

12

CONSOLIDATED FINANCIAL STATEMENTS OF SBP AND ITS SUBSIDIARIES

See **Attachment-B**

**KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
1st FLOOR, SHEIKH SULTAN TRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI**

**M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS
A-35, CAVISH COURT
BLOCK 7 & 8, KCSHU
SHAHRAH-E-FAISAL
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, 2006 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 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 Policies for investments and transactions and balances with International Monetary Fund (IMF) as stated in note 4.2 and 4.14 respectively 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:

The Bank has maintained a provision of Rs. 2,016 million relating to net assets recoverable from the 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 the relevant assets and liabilities have not been netted off. Accordingly, assets of the Issue Department and Banking department are overstated by Rs. 2,433 million and Rs. 4,923 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 6,118 million and Rs. 1,238 million respectively.

Except for the financial effect of the matter 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 Policies for investments and transaction and balances with IMF as stated in note 4.2 and 4.14 respectively to the consolidated financial statements approved for adoption by the Central Board of the Bank and are further in accordance with accounting policies consistently applied; and
- (b) in our opinion and to the best of our information and according to the explanations given to us, the consolidated balance sheets, consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof conform with the International Accounting Standards and Accounting Policies for investments and transactions and balances with IMF as stated in note 4.5 and 4.14 respectively to the consolidated 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, 2006 and of the profit, its cash flows and changes in equity for the year then ended.

Without further qualifying our opinion, we draw attention to the note 31 to the consolidated financial statements. The classification of SDR Allocation of IMF either as equity or debt is currently being considered by a committee formed by IMF. The decision of the committee may require a change in accounting policy as described in the said note.

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
KARACHI

DATE: 07th September 2006

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS
KARACHI

DATE: 07th September 2006

State Bank of Pakistan and its Subsidiaries - Issue Department

Consolidated Balance Sheet

As at June 30, 2006

	<i>Note</i>	2006	2005
		(Rupees in '000)	
ASSETS			
Gold reserves held by the Bank	5	76,317,295	53,870,004
Foreign currency reserves	6	555,312,089	472,513,815
Special Drawing Rights of the International Monetary Fund	7	12,035,520	11,794,613
Notes and coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	9	562,568	592,981
- Coins	10	2,865,468	2,961,213
		3,428,036	3,554,194
Investments	12	135,585,429	162,802,630
Commercial papers held in Bangladesh (former East Pakistan)	13	78,500	78,500
Assets held with the Reserve Bank of India	14	1,618,417	1,251,952
		784,375,286	705,865,708
LIABILITY			
Bank notes issued	15	784,375,286	705,865,708

The annexed notes 1 to 52 form an integral part of these financial statements.

Shamshad Akhtar
Governor

Mansur-ur-Rehman Khan
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan and its Subsidiaries - Banking Department

Consolidated Balance Sheet

As at June 30, 2006

	Note	2006	2005
		(Rupees in '000)	
ASSETS			
Local currency	10	139,340	145,618
Foreign currency reserves	6	134,568,948	144,020,471
Earmarked foreign currency balances	8	-	11,937,000
Special Drawing Rights of the International Monetary Fund	7	1,088,559	1,774,629
		135,796,847	157,877,718
Reserve tranche with the International Monetary Fund under quota arrangements	16	10,525	10,315
Securities purchased under agreement to resale	11	-	9,115,545
Current account of the Government of Balochistan	22.5	8,904,268	2,114,045
Investments	12	408,378,142	199,272,646
Loans, advances and bills of exchange	17	233,366,050	224,254,125
Balances due from the Governments of India and Bangladesh (former East Pakistan)	18	4,374,048	4,082,161
Property, plant and equipment	19	19,547,984	7,111,835
Intangible assets	20	115,681	20,871
Other assets	21	12,612,292	7,938,056
Total assets		823,105,837	611,797,317
LIABILITIES			
Bills payable		472,733	1,099,683
Current accounts of the Governments	22	147,097,122	104,917,734
Securities sold under agreement to repurchase	23	60,491,003	1,208,613
Deposits of banks and financial institutions	24	207,574,257	196,312,269
Other deposits and accounts	25	104,641,242	91,129,271
Payable to the International Monetary Fund	26	89,866,240	96,653,981
Other liabilities	27	60,997,960	24,010,325
		671,140,557	515,331,876
Deferred liability - staff retirement benefits	28	10,812,990	9,779,959
Capital grant rural finance resource center		59,431	-
Deferred income	29	426,608	414,061
Total liabilities		682,439,586	525,525,896
Net assets		140,666,251	86,271,421
Share capital	30	100,000	100,000
Allocation of special drawing rights of the International Monetary Fund	31	1,525,958	1,525,958
Reserves	32	26,714,474	16,714,474
Unappropriated profit		19,142,000	10,060,000
		47,482,432	28,400,432
Unrealised appreciation on gold reserves	33	74,406,912	51,646,593
Surplus on revaluation of property, plant and equipment	19.2	18,747,014	6,194,503
Minority interest		29,893	29,893
		140,666,251	86,271,421
CONTINGENCIES AND COMMITMENTS	34		

The annexed notes 1 to 52 form an integral part of these financial statements.

Shamshad Akhter
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, 2006

	Note	2006	2005
(Rupees in '000)			
Discount, interest / mark-up and / or return earned	35	69,940,502	29,757,649
Interest / mark-up expense	36	4,047,802	2,284,108
		65,892,700	27,473,541
Commission income	37	441,033	692,958
Exchange gain- net	38	4,376,273	13,827,713
Dividend income		1,974,628	1,502,639
Other operating income-net	39	799,545	327,904
		73,484,179	43,824,755
Less: Direct operating expenses			
Note printing charges	40	2,431,476	2,486,249
Agency commission	41	2,190,528	1,743,991
Provision for:			
- loans, advances and other assets		-	4,687,861
- diminution in value of investments		-	395,129
- other doubtful assets		547,691	1,551,419
		547,691	6,634,409
		68,314,484	32,960,106
Less: General administrative and other expenses			
	42	6,956,813	5,779,637
OPERATING PROFIT		61,357,671	27,180,469
Other income	43	7,288,864	4,203,976
		68,646,535	31,384,445
Less: Other charges			
	44	462,747	335,209
PROFIT FOR THE YEAR		68,183,788	31,049,236

The annexed notes 1 to 52 form an integral part of these financial statements.

Shamshad Akhter
 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, 2006

	Note	2006	2005
		(Rupees in '000)	
Profit for the year after non-cash items	45	70,515,839	41,289,935
(Increase) / decrease in assets			
Foreign currency reserves not included in cash and cash equivalents		(248,459)	(138,799)
Reserve tranche with the International Monetary Fund under quota arrangements		(211)	(253)
Securities purchased under agreement to resale		9,115,545	(9,115,545)
Investments		(182,770,037)	(155,428,609)
Discount income received		58,995	18,590
Loans, advances and bills of exchange		(9,111,925)	(28,106,793)
Indian notes representing assets receivable from the Reserve Bank of India		30,413	(49,188)
Assets held with the Reserve Bank of India		(2,242)	(9,129)
Other assets		(4,730,693)	(4,043,773)
		(187,658,614)	(196,873,499)
Increase / (decrease) in liabilities			
Bank notes issued		78,509,578	93,962,051
Bills payable		(626,953)	605,318
Current accounts of the Government		25,389,165	59,447,806
Securities sold under agreement to re-purchase		59,282,390	(68,109,552)
Deposits of banks and financial institutions		11,261,988	40,141,464
Other deposits and accounts		13,511,971	8,100,467
Payable to the International Monetary Fund		(6,787,741)	(5,751,253)
Other liabilities		(3,482,602)	17,658,252
		177,057,796	146,054,553
		59,915,021	(9,529,011)
Payment of retirement benefits and employees' compensated absences		(989,238)	(479,566)
Dividend received		1,974,628	1,502,639
Gold purchased		(51,195)	-
Fixed capital expenditure		(362,107)	(352,766)
Proceeds from disposal of property, plant and equipment		77,567	976,789
Capital Grant		59,430	-
		709,085	1,647,096
Dividend paid to Government of Pakistan		(10,000)	(10,000)
		60,614,106	(7,891,915)
Increase/ (decrease) in cash and cash equivalents during the year		60,614,106	(7,891,915)
Cash and cash equivalents at beginning of the year		642,406,963	650,298,878
Cash and cash equivalents at end of the year	46	703,021,069	642,406,963

The annexed notes 1 to 52 form an integral part of these financial statements.

Shamshad Akhter
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, 2006

	Attributable to equity holders of parent											(Rupees in '000)		
	Share capital	Allocation of special drawing rights of IMF	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unrealised appreciation on gold reserves	Surplus on revaluation of property, plant and equipment	Unappropriated profit	Total	Minority interest	Total equity
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	29,893	70,213,274
Changes in equity for 2004-05														
Profit for the year	-	-	-	-	-	-	-	-	-	-	31,049,236	31,049,236	-	31,049,236
Surplus on revaluation of property, plant and equipment realised on disposal	-	-	-	-	-	-	-	-	-	(442,825)	442,825	-	-	-
Unrealised appreciation on revaluation of gold reserves during the year	-	-	-	-	-	-	-	-	6,440,972	-	-	6,440,972	-	6,440,972
Total recognised income and expense for the year									6,440,972	(442,825)	31,492,061	37,490,208	-	37,490,208
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(21,422,061)	(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	29,893	86,271,421
Changes in equity for 2005-06														
Profit for the year	-	-	-	-	-	-	-	-	-	-	68,183,788	68,183,788	-	68,183,788
Surplus on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-	12,552,511	-	12,552,511	-	12,552,511
Unrealised appreciation on revaluation of gold reserves during the year	-	-	-	-	-	-	-	-	22,760,319	-	-	22,760,319	-	22,760,319
Total recognised income and expense for the year									22,760,319	12,552,511	68,183,788	103,496,618	-	103,496,618
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Transferred to reserve fund	-	-	10,000,000	-	-	-	-	-	-	-	(10,000,000)	-	-	-
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(49,091,788)	(49,091,788)	-	(49,091,788)
Balance at June 30, 2006	100,000	1,525,958	15,414,474	2,600,000	1,600,000	1,500,000	900,000	4,700,000	74,406,912	18,747,014	19,142,000*	140,636,358	29,893	140,666,251

* The Central Board has proposed to transfer Rs. 19,142 million to the Reserve fund after approval of the Federal Government.

The annexed notes 1 to 52 form an integral part of these financial statements.

Shamshad Akhtar
Governor

Mansur-ur-Rehman Khan
Deputy Governor

Aftab Mustafa Khan
Director Accounts

	Net content in troy ounces	2006 (Rupees in '000)	2005
5. GOLD RESERVES HELD BY THE BANK			
Opening balance	2,064,910	53,870,004	47,532,115
Additions during the year	1,444	51,195	-
Appreciation during the year due to revaluation 33	-	22,396,096	6,337,889
	<u>2,066,354</u>	<u>76,317,295</u>	<u>53,870,004</u>

6. FOREIGN CURRENCY RESERVES

Investments	6.1 & 6.2	196,420,546	180,148,679
Deposit accounts	6.3 & 6.4	490,545,283	424,007,949
Current accounts	6.3 & 6.2	2,915,208	12,377,658
		<u>689,881,037</u>	<u>616,534,286</u>

The above foreign currency reserves are held as follows:

- Issue Department		555,312,089	472,513,815
- Banking Department		134,568,948	144,020,471
		<u>689,881,037</u>	<u>616,534,286</u>

6.1 Investments

Held for trading	6.4	194,750,943	178,482,597
Held to maturity	6.5	1,497,334	1,484,500
Available for sale		172,269	181,582
		<u>196,420,546</u>	<u>180,148,679</u>

6.2 Above assets included Rs. 173.773 million (2005: Rs. 183.167 million) recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

6.3 The balance in current and deposit accounts carry interest at various rates ranging between 0.96 to 5.54 (2005: 1.04 to 4.77) percent per annum.

6.4 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, 2006 is equivalent to USD 3,365.9 (2005: USD 3,263.8) million.

6.5 This carries markup at the rate of 3.625% (2005: 3.625%) per annum.

7. 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 figures given below represent the rupee value of the SDRs held by the Bank at June 30, 2006. 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, 2006, the SDRs were held as follows:

	2006	2005
	(Rupees in '000)	
By the Issue Department	12,035,520	11,794,613
By the Banking Department	1,088,559	1,774,629
	<u>13,124,079</u>	<u>13,569,242</u>

8. EARMARKED FOREIGN CURRENCY BALANCES

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

9. 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.

10. LOCAL CURRENCY

Bank notes held by the Banking Department	<i>15</i>	139,340	145,618
Coins		2,865,468	2,961,213
		3,004,808	3,106,831
Rupee coins held as assets of the Issue Department	<i>10.1</i>	(2,865,468)	(2,961,213)
		<u>139,340</u>	<u>145,618</u>

10.1 As mentioned in note 4.1, 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, 2006.

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreement lendings and carried markup (2005: 5.65 to 7.98) percent per annum.

12. INVESTMENTS

2006
2005
(Rupees in '000)

Loans and receivables originated by the Bank -

Government securities	12.1		
Market Treasury Bills (MTBs)	12.2	514,510,984	329,003,605
Federal Government scrip		2,740,000	2,740,000
		<u>517,250,984</u>	<u>331,743,605</u>

Available for sale investments

Investments in Banks and other financial institutions

Ordinary shares			
- Listed		14,967,804	15,892,481
- Unlisted		11,576,859	14,449,809
	12.3	<u>26,544,663</u>	<u>30,342,290</u>
Term Finance Certificates		282,400	282,400
Certificates of Deposits		112,351	112,351
		<u>26,939,414</u>	<u>30,737,041</u>
Investment held to maturity-Pakistan Investment Bonds		374,924	384,506
		<u>544,565,322</u>	<u>362,865,152</u>
Provision against diminution in value of investments		(601,751)	(789,876)
		<u>543,963,571</u>	<u>362,075,276</u>
Investment - MTBs held as assets of the issue department		(135,585,429)	(162,802,630)
		<u>408,378,142</u>	<u>199,272,646</u>

12.1 Investments in Government securities

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

	2006	2005
	(% per annum)	
Market Treasury Bills	7.9447 to 8.4869	2.0756 to 7.9447
Federal Government scrip	3	3

12.2 This includes securities having carrying value of Rs. 62,098.533 million (2005: Rs. 1,234.030 million) given as collateral under repurchase agreement borrowing arrangements.

12.3 Investments in shares of banks and other financial institutions

12.3.1

	2006 %	2005 %		2006 (Rupees in '000)	2005
Listed					
National Bank of Pakistan	75.18	75.18	12.3.2	1,100,807	1,100,807
United Bank Limited	44.48	48.69	12.3.3	13,516,359	14,791,674
Allied Bank Limited	10.26	10.26	12.3.4	350,638	350,638
				14,967,804	16,243,119
Unlisted					
Habib Bank Limited	48.05	60.55	12.3.5 & 12.3.6	9,695,153	12,217,465
Federal Bank for Cooperatives	75	75		150,000	150,000
Equity Participation Fund	65.81	65.81		102,000	102,000
				9,947,153	12,469,465
Other- investments with holding less than or equal to 50%				1,629,706	1,629,706
				11,576,859	14,099,171
				26,544,663	30,342,290

12.3.1 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.

12.3.2 Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2006 amounted to Rs. 114,906.093 million (2005: Rs. 47,966.850 million).

12.3.3 Market value of the Bank's investment in the shares of United Bank Limited as at June 30, 2006 amounted to Rs. 39,676.443 million (2005: Cost of Rs. 17,023.116 million).

12.3.4 Market value of the Bank's investment in the shares of Allied Bank Limited at June 30, 2006 amounted to Rs.3,976.309 million (2005: Cost of Rs. 350.638 million).

12.3.5 In 2004, the Bank along with the Privatization Commission and Government of Pakistan, entered into an agreement dated Feb 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 38.5% of HBL's paid up capital upto June 30, 2005. The remaining ownership of 12.5% shares has been transferred during the year, and payment amounting to USD 99.263 million has been received thereagainst, resulting in a gain of Rs 3,421.587 million as mentioned in note 43.1 to the financial statements.

12.3.6 The break-up value of the Bank's investment in the shares of Habib Bank Limited amounted to Rs. 19,046.317 (2005: 18,884.75) million as at 31 December 2005 based on the financial statements of HBL for the year then ended.

13. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2005: 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).

14. ASSETS HELD WITH THE RESERVE

		2006	2005
BANK OF INDIA		(Rupees in '000)	
Gold reserves			
- Opening balance		876,162	773,079
- Appreciation from revaluation during the year	33	364,223	103,083
		<u>1,240,385</u>	<u>876,162</u>
Sterling securities			
Government of India securities		360,948	357,794
Rupee coins		13,196	13,910
		<u>3,888</u>	<u>4,086</u>
		<u>1,618,417</u>	<u>1,251,952</u>

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

15. BANK NOTES ISSUED

Notes held with the Banking Department	10	139,340	145,618
Notes in circulation		784,235,946	705,720,090
		<u>784,375,286</u>	<u>705,865,708</u>

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

Quota allocated by the International Monetary Fund		92,156,422	90,311,785
Liability under quota arrangements		(92,145,897)	(90,301,470)
		<u>10,525</u>	<u>10,315</u>

17. LOANS, ADVANCES AND BILLS OF EXCHANGE

Government	17.1	18,000,000	20,700,000
Government owned / controlled financial institutions	17.2	119,697,057	113,234,829
Private sector financial institutions	17.3	96,886,598	92,829,411
		<u>216,583,655</u>	<u>206,064,240</u>
Employees		7,534,801	6,309,198
		<u>242,118,456</u>	<u>233,073,438</u>
Provision against doubtful balances		(8,673,906)	(8,740,813)
		<u>233,444,550</u>	<u>224,332,625</u>
Commercial papers held in issue department	13	(78,500)	(78,500)
		<u>233,366,050</u>	<u>224,254,125</u>

17.1 Loans and advances to the Governments

	2006	2005
	(Rupees in '000)	
Federal Government	10,500,000	12,000,000
Provincial Government - Balochistan	7,500,000	8,700,000
	<u>18,000,000</u>	<u>20,700,000</u>

17.1.1 Mark-up on above balances due from federal and provincial government was charged at various rates ranging between 7.6905 to 8.3296 (2005: 2.0581 to 6.9282) percent per annum.

17.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Non-banking financial institutions		Total	
	2006	2005	2006	2005	2006	2005
	----- (Rupees in '000) -----					
Agricultural sector 17.2.2	63,032,232	60,590,768	-	-	63,032,232	60,590,768
Industrial sector 17.2.2	4,009,425	2,158,045	750,825	595,007	4,760,250	2,753,052
Export sector	20,681,892	21,780,804	-	-	20,681,892	21,780,804
Housing sector	-	66,907	11,245,867	11,242,300	11,245,867	11,309,207
Others	17,835,076	12,985,936	2,141,740	3,815,062	19,976,816	16,800,998
	<u>105,558,625</u>	<u>97,582,460</u>	<u>14,138,432</u>	<u>15,652,369</u>	<u>119,697,057</u>	<u>113,234,829</u>

17.2.1 Above balances include Rs. 548.518 million (2005: Rs. 518.806 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).

17.2.2 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 (2005: Rs. 51,257.213 million) to Zarai Taraqiati Bank Limited (ZTBL). The restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalized in due course.

17.3 Loans and advances to private sector financial institutions

	Scheduled banks		Non-banking financial institutions		Total	
	2006	2005	2006	2005	2006	2005
	----- (Rupees in '000) -----					
Industrial sector	4,342,170	-	3,658,659	3,577,792	8,000,829	3,577,792
Export sector	87,378,787	87,744,637	-	-	87,378,787	87,744,637
Others	1,506,982	1,506,982	-	-	1,506,982	1,506,982
	<u>93,227,939</u>	<u>89,251,619</u>	<u>3,658,659</u>	<u>3,577,792</u>	<u>96,886,598</u>	<u>92,829,411</u>

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

	2006	2005
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.0 to 12	1.5 to 12
Employees loans	10	10

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

2006 2005
(Rupees in '000)

India

Advance against printing of notes
Receivable from the Reserve Bank of India

39,616	39,616
837	837
40,453	40,453

Bangladesh (former East Pakistan)

Inter office balances
Loans and advances

18.1	819,924	819,924
	3,513,671	3,221,784
	4,333,595	4,041,708
	4,374,048	4,082,161

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

18.2 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.

19. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets
Capital work-in-progress

19.1	19,151,224	6,588,659
19.3	396,760	523,176
	19,547,984	7,111,835

19.1 Operating fixed assets

	2006										
	Cost / revalued amount at July 01	Additions / (deletions) / transfers* during the year	Transfer at revaluation	Revaluation during the year	Cost / revalued amount at June 30	Accumulated depreciation at July 01	Depreciation for the year on (deletions) / transfers*	Transferred at revaluation	Accumulated depreciation at June 30	Net book value at June 30	Annual rate of depreciation %
	(Rupees in '000)										
Freehold land	827,382	(19,500)	-	2,769,165	3,577,047	-	-	-	-	3,577,047	-
Leasehold land	4,603,327	-	(520,889)	8,679,767	12,762,205	428,476	92,413	(520,889)	-	12,762,205	over the term of lease
Buildings on freehold land	781,962	9,279	(330,659)	480,246	940,828	285,451	45,208	(330,659)	-	940,828	5
Buildings on leasehold land	1,064,676	107,254	(392,106)	623,333	1,403,157	311,092	81,014	(392,106)	-	1,403,157	5
Furniture and fixtures	111,967	23,459 (19)	-	-	135,407	41,071	14,670	-	55,741	79,666	10
Office equipment	355,624	78,394 (361)	-	-	433,657	241,119	41,618 (341)	-	282,396	151,261	20
EDP equipment	660,605	232,401 (51,316)	-	-	841,690	564,520	109,192 (42)	-	673,670	168,020	33.33
Motor vehicles	97,419	37,706 (14,908)	-	-	120,217	42,573	18,949 (10,345)	-	51,177	69,040	20
Library Book	726	29	-	-	755	726	29	-	755	-	-
	8,503,688	488,522 (86,104)	(1,243,654)	12,552,511	20,214,963	1,915,028	403,093 (10,728)	(1,243,654)	1,063,739	19,151,224	
	2005										
Freehold land	807,882	19,500	-	-	827,382	-	-	-	-	827,382	-
Leasehold land	4,996,893	- (393,566)	-	-	4,603,327	338,397	109,086 (19,007)	-	428,476	4,174,851	over the term of lease
Buildings on freehold land	779,969	1,993	-	-	781,962	240,478	44,973	-	285,451	496,511	5
Buildings on leasehold land	1,129,773	5,202 (70,299)	-	-	1,064,676	272,039	70,651 (31,598)	-	311,092	753,584	5
Furniture and fixtures	132,441	9,645 (5,464)	-	-	136,622	56,340	11,732 (2,346)	-	65,726	70,896	10
Office equipment	738,793	79,828 (50,998)	-	-	767,623	671,084	33,002 (50,967)	-	653,119	114,504	20
EDP equipment	530,418	216,502 (1,258) (51,194)	-	-	694,468	487,331	111,867 (816)	-	598,382	96,086	33.33
Motor vehicles	110,011	16,659 (13,259)	-	-	113,411	50,047	16,001 (7,482)	-	58,566	54,845	20
Library Book	726	-	-	-	726	726	-	-	726	-	-
	9,226,906	349,329 (534,844) (51,194)	-	-	8,990,197	2,116,442	397,312 (112,216)	-	2,401,538	6,588,659	

19.2 Surplus on revaluation of property, plant and equipment

	2006	2005
	(Rupees in '000)	
Opening balance	6,194,503	6,637,328
Surplus realised on disposal	-	(442,825)
Surplus arose on revaluation as at June 30	<u>12,552,511</u>	-
	<u>18,747,014</u>	<u>6,194,503</u>

Certain items of freehold land, leasehold land, buildings on freehold and leasehold land were revalued on June 30, 2001 by Iqbal A Nanjee and Co., Valuation and Engineering Consultants on the basis of market value. The revaluation resulted in a surplus of Rs 6,953.519 million at that date. During the year, freehold land, leasehold land, buildings on freehold and leasehold land were revalued on June 30, 2006 by Iqbal A. Nanjee & Co., Valuation and Engineering Consultants, on the basis of market value. The revaluation resulted in a surplus of 12,552.511 million.

19.3 Capital work-in-progress

	2006	2005
	(Rupees in '000)	
Buildings on freehold land	25,708	-
Buildings on leasehold land	148,268	141,103
Furniture and fixtures	22,270	31,843
Office equipment	115,744	69,576
EDP equipment	6,674	15,721
Intangible assets	78,096	264,933
	<u>396,760</u>	<u>523,176</u>

20. INTANGIBLE ASSETS

	Cost at July 01	Additions during the year	Cost at June 30	Accumulated amortisation at July 01	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
----- (Rupees in '000) -----								
Software 2006	98,331	164,797	263,128	77,460	69,987	147,447	115,681	33.33
2005	32,467	65,864	98,331	32,097	45,363	77,460	20,871	

21. OTHER ASSETS

	2006	2005
	(Rupees in '000)	
Amounts due from financial institutions under currency swap arrangements	21.1 1,793,082	2,710,157
Accrued interest / mark-up and return	5,657,999	2,309,390
Exchange gain recoverable under exchange risk coverage scheme	-	7,691
Stationery and stamps on hand	62,290	49,732
Other advances, deposits and prepayments	2,395,615	1,303,194
Balance receivable from the Government of Pakistan	221	343,805
Others	2,703,085	1,214,087
	<u>12,612,292</u>	<u>7,938,056</u>

21.1 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 27.

22. CURRENT ACCOUNTS OF THE GOVERNMENTS		2006	2005
		(Rupees in '000)	
Federal Government	22.1	80,452,535	59,285,743
Provincial Governments			
- Punjab	22.2	26,536,666	19,606,971
- Sindh	22.3	27,935,196	22,971,702
- North West Frontier Province (NWFP)	22.4	7,474,126	2,484,464
- Balochistan	22.5	-	-
		61,945,988	45,063,137
Government of Azad Jammu and Kashmir		4,698,599	568,854
		147,097,122	104,917,734
22.1 Federal Government			
Non-food account		33,056	184,642
Food account		13,063	13,616
Zakat fund account		14,007,202	13,867,615
Railways - ways and means advances	22.6	(5,522,955)	(3,211,416)
Fertilizer account		34,495	34,399
Saudi Arabia special loan account		4,124	4,124
Pakistan Baitul Mal fund account		346,366	253,366
Pakistan Railways special account		2,011,650	1,736,538
Government deposit account no. XII		5,276	5,276
Special transfer account		53,814,741	37,616,343
UN reimbursement account		15,705,517	8,781,240
		80,452,535	59,285,743
22.2 Provincial Government - Punjab			
Non-food account		(3,057,044)	(2,134,153)
Food account		1,140,669	1,004,477
Zakat fund account		155,291	101,542
District Government account no. IV		28,297,750	20,635,105
		26,536,666	19,606,971
22.3 Provincial Government - Sindh			
Non-food account		21,045,688	17,578,105
Food account		358,481	35,901
Zakat fund account		86,809	75,084
District Government account no. IV		6,444,218	5,282,612
		27,935,196	22,971,702

22.4 Provincial Government - NWFP	2006	2005
	(Rupees in '000)	
Non-food account	5,330,813	1,072,476
Food account	359,919	760,235
Zakat fund account	1,480	412
District Government account no. IV	1,781,914	651,341
	<u>7,474,126</u>	<u>2,484,464</u>

22.5 Provincial Government - Balochistan

Non-food account	(11,621,795)	(3,840,510)
Food account	28,179	58,481
Zakat fund account	1	2
District Government account no. IV	2,689,347	1,667,982
	(8,904,268)	(2,114,045)
Classified as a receivable balance	22.6 8,904,268	2,114,045
Net credit balance	-	-

22.6 At the year end, these balances carry mark-up at 8.33 (2005: 6.93) percent per annum.

23. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents repurchase agreement borrowings and are subject to markup at the rate of 6.25 to 8.90 (2005: 4.1584 to 7.4790) percent per annum.

24. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

Foreign currency

Scheduled banks	19,537,121	15,920,332
Held under Cash Reserve Requirement	43,869,431	41,135,858
	63,406,552	57,056,190

Local currency

Scheduled banks	142,849,429	137,804,690
Non-banking financial institutions	1,316,827	1,450,434
Others	1,449	955
	144,167,705	139,256,079
	207,574,257	196,312,269

24.1 The above deposits are free of interest except deposits under cash reserve requirements which are remunerated at the rates given below:

	2006	2005
	(% per annum)	
Foreign currency	2.34 to 4.11	0.87 to 2.13
Local currency	1.98 to 2.59	1.98 to 2.59

25. OTHER DEPOSITS AND ACCOUNTS

2006 **2005**
(Rupees in '000)

Foreign currency

Foreign central banks	27,090,450	26,858,250
International organisations	15,050,250	14,921,250
Others	12,744,931	4,507,185
	54,885,631	46,286,685

Local currency

Special debt repayment	25.2	23,273,267	23,755,341
Government	25.3	11,012,500	11,012,500
Others		15,469,844	10,074,745
		49,755,611	44,842,586
		104,641,242	91,129,271

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

	2006	2005
	(% per annum)	
Foreign central banks	3.28 to 5.51	1.79 to 3.6
International organisation	4.74 to 6.62	2.96 to 4.74

25.2 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.

25.3 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.

26. PAYABLE TO INTERNATIONAL MONETARY FUND

2006 **2005**
(Rupees in '000)

Borrowings under:

- Fund facilities	26.1	3,943,564	7,814,222
- Other credit schemes		85,922,647	88,839,730
		89,866,211	96,653,952

Current account for administrative charges

	29	29
	89,866,240	96,653,981

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

26.2 Interest profile of payable to IMF is as under:

	2006	2005
	(% per annum)	
Fund facilities	3.75 to 4.90	1.72 to 2.40
Other credit schemes	0.5	0.5

27. OTHER LIABILITIES

Foreign currency

	2006	2005
	(Rupees in '000)	
Amounts due to financial institutions under currency swap arrangements	1,806,030	2,685,825
Accrued interest and discount on deposits	666,899	463,941
Charges on allocation of Special Drawing Rights of IMF	91,195	62,372
Others	53,780	14,557
	2,617,904	3,226,695

Local currency

Overdue mark-up and return	3,815,707	3,512,589
Unearned exchange risk fee	10,769	12,328
Remittance clearance account	641,709	556,497
Exchange loss payable under exchange risk coverage scheme	1,292	5,217
Balance payable to the Government of Pakistan		3,935,947
Dividend payable	10,000	10,000
Payable to Government in respect of privatisation proceeds	2,929,066	2,929,066
Other accruals and provisions	6,791,598	6,141,836
Balance payable to the Government of Pakistan	39,091,788	-
Others	5,088,127	3,680,150
	58,380,056	20,783,630
	60,997,960	24,010,325

27.1 Other accruals and provisions

Interest payable		43,815	18,201
Printing charges		136,085	173,138
Agency commission		738,429	418,469
Provision for employees' compensated absences	42.4	2,155,483	2,031,000
Provision for other doubtful assets		2,061,545	1,551,419
Other provisions	27.2	1,156,785	1,205,895
Others		499,456	743,714
		6,791,598	6,141,836

27.2	Movement of other provisions	2006	2005
		(Rupees in '000)	
	Opening balance	1,205,895	1,124,308
	Provision during the year	-	110,400
	Reversed during the year	(49,110)	(28,813)
	Closing balance	<u>1,156,785</u>	<u>1,205,895</u>

	Home remittance	Agriculture loan	Others (note 27.2.1)	Total
	----- (Rupees in '000) -----			
Opening balance	260,363	203,476	742,056	1,205,895
Reversed during the year	-	(49,110)	-	(49,110)
Closing balance	<u>260,363</u>	<u>154,366</u>	<u>742,056</u>	<u>1,156,785</u>

27.2.1 This represent provision made against various litigation against the Bank.

28.	DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS	2006	2005
		(Rupees in '000)	
	Gratuity	80,285	86,471
	Pension	8,057,753	7,397,000
	Benevolent fund scheme	958,767	866,000
	Post retirement medical benefits	712,824	441,000
		9,809,629	8,790,471
	Provident fund scheme	1,003,361	989,488
		<u>10,812,990</u>	<u>9,779,959</u>
29.	DEFERRED INCOME		
	Opening balance	414,061	286,195
	Grants received during the year	148,244	220,402
	Amortisation during the year	(135,697)	(92,536)
	Closing balance	<u>426,608</u>	<u>414,061</u>

This represents grant received for capital expenditure and, as indicated in note 4.9 to these financial statements, is being amortised over the useful lives of the related assets.

30.	SHARE CAPITAL	2006	2005
		(Rupees in '000)	
	Number of shares		
	Authorised share capital		
	<u>1,000,000</u> Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
	Issued, subscribed and paid-up capital		
	<u>1,000,000</u> Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>

The 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.

31. ALLOCATION OF SPECIAL DRAWING RIGHTS OF IMF

The allocation of SDRs by the IMF has been reflected as part of equity and carried at historical cost in line with approved accounting policy prepared on the basis of IMF guidelines. Presently, a committee formed by IMF is evaluating whether SDR is debt or equity. However, no conclusion in this respect has yet been made. Had SDR Allocation been treated as financial liability as at 30 June 2006, the liabilities would have increased by Rs.15,154.859 million, profit for the year would have reduced by Rs.303.345 million and equity would have reduced by Rs.15,154.859 million.

32. RESERVES

32.1 Reserve Fund

This represents appropriations made 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.

32.2 Other Funds

These represent appropriations made 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.

33. UNREALISED APPRECIATION ON GOLD RESERVES

Opening balance		51,646,593	45,205,621
Appreciation on revaluation during the year:			
- held by the Bank	5	22,396,096	6,337,889
- held with the Reserve Bank of India	14	364,223	103,083
		22,760,319	6,440,972
		74,406,912	51,646,593

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.

34. CONTINGENCIES AND COMMITMENTS	2006	2005
	(Rupees in '000)	
34.1 Contingencies		
a) Contingent liability in respect of guarantees given on behalf of:		
i) Government	43,746,787	23,406,428
ii) Government owned / controlled bodies and authorities	44,021,427	104,019,357
	<u>87,768,214</u>	<u>127,425,785</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>685,603</u>
34.2 Commitments		
Forward exchange contracts - sales	9,819,847	78,643,672
Forward exchange contracts - purchases	18,682,725	58,229,197
Repurchase and outright sale of securities	-	1,258,632
Import letters of credit	240,749,445	81,205,385
ESAF commitment with IMF	118,929	173,528
35. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	34,933,642	9,892,132
Other Government securities	117,617	255,845
Loans and advances to Government	2,530,474	997,720
Share of profit on finances under profit and loss sharing arrangements	8,374,826	3,578,551
Foreign currency deposits	17,314,137	9,245,706
Foreign currency securities	6,668,316	5,778,084
Others	1,490	9,611
	<u>69,940,502</u>	<u>29,757,649</u>

36. INTEREST / MARK-UP EXPENSE	2006	2005
	(Rupees in '000)	
Deposits	3,981,369	2,235,276
Others	66,433	48,832
	<u>4,047,802</u>	<u>2,284,108</u>
37. COMMISSION INCOME		
Market Treasury Bills	69,651	103,373
Draft / payment orders	62,655	284,216
Prize Bonds and National Saving Certificates	151,516	149,410
Management of public debts	64,367	66,343
Others	92,844	89,616
	<u>441,033</u>	<u>692,958</u>
38. EXCHANGE GAIN - net		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	5,503,078	15,815,128
- Open market operations (including currency swap arrangements)	(15,480)	185,266
- Forward covers under Exchange Risk Coverage Scheme	(1,292)	(360,255)
- Payable to the IMF	(1,485,868)	(2,240,929)
- Special Drawing Rights of IMF	262,445	297,653
- Others	(34,536)	(123,712)
	<u>4,228,347</u>	<u>13,573,151</u>
Exchange risk fee income	147,926	254,562
	<u>4,376,273</u>	<u>13,827,713</u>
39. OTHER OPERATING INCOME- net		
Penalties levied on banks and financial institutions	884,091	444,416
License / Credit Information Bureau fee recovered	34,274	26,807
Profit on sale of securities	900,081	399,537
Loss on remeasurement of securities classified as held for trading	(1,019,214)	(543,336)
Others	313	480
	<u>799,545</u>	<u>327,904</u>
40. NOTE PRINTING CHARGES		

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

41. AGENCY COMMISSION

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15% (2005: 0.15%) of the total amount of collection and remittances handled by NBP.

42. GENERAL ADMINISTRATIVE AND OTHER EXPENSES

	2006	2005
	(Rupees in '000)	
Salaries and other benefits	3,181,267	2,956,438
Retirement benefits and employees' compensated absences	2,140,981	1,385,001
Contribution to SBP Employees' Welfare Trust	10,000	10,000
Rent and taxes	15,116	21,714
Insurance	6,163	5,551
Electricity, gas and water	140,500	114,920
Depreciation	19.1	403,093
Amortisation of intangible assets	69,987	45,363
Repairs and maintenance	138,305	105,327
Auditors' remuneration	42.1	4,326
Legal and professional	305,482	291,403
Traveling and recreation expenses	103,170	102,874
Daily expenses	41,381	36,952
Fuel	10,789	8,292
Conveyance	8,906	9,662
Postages, telegram / telex and telephone	88,547	76,335
Training	24,309	22,977
Examination/ testing services	2,993	66
Remittance of treasure	37,445	31,972
Stationery	14,934	16,355
Books and newspapers	12,265	9,476
Advertisement	16,357	5,715
Uniforms	15,010	17,632
Others	165,487	105,008
	<u>6,956,813</u>	<u>5,779,637</u>

42.1 Auditors' remuneration

	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co.	Syed Hussain & Co.	2006	2005
	(Rupees in '000)				
State Bank of Pakistan					
Audit fee	875	875	-	1,750	1,250
Out of pocket expenses	100	100	-	200	200
	<u>975</u>	<u>975</u>	-	<u>1,950</u>	<u>1,450</u>
SBP Banking Services Corporation					
Audit fee	875	875	-	1,750	1,250
Out of pocket expenses	250	250	-	500	500
	<u>1,125</u>	<u>1,125</u>	-	<u>2,250</u>	<u>1,750</u>
National Institute of Banking and Finance (Guarantee) Limited					
Audit fee	-	-	75	75	60
Out of pocket expenses	-	-	51	51	32
	-	-	126	126	92
	<u>2,100</u>	<u>2,100</u>	<u>126</u>	<u>4,326</u>	<u>3,292</u>

42.2 Staff retirement benefits

42.2.1 As mentioned in note 4.8, 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, 2006 under the projected Unit Credit Method using following significant assumptions:

- Expected rate of increase in salary 8.7 (2005: 9.5) percent per annum.
- Expected rate of discount 10.8 (2005: 11.6) percent per annum.
- Medical cost increase 5.5 (2005: 6.3) percent per annum.

42.2.2 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, 2006 based on actuarial valuation as of that date was as follows:

	2006			2005
	Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of the staff retirement benefits	Provision made in respect of the staff retirement benefits
----- (Rupees in '000) -----				
Gratuity	74,679	4,949	79,628	87,000
Pension	8,434,539	(377,193)	8,057,346	7,397,000
Benevolent	1,084,675	(125,329)	959,346	866,000
Post retirement medical benefits	2,863,953	(2,151,085)	712,868	431,000
	<u>12,457,846</u>	<u>(2,648,658)</u>	<u>9,809,188</u>	<u>8,781,000</u>

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

	Net recognised liability at July 01	Charge for the year (note 42.3)	Payments during the year	Employees contribution	Net recognised liability at June 30
----- (Rupees in '000) -----					
Gratuity	87,000	13,903	(20,834)	-	80,069
Pension	7,397,000	1,231,708	(571,362)	-	8,057,346
Benevolent	866,000	146,877	(66,338)	12,807	959,346
Post retirement medical benefits	441,000	417,556	(145,688)	-	712,868
2006	8,791,000	1,810,044	(804,222)	12,807	9,809,629
2005	8,244,579	1,096,000	(552,108)	2,000	8,790,471

42.3 Amount recognised in the profit and loss account

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

	Current service cost	Interest cost	Actuarial gain recognised	Employees contributions	Total
----- (Rupees in '000) -----					
Gratuity	2,805	9,529	1,569	-	13,903
Pension	239,024	928,405	64,279	-	1,231,708
Benevolent fund scheme	35,624	113,685	10,375	(12,807)	146,877
Post retirement medical benefits	45,038	250,460	122,058	-	417,556
	<u>322,491</u>	<u>1,302,079</u>	<u>198,281</u>	<u>(12,807)</u>	<u>1,810,044</u>

42.4 Employees' compensated absences

As at June 30, 2006, the Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 2,155 million (2005: Rs. 2,031 million). An amount of Rs. 124 million (2005: 295 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

43. OTHER INCOME

	2006	2005
(Rupees in '000)		
Gain on disposal of property, plant and equipment	2,941	504,227
Liabilities and provisions written back - net	66,881	-
Gain on disposal of investments	<i>43.1</i> 3,421,587	3,559,403
Reversal of liability pertaining to demonitization of Rs.5 denominated Bank note	3,545,871	-
Amortisation of deferred income	<i>29</i> 135,697	92,536
Others	115,887	47,810
	<u>7,288,864</u>	<u>4,203,976</u>

43.1 This represents gain realised during the year (2005: 3,587.239 million) on disposal of 12.5 (2005: 12.5) per cent of HBL's total paid-up capital to the Aga Khan Fund for Economic Development S.A., as mentioned in detail in note 12.3.5.

44. OTHER CHARGES

Charges on allocation of Special Drawing Rights	462,079	335,194
Others	668	15
	<u>462,747</u>	<u>335,209</u>

45. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS	2006	2005
	(Rupees in '000)	
Profit for the year	68,183,788	31,049,236
Adjustments for:		
Depreciation	403,094	397,313
Amortisation of intangible assets	69,987	45,363
Amortisation of deferred income	(135,697)	(92,536)
Provision for:		
- retirement benefits and employees' compensated absences	2,833,347	1,385,001
- loans, advances and other assets	-	4,687,861
- other doubtful assets	547,691	1,551,419
- investments		395,129
Gain on disposal of property, plant and equipment	(7,041)	(504,227)
Dividend income	(1,974,628)	(1,502,639)
Other accruals and provisions - net	595,298	3,878,015
	<u>70,515,839</u>	<u>41,289,935</u>
 46. CASH AND CASH EQUIVALENTS		
Local currency	3,004,808	3,106,831
Foreign currency reserves	686,892,182	613,793,890
Earmarked foreign currency balances	-	11,937,000
Special Drawing Rights of IMF	13,124,079	13,569,242
	<u>703,021,069</u>	<u>642,406,963</u>

47. 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:

2006							
							(Rupees in '000)
	Interest/ mark-up bearing			Non interest/ mark-up bearing			Grand Total
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	
Financial assets							
Local currency (including rupee coins)	-	-	-	3,004,808	-	3,004,808	3,004,808
Foreign currency reserves	674,323,172	2,642,813	676,965,985	12,436,152	478,900	12,915,052	689,881,037
Special Drawing Rights of International Monetary Fund	13,124,079	-	13,124,079	-	-	-	13,124,079
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	10,525	-	10,525	10,525
Current account of the Government of Balochistan	8,904,268	-	8,904,268	-	-	-	8,904,268
Investments	514,510,984	3,509,675	518,020,659	-	26,544,663	26,544,663	544,565,322
Loans, advances and bills of exchange	71,757,459	18,090,002	89,847,460	73,159,819	70,358,771	143,518,589	233,366,049
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	562,568	562,568	562,568
Assets held with the Reserve Bank of India	-	378,032	378,032	-	-	-	378,032
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	3,513,671	3,513,671	-	-	-	3,513,671
Other assets	-	-	-	10,819,210	1,793,082	12,612,292	12,612,292
	<u>1,282,619,962</u>	<u>28,134,193</u>	<u>1,310,754,154</u>	<u>99,430,514</u>	<u>99,737,984</u>	<u>199,168,497</u>	<u>1,509,922,651</u>
Financial liabilities							
Bank notes in circulation	-	-	-	-	784,375,286	784,375,286	784,375,286
Bills payable	-	-	-	472,733	-	472,733	472,733
Current accounts of the Government	-	-	-	147,097,122	-	147,097,122	147,097,122
Securities sold under an agreement to repurchase	60,491,003	-	60,491,003	-	-	-	60,491,003
Deposits of banks and financial institutions	-	43,869,431	43,869,431	78,578,316	85,126,510	163,704,826	207,574,257
Other deposits and accounts	57,610,544	-	57,610,544	47,030,698	-	47,030,698	104,641,242
Payable to International Monetary Fund	6,421,708	83,444,532	89,866,240	-	-	-	89,866,240
Other liabilities	-	-	-	60,132,775	-	60,132,775	60,132,775
	<u>124,523,255</u>	<u>127,313,963</u>	<u>251,837,218</u>	<u>333,311,644</u>	<u>869,501,796</u>	<u>1,202,813,440</u>	<u>1,454,650,658</u>
On balance sheet gap	<u>1,158,096,707</u>	<u>(99,179,770)</u>	<u>1,058,916,936</u>	<u>(233,881,130)</u>	<u>(769,763,812)</u>	<u>(1,003,644,943)</u>	<u>55,271,993</u>
2005							
Financial assets							
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	9,115,549	-	9,115,549	-	-	-	9,115,549
Current account of the Government of Baloc	-	-	-	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>
Financial liabilities							
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 repurc	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>
On balance sheet gap	<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 demonetised.

47.1 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 47.1.1 to 47.1.4. 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.

47.1.1 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.

47.1.2 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.

47.1.3 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.

47.1.4 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.

47.2 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 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.

48. ACCOUNTING ESTIMATES AND JUDGMENTS

Provision against loans and advances

The Bank reviews its loan portfolio to assess recoverability of loans and advances and provision required there against on a continuous basis. While assessing this requirement, various factors including the delinquency in the account, financial position of the borrower and other relevant factors are considered. The amount of provision may require adjustment in case borrowers do not perform according to expectations.

Impairment of available for-sale investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investees, industry and sector performance, changes in technology, and operational and financing cash flows.

Held-to-maturity investments

The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 43.2 to the financial statements.

Useful life of Property, plant and Equipment

Estimates of useful life of the property and equipment are based on the management's best estimate.

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the financial instruments reflected in the financial statements approximates their fair value, except strategic investments as mentioned in note 12.3.1 which are carried at cost less permanent impairment in value if any.

50. CORRESPONDING FIGURES

Previous year figures have been reclassified as a result of the following changes:

Reclassification from	Reclassification to	Reasons for reclassification	Rupees in thousands
Foreign currency reserves	Other deposits and accounts	Better presentation	4,507,185

51. DATE OF AUTHORISATION

These financial statements were authorised for issue on September 7, 2006 by the Central Board of Directors of the Bank.

52. GENERAL

Figures have been rounded off to the nearest thousand rupees.

Shamshad Akhtar
Governor

Mansur-ur-Rehman Khan
Deputy Governor

Aftab Mustafa Khan
Director Accounts

13

FINANCIAL STATEMENTS OF SBP

See **Attachment-C**

**KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
1st FLOOR, SHEIKH SULTAN TRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI**

**M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS
A-35, CAVISH COURT
BLOCK 7 & 8, KCSHU
SHAHRAH-E-FAISAL
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, 2006 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 Policies for investments and transactions and balances with International Monetary Fund (IMF) as stated in note 4.2 and 4.14 respectively 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:

The Bank has maintained a provision of Rs. 2,016 million relating to net assets recoverable from the 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 the relevant assets and liabilities have not been netted off. Accordingly, assets of the Issue Department and Banking department are overstated by Rs. 2,433 million and Rs. 4,923 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 6,118 million and Rs. 1,238 million respectively.

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

- (c) 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 Policies for investments and transactions and balances with IMF as stated in note 4.2 and 4.14 respectively

to the financial statements approved for adoption by the Central Board of the Bank and are further in accordance with accounting policies consistently applied; and

- (d) 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 Policies for investments and transactions and balances with IMF as stated in note 4.2 and 4.14 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, 2006 and of the profit, its cash flows and changes in equity for the year then ended.

Without further qualifying our opinion, we draw attention to the note 31 to the financial statements. The classification of SDR Allocation of IMF either as equity or debt is currently being considered by a committee formed by IMF. The decision of the committee may require a change in accounting policy.

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
KARACHI

DATE: 07th September 2006

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS
KARACHI

DATE: 07th September 2006

State Bank of Pakistan - Issue Department

Balance Sheet

As at June 30, 2006

	<i>Note</i>	2006	2005
(Rupees in '000)			
ASSETS			
Gold reserves held by the Bank	5	76,317,295	53,870,004
Foreign currency reserves	6	555,312,089	472,513,815
Special Drawing Rights of the International Monetary Fund	7	12,035,520	11,794,613
Notes and coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	9	562,568	592,981
- Coins	10	2,865,468	2,961,213
		3,428,036	3,554,194
Investments	12	135,585,429	162,802,630
Commercial papers held in Bangladesh (former East Pakistan)	13	78,500	78,500
Assets held with the Reserve Bank of India	14	1,618,417	1,251,952
		784,375,286	705,865,708
LIABILITY			
Bank notes issued	15	784,375,286	705,865,708

The annexed notes 1 to 53 form an integral part of these financial statements.

Shamshad Akhtar
Governor

Mansur-ur-Rehman Khan
Deputy Governor

Aftab Mustafa Khan
Director Accounts

State Bank of Pakistan - Banking Department

Balance Sheet

As at June 30, 2006

	Note	2006	2005
(Rupees in '000)			
ASSETS			
Local currency	10	139,340	145,618
Foreign currency reserves	6	134,568,948	144,020,471
Earmarked foreign currency balances	8	-	11,937,000
Special Drawing Rights of the International Monetary Fund	7	1,088,559	1,774,629
		<u>135,796,847</u>	<u>157,877,718</u>
Reserve tranche with the International Monetary Fund under quota arrangements	16	10,525	10,315
Securities purchased under agreement to resale	11	-	9,115,545
Current account of the Government of Balochistan	22.5	8,904,268	2,114,045
Current account with National Institute of Banking and Finance (Guarantee) Limited		2,080	1,521
Investments	12	408,364,217	199,368,400
Loans, advances and bills of exchange	17	227,177,574	219,092,298
Balances due from the Governments of India and Bangladesh (former East Pakistan)	18	4,374,048	4,082,161
Property, plant and equipment	19	19,367,852	6,943,113
Intangible assets	20	115,681	20,871
Other assets	21	12,517,090	7,799,971
Total assets		<u>816,630,182</u>	<u>606,425,958</u>
LIABILITIES			
Bills payable		472,733	1,099,683
Current accounts of the Governments	22	147,097,122	104,917,734
Current account with SBP Banking Services Corporation- a subsidiary		2,897,163	3,445,805
Securities sold under agreement to repurchase	23	60,491,003	1,208,613
Deposits of banks and financial institutions	24	207,574,257	196,312,269
Other deposits and accounts	25	104,641,242	91,129,271
Payable to the International Monetary Fund	26	89,866,240	96,653,981
Other liabilities	27	58,784,561	21,473,518
		<u>671,824,321</u>	<u>516,240,874</u>
Deferred liability - staff retirement benefits	28	3,757,369	3,543,969
Deferred income	29	426,608	414,061
Total liabilities		<u>676,008,298</u>	<u>520,198,904</u>
Net assets		<u>140,621,884</u>	<u>86,227,054</u>
Share capital	30	100,000	100,000
Allocation of special drawing rights of the International Monetary Fund	31	1,525,958	1,525,958
Reserves	32	26,700,000	16,700,000
Unappropriated profit		19,142,000	10,060,000
		<u>47,467,958</u>	<u>28,385,958</u>
Unrealised appreciation on gold reserves	33	74,406,912	51,646,593
Surplus on revaluation of property, plant and equipment	19.2	18,747,014	6,194,503
		<u>140,621,884</u>	<u>86,227,054</u>
CONTINGENCIES AND COMMITMENTS			
	34		

The annexed notes 1 to 53 form an integral part of these financial statements.

Shamshad Akhtar
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, 2006

	Note	2006	2005
(Rupees in '000)			
Discount, interest / mark-up and / or return earned	35	69,880,260	29,733,360
Interest / mark-up expense	36	4,047,802	2,284,108
		65,832,458	27,449,252
Commission income	37	441,033	692,958
Exchange gain- net	38	4,376,273	13,827,713
Dividend income		1,974,628	1,502,639
Profit earned through subsidiaries	39	102,934	51,383
Other operating income-net	40	799,545	327,904
		73,526,871	43,851,849
Less: Direct operating expenses			
Note printing charges	41	2,431,476	2,486,249
Agency commission	42	2,190,528	1,743,991
Provision for:			
- loans, advances and other assets		-	4,687,861
- diminution in value of investments		-	395,129
- other doubtful assets		547,691	1,551,419
		547,691	6,634,409
		68,357,176	32,987,200
Less: General administrative and other expenses	43	6,956,813	5,779,637
OPERATING PROFIT		61,400,363	27,207,563
Other income	44	7,246,172	4,176,882
		68,646,535	31,384,445
Less: Other charges	45	462,747	335,209
PROFIT FOR THE YEAR		68,183,788	31,049,236

The annexed notes 1 to 53 form an integral part of these financial statements.

Shamshad Akhtar
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, 2006

	Note	2006 (Rupees in '000)	2005
Profit for the year after non-cash items	46	68,453,490	39,722,038
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(248,459)	(138,799)
Reserve tranche with the International Monetary Fund under quota arrangements		(211)	(253)
Securities purchased under agreement to re-sale		9,115,545	(9,115,545)
Current account of National Institute of Banking and Finance (Guarantee) Limited		(559)	(4,720)
Investments		(182,660,359)	(162,758,209)
Loans, advances and bills of exchange		(8,085,276)	(27,112,640)
Indian notes representing assets receivable from the Reserve Bank of India		30,413	(49,188)
Assets held with the Reserve Bank of India		(2,242)	(9,129)
Other assets		(4,717,117)	4,062,651
		(186,568,265)	(195,125,832)
Increase / (decrease) in liabilities:			
Bank notes issued		78,509,578	93,962,051
Bills payable		(626,953)	605,318
Current accounts of the Government		25,389,165	59,447,806
Current account with SBP Banking Services Corporation - a subsidiary		(548,642)	337,007
Securities sold under agreement to re-purchase		59,282,390	(68,109,552)
Deposits of banks and financial institutions		11,261,988	40,141,464
Other deposits and accounts		13,511,971	8,100,467
Payable to the International Monetary Fund		(6,787,741)	(5,751,253)
Other liabilities		(2,377,391)	16,979,158
		177,614,365	145,712,466
		59,499,590	(9,691,328)
Payment of retirement benefits and employees' compensated absences		(596,397)	(426,972)
Dividend received		1,974,628	1,502,639
Gold purchased		(51,195)	-
Fixed capital expenditure		(279,633)	(235,036)
Proceeds from disposal of property, plant and equipment		77,113	968,782
		1,124,516	1,809,413
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Increase/ (decrease) in cash and cash equivalents during the year		60,614,106	(7,891,915)
Cash and cash equivalents at beginning of the year		642,406,963	650,298,878
Cash and cash equivalents at end of the year	47	703,021,069	642,406,963

The annexed notes 1 to 53 form an integral part of these financial statements.

Shamshad Akhtar
 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, 2006

	Share capital	Allocation of special drawing rights of 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, 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
Changes in equity for 2004 - 05												
Profit for the year	-	-	-	-	-	-	-	-	-	-	31,049,236	31,049,236
Surplus on revaluation of property, plant and equipment realised on disposal	-	-	-	-	-	-	-	-	-	(442,825)	442,825	-
Unrealised appreciation on revaluation of gold reserves during the year	-	-	-	-	-	-	-	-	6,440,972	-	-	6,440,972
Total recognised income and expense for the year	-	-	-	-	-	-	-	-	6,440,972	(442,825)	31,492,061	37,490,208
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profit transferred 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
Changes in equity for 2005 - 06												
Profit for the year	-	-	-	-	-	-	-	-	-	-	68,183,788	68,183,788
Surplus arose on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-	12,552,511	-	12,552,511
Unrealised appreciation on revaluation of gold reserves during the year	-	-	-	-	-	-	-	-	22,760,319	-	-	22,760,319
Total recognised income and expense for the year	-	-	-	-	-	-	-	-	22,760,319	12,552,511	68,183,788	103,496,618
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Transferred to reserve fund	-	-	10,000,000	-	-	-	-	-	-	-	(10,000,000)	-
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(49,091,788)	(49,091,788)
Balance at June 30, 2006	100,000	1,525,958	15,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	74,406,912	18,747,014	19,142,000 *	140,621,884

* The Central Board has proposed to transfer Rs. 19,142 million to the Reserve fund after approval of the Federal Government. The annexed notes 1 to 53 form an integral part of these financial statements.

Shamshad Akhtar
Governor

Mansur-ur-Rehman Khan
Deputy Governor

Aftab Mustafa Khan
Director Accounts

		Net content in troy ounces	2006 (Rupees in '000)	2005
5.	GOLD RESERVES HELD BY THE BANK			
	Opening balance	2,064,910	53,870,004	47,532,115
	Additions during the year	1,444	51,195	-
	Appreciation during the year due to revaluation 33	-	22,396,096	6,337,889
		<u>2,066,354</u>	<u>76,317,295</u>	<u>53,870,004</u>

6. FOREIGN CURRENCY RESERVES

Investments	6.1 & 6.2	196,420,546	180,148,679
Deposit accounts	6.3 & 6.4	490,545,283	424,007,949
Current accounts	6.3 & 6.2	2,915,208	12,377,658
		<u>689,881,037</u>	<u>616,534,286</u>

The above foreign currency reserves are held as follows:

- Issue Department	555,312,089	472,513,815
- Banking Department	134,568,948	144,020,471
	<u>689,881,037</u>	<u>616,534,286</u>

6.1 Investments

Held for trading	6.4	194,750,943	178,482,597
Held to maturity	6.5	1,497,334	1,484,500
Available for sale		172,269	181,582
		<u>196,420,546</u>	<u>180,148,679</u>

6.2 Above assets included Rs. 173.773 (2005: Rs. 183.167) million recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

6.3 The balance in current and deposit accounts carry interest at various rates ranging between 0.96 to 5.54 (2005: 1.04 to 4.77) percent per annum.

6.4 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 is equivalent to USD 3,365.9 million (2005: USD 3,263.8 million) .

6.5 This carries markup at the rate of 3.625% (2005: 3.625%) per annum.

7. 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 IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Bank at June 30, 2006. 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.

SDRs were held as follows:	2006	2005
	(Rupees in '000)	
By the Issue Department	12,035,520	11,794,613
By the Banking Department	1,088,559	1,774,629
	<u>13,124,079</u>	<u>13,569,242</u>

8. EARMARKED FOREIGN CURRENCY BALANCES

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

9. 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.

10. LOCAL CURRENCY

Bank notes held by the Banking Department	15	139,340	145,618
Coins		2,865,468	2,961,213
		<u>3,004,808</u>	<u>3,106,831</u>
Coins held as assets of the Issue Department	10.1	(2,865,468)	(2,961,213)
		<u>139,340</u>	<u>145,618</u>

10.1 As mentioned in note 4.1, 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, 2006.

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings and carried markup (2005: 5.65 to 7.98) percent per annum.

12. INVESTMENTS

2006
(Rupees in 000)

2005

Loans and receivables originated by the Bank -

Government securities	12.1		
Market Treasury Bills (MTBs)	12.2	513,842,723	328,454,605
Federal Government scrip		2,740,000	2,740,000
		<u>516,582,723</u>	<u>331,194,605</u>

Available for sale investments

Investments in Banks and other financial institutions

Ordinary shares			
- Listed		14,967,804	15,892,481
- Unlisted		11,576,859	14,449,809
	12.3	<u>26,544,663</u>	<u>30,342,290</u>
Term Finance Certificates		282,400	282,400
Certificates of Deposits		112,351	112,351
		<u>26,939,414</u>	<u>30,737,041</u>
		<u>543,522,137</u>	<u>361,931,646</u>
Provision against diminution in value of investments		(601,751)	(789,876)
		<u>542,920,386</u>	<u>361,141,770</u>

Investments in subsidiaries

SBP Banking Services Corporation - wholly owned subsidiary		1,000,000	1,000,000
Advance against issue of share capital (NIBAF)	12.4	29,260	29,260
		<u>1,029,260</u>	<u>1,029,260</u>
		<u>543,949,646</u>	<u>362,171,030</u>
Investment - MTBs held as assets of the issue department		(135,585,429)	(162,802,630)
		<u>408,364,217</u>	<u>199,368,400</u>

12.1 Investments in Government securities

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

	2006	2005
	(% per annum)	
Market Treasury Bills	7.9447 to 8.4869	2.0756 to 7.9447
Federal Government scrip	3	3

12.2 This includes securities having carrying value of Rs. 62,098.533 million (2005:Rs. 1,234.030 million) given as collateral under repurchase agreement borrowing arrangements.

12.3 Investments in shares of banks and other financial institutions

12.3.1

	2006	2005		2006	2005
	%	%		(Rupees in '000)	
Listed					
National Bank of Pakistan	75.18	75.18	<i>12.3.2</i>	1,100,807	1,100,807
United Bank Limited	44.48	48.69	<i>12.3.3</i>	13,516,359	14,791,674
Allied Bank Limited	10.26	10.26	<i>12.3.4</i>	350,638	350,638
				14,967,804	16,243,119
Unlisted					
Habib Bank Limited	48.05	60.55	<i>12.3.5 & 12.3.6</i>	9,695,153	12,217,465
Federal Bank for Cooperatives	75	75		150,000	150,000
Equity Participation Fund	65.81	65.81		102,000	102,000
				9,947,153	12,469,465
Other- investments with holding less than or equal to 50%				1,629,706	1,629,706
				11,576,859	14,099,171
				26,544,663	30,342,290

12.3.1 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.

12.3.2 Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2006 amounted to Rs.114,906.093 million (2005: Rs. 47,966.850 million).

12.3.3 Market value of the Bank's investment in the shares of United Bank Limited at June 30, 2006 amounted to Rs. 39,676.443 million (2005: Rs. 17,023.116 million).

12.3.4 Market value of the Bank's investment in the shares of Allied Bank Limited at June 30, 2006 amounted to Rs.3,976.309 million (2005: Cost of Rs. 350.638 million).

12.3.5 In 2004, the Bank along with the Privatization Commission and Government of Pakistan, entered into an agreement dated Feb 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 38.5% of HBL's paid up capital upto June 30, 2005. The remaining ownership of 12.5% shares has been transferred during the year, and payment amounting to USD 99.263 million has been received thereagainst, resulting in a gain of Rs 3,421.587 million as mentioned in note 44.1 to the financial statements.

12.3.6 The break-up value of the Bank's investment in the shares of HBL amounted to Rs. 19,046.317 (2006: 18,884.75) million at December 31, 2005 based on the financial statements of HBL for the year then ended.

12.4 As at June 30, 2006 the capital of NIBAF is Rs. 70 out of which Rs. 60 are held by the Bank. The Bank's holding in NIBAF inclusive of advance against share capital as at June 30, 2006 is 59.4%.

13. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2005: 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).

14. ASSETS HELD WITH THE RESERVE		2006	2005
BANK OF INDIA		(Rupees in '000)	
Gold reserves			
- Opening balance		876,162	773,079
- Appreciation from revaluation during the year	33	364,223	103,083
		<u>1,240,385</u>	<u>876,162</u>
Sterling securities		360,948	357,794
Government of India securities		13,196	13,910
Rupee coins		3,888	4,086
		<u>1,618,417</u>	<u>1,251,952</u>

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

15. BANK NOTES ISSUED

Notes held with the Banking Department	10	139,340	145,618
Notes in circulation		784,235,946	705,720,090
		<u>784,375,286</u>	<u>705,865,708</u>

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

Quota allocated by the International Monetary Fund		92,156,422	90,311,785
Liability under quota arrangements		(92,145,897)	(90,301,470)
		<u>10,525</u>	<u>10,315</u>

17. LOANS, ADVANCES AND BILLS OF EXCHANGE

Government	17.1	18,000,000	20,700,000
Government owned / controlled financial institutions	17.2	119,697,057	113,234,829
Private sector financial institutions	17.3	96,886,598	92,829,411
		216,583,655	206,064,240
Employees		1,346,325	1,147,371
		235,929,980	227,911,611
Provision against doubtful balances		(8,673,906)	(8,740,813)
		227,256,074	219,170,798
Commercial papers held in issue department	13	(78,500)	(78,500)
		<u>227,177,574</u>	<u>219,092,298</u>

17.1 Loans and advances to the Governments

	2006	2005
	(Rupees in '000)	
Federal Government	10,500,000	12,000,000
Provincial Government - Balochistan	7,500,000	8,700,000
	18,000,000	20,700,000

17.1.1 During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 7.6905 to 8.3296 (2005: 2.0581 to 6.9282) percent per annum.

17.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Non-banking financial institutions		Total	
	2006	2005	2006	2005	2006	2005
	----- (Rupees in '000) -----					
Agricultural sector 17.2.2	63,032,232	60,590,768	-	-	63,032,232	60,590,768
Industrial sector 17.2.2	4,009,425	2,158,045	750,825	595,007	4,760,250	2,753,052
Export sector	20,681,892	21,780,804	-	-	20,681,892	21,780,804
Housing sector	-	66,907	11,245,867	11,242,300	11,245,867	11,309,207
Others	17,835,076	12,985,936	2,141,740	3,815,062	19,976,816	16,800,998
	105,558,625	97,582,460	14,138,432	15,652,369	119,697,057	113,234,829

17.2.1 Above balances include Rs. 548.518 million (2005: Rs. 518.806 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).

17.2.2 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 (2005: Rs. 51,257.213 million) to Zarai Taraqiati Bank Limited (ZTBL). The restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalised in due course.

17.3 Loans and advances to private sector financial institutions

	Scheduled banks		Non-banking financial institutions		Total	
	2006	2005	2006	2005	2006	2005
	----- (Rupees in '000) -----					
Industrial sector	4,342,170	-	3,658,659	3,577,792	8,000,829	3,577,792
Export sector	87,378,787	87,744,637	-	-	87,378,787	87,744,637
Others	1,506,982	1,506,982	-	-	1,506,982	1,506,982
	93,227,939	89,251,619	3,658,659	3,577,792	96,886,598	92,829,411

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

	2006	2005
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.0 to 12	1.5 to 12
Employees loans	10	10

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

2006 **2005**
(Rupees in '000)

India

Advance against printing of notes
Receivable from the Reserve Bank of India

39,616	39,616
837	837
40,453	40,453

Bangladesh (former East Pakistan)

Inter office balances
Loans and advances

819,924	819,924
3,513,671	3,221,784
4,333,595	4,041,708
4,374,048	4,082,161

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

18.2 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.

19. PROPERTY, PLANT AND EQUIPMENT

19.1 Operating fixed assets
Capital work-in-progress

<i>19.1</i>	18,974,303	6,429,272
<i>19.3</i>	393,549	513,841
	19,367,852	6,943,113

2006

	Cost / revalued amount at July 01	Additions / (deletions) / transfers* during the year	Transfer at revaluation	Revaluation during the year	Cost / revalued amount at June 30	Accumulated depreciation at July 01	Depreciation for the year on (deletions) / transfers*	Transfer at revaluation	Accumulated depreciation at June 30	Net book value at June 30	Annual rate of depreciation %
----- (Rupees in '000) -----											
Freehold land	827,382	(19,500)	-	2,769,165	3,577,047	-	-	-	-	3,577,047	-
Leasehold land	4,603,327	-	(520,889)	8,679,767	12,762,205	428,476	92,413	(520,889)	-	12,762,205	over the term of lease
Buildings on freehold land	781,962	9,279	(330,659)	480,246	940,828	285,451	45,208	(330,659)	-	940,828	5
Buildings on leasehold land	1,064,676	107,254	(392,106)	623,333	1,403,157	311,092	81,014	(392,106)	-	1,403,157	5
Furniture and fixtures	65,785	15,656 (19)	-	-	81,422	19,297	8,233	-	27,530	53,892	10
Office equipment	118,034	57,475 (361)	-	-	175,148	84,211	23,732 (341)	-	107,602	67,546	20
EDP equipment	567,143	180,827 (51,276)	-	-	696,694	516,316	65,948 (2)	-	582,262	114,432	33.33
Motor vehicles	82,671	29,434 (14,243)	-	-	97,862	36,865	15,481 (9,680)	-	42,666	55,196	20
	8,110,980	399,925 (85,399)	(1,243,654)	12,552,511	19,734,363	1,681,708	332,029 (10,023)	(1,243,654)	760,060	18,974,303	

2005

Freehold land	807,882	19,500	-	-	827,382	-	-	-	-	827,382	
Leasehold land	4,996,893	- (393,566)	-	-	4,603,327	338,397	109,086 (19,007)	-	428,476	4,174,851	over the term of lease
Buildings on freehold land	779,969	1,993	-	-	781,962	240,478	44,973	-	285,451	496,511	5
Buildings on leasehold land	1,129,773	5,202 (70,299)	-	-	1,064,676	272,039	70,651 (31,598)	-	311,092	753,584	5
Furniture and fixtures	61,525	4,260	-	-	65,785	13,029	6,268	-	19,297	46,488	10
Office equipment	100,467	17,615 (48)	-	-	118,034	72,879	11,379 (47)	-	84,211	33,823	20
EDP equipment	458,279	160,485 (427) (51,194)	-	-	567,143	424,745	91,613 (42)	-	516,316	50,827	33.33
Motor vehicles	77,625	14,703 (9,657)	-	-	82,671	28,819	13,659 (5,613)	-	36,865	45,806	20
	8,412,413	223,758 (473,997) (51,194)	-	-	8,110,980	1,390,386	347,629 (56,307)	-	1,681,708	6,429,272	

19.2 Surplus on revaluation of property, plant and equipment

	2006	2005
	(Rupees in '000)	
Opening balance	6,194,503	6,637,328
Surplus realised on disposal	-	(442,825)
Surplus arose on revaluation as at June 30	<u>12,552,511</u>	<u>-</u>
	<u>18,747,014</u>	<u>6,194,503</u>

Certain items of freehold land, leasehold land, buildings on freehold and leasehold land were revalued on June 30, 2001 by Iqbal A Nanjee and Co., Valuation and Engineering Consultants on the basis of market value. The revaluation resulted in a surplus of Rs 6,953.519 million at that date. During the year, freehold land, leasehold land, buildings on freehold and leasehold land were revalued on June 30, 2006 by Iqbal A. Nanjee & Co., Valuation and Engineering Consultants, on the basis of market value. The revaluation resulted in a surplus of 12,552.511 million.

19.3 Capital work-in-progress

	2006	2005
	(Rupees in '000)	
Buildings on freehold land	25,708	-
Buildings on leasehold land	145,057	141,103
Furniture and fixtures	22,270	28,138
Office equipment	115,744	65,689
EDP equipment	6,674	13,978
Intangible assets	<u>78,096</u>	<u>264,933</u>
	<u>393,549</u>	<u>513,841</u>

20. INTANGIBLE ASSETS

	Cost at July 01	Additions during the year	Cost at June 30	Accumulated amortisation at July 01	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
----- (Rupees in '000) -----								
Software 2006	98,331	164,797	263,128	77,460	69,987	147,447	115,681	33.33
2005	32,467	65,864	98,331	32,097	45,363	77,460	20,871	

21. OTHER ASSETS		2006	2005
		(Rupees in '000)	
Amounts due from financial institutions under currency swap arrangements	21.1	1,793,082	2,710,157
Accrued interest / mark-up and return		5,645,498	2,300,140
Exchange gain recoverable under exchange risk coverage scheme		-	7,691
Stationery and stamps on hand		-	297
Other advances, deposits and prepayments		2,375,280	1,277,671
Balance receivable from the Government of Pakistan		221	343,805
Others		2,703,009	1,160,210
		<u>12,517,090</u>	<u>7,799,971</u>

21.1 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 27.

22. CURRENT ACCOUNTS OF THE GOVERNMENTS

Federal Government	22.1	80,452,535	59,285,743
Provincial Governments			
- Punjab	22.2	26,536,666	19,606,971
- Sindh	22.3	27,935,196	22,971,702
- North West Frontier Province (NWFP)	22.4	7,474,126	2,484,464
- Balochistan	22.5	-	-
		61,945,988	45,063,137
Government of Azad Jammu and Kashmir		4,698,599	568,854
		<u>147,097,122</u>	<u>104,917,734</u>

22.1 Federal Government

Non-food account		33,056	184,642
Food account		13,063	13,616
Zakat fund account		14,007,202	13,867,615
Railways - ways and means advances	22.6	(5,522,955)	(3,211,416)
Fertilizer account		34,495	34,399
Saudi Arabia special loan account		4,124	4,124
Pakistan Baitul Mal fund account		346,366	253,366
Pakistan Railways special account		2,011,650	1,736,538
Government deposit account no. XII		5,276	5,276
Special transfer account		53,814,741	37,616,343
UN reimbursement account		15,705,517	8,781,240
		<u>80,452,535</u>	<u>59,285,743</u>

22.2 Provincial Government - Punjab	2006	2005
	(Rupees in '000)	
Non-food account	(3,057,044)	(2,134,153)
Food account	1,140,669	1,004,477
Zakat fund account	155,291	101,542
District Government account no. IV	28,297,750	20,635,105
	<u>26,536,666</u>	<u>19,606,971</u>
22.3 Provincial Government - Sindh		
Non-food account	21,045,688	17,578,105
Food account	358,481	35,901
Zakat fund account	86,809	75,084
District Government account no. IV	6,444,218	5,282,612
	<u>27,935,196</u>	<u>22,971,702</u>
22.4 Provincial Government - NWFP		
Non-food account	5,330,813	1,072,476
Food account	359,919	760,235
Zakat fund account	1,480	412
District Government account no. IV	1,781,914	651,341
	<u>7,474,126</u>	<u>2,484,464</u>
22.5 Provincial Government - Balochistan		
Non-food account	(11,621,795)	(3,840,510)
Food account	28,179	58,481
Zakat fund account	1	2
District Government account no. IV	2,689,347	1,667,982
	<u>(8,904,268)</u>	<u>(2,114,045)</u>
Classified as a receivable balance	22.6 8,904,268	2,114,045
Net credit balance	<u>-</u>	<u>-</u>

22.6 These balances carry mark-up at 8.33 (2005: 6.93) percent per annum.

23. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents repurchase agreement borrowings and are subject to markup at the rate of 6.25 to 8.90 (2005: 4.1584 to 7.4790) percent per annum.

24. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	2006	2005
	(Rupees in '000)	
Foreign currency		
Scheduled banks	19,537,121	15,920,332
Held under Cash Reserve Requirement	43,869,431	41,135,858
	63,406,552	57,056,190
Local currency		
Scheduled banks	142,849,429	137,804,690
Non-banking financial institutions	1,316,827	1,450,434
Others	1,449	955
	144,167,705	139,256,079
	207,574,257	196,312,269

24.1 The above deposits are free of interest except deposits under cash reserve requirements which are remunerated at the rates given below:

	2006	2005
	(% per annum)	
Foreign currency	2.34 to 4.11	0.87 to 2.13
Local currency	1.98 to 2.59	1.98 to 2.59

25. OTHER DEPOSITS AND ACCOUNTS	2006	2005
	(Rupees in '000)	
Foreign currency		
Foreign central banks	27,090,450	26,858,250
International organisations	15,050,250	14,921,250
Others	12,744,931	4,507,185
	54,885,631	46,286,685
Local currency		
Special debt repayment	23,273,267	23,755,341
Government	11,012,500	11,012,500
Others	15,469,844	10,074,745
	49,755,611	44,842,586
	104,641,242	91,129,271

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

	2006	2005
	(% per annum)	
Foreign central banks	3.28 to 5.51	1.79 to 3.60
International organisations	4.74 to 6.62	2.96 to 4.74

- 25.2** 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.
- 25.3** 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.

26. PAYABLE TO INTERNATIONAL MONETARY FUND		2006	2005
		(Rupees in '000)	
Borrowings under:			
- Fund facilities	26.1	3,943,564	7,814,222
- Other credit schemes		<u>85,922,647</u>	<u>88,839,730</u>
		89,866,211	96,653,952
Current account for administrative charges		<u>29</u>	<u>29</u>
		89,866,240	96,653,981

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

26.2 Interest profile of payable to IMF is as under:		2006	2005
		(% per annum)	
Fund facilities		3.75 to 4.90	1.72 to 2.40
Other credit schemes		0.5	0.5

27. OTHER LIABILITIES		2006	2005
		(Rupees in '000)	
Foreign currency			
Amounts due to financial institutions under currency swap arrangements			
	21.1	1,806,030	2,685,825
Accrued interest and discount on deposits		720,679	463,941
Charges on allocation of Special Drawing Rights of IMF		91,195	62,372
Others		<u>-</u>	<u>14,557</u>
		2,617,904	3,226,695
Local currency			
Overdue mark-up and return		3,815,707	3,512,589
Unearned exchange risk fee		10,769	12,328
Remittance clearance account		641,709	556,497
Exchange loss payable under exchange risk coverage scheme		1,292	5,217
Balance payable to the Government of Pakistan		39,091,788	3,935,947
Dividend payable		10,000	10,000
Payable to Government in respect of privatisation proceeds		2,929,066	2,929,066
Other accruals and provisions	27.1	4,795,760	4,207,554
Others		4,870,566	3,077,625
		<u>56,166,657</u>	<u>18,246,823</u>
		58,784,561	21,473,518

27.1 Other accruals and provisions		2006	2005
		(Rupees in '000)	
Interest payable		43,815	18,201
Printing charges		136,085	173,138
Agency commission		738,429	418,469
Provision for employees' compensated absences	43.6	401,483	368,000
Provision for other doubtful assets		2,061,545	1,551,419
Other provisions	27.2	1,156,785	1,205,895
Others		257,618	472,432
		4,795,760	4,207,554

27.2 Movement of other provisions			
Opening balance		1,205,895	1,124,308
Provision during the year		-	110,400
Reversed during the year		(49,110)	(28,813)
Closing balance		1,156,785	1,205,895

	Home remittance	Agriculture loan	Others (note 27.2.1)	Total
------(Rupees in '000) -----				
Opening balance	260,363	203,476	742,056	1,205,895
Reversed during the year	-	(49,110)	-	(49,110)
Closing balance	260,363	154,366	742,056	1,156,785

27.2.1 This represents provision made against various litigation against the Bank.

28. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS		2006	2005
		(Rupees in '000)	
Gratuity		15,285	15,471
Pension		3,054,753	2,961,000
Benevolent fund scheme		243,767	239,000
Post retirement medical benefits		273,824	164,000
	43.5.3	3,587,629	3,379,471
Provident fund scheme		169,740	164,498
		3,757,369	3,543,969

29. DEFERRED INCOME			
Opening balance		414,061	286,195
Grants received during the year		148,244	220,402
Amortisation during the year	44	(135,697)	(92,536)
Closing balance		426,608	414,061

This represents grant received for capital expenditure and, as indicated in note 4.9 to these financial statements, is being amortised over the useful lives of the related assets.

30. SHARE CAPITAL		2006	2005
		(Rupees in '000)	
Number of shares			
Authorised share capital			
<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid-up capital			
<u>1,000,000</u>	Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>

The 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.

31. ALLOCATION OF SPECIAL DRAWING RIGHTS OF IMF

The allocation of SDRs by the IMF has been reflected as part of equity and carried at historical cost in line with approved accounting policy prepared on the basis of IMF guidelines. Presently, a committee formed by IMF is evaluating whether SDR is debt or equity. However, no conclusion in this respect has yet been made. Had SDR Allocation been treated as financial liability as at 30 June 2006, the liabilities would have increased by Rs.15,154.859 million, profit for the year would have reduced by Rs.303.345 million and equity would have reduced by Rs.15,154.859 million.

32. RESERVES

32.1 Reserve Fund

This represents appropriations made 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 to cover against risks relating to events which are contingent and non-foreseeable.

32.2 Other Funds

These represent appropriations made 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.

33. UNREALISED APPRECIATION ON GOLD RESERVES

Opening balance		51,646,593	45,205,621
Appreciation on revaluation during the year:			
- held by the Bank	5	22,396,096	6,337,889
- held with the Reserve Bank of India	14	364,223	103,083
		<u>22,760,319</u>	<u>6,440,972</u>
		<u>74,406,912</u>	<u>51,646,593</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.

34. CONTINGENCIES AND COMMITMENTS	2006	2005
	(Rupees in '000)	
34.1 Contingencies		
a) Contingent liability in respect of guarantees given on behalf of:		
i) Government	43,746,787	23,406,428
ii) Government owned / controlled bodies and authorities	44,021,427	104,019,357
	<u>87,768,214</u>	<u>127,425,785</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>685,603</u>
34.2 Commitments		
Forward exchange contracts - sales	9,819,847	78,643,672
Forward exchange contracts - purchases	18,682,725	58,229,197
Repurchase and outright sale of securities	-	1,258,632
Import letters of credit	240,749,445	81,205,385
ESAF commitment with IMF	118,483	173,528
35. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	34,874,647	9,876,465
Other Government securities	117,617	255,845
Loans and advances to Government	2,530,474	997,720
Share of profit on finances under profit and loss sharing arrangements	8,374,826	3,578,551
Foreign currency deposits	17,314,137	9,245,706
Foreign currency securities	6,668,316	5,778,084
Others	243	989
	<u>69,880,260</u>	<u>29,733,360</u>

36. INTEREST / MARK-UP EXPENSE	2006	2005
	(Rupees in '000)	
Deposits	3,981,369	2,235,276
Others	66,433	48,832
	4,047,802	2,284,108
37. COMMISSION INCOME		
Market Treasury Bills	69,651	103,373
Draft / payment orders	62,655	284,216
Prize Bonds and National Saving Certificates	151,516	149,410
Management of public debts	64,367	66,343
Others	92,844	89,616
	441,033	692,958
38. EXCHANGE GAIN - net		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	5,503,078	15,815,128
- Open market operations (including currency swap arrangements)	(15,480)	185,266
- Forward covers under Exchange Risk Coverage Scheme	(1,292)	(360,255)
- Payable to IMF	(1,485,868)	(2,240,929)
- Special Drawing Rights of IMF	262,445	297,653
- Others	(34,536)	(123,712)
	4,228,347	13,573,151
Exchange risk fee income	147,926	254,562
	4,376,273	13,827,713
39. PROFIT EARNED THROUGH SUBSIDIARIES		
SBP Banking Services Corporation	60,696	28,618
National Institute of Banking and Finance (Guarantee) Limited	42,238	22,765
	102,934	51,383
The above represents the net profit of subsidiaries for the year ended June 30, 2006 transferred to the Bank in accordance with the arrangements mentioned in note 43.3.		
40. OTHER OPERATING INCOME- net		
Penalties levied on banks and financial institutions	884,091	444,416
License / Credit Information Bureau fee recovered	34,274	26,807
Profit on sale of securities	900,081	399,537
Loss on remeasurement of securities classified as held for trading	(1,019,214)	(543,336)
Others	313	480
	799,545	327,904
41. NOTE PRINTING CHARGES		
Note printing charges are paid to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.		

42. AGENCY COMMISSION

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15% (2005: 0.15%) of the total amount of collection and remittances handled by NBP.

43. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	2006	2005
	(Rupees in '000)	
Salaries and other benefits	761,419	656,925
Retirement benefits and employees' compensated absences	837,509	468,325
Contribution to SBP Employees' Welfare Trust	10,000	10,000
Rent and taxes	7,534	15,505
Insurance	4,778	4,082
Electricity, gas and water	14,989	12,480
Depreciation	19.1 332,029	347,629
Amortisation of intangible assets	20 69,987	45,363
Repairs and maintenance	124,401	88,941
Auditors' remuneration	43.4 1,950	1,450
Legal and professional	303,227	288,222
Traveling and recreation expenses	37,856	38,445
Daily expenses	29,851	29,840
Fuel	7,954	5,606
Conveyance	3,364	5,063
Postages, telegram / telex and telephone	75,585	64,776
Training	4,392	6,174
Examination/ testing services	2,993	66
Remittance of treasure	-	979
Stationery	7,340	8,802
Books and newspapers	11,240	8,536
Advertisement	15,760	5,361
Uniforms	1,927	1,957
Others	83,287	37,676
	<u>2,749,372</u>	<u>2,152,203</u>
Expenses allocated by:		
- SBP Banking Services Corporation	43.1 1,370,798	963,403
- National Institute of Banking and Finance (Guarantee) Limited	3,739	2,960
	<u>1,374,537</u>	<u>966,363</u>
Expenses reimbursed to:		
- SBP Banking Services Corporation	43.2 2,773,637	2,612,607
- National Institute of Banking and Finance (Guarantee) Limited	59,267	48,464
	<u>2,832,904</u>	<u>2,661,071</u>
	<u><u>6,956,813</u></u>	<u><u>5,779,637</u></u>
43.1 Expenses allocated by SBP Banking Services Corporation		
Retirement benefits and employees' compensated absences	1,303,472	916,679
Depreciation	67,326	46,724
	<u>1,370,798</u>	<u>963,403</u>

43.2 Expenses reimbursed to SBP Banking Services Corporation	2006	2005
	(Rupees in '000)	
Salaries and other benefits	2,395,588	2,279,555
Rent and taxes	7,162	6,199
Insurance	1,296	1,376
Electricity, gas and water	115,690	94,439
Repairs and maintenance	9,751	9,698
Auditors' remuneration	2,250	1,750
Legal and professional	2,127	2,776
Traveling expenses	4,947	3,856
Daily expenses	11,530	7,113
Recreation allowance	60,367	60,573
Fuel	2,066	2,057
Conveyance	3,167	2,802
Postage and telephone	11,815	10,280
Training	13,419	12,892
Remittance of treasure	37,445	30,994
Stationery	5,039	6,396
Books and newspapers	890	874
Advertisement	597	354
Bank guards	46,206	51,510
Uniforms	13,083	3,201
Others	29,202	23,912
	<u>2,773,637</u>	<u>2,612,607</u>

43.3 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, 2006, as mentioned in note 39, 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.

43.4 Auditors' remuneration

	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co.	2006	2005
	----- (Rupees in '000) -----			
State Bank of Pakistan				
Audit fee	875	875	1,750	1,250
Out of pocket expenses	100	100	200	200
	<u>975</u>	<u>975</u>	<u>1,950</u>	<u>1,450</u>
SBP Banking Services Corporation				
Audit fee	875	875	1,750	1,250
Out of pocket expenses	250	250	500	500
	<u>1,125</u>	<u>1,125</u>	<u>2,250</u>	<u>1,750</u>
	<u>2,100</u>	<u>2,100</u>	<u>4,200</u>	<u>3,200</u>

43.5 Staff retirement benefits

43.5.1 As mentioned in note 4.8, 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 under the projected Unit Credit Method using following significant assumptions:

- Expected rate of increase in salary 8.7 (2005: 9.5) percent per annum.
- Expected rate of discount 10.8 (2005: 11.6) percent per annum.
- Medical cost increase 5.5 (2005: 6.3) percent per annum.

43.5.2 Present value of the obligations

Present values of obligations under the retirement benefit schemes and liabilities recognised thereagainst for the past services of the employees at June 30, 2006 based on actuarial valuation as of that date was as follows:

	2006			2005
	Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of the staff retirement benefits	Provision made in respect of the staff retirement benefits
----- (Rupees in '000) -----				
Gratuity	16,194	(909)	15,285	16,000
Pension	3,425,571	(370,818)	3,054,753	2,961,000
Benevolent	374,594	(130,827)	243,767	239,000
Post retirement medical benefits	1,659,632	(1,385,808)	273,824	154,000
	5,475,991	(1,888,362)	3,587,629	3,370,000

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

	Net recognised liability at July 01	Charge for the year (note 43.5.4)	Payments during the year	Employees contribution	Net recognised liability at June 30
----- (Rupees in '000) -----					
Gratuity	16,000	3,255	(3,970)	-	15,285
Pension	2,961,000	469,799	(376,046)	-	3,054,753
Benevolent	239,000	55,378	(53,023)	2,412	243,767
Post retirement medical benefits	164,000	246,816	(136,992)	-	273,824
2006	3,380,000	775,248	(570,031)	2,412	3,587,629

43.5.4 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:

	2006				Total
	Current service cost	Interest cost	Actuarial gain recognised	Employees contributions	
	----- (Rupees in '000) -----				
Gratuity	535	1,875	845	-	3,255
Pension	47,612	384,402	37,785	-	469,799
Benevolent fund scheme	6,096	41,350	10,344	(2,412)	55,378
Post retirement medical benefits	7,489	157,047	82,280	-	246,816
	<u>61,732</u>	<u>584,674</u>	<u>131,254</u>	<u>(2,412)</u>	<u>775,248</u>

43.6 Employees' compensated absences

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 401.483 million (2005: Rs. 368 million). An amount of Rs. 33.483 million (2005: 46 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

44. OTHER INCOME

	2006	2005
	(Rupees in '000)	
Gain on disposal of property, plant and equipment	2,487	499,898
Liabilities and provisions written back - net	66,881	-
Gain on disposal of investments	44.1	3,559,403
Reversal of liability pertaining to demonitization of Rs.5 denominated Bank note	3,545,871	-
Amortisation of deferred income	29	92,536
Others	73,649	25,045
	<u>7,246,172</u>	<u>4,176,882</u>

44.1 This represents gain realised during the year (2005: 3,587.239 million) on disposal of 12.5 (2005: 12.5) per cent of HBL's total paid-up capital to the Aga Khan Fund for Economic Development S.A., as mentioned in detail in note 12.3.5.

45. OTHER CHARGES

Charges on allocation of Special Drawing Rights	462,079	335,194
Others	668	15
	<u>462,747</u>	<u>335,209</u>

46. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS	2006	2005
	(Rupees in '000)	
Profit for the year	68,183,788	31,049,236
Adjustments for:		
Depreciation	332,029	347,629
Amortisation of intangible assets	69,987	45,363
Amortisation of deferred income	(135,697)	(92,536)
Provision for:		
- retirement benefits and employees' compensated absences	837,509	467,972
- loans, advances and other assets	-	4,687,861
- investments	-	395,129
- other doubtful assets	547,691	1,551,419
Gain on disposal of property, plant and equipment	(2,487)	(499,898)
Dividend income	(1,974,628)	(1,502,639)
Other accruals and provisions - net	595,298	3,272,502
	<u>68,453,490</u>	<u>39,722,038</u>
47. CASH AND CASH EQUIVALENTS		
Local currency	3,004,808	3,106,831
Foreign currency reserves	686,892,182	613,793,890
Earmarked foreign currency balances	-	11,937,000
Special Drawing Rights of IMF	13,124,079	13,569,242
	<u>703,021,069</u>	<u>642,406,963</u>

48. 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:

	2006						(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	
Financial assets							
Local currency (including rupee coins)	-	-	-	3,004,808	-	3,004,808	3,004,808
Foreign currency reserves	674,323,172	2,642,813	676,965,985	12,436,152	478,900	12,915,052	689,881,037
Special Drawing Rights of International Monetary Fund	13,124,079	-	13,124,079	-	-	-	13,124,079
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	10,525	-	10,525	10,525
Current account of the Government of Balochistan	8,904,268	-	8,904,268	-	-	-	8,904,268
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	2,080	-	2,080	2,080
Investments	514,871,983	2,740,000	517,611,983	-	26,337,663	26,337,663	543,949,646
Loans, advances and bills of exchange	74,559,205	18,623,075	93,182,280	65,657,694	68,337,600	133,995,294	227,177,574
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	562,568	562,568	562,568
Assets held with the Reserve Bank of India	-	378,032	378,032	-	-	-	378,032
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	3,513,671	3,513,671	-	-	-	3,513,671
Other assets	-	-	-	10,724,006	1,793,084	12,517,090	12,517,090
	<u>1,285,782,707</u>	<u>27,897,591</u>	<u>1,313,680,298</u>	<u>91,835,265</u>	<u>97,509,815</u>	<u>189,345,080</u>	<u>1,503,025,378</u>
Financial liabilities							
Bank notes in circulation	-	-	-	-	784,375,286	784,375,286	784,375,286
Bills payable	-	-	-	472,733	-	472,733	472,733
Current accounts of the Government	-	-	-	147,097,122	-	147,097,122	147,097,122
Securities sold under an agreement to repurchase	60,491,003	-	60,491,003	-	-	-	60,491,003
Current account with SBP Banking Services Corporation- a subsidiary	2,897,163	-	2,897,163	-	-	-	2,897,163
Deposits of banks and financial institutions	-	43,869,431	43,869,431	78,578,316	85,126,510	163,704,826	207,574,257
Other deposits and accounts	57,610,544	-	57,610,544	47,030,698	-	47,030,698	104,641,242
Payable to International Monetary Fund	6,421,708	83,444,532	89,866,240	-	-	-	89,866,240
Other liabilities	-	-	-	52,297,639	5,621,737	57,919,376	57,919,376
	<u>127,420,418</u>	<u>127,313,963</u>	<u>254,734,381</u>	<u>325,476,508</u>	<u>875,123,533</u>	<u>1,200,600,041</u>	<u>1,455,334,422</u>
On balance sheet gap	<u>1,158,362,289</u>	<u>(99,416,372)</u>	<u>1,058,945,917</u>	<u>(233,641,243)</u>	<u>(777,613,718)</u>	<u>(1,011,254,961)</u>	<u>47,690,956</u>
	2005						
Financial assets							
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>
Financial liabilities							
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 SBP Banking Services Corporation- a subsidiary	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>
On balance sheet gap	<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 demonetised.

48.1 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 48.1.1 to 48.1.4. 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.

48.1.1 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.

48.1.2 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.

48.1.3 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.

48.1.4 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.

48.2 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 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.

49. ACCOUNTING ESTIMATES AND JUDGMENTS

Provision against loans and advances

The Bank reviews its loan portfolio to assess recoverability of loans and advances and provision required thereagainst on a continuous basis. While assessing this requirement, various factors including the delinquency in the account, financial position of the borrower and other relevant factors are considered. The amount of provision may require adjustment in case borrowers do not perform according to expectations.

Impairment of available for-sale investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investes, industry and sector performance, changes in technology, and operational and financing cash flows.

Held-to-maturity investments

The Bank classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.

Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 43.5.1 to the financial statements.

Useful life of Property, plant and Equipment

Estimates of useful life of the property and equipment are based on the management's best estimate.

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the financial instruments reflected in the financial statements approximates their fair value, except strategic investments as mentioned in note 12.3.1 which are carried at cost less permanent impairment in value if any.

51. CORRESPONDING FIGURES

Previous year figures have been reclassified as a result of the following changes:

Reclassification from	Reclassification to	Reasons for reclassification	Rupees in thousands
Foreign currency reserves	Other deposits and accounts	Better presentation	4,507,185

52. DATE OF AUTHORISATION

These financial statements were authorised for issue on **September 7, 2006** by the Central Board of Directors of the Bank.

53. GENERAL

Figures have been rounded off to the nearest thousand rupees.

Shamshad Akhtar
Governor

Mansur-ur-Rehman Khan
Deputy Governor

Aftab Mustafa Khan
Director Accounts

14

FINANCIAL STATEMENTS OF SBPASC (BANK)

See Attachment-D

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
1st FLOOR, SHEIKH SULTAN TRUST
BUILDING NO. 2
BEAUMONT ROAD
KARACHI

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

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the annexed balance sheet of the **SBP Banking Services Corporation** as at June 30, 2006 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 and Accounting Policy for investments as stated in note 4.1 to the financial statements 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 and Accounting Policy for investments as stated in note 4.1 to the financial statements 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 and Accounting Policy for investments as stated in note 4.1 to the financial statements 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, 2006 and of the profit, its cash flows and changes in equity for the year then ended.

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS
KARACHI

DATE: 07th September 2006

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS
KARACHI

DATE: 07th September 2006

SBP Banking Services Corporation

Balance Sheet

As at June 30, 2006

	Note	2006 (Rupees in '000)	2005
ASSETS			
Balance in current account with State Bank of Pakistan		2,897,163	3,445,805
Investments	5	923,924	933,506
Employee loans and advances		6,188,476	5,161,827
Other assets		84,282	70,706
Property, plant and equipment	6	170,333	157,245
Total assets		10,264,178	9,769,089
LIABILITIES			
Other liabilities	7	2,208,557	2,533,099
Deferred liabilities - staff retirement benefits	8	7,055,621	6,235,990
Total liabilities		9,264,178	8,769,089
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	9	1,000,000	1,000,000

The annexed notes 1 to 15 form an integral part of these financial statements.

Liaqat Durrani
Managing Director

Qasim Nawaz
Director Accounts

SBP Banking Services Corporation

Profit and Loss Account

For the year ended June 30, 2006

	Note	2006 (Rupees in '000)	2005
Discount and interest earned	10	60,242	24,289
Net operating expenses - establishment costs	11		
Total expenses		4,144,435	3,576,011
Reimbursed by the State Bank of Pakistan		(2,773,637)	(2,612,611)
Allocated to the State Bank of Pakistan		(1,370,798)	(963,400)
		-	-
Gain on disposal of property, plant and equipment		454	4,329
BALANCE PROFIT TRANSFERRED TO THE STATE BANK OF PAKISTAN		60,696	28,618

The annexed notes 1 to 15 form an integral part of these financial statements.

Liaqat Durrani
Managing Director

Qasim Nawaz
Director Accounts

SBP Banking Services Corporation

Cash Flow Statement

For the year ended June 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Cash flows from operating activities			
Loss after non-cash items	12	(1,401,592)	(1,640,589)
Expenses reimbursed by the State Bank of Pakistan		2,773,637	2,612,611
Balance profit transferred to the State Bank of Pakistan		(60,696)	(28,618)
Retirement benefits and employees' compensated absences paid		(392,841)	(52,594)
Discount income received		58,995	18,590
		<u>977,503</u>	<u>909,400</u>
(Increase) in assets			
- Loans to employees		(1,026,649)	(994,153)
- Other assets		(13,576)	(65,024)
(Decrease) / Increase in liabilities			
- Other liabilities		(415,542)	677,656
Net cash (used in) / from operating activities		<u>(478,264)</u>	<u>527,879</u>
Cash flows from investing activities			
Fixed capital expenditure		(80,414)	(115,538)
Investment sold / (made)		9,582	(40,000)
Proceeds from disposal of property, plant and equipment		454	8,007
Net cash (used in) investing activities		<u>(70,378)</u>	<u>(147,531)</u>
Net (decrease) / increase in cash and cash equivalents		<u>(548,642)</u>	<u>380,348</u>
Cash and cash equivalents at beginning of the year		<u>3,445,805</u>	<u>3,065,457</u>
Cash and cash equivalents at end of the year		<u>2,897,163</u>	<u>3,445,805</u>

The annexed notes 1 to 15 form an integral part of these financial statements

Liaqat Durrani
Managing Director

Qasim Nawaz
Director Accounts

SBP Banking Services Corporation

Statement of Changes in Equity

For the year ended June 30, 2006

	Share capital	Unappropriated profit	Total
	----- (Rupees in '000) -----		
Balance as at June 30, 2004	1,000,000	-	1,000,000
Total recognised income and expense for the year - profit for the year	-	28,618	28,618
Balance profit transferred to the State Bank of Pakistan	-	(28,618)	(28,618)
Balance as at June 30, 2005	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total recognised income and expense for the year - profit for the year	-	60,696	60,696
Balance profit transferred to the State Bank of Pakistan	-	(60,696)	(60,696)
Balance as at June 30, 2006	<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

The annexed notes 1 to 15 form an integral part of these financial statements.

Liaqat Durrani
Managing Director

Qasim Nawaz
Director Accounts

SBP Banking Services Corporation

Notes to the Financial Statements

For the year ended June 30, 2006

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. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards IAS 1 to 38 and policy for investments as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation. Where the requirements of policies adopted by the Board of Directors of the Corporation differ with the requirements of International Accounting Standards adopted by the Board of Directors of the Corporation the requirements of policies adopted by the Board of Directors of the Corporation take precedence.

3. BASIS OF MEASUREMENT

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

The preparation of financial statements in conformity with International Accounting Standards IAS 1 to 38 and policy for investment as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation, requires management to make judgements estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by the management in the application of International Accounting Standard IAS 1 to 38 and policy for investment as stated in note 4.1, that have significant effect on the financial statements and estimate with significant risk of material judgement in the next year are discussed in note 14 to these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 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.

4.2 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 property, plant and equipment are included in income currently.

4.3 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.

4.4 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.

4.5 Compensated absences

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

4.6 Revenue recognition

Revenue is recognised on time proportion basis that takes into account the effective yield on the asset.

4.7 Taxation

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

4.8 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.

4.9 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.

4.10 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.

4.11 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.

5. INVESTMENTS		2006	2005
		(Rupees in '000)	
Government securities			
Market Treasury Bills	5.1	551,577	549,000
Pakistan Investment Bonds	5.2	372,347	384,506
		<u>923,924</u>	<u>933,506</u>

5.1 Market Treasury Bills carry mark-up at the rate of 8.8% per annum (2005: 5.7% per annum) and are due to mature from January - March 2007.

5.2 Pakistan Investment Bonds carry mark-up at the rate of 8% percent per annum (2005: 8.0% per annum) and is due to mature in 2013.

6. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets	6.1	167,122	147,910
Capital work-in-progress	6.2	3,211	9,335
		<u>170,333</u>	<u>157,245</u>

6.1 Operating fixed assets

The following is a statement of operating fixed assets:

2006	Cost at July 1, 2005	Additions/ (deletions) during the year	Cost at June 30, 2006	Accumulated depreciation at July 1, 2005	Charge for the year / (accumulated depreciation on deletions)	Accumulated depreciation at June 30, 2006	Net book value at June 30, 2006	Annual rate of depreciation %
------(Rupees in '000)-----								
Furniture and fixtures	29,805	7,679	37,484	12,672	4,799	17,471	20,013	10
		-			-			
Office equipment	206,944	20,651	227,595	128,366	16,999	145,365	82,230	20
		-			-			
EDP equipment	91,127	49,936	141,023	47,634	42,179	89,773	51,250	33.33
		(40)			(40)			
Motor vehicles	11,843	8,272	19,450	3,137	3,349	5,821	13,629	20
		(665)			(665)			
	<u>339,719</u>	<u>86,538</u>	<u>425,552</u>	<u>191,809</u>	<u>67,326</u>	<u>258,430</u>	<u>167,122</u>	-
		<u>(705)</u>			<u>(705)</u>			
2005	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	29,805	9,650	3,848	12,672	17,133	10
		(2,716)			(826)			
Office equipment	195,363	61,916	206,944	158,063	20,638	128,366	78,578	20
		(50,335)			(50,335)			
EDP equipment	36,887	54,352	91,127	27,653	20,038	47,634	43,493	33.33
		(112)			(57)			
Motor vehicles	13,352	1,956	11,843	2,669	2,200	3,137	8,706	20
		(3,465)			(1,732)			
	<u>272,968</u>	<u>123,379</u>	<u>339,719</u>	<u>198,035</u>	<u>46,724</u>	<u>191,809</u>	<u>147,910</u>	
		<u>(56,628)</u>			<u>(52,950)</u>			

6.2 Capital work-in-progress		2006	2005
		(Rupees in '000)	
Furniture and fixtures		386	3,705
Office equipment		-	3,887
EDP equipment		-	1,743
Others		2,825	-
		<u>3,211</u>	<u>9,335</u>
7. OTHER LIABILITIES			
Accruals and provisions	<i>7.1</i>	1,995,838	1,934,282
Others		212,719	598,817
		<u>2,208,557</u>	<u>2,533,099</u>
7.1 Accruals and provisions			
Provision for employees' compensated absences		1,754,000	1,663,000
Others		241,838	271,282
		<u>1,995,838</u>	<u>1,934,282</u>
8. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS			
Gratuity		65,000	71,000
Pension		5,003,000	4,436,000
Benevolent fund scheme		715,000	627,000
Post retirement medical benefits		439,000	277,000
		<u>6,222,000</u>	<u>5,411,000</u>
Provident fund scheme		833,621	824,990
		<u>7,055,621</u>	<u>6,235,990</u>
9. SHARE CAPITAL			
		2006	2005
		(Number of shares)	
		<u>1,000</u>	<u>1,000</u>
		Authorised share capital	
		Ordinary shares of Rs 1,000,000 each	
		<u>1,000,000</u>	<u>1,000,000</u>
		Issued, subscribed and paid-up capital	
		Fully paid-up ordinary shares of	
		Rs 1,000,000 each	
		<u>1,000,000</u>	<u>1,000,000</u>
10. Discount and interest earned			
Discount on Government securities		58,995	15,667
Interest on staff loans		1,247	7,646
Others		-	976
		<u>60,242</u>	<u>24,289</u>

11. NET OPERATING EXPENSES - ESTABLISHMENT COSTS	2006	2005
	(Rupees in '000)	
Reimbursable from the State Bank of Pakistan		
Salaries, wages and other benefits	2,395,588	2,279,552
Rent and taxes	7,162	6,200
Insurance	1,296	1,378
Electricity, gas and water	115,690	94,440
Repair and maintenance	9,751	9,699
Auditors' remuneration	11.5 2,250	1,750
Legal and professional	2,127	2,776
Travelling	4,947	3,855
Daily expenses	11,530	7,112
Passages	60,367	60,574
Fuel	2,066	2,056
Conveyance	3,167	2,803
Postages, telegram / telex and telephone	11,815	10,563
Training	13,419	12,891
Remittance of treasure	37,445	30,993
Stationery	5,039	6,395
Books and newspapers	890	874
Advertisement	597	354
Bank guards	46,206	39,036
Uniforms	13,083	15,675
Others	29,202	23,635
	<u>2,773,637</u>	<u>2,612,611</u>
Allocable to the State Bank of Pakistan		
Retirement benefits and employees' compensated absences	1,303,472	916,676
Depreciation	6.1 67,326	46,724
	<u>1,370,798</u>	<u>963,400</u>
	<u><u>4,144,435</u></u>	<u><u>3,576,011</u></u>

11.1 As mentioned in note 4.4, 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 has been used for the valuations of these schemes as at 30 June 2006:

	Percent per annum
- Expected rate of increase in salary level	8.60%
- Expected rate of discount	10.80%
- Medical cost trend	5.50%

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

	Recognised liability as at June 30, 2005	Charge for the year	Payments during the year	Employee Contributions	Recognised liability as at June 30, 2006
------(Rupees in '000)-----					
Gratuity	71,000	11,000	17,000	-	65,000
Pension	4,436,000	762,000	195,000	-	5,003,000
Benevolent fund scheme	627,000	91,000	13,000	10,000	715,000
Post retirement medical benefits	277,000	171,000	9,000	-	439,000
	<u>5,411,000</u>	<u>1,035,000</u>	<u>234,000</u>	<u>10,000</u>	<u>6,222,000</u>

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

	2006			2005
	Present value of the defined benefit obligation	Provision made in respect of retirement benefits	Unrecognised actuarial gain / (loss)	Provision made in respect of retirement benefits
------(Rupees in '000)-----				
Gratuity	58,000	65,000	7,000	71,000
Pension	5,009,000	5,003,000	(6,000)	4,436,000
Benevolent fund scheme	710,000	715,000	5,000	627,000
Post retirement medical benefits	1,204,000	439,000	(765,000)	277,000
	<u>6,981,000</u>	<u>6,222,000</u>	<u>(759,000)</u>	<u>5,411,000</u>

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

	Current service cost	Actuarial (gain)/loss	Interest cost	Employee Contributions	Total	
------(Rupees in '000)-----						
Gratuity	2,000	1,000	8,000	-	11,000	
Pension	191,000	27,000	544,000	-	762,000	
Benevolent fund scheme	29,000	-	72,000	10,000	91,000	
Post retirement medical benefits	38,000	40,000	93,000	-	171,000	
	<u>260,000</u>	<u>68,000</u>	<u>717,000</u>	<u>10,000</u>	<u>1,035,000</u>	
	2005	227,000	11,000	409,000	-	647,000

11.4 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2006 using the Projected Unit Credit Method. An amount of Rs. 95 million (2005: Rs. 249 million) has been charged to the profit and loss account in this respect based on actuarial recommendations.

	M. Yousuf Adil Saleem & Co.	KPMG Taseer Hadi & Co.	2006	2005
----- (Rupees in '000) -----				
Audit fee	875	875	1,750	1,250
Out of pocket expenses	250	250	500	500
	<u>1,125</u>	<u>1,125</u>	<u>2,250</u>	<u>1,750</u>
12. LOSS AFTER NON-CASH ITEMS				
Net profit for the year			60,696	28,618
Expenses reimbursed by the State Bank of Pakistan			(2,773,637)	(2,612,611)
Expenses allocated to the State Bank of Pakistan			(1,370,798)	(963,400)
			<u>(4,083,739)</u>	<u>(3,547,393)</u>
Adjustments for:				
Depreciation			67,326	46,724
Provision for retirement benefits and employees' compensated absences			1,303,472	916,676
Expenses allocated to the State Bank of Pakistan			1,370,798	963,400
Discount on Government securities			(58,995)	(15,667)
Profit on disposal of fixed assets			(454)	(4,329)
			<u>2,682,147</u>	<u>1,906,804</u>
			<u>(1,401,592)</u>	<u>(1,640,589)</u>

13. FINANCIAL ASSETS AND LIABILITIES

2006	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) -----								
Financial assets								
Investments	8 - 8.8	551,577	372,347	923,924	-	-	-	923,924
Employee loans and advances	10	20,422	165,232	185,654	82,774	5,920,048	6,002,822	6,188,476
Balance in current account with the State Bank of Pakistan		-	-	-	2,897,163	-	2,897,163	2,897,163
		<u>571,999</u>	<u>537,579</u>	<u>1,109,578</u>	<u>2,979,937</u>	<u>5,920,048</u>	<u>8,899,985</u>	<u>10,009,563</u>
Financial liabilities								
Other liabilities		-	-	-	454,557	1,754,000	2,208,557	2,208,557
		-	-	-	454,557	1,754,000	2,208,557	2,208,557
On balance sheet gap		<u>571,999</u>	<u>537,579</u>	<u>1,109,578</u>	<u>2,525,380</u>	<u>4,166,048</u>	<u>6,691,428</u>	<u>7,801,006</u>
2005								
Financial assets								
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>
Financial liabilities								
Other liabilities		-	-	-	870,099	1,663,000	2,533,099	2,533,099
		-	-	-	870,099	1,663,000	2,533,099	2,533,099
On balance sheet gap		<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>

13.1 Credit risk

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

13.2 Liquidity risk

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

13.3 Fair value of financial assets and liabilities

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

14. ACCOUNTING ESTIMATES AND JUDGEMENTS

Held-to-maturity investments

The Bank follows classifies non-derivates financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation in notes 11.1 to the financial statements.

Useful life of property, plant and equipment

Estimates of useful life of the property, plant and equipment are based on the management's best estimate.

15. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on **September 7, 2006** by the Board of Directors of the Corporation.

Liaqat Durrani
Managing Director

Qasim Nawaz
Director Accounts

15

FINANCIAL STATEMENTS OF NIBAF

See **Attachment-E**

**SYED HUSAIN ZAFAR NAVEED & CO.
CHARTERED ACCOUNTANTS
3-B ATS CENTRE, 30-WEST,
FAZAL-UL-HAQ ROAD, BLUE AREA,
ISLAMABAD**

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, 2006, 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 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, 2006 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.

SYED HUSAIN ZAFAR NAVEED & CO.
CHARTERED ACCOUNTANTS
ISLAMABAD

DATE: 8th September 2006

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

BALANCE SHEET AS AT JUNE 30, 2006

	2006	2005	
Note	Rupees	Rupees	
ASSETS			
NON CURRENT ASSETS			
Property, Plant and Equipments - at cost less accumulated depreciation	3	9,799,174	11,478,123
CURRENT ASSETS			
Investment - Held To Maturity	4	119,261,335	-
Stocks - Stationary and other consumables		669,647	686,778
Advances, deposits, prepayments and other receivables	5	10,173,916	12,815,539
Cash and bank balances	6	75,607	53,875,753
		130,180,505	67,378,070
TOTAL ASSETS		<u>139,979,679</u>	<u>78,856,193</u>
EQUITY AND LIABILITIES			
EQUITY			
Authorized share capital			
20,000,000 (2005: 20,000,000) ordinary shares of Rupees 10 each		<u>200,000,000</u>	<u>200,000,000</u>
Issued, subscribed and paid up share capital			
07 (2005: 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
CAPITAL GRANT - RURAL FINANCE RESOURCE CENTER	7	59,429,900	-
NON-CURRENT LIABILITIES			
Advance for issue of shares	8	49,260,760	49,260,760
Balance in current account with State Bank of Pakistan		2,080,291	1,521,434
CURRENT LIABILITIES			
Creditors, accrued and other liabilities	9	4,841,391	3,235,234
Unearned Income		-	471,428
		4,841,391	3,706,662
CONTINGENCIES AND COMMITMENTS		-	-
TOTAL EQUITY AND LIABILITIES		<u>139,979,679</u>	<u>78,856,193</u>

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED JUNE 30, 2006

		2006	2005
	Notes	Rupees	Rupees
INCOME	10	42,238,316	22,764,866
EXPENDITURE	11	63,005,893	51,423,265
DEFICIT BEFORE ALLOCATION TO STATE BANK OF PAKISTAN		<u>(20,767,577)</u>	<u>(28,658,400)</u>
EXPENSES REIMBURSABLE FROM / ALLOCATED TO STATE BANK OF PAKISTAN		63,005,893	51,423,265
LESS: INCOME ALLOCATED TO STATE BANK OF PAKISTAN		<u>42,238,316</u>	<u>22,764,866</u>
		<u>20,767,577</u>	<u>28,658,400</u>
EXCESS OF INCOME OVER EXPENDITURE - BEFORE TAX		-	-
TAXATION:			
Current		-	-
Prior		-	-
		<u>-</u>	<u>-</u>
EXCESS OF INCOME OVER EXPENDITURE - AFTER TAX		-	-
ACCUMULATED EXCESS OF INCOME OVER EXPENDITURE		24,367,267	24,367,267
ACCUMULATED EXCESS OF INCOME OVER EXPENDITURE		<u><u>24,367,267</u></u>	<u><u>24,367,267</u></u>
BASIC EARNING PER SHARE	14	<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, 2006

	2006	2005
	Rupees	Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Excess of income over expenditure	-	-
Adjustments for non-cash items and other charges		
Expenses allocated to State Bank of Pakistan	3,738,612	2,959,595
Reclassification of Fixed Assets Accounts	-	1,259,970
Cash flow from operating activities before working capital changes	<u>3,738,612</u>	<u>4,219,565</u>
Cash flow from working capital changes		
Increase/(Decrease) in Current Liabilities:		
Creditors, accrued and other liabilities	1,606,157	966,277
Unearned Income	(471,428)	471,428
(Increase)/Decrease in Current Assets:		
Stocks	17,131	(316,040)
Advances, deposits, prepayments and other receivables	2,641,623	(7,413,820)
	3,793,483	(6,292,155)
Income tax paid	-	-
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	<u>7,532,095</u>	<u>(2,072,590)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Addition/transfer of fixed assets	(2,059,663)	(2,192,520)
Investment - Held to Maturity	(119,261,335)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<u>(121,320,998)</u>	<u>(2,192,520)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Current accounts with State Bank of Pakistan	558,857	4,720,517
Capital Grant - Rural Finance Resource Center	59,429,900	-
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>59,988,757</u>	<u>4,720,517</u>
NET INCREASE/(DECREASE) IN CASH AND CASH AND CASH	<u>(53,800,146)</u>	<u>455,407</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>53,875,753</u>	<u>53,420,346</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>75,607</u></u>	<u><u>53,875,753</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, 2006

	Advance for Issue of Shares	Share Capital	Accumulated Surplus	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at June 30, 2004	49,260,760	70	24,367,267	73,628,097
Net profit for the year	-	-	-	-
Balance as at June 30, 2005	<u>49,260,760</u>	<u>70</u>	<u>24,367,267</u>	<u>73,628,097</u>
Net profit for the year	-	-	-	-
Balance as at June 30, 2006	<u>49,260,760</u>	<u>70</u>	<u>24,367,267</u>	<u>73,628,097</u>

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

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED JUNE 30, 2006

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 Property, Plant and Equipments

These 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.

3 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.

3 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, interest on investments held to maturity and income from rent is recognized on accrual basis.

3 PROPERTY, PLANT AND EQUIPMENTS

PARTICULARS	C O S T				Rate per Annum	D E P R E C I A T I O N			Written Down	
	As at	Adjustment	Additions	As at		As at	Adjustment	Depreciation	As at	Value as on
	July 1, 2005	s / Transfers		June 30, 2006		July 1, 2005	s / Transfers	for the year	June 30, 2006	June 30, 2006
	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees	
Furniture and fixtures	16,377,389	-	123,990	16,501,379	10%	9,102,263		1,637,889	10,740,152	5,761,227
EDP equipment	2,334,998	-	1,637,535	3,972,533	33.33%	569,605		1,065,575	1,635,180	2,337,353
Office equipment	30,646,456	-	268,667	30,915,123	20%	28,542,468		886,601	29,429,069	1,486,054
Vehicles	2,904,504	-	-	2,904,504	20%	2,570,888		119,076	2,689,964	214,540
Library books	726,131	-	29,471	755,602	100%	726,131		29,471	755,602	-
2006	52,989,478	-	2,059,663	55,049,141		41,511,355	-	3,738,612	45,249,967	9,799,174
2005	55,016,269	(4,219,311)	2,192,520	52,989,478		41,511,101	(2,959,341)	2,959,595	41,511,355	11,478,123

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.

	2006	2005
	Rupees	Rupees
4. INVESTMENTS - HELD TO MATURITY		
The short - term investments represent 8.79% 12months Government Treasury Bills.		
5. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
These are unsecured but considered good:		
Advances to suppliers	-	2,998,000
Receivable against training programmes	9,318,745	8,996,141
	-	220,600
Prepayments	293,094	179,505
Advances to staff against expenses	160,677	24,893
Security deposits	401,400	396,400
	<u>10,173,916</u>	<u>12,815,539</u>
6. CASH AND BANK BALANCES		
Cash in hand	-	-
Cash with banks on deposit accounts	75,607	53,875,753
	<u>75,607</u>	<u>53,875,753</u>
7. CAPITAL GRANT - RURAL FINANCE RESOURCE CENTER		
This represents Capital Grant amounting to US \$ 1.00 million (translated into Pak Rupees at an effective exchange rate) received from Government of Pakistan (GoP) during the year without outlining any condition for its utilization. The grant has been utilized for establishment of Rural Finance Resource Center at the Institute. This grant is out of the proceeds of a loan to GoP from Asian Development Bank for Rural Finance Sector Development Program.		
8. ADVANCE FOR ISSUE OF SHARES		
State Bank of Pakistan	29,260,770	29,260,770
National Bank of Pakistan	19,999,990	19,999,990
	<u>49,260,760</u>	<u>49,260,760</u>
9. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	3,718,768	3,011,980
Traveling and training costs payable	486,827	450
Accrued charges	407,500	-
Salaries/stipends payable	162,764	162,764
Security Deposits payables	65,492	-
Withholding tax payable	-	-
Other liabilities	40	60,040
	<u>4,841,391</u>	<u>3,235,234</u>

	2006	2005
	Rupees	Rupees
10. INCOME		
Hostel income	25,371,878	14,662,133
Education and training fee	11,024,952	7,576,061
Other income (Note 10.1)	5,841,486	526,672
	<u>42,238,316</u>	<u>22,764,866</u>
10.1 OTHER INCOME		
Profit on PLS accounts	201,544	442,344
Interest on Endowment Fund	5,609,145	
Miscellaneous income	30,797	84,328
	<u>5,841,486</u>	<u>526,672</u>
11. EXPENDITURE		
Reimbursable from State Bank of Pakistan:		
Salaries, wages and other benefits	23,862,774	19,335,378
Electricity, gas and water	9,821,247	7,999,495
Training costs	6,498,188	3,912,611
Repair and maintenance	4,151,546	6,686,872
Boarding/lodging catering and allied expenses	5,840,120	3,945,199
Printing and stationery	2,554,748	1,157,613
Traveling and conveyance	2,375,308	1,796,089
Medical expenses	396,778	626,096
Telecommunication	921,431	844,926
Vehicle running expenses	769,482	630,155
Legal and professional charges	128,100	405,196
Disinfectants and general consumables	185,258	167,218
Security services/charges	614,000	447,061
Newspapers and periodicals	135,423	66,322
Insurance expense	88,883	90,760
Auditors' remuneration-Audit fee	75,000	60,000
Out of pocket expenses	50,622	31,684
Postage and courier	226,672	150,813
Entertainment	81,621	69,522
Rent, rates and taxes	420,000	8,962
Others	70,080	31,698
	<u>59,267,281</u>	<u>#####</u>
Allocated to the State Bank of Pakistan:		
Depreciation (Note: 3)	3,738,612	2,959,595
	<u>63,005,893</u>	<u>51,423,265</u>

11.1 Number of employees of the Institute at the end of the year was 38 (2005: 48).

12. TRANSACTIONS WITH HOLDING UNDERTAKING

Expenses incurred on behalf of holding undertaking	275,447	106,644
Amount disbursed by holding company on behalf of the compa	17,070,308	48,463,670

Maximum aggregate amount due from holding undertaking at the end of any month during the year was Rs. NIL (2005: Rs. NIL)

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

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

	2006						Total	2005
	Interest bearing			Non interest bearing				
	Within	One year to	Sub Total	Within	One year to	Sub Total		
	one year	five year		one year	five year			
Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Financial assets								
Investment - Held to Maturity	119,261,335	-	119,261,335	-	-	-	119,261,335	-
Advances and other receivables	-	-	-	9,720,145	-	9,720,145	9,720,145	9,613,141
Cash and bank balances	75,607	-	75,607	-	-	-	75,607	53,875,753
	119,336,942	-	119,336,942	9,720,145	-	9,720,145	129,057,087	63,488,894
Financial Liabilities								
Creditors accrued and other liabilities	-	-	-	4,775,899	-	4,775,899	4,775,899	3,175,234
Due to SBP	-	-	-	-	(2,080,291)	(2,080,291)	(2,080,291)	1,581,434
	-	-	-	4,775,899	(2,080,291)	2,695,608	2,695,608	4,756,668
Net financial assets (liabilities)	119,336,942	-	119,336,942	4,944,246	2,080,291	7,024,537	126,361,479	58,732,226

13.2 Effective Markup Rate

Effective weighted average markup rate for the current year for financial assets is 8.79% per annum. Financial liabilities are not subjected to any mark up rate.

13.3 Exposure to Credit Risk and Mark up Rate Risk

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

13.4 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.

2006	2005
Rupees	Rupees

14. EARNING PER SHARE -BASIC

There is no dilutive effect on the basic earning per share, which is as under:

Profit for the year - After Tax	(Rupees)	-	-
Shares in issue	(Numbers)	7	7
Basic earning per share	(Rupees)	-	-

15. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors of the Institute and authorized for issue on

16. CORRESPONDING FIGURES

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

16.2 Figures have been rounded off to the nearest rupees.

MANAGING DIRECTOR

DIRECTOR