<b><u>75,897,054</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
<b>Authorized share capital</b>			
20,000,000 (2004: 20,000,000) ordinary shares of Rupees 10 each		<u>200,000,000</u>	<u>200,000,000</u>
<b>Issued, subscribed and paid up share capital</b>			
07 (2004: 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
<b>NON-CURRENT LIABILITIES</b>			
Advance for issue of shares	6	49,260,760	49,260,760
<b>CURRENT LIABILITIES</b>			
Creditors, accrued and other liabilities	7	3,235,234	2,268,957
Unearned Income		471,428	-
		3,706,662	2,268,957
<b>CONTINGENCIES AND COMMITMENTS</b>			
		-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>77,334,759</u></b>	<b><u>75,897,054</u></b>

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, 2005**

		<b>2005</b>	<b>2004</b>
	<b>Notes</b>	<b>Rupees</b>	<b>Rupees</b>
<b>INCOME</b>	8	22,764,866	16,705,586
<b>EXPENDITURE</b>	9	51,423,265	45,949,758
<b>DEFICIT BEFORE ALLOCATION TO STATE BANK OF PAKISTAN</b>		<u>(28,658,400)</u>	<u>(29,244,172)</u>
<b>EXPENSES REIMBURSABLE FROM / ALLOCATED TO STATE BANK OF PAKISTAN</b>		51,423,265	45,949,758
<b>LESS: INCOME ALLOCATED TO STATE BANK OF PAKISTAN</b>		22,764,866	16,705,586
		<u>28,658,400</u>	<u>29,244,172</u>
<b>EXCESS OF INCOME OVER EXPENDITURE - BEFORE TAX</b>		-	-
<b>TAXATION:</b>			
Current		-	-
Prior		-	-
		<u>-</u>	<u>-</u>
<b>EXCESS OF INCOME OVER EXPENDITURE - AFTER TAX</b>		-	-
<b>ACCUMULATED EXCESS OF INCOME OVER EXPENDITURE</b>		24,367,267	24,367,267
<b>ACCUMULATED EXCESS OF INCOME OVER EXPENDITURE</b>		<u><b>24,367,267</b></u>	<u><b>24,367,267</b></u>
<b>BASIC EARNING PER SHARE</b>	12	<u>-</u>	<u>-</u>

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, 2005**

	<b>2005</b>	<b>2004</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Excess of income over expenditure	-	-
<b>Adjustments for non-cash items and other charges</b>		
Expenses allocated to State Bank of Pakistan	2,959,595	3,195,921
Reclassification of Fixed Assets Accounts	1,259,970	-
<b>Cash flow from operating activities before working capital changes</b>	<u>4,219,565</u>	<u>3,195,921</u>
<b>Cash flow from working capital changes</b>		
Increase/(Decrease) in Current Liabilities:		
Creditors, accrued and other liabilities	966,277	(2,217,838)
Advance fee received	-	(1,500,000)
Unearned Income	471,428	-
(Increase)/Decrease in Current Assets:		
Stocks	(316,040)	(125,119)
Advances, deposits, prepayments and other receivables	(7,413,820)	(4,501,569)
	<u>(6,292,155)</u>	<u>(8,344,526)</u>
Income tax paid	-	-
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<u>(2,072,590)</u>	<u>(5,148,605)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Addition/transfer of fixed assets	(2,192,520)	(1,665,247)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<u>(2,192,520)</u>	<u>(1,665,247)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Current accounts with State Bank of Pakistan	4,720,517	7,345,815
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>	<u>4,720,517</u>	<u>7,345,815</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH AND CASH EQUIVALENTS</b>	455,407	531,963
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	53,420,346	52,888,383
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u><u>53,875,753</u></u>	<u><u>53,420,346</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, 2005**

	<b>Advance for Issue of Shares</b>	<b>Share Capital</b>	<b>Accumulated Surplus</b>	<b>Total</b>
	<b>Rupees</b>	<b>Rupees</b>	<b>Rupees</b>	<b>Rupees</b>
Balance as at June 30, 2003	49,260,760	70	24,367,267	73,628,097
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>
Net profit for the year	-	-	-	-
<b>Balance as at June 30, 2005</b>	<b><u>49,260,760</u></b>	<b><u>70</u></b>	<b><u>24,367,267</u></b>	<b><u>73,628,097</u></b>

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, 2005

#### 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 and training in the field of banking, finance and allied areas. State Bank of Pakistan and National Bank of Pakistan hold 85.71% and 14.29% share capital, respectively.

#### 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 of the Income Tax Ordinance, 2001.

##### 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				Rate per Annum	D E P R E C I A T I O N			Written Down Value as on June 30, 2005	
	As at July 1, 2004	Adjustments / Transfers	Additions	As at June 30, 2005		As at July 1, 2004	Adjustments / Transfers	Depreciation for the year		As at June 30, 2005
	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees		Rupees
Furniture and fixtures	18,894,564	(2,747,605)	230,430	16,377,389	10%	9,005,944	(1,519,472)	1,615,791	9,102,263	7,275,126
EDP equipment	1,389,093	(719,041)	1,664,946	2,334,998	33.33%	1,070,346	(717,028)	216,287	569,605	1,765,393
Office equipment	30,964,959	(615,267)	296,764	30,646,456	20%	28,142,807	(585,453)	985,114	28,542,468	2,103,988
Vehicles	3,041,902	(137,398)	-	2,904,504	20%	2,566,253	(137,388)	142,023	2,570,888	333,616
Library books	725,751	-	380	726,131	100%	725,751	-	380	726,131	-
<b>2005</b>	<b>55,016,269</b>	<b>(4,219,311)</b>	<b>2,192,520</b>	<b>52,989,478</b>		<b>41,511,101</b>	<b>(2,959,341)</b>	<b>2,959,595</b>	<b>41,511,355</b>	<b>11,478,123</b>
<b>2004</b>	<b>53,351,022</b>	<b>-</b>	<b>1,665,247</b>	<b>55,016,269</b>		<b>38,315,180</b>	<b>-</b>	<b>3,195,921</b>	<b>41,511,101</b>	<b>13,505,168</b>

**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.

	<b>2005</b>	<b>2004</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>4. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER</b>		
<b>These are unsecured but considered good:</b>		
Advances to suppliers	2,998,000	-
Receivable against training programmes	8,996,141	5,007,542
Accrued profit on PLS accounts	220,600	233,663
Prepayments	179,505	114,699
Advances to staff against expenses	24,893	41,815
Security deposits	396,400	4,000
	<u>12,815,539</u>	<u>5,401,719</u>
<b>5. CASH AND BANK BALANCES</b>		
Cash in hand	-	-
Cash with banks on deposit accounts	53,875,753	53,420,346
	<u>53,875,753</u>	<u>53,420,346</u>
<b>6. ADVANCE FOR ISSUE OF SHARES</b>		
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>
<b>7. CREDITORS, ACCRUED AND OTHER LIABILITIES</b>		
Creditors	3,011,980	1,139,243
Traveling and training costs payable	450	316,040
Accrued charges	-	324,041
Salaries/stipends payable	162,764	243,211
Auditor's remuneration	-	70,000
Withholding tax payable	-	2,252
Other liabilities	60,040	174,170
	<u>3,235,234</u>	<u>2,268,957</u>
<b>8. INCOME</b>		
Hostel income	14,662,133	12,447,408
Education and training fee	7,576,061	3,066,060
Other income (Note 8.1)	526,672	1,192,118
	<u>22,764,866</u>	<u>16,705,586</u>

	<b>2005</b>	<b>2004</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>8.1 OTHER INCOME</b>		
Profit on PLS accounts	442,344	475,909
Miscellaneous income	84,328	716,209
	<u>526,672</u>	<u>1,192,118</u>
<b>9. EXPENDITURE</b>		
<b>Reimbursable from State Bank of Pakistan:</b>		
Salaries, wages and other benefits	19,335,378	17,542,070
Electricity, gas and water	7,999,495	8,105,191
Training costs	3,912,611	3,706,864
Repair and maintenance	6,686,872	3,910,189
Boarding/lodging catering and allied expenses	3,945,199	3,146,103
Printing and stationery	1,157,613	1,160,537
Traveling and conveyance	1,796,089	1,308,478
Medical expenses	626,096	936,204
Telecommunication	844,926	896,917
Vehicle running expenses	630,155	626,823
Legal and professional charges	405,196	367,800
Disinfectants and general consumables	167,218	160,577
Security services/charges	447,061	229,219
Newspapers and periodicals	66,322	116,320
Insurance expense	90,760	88,883
Auditors' remuneration-Audit fee	60,000	60,000
Out of pocket expenses	31,684	27,060
Postage and courier	150,813	103,063
Entertainment	69,522	136,750
Rent, rates and taxes	8,962	5,198
Others	31,698	119,591
	<u>48,463,670</u>	<u>42,753,837</u>
<b>Allocated to the State Bank of Pakistan:</b>		
Depreciation (Note: 3)	2,959,595	3,195,921
	<u>51,423,265</u>	<u>45,949,758</u>

**9.1** Number of employees of the Institute at the end of the year was 48 (2004: 65).

**10. TRANSACTIONS WITH HOLDING UNDERTAKING**

Expenses incurred on behalf of holding undertaking	106,644	6,530,749
Amount disbursed by holding company on behalf of the company	48,463,670	42,753,837

Maximum aggregate amount due from holding undertaking at the end of any month during the year was Rs. NIL (2004: Rs. 3,199,083)

## 11. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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

	2005						Total	2004
	Interest bearing			Non interest bearing				
	Within one year	One year to five year	Sub Total	Within one year	One year to five year	Sub Total		
Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
<b>Financial assets</b>								
Advances and other receivables	-	-	-	9,613,141	-	9,613,141	9,613,141	862,095
Cash and bank balances	53,875,753	-	53,875,753	-	-	-	53,875,753	53,420,346
	<u>53,875,753</u>	<u>-</u>	<u>53,875,753</u>	<u>9,613,141</u>	<u>-</u>	<u>9,613,141</u>	<u>63,488,894</u>	<u>54,282,441</u>
<b>Financial Liabilities</b>								
Creditors accrued and other liabilities	-	-	-	3,175,234	-	3,175,234	3,175,234	2,266,705
Due to SBP	-	-	-	-	1,581,434	1,581,434	1,581,434	3,199,083
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,175,234</u>	<u>1,581,434</u>	<u>4,756,668</u>	<u>4,756,668</u>	<u>5,465,788</u>
Net financial assets (liabilities)	<u>53,875,753</u>	<u>-</u>	<u>53,875,753</u>	<u>6,437,907</u>	<u>(1,581,434)</u>	<u>4,856,473</u>	<u>58,732,226</u>	<u>48,816,653</u>

### 11.2 Effective Markup Rate

Effective markup rate for the current year for financial assets is 0.72% to 1.20% 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 mark up rate risk.

### 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.

	2005	2004
	Rupees	Rupees
<b>12. EARNING PER SHARE -BASIC</b>		

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 30 Aug 2005.

### **14. CORRESPONDING FIGURES**

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

**14.2** Figures have been rounded off to the nearest rupees.

**MANAGING DIRECTOR**

**DIRECTOR**