

Finances of SBP and Subsidiaries

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10 Annual Budget Review 2006 – 07

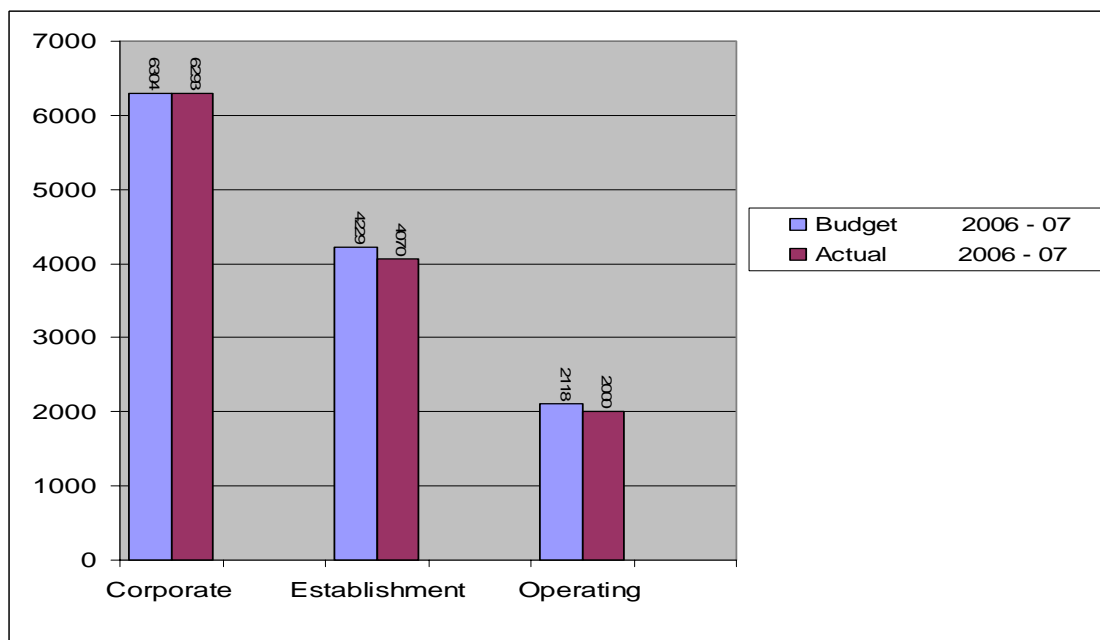
10.1 Overview

A comparison of actual versus budgeted expenditures of SBP and its subsidiaries is given in the Table 10.1 and Figure-10.1 below.

Rs. in million

Table 10.1: SBP Annual Review for FY 2006 - 07					
Serial No.	Head of Account	CONSOLIDATED			
		Budget 2006-07	Actual 2006 - 07	Variance	Variance % age
1)	Corporate	6304	6293	11	0.2%
2)	Establishment	4229	4070	159	3.8%
3)	Operating	2118	2000	119	5.6%
GRAND TOTAL		12651	12362	289	2.3%

Figure-10.1: Actual vs. Budgeted Expenditure



The total expenditures are classified into three broad categories, namely corporate expenses, establishment expenses and operating expenses. The relative size of each of these heads in total expenditure is as under:

Description	Budget	Actual
Corporate expenses	49.8	50.9
Establishment expenses	33.4	32.9
Operating expenses	16.8	16.2
Total	100.0	100.0

As indicated below, on overall basis, the total consolidated expenditure of SBP and its subsidiaries amounted to **Rs. 12,361.9 million** against a budget of **Rs.12,651.6 million**, showing a positive variance of **Rs. 289.2 million** i.e.2.3%. The variance of actual results against budget, in term of three major heads is shown below.

Description	Variance
Corporate expenses	(+) 0.2
Establishment expenses	(+) 3.8
Operating expenses	(+) 5.6
Total	(+) 2.3

The above position indicates that actual results exhibit a positive variance from the budget.

10.2 Corporate Expenses

The corporate expenses of the bank comprise of three components viz agency commission to National Bank of Pakistan (NBP), currency notes printing charges and charges on allocation of Special Drawing Rights (SDRs) of IMF. Head wise analysis of corporate expenses is given as under:

- 1. Agency Commission Charges:** Agency commission charges are paid to National Bank of Pakistan on account of Government transactions and remittances on behalf of SBP as per agency agreement. Agency commission exhibit a negative variance of **Rs. 256 million** i.e. **11.1%** due to enhanced volume of government transactions.
- 2. Currency Notes Printing Charges:** A positive variance of **Rs. 322 million** i.e. **9.4%** has been witnessed in note printing charges, attributable to the quantity and price variances of Rs. 317 million and Rs. 5 million respectively.
- 3. Charges on Allocation of SDRs:** The charges for allocation of SDRs also resulted in negative variance of **Rs. 55 million** i.e. **9.5%**, representing higher rate of SDR charges and exchange rate amounts to Rs. 14 million and Rs. 40 million respectively.

In corporate expenses, positive variance in “Note Printing Charges” were to a large extent offset by the negative variance in other two components i.e. “Agency Commission Charges” and “Charges on Allocation of SDRs”. Consequently overall variance in “Corporate Expenses” resulted in a positive variance of **Rs. 11 million** i.e. **0.2%**.

10.3 Establishment Expenses

The establishment expenses include employees' salaries, benefits and training expenditure. These establishment expenditure showed a positive variance of **Rs. 159 million** i.e. **3.8%**. The major reasons for positive variance are attributable to lower average performance increments than the anticipated as well as delay in the recruitment of new employees.

10.4 Operating Expenses

The operating expenses include rent, rates & taxes, legal & professional charges, stationery & publications, communication, traveling expenditure, repair & maintenance, depreciation etc. On overall basis, operating expenses have shown positive variance of **Rs. 118 million** i.e. **5.6%**. The major reasons for positive variance were attributed to lower traveling expenses, legal fee and depreciation.

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11 Annual Financial Performance Review 2006 – 07

11.1 Overview

For the financial year ended 30th June 2007, the bank earned record profit of Rs.108,733 million posting a significant increase of 59 percent as against the previous year's net profit of Rs.68,184 million. The elements contributing to the increase in net profit, inter alia, include the income on foreign currency assets, discount on Market Treasury Bills, mark-up income on loans & advances and gain on sale of shares of United Bank Limited.

11.1.1 Summary of Profit and Loss Account:

The summary position of the Bank's profit and loss account is presented in Table 11.1.

(Rs. Million)

Description	2007	2006
Income		
Net Interest Income	87,224	65,893
Exchange Gain	1,958	4,376
Dividend Income	4,287	1,975
Commission	656	441
Other Operating Income	2,945	799
Other Income	27,478	7,289
Gross Income	124,548	80,773
Expenditure		
Corporate Costs	6,293	5,084
Establishment Costs	7,177	5,421
Other Operating Expenses	2,207	1,536
Provisions	138	548
	15,815	12,589
Net Profit	108,733	68,184

The various factors impacting the expenditure and income of the bank are elaborated as under:

11.2 Expenditure

The total expenditure (excluding net provisions against impaired assets) for FY 2006-07 accumulated to Rs.15,677 million as against the expenditure of Rs.12,041 million for the previous year. The breakdown of expenditure is tabulated at Table-11.2:

(Rs. Million)

Table 11.2: Corporate Cost, Establishment Cost and Operating Expenses		
Description	2007	2006
Corporate cost	6,293	5,084
Establishment cost	7,177	5,421
Operating expenses	2,207	1,536
Total	15,677	12,041

The various components of bank's corporate cost include agency commission to National Bank of Pakistan (NBP), note printing charges and charges on allocation of Special Drawing Rights (SDR). The Bank's corporate expenditure showed a rise of Rs. 1,209 million mainly due to increase in agency commission paid to NBP Rs.386 million, note printing charges Rs.656 million and charges on allocation of SDRs Rs.168 million.

The establishment cost increased by 32 percent mainly due to introduction of voluntary separation scheme 2007 for certain category of staff and increase in salaries during the current financial year. The main factor contributing towards increase in operating expenses is the depreciation and amortization expenses on account of revaluation of fixed assets in the previous year.

11.3 Income

11.3.1 Net Interest Income

The income under this head increased by 32.4 percent to Rs.87,224 million as compared to the previous year's income of Rs.65,893 million. The components of bank's net discount, interest and markup income have been evaluated as under:

11.3.2 Discount, Interest/Markup and/or Return Earned

The major components of bank's total income were represented by discount, interest/mark-up and/or return earned on domestic assets and foreign assets held by the bank. The total earnings under the head increased by 32.3 percent to Rs.92,513 million in the current financial year as compared to Rs.69,940 million in Year 2005-06. The interest income (Table 11.3) on foreign assets (Table 11.4) increased by 44.8 percent and on domestic assets (Table 11.5) increased by 25.7 percent in the financial year 2006-07. Bank's foreign currency reserves increased from Rs.703.0 billion as at 30th June 2006 to Rs.861.1 billion as on 30th June 2007. The interest rate in the international markets also showed higher levels during current financial year as against the previous year evidenced by increase in the discount rate of Federal Reserve Bank of New York (FRB) which remained at 5.25 percent in current year as compared to the band of 3.25 percent to 5.25 percent in financial year 2005-06.

The factors contributing towards the increase in interest income on domestic assets included the increase in average holdings of Market Treasury Bills (MTB), increase in MTB discount rates which ranged from 8.49 percent to 8.90 percent in current year as against the range of 7.94 percent to 8.49 percent in previous financial year. The quantum of loans and advances to banks and financial institutions increased from Rs.216.6 billion as on 30th June 2006 to Rs.276.2 billion as on 30th June 2007.

(Rs. Million)

Description	2007	2006
Interest/discount income on foreign assets	34,738	23,982
Interest/discount income on domestic assets	57,775	45,958
Total	92,513	69,940

(Equivalent PKR in million)

Description	2007	2006
Investments	211,329	196,421
Deposit Accounts	606,819	490,545
Current accounts	30,136	2,915
Special drawing rights with IMF	12,802	13,124
Total	861,086	703,005

(Rs. Million)

Description	2007	2006
Government securities	461,725	517,626
Overdraft to Governments	18,320	26,904
Banks and financial institutions	276,208	216,584
Total	756,253	761,114
Yield on Treasury Bills	8.49% to 8.90%	7.94% to 8.49%
Markup on Export finance	6.5%	7.5%

11.3.3 Interest/Markup Expense

The major components of interest expense incurred by the bank include interest on foreign currency deposits of commercial banks held under Cash Reserve Requirement (CRR) and borrowings from International Monetary Fund (IMF), deposits of international organizations and foreign central banks. The interest expense during the year increased to Rs.5,289 million as against the expense of Rs.4,048 million in financial year 2005-06. The rise in interest expense is mainly attributable to higher rate of interest paid on foreign currency CRR deposits to commercial banks and interest on deposits of foreign central banks and international organizations. The rate of interest of foreign currency CRR deposits has been in the band of 4.11 percent to 4.32 percent during the financial year 2006-07 as against the range of 2.34 percent to 4.11 percent in the previous year while the rate of interest on deposits of foreign central banks and international organizations ranged between 5.18 percent to 7.30 percent in current financial year as compared to the band of 3.28 percent to 6.62 percent in previous financial year.

11.3.4 Commission Income

The bank derives the commission income from management of public debt, market treasury bills, prize bonds and national saving schemes as well as issuance of drafts and payment orders. The commission income during the year under review increased from Rs.441 million in financial year 2005-06 to Rs.656 million mainly attributable to higher volumes of transactions of drafts/payment orders, prize bonds and national saving schemes.

11.3.5 Exchange Gain/(Loss)-Net

The gain / (loss) under the head arises from sale/purchase and revaluation of foreign currency assets and liabilities. The bank is exposed to exchange gains/ (losses) due to movement in PKR value vis-à-vis foreign currencies, mainly USD and SDR. The bank has a significant net asset exposure to USD and net liability exposure denominated in SDR. Resultantly, the depreciation of PKR vis-à-vis USD favorably impacts the profitability whereas the depreciation of PKR against SDR has an adverse effect on profitability of the bank. The movement of PKR against major international currencies is given in Table 11.6.

Currency	Exchange Rate		Appreciation / (Depreciation)	
	30.06.2007	30.06.2006	2006-07	2005-06
US Dollar	60.46	60.20	(0.43) percent	(0.85) percent
Pound Sterling	121.06	109.22	(9.78) percent	(0.87) percent
Japanese Yen	0.49	0.52	6.12 percent	3.85 percent
Euro	81.44	75.46	(7.34) percent	(4.64) percent
SDR	91.73	89.15	(2.81) percent	(2.00) percent

The exchange income declined from Rs.4,376 million in financial year 2005-06 to Rs.1,958 million in current financial year. The decline of Rs.2,418 million is mainly attributable to lower depreciation of PKR vis-à-vis USD during the current year thus leading to lower exchange gain on USD denominated foreign currency assets. On the other hand, PKR witnessed a higher depreciation against SDR resulting in higher amount of loss on SDR denominated liabilities. The components of bank's exchange account have been presented in Table 11.7.

(Rs. Million)

Description	2007	2006
Gain / (loss) on:		
- Foreign currency placements, deposits and other accounts - net	3,872	5,468
- Open market operations (including currency swap arrangements)	(8)	(15)
- Forward covers under Exchange Risk Coverage	229	147
- Payable to the International Monetary Fund (IMF) and SDRs	(2,135)	(1,224)
Total	1,958	4,376

11.3.6 Dividend Income

The bank earns dividend income on equity investments in banks and financial institutions. The bank's equity investments in the listed and unlisted shares amounted Rs.20.379 billion as on 30th June 2007. The dividend income for the financial year 2006-07 stood at Rs.4,286 million as compared to the income of Rs.1,975 million under the head last year. The increase of Rs.2,311 million in income is mainly attributable to dividend payout of Rs.994 million by Habib Bank Limited and higher dividends declared by National Bank of Pakistan and United Bank Limited.

11.3.7 Other Operating Income

Other operating income of the bank mainly comprises of income derived from penalties levied on banks and financial institutions, license/Credit Information Bureau fee recovered, profit on sale of securities, gain/(loss) on re-measurement of securities classified as held for trading etc. The income under the head increased by Rs.2,146 million mainly due to increase in income from penalties levied on banks and financial institutions and gain on re-measurement of securities classified as held for trading.

11.3.8 Other Income

The bank's income from other than normal operations is referred as Other income and major components of the bank's other income include gain on disposal of property, plant and equipment, net gain arising on liabilities and provisions written back, net gain on disposal of investments, amortization of deferred income and income under other miscellaneous heads. The income under the head showed a significant rise of Rs.20,189 million mainly attributable to gain on sale of 21.7 percent shares of United Bank Limited during the current financial year.

11.4 Distributable Profit

Out of the net profit of Rs.108,733 million, Rs.30,422 million has been transferred to Bank's general reserve fund. After allocation of Rs.10 million as dividend, the surplus profit transferable to the Federal Government is computed at Rs.78,301 billion which shows an increase of 59.6 percent as compared to the previous financial year.

(Rs. Million)

Description	2007	2006
Dividend	10	10
Transfer to Reserve Fund	30,422	19,142
Surplus profit transferable to Federal Government	78,301	49,092
Total	108,733	68,244

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12 Consolidated Financial Statements of SBP and Its Subsidiaries

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements 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**, which comprise the consolidated balance sheet as at June 30, 2007 and consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. 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 KPMG Taseer Hadi & Co., Chartered Accountants, solely.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Bank has maintained a provision of Rs. 2,157 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. 2,654 million and Rs. 5,230 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 6,563 million and Rs. 1,321 million respectively.

Qualified Opinion

In our opinion, except for the financial effect of the matter stated in the preceding paragraph the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at June 30, 2007 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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.

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. Pending issuance of final report of the committee, the classification of SDR Allocations as equity has been maintained in these financial statements.

KPMG Taseer Hadi & Co.

Chartered Accountants
Karachi

Date

M. Yousuf Adil Saleem & Co.

Chartered Accountants
Karachi

Date

State Bank of Pakistan
Notes to the Consolidated Financial Statements
For the year ended June 30, 2007

1. Status and Nature of Operations

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

- implementing the monetary policy;
- issuing of currency;
- facilitation of free competition and stability in the financial system;
- licensing and supervision of banks including micro finance banks, development financial institutions and exchange companies;
- organization and management of the inter-bank settlement system and promotion of smooth functioning of payment systems;
- providing of loans and advances to the Government, banks, financial institutions and local authorities under various facilities;
- purchase, holding and sale of shares of banks and financial institutions on the directives of the Federal Government; and
- acting as depository of the Government under specific arrangements between the Government and certain institutions.

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

- SBP Banking Services Corporation – wholly owned subsidiary: SBP Banking Services Corporation was established under the SBP Banking Service Corporation Ordinance, 2001 and commenced its operations with effect from January 2, 2002. It is responsible for carrying out certain statutory and administrative functions and activities principally relating to public dealing on behalf of the State Bank of Pakistan.
- National Institute of Banking and Finance (Guarantee) Limited - shareholding at 59.4%: National Institute of Banking and Finance (Guarantee) Limited was incorporated under the Companies Ordinance, 1984 as a company limited by guarantee. The Institute is engaged in providing education and training in the field of banking, finance and allied areas.

2. Statement of Compliance

These financial statements have been prepared in accordance with the requirements of International Accounting Standards (IASs) and policies for investments and transactions and balances with International Monetary Fund as stated in note 4.2 and 4.14, respectively,

approved for adoption by the Central Board of the Bank. Under the power conferred by the State Bank of Pakistan Act, 1956, the Central Board has approved IAS-1 to IAS-38 for adoption. Where the requirements of policies adopted by the Central Board differ with the requirements of International Accounting Standards adopted by the Central Board, the requirements of policies adopted by the Central Board take precedence.

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

All inter group balances and transactions have been eliminated.

3. Basis of Measurement

These financial statements have been prepared under the historical cost convention, except that investments, gold reserves and certain fixed assets, as referred to in notes 4.2, 4.3 and 4.4 have been included at revalued amounts.

The preparation of financial statements in conformity with International Accounting Standards 1 to 38 and policies for investments and transactions and balances with IMF as stated in note 4.2 and 4.14, respectively, approved for adoption by the Central Board of the Bank requires management to make judgments, 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 judgments about the 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.

Judgments made by the management in the application of International Accounting Standards 1 to 38 and policies for investments and transactions and balances with IMF as stated in note 4.2 and 4.14, respectively approved for adoption by the Central Board of the Bank, that have significant effect on the financial statements and estimates with significant risk of material adjustment in subsequent years are discussed in note 48 to these financial statements.

4. Summary of Significant Accounting Policies

4.1 Bank notes and coins

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of notes is charged to the profit and loss account as and when incurred. Any un-issued bank notes lying with the Bank are not reflected in the books of account.

The Bank also issues coins of various denominations on behalf of the Government of Pakistan (GOP). These coins are purchased from the GOP at their respective face values. The un-issued coins form part of the assets of the Issue Department.

4.2 Investments

All investments acquired by the Bank are initially measured at cost being the fair value of consideration given. Transaction costs are included in the initial measurement of investments. Subsequent to initial measurement, the Bank measures and classifies its investments under the following categories:

Held for trading

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

All purchases and sales of investments categorized as held for trading that required delivery within the time frame established by regulation or market convention ('regular way' purchase and sale) are recognized at the trade date, which is the date Bank commits to purchase or sell the investment, otherwise transactions are treated as derivative until settlement occurs.

Held to maturity

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

All regular way purchases and sales are recognized at the trade date, which is the date Bank commits to purchase or sell the investment. Otherwise transactions are treated as derivative until settlement occurs.

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

Loans and receivables

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

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

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

Available for sale securities (AFS)

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

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

Investments classified as held for trading or available for sale are derecognized by the Bank on the date it transfers risks and rewards. Securities held to maturity are derecognized on the day these are transferred by the Bank. Gains and losses on derecognizing of held for trading, held to maturity and AFS securities are taken to profit and loss account.

Derivative financial instruments

The Bank enters into derivative financial instruments, which include forwards and currency swaps. Derivatives are initially recorded at cost and are remeasured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 34.2 while the asset and liability portion of a currency swap are presented in Other Assets and Other Liabilities in notes 21 and 27 to the financial statements. The resultant gains or losses from derivatives are included in the profit and loss account on a time proportion basis.

Collateralized borrowings / lending

Securities sold subject to a commitment to repurchase them at a predetermined price, are retained on the balance sheet and a liability is recorded in respect of the consideration received in "Securities sold under agreement to repurchase". Conversely, securities purchased under analogous commitment to resell are not recognized on the balance sheet and a consideration paid is recorded in "Securities purchased under agreement to resale". The difference between the sale and repurchase price in the repurchase transactions and the purchase price and resale price in reverse repurchase transaction represents an expense and income, respectively, and recognized in the profit and loss account on time proportion basis.

4.3 Gold reserves

Gold reserves, including those held with the Reserve Bank of India, are stated at the revalued amounts of the fine gold content thereof, in accordance with the requirements of the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations.

Appreciation or depreciation, if any, on revaluation is taken to equity under the head of “Unrealized appreciation on gold reserves” account. Appreciation realized on disposal of gold is credited to the profit and loss account.

4.4 Property, Plant and Equipment

Property, plant and equipment except land, buildings and capital work in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Free hold land is stated at revalued amount. Lease hold land and buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any. Capital work in progress is valued at cost.

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

Depreciation on additions is charged to the profit and loss account from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are deleted / disposed off. Normal repairs and maintenance are charged to the profit and loss account as and when incurred; major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are included in profit and loss account.

Surplus arising on revaluation of property, plant and equipment is credited to “Surplus on revaluation of property, plant and equipment”. The surplus on revaluation realized on disposal of property, plant and equipment is transferred to equity.

4.5 Intangibles

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized using straight-line method over a period of three years. Where the carrying amount of an asset exceeds its estimated recoverable amount it is written down immediately to its recoverable amount.

4.6 Impairment

The carrying amounts of the Bank’s assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. An impairment loss is recognized in profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. Balances considered bad and irrecoverable are written off from the books of account. Provision against impairment is reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provision are recognized as income / expense in the profit and loss account.

4.7 Compensated Absences

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

4.8 Staff Retirement Benefits

The Bank operates:

- a) An unfunded contributory provident fund (old scheme) for those employees who joined prior to 1975 and have opted to remain under the old scheme. During the year, the Bank has provided an option to employees covered under general provident fund scheme to join the contributory provident fund scheme effective from June 1, 2007. Moreover, employees joining the Bank service after June 1, 2007 will be covered under the contributory provident fund scheme.
- b) An unfunded general provident fund (new scheme) for all employees who joined after 1975 and those employees who had joined prior to 1975 but have opted for the new scheme.
- c) Following other staff retirement benefit schemes:
 - an unfunded gratuity scheme (old scheme) for all its employees other than those who opted for the new general provident fund scheme, or joined the Bank after 1975 and are entitled only to pension scheme benefits or those who opted for the contributory gratuity scheme effective June 1, 2007.
 - an unfunded contributory gratuity scheme (new scheme) was introduced by the Bank with effect from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
 - an unfunded pension scheme;
 - an unfunded benevolent fund scheme; and
 - an unfunded post retirement medical benefit scheme.

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

Annual provisions are made by the Bank to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the Projected Unit Credit Method. Unrecognized actuarial gains and losses are recognized in the profit and loss account over the expected average remaining working lives of the employees.

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

4.9 Deferred Income

Grants received on account of capital expenditure are recorded as deferred income. These are amortized over the useful life of the relevant asset.

4.10 Revenue Recognition

- Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset. However, income on balances with Bangladesh (former East Pakistan), doubtful loans and advances and overdue return on investments are recognized as income on receipt basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gains / losses on disposal of securities are recognized in profit and loss account at trade date.
- All other revenues are recognized on time proportion basis.

4.11 Finances under Profit and loss Sharing Arrangements

The Bank provides various finances to financial institutions under profit and loss sharing arrangements. Share of profit / loss under these arrangements is recognized on time proportion basis.

4.12 Taxation

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

4.13 Foreign Currency Translation

Transactions denominated in foreign currencies are translated to Pak Rupees at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange prevailing at the balance sheet date.

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 4.14, which are transferred to the Government of Pakistan account.

Exchange differences arising under Exchange Risk Coverage Scheme and on currency swap transactions are recognized in the books of account on time proportion basis.

Commitments for outstanding forward foreign exchange contracts disclosed in note 34.2 to the financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

4.14 Transactions and Balances with International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards and the guidelines contained in the IMF

Manual, Aide Memoire and specific arrangements entered into between the Bank and the Government. A summary of the policies followed by the Bank for recording of these transactions and balances is as follows:

- The Government's contribution for quota with the IMF is recorded by the Bank as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.
- Exchange gains or losses arising on revaluation of borrowings from the IMF are recognized in the profit and loss account.
- The cumulative allocation of Special Drawing Rights by the IMF is treated as capital receipt and is not revalued.
- From the previous year, on the directive of Government of Pakistan, all income or charges pertaining to balances with the IMF are taken to the profit and loss account, earlier, income or charges pertaining to balances with the IMF were taken to the Government account, except for the following which were taken to the profit and loss account:
 - charges on borrowings under credit schemes other than fund facilities;
 - charges on net cumulative allocation of Special Drawing Rights; and
 - return on holdings of Special Drawing Rights.

4.15 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

4.16 Cash and Cash Equivalents

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

4.17 Financial Instruments

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

Any gain or loss on the derecognizing of the financial assets and liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include foreign currency reserves, investments, loans and advances, government accounts, other deposits accounts and

liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

4.18 Offsetting

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

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

As at June 30, 2007

	<i>Note</i>	2007	2006
		(Rupees in '000)	
ASSETS			
Gold reserves held by the Bank	5	81,277,106	76,317,295
Foreign currency reserves	6	685,468,587	555,312,089
Special Drawing Rights of the International Monetary Fund	7	12,383,051	12,035,520
Notes and coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	9	638,249	562,568
- Coins	10	3,012,270	2,865,468
		3,650,519	3,428,036
Investments	12	108,830,311	135,585,429
Commercial papers held in Bangladesh (former East Pakistan)	13	78,500	78,500
Assets held with the Reserve Bank of India	14	1,740,325	1,618,417
		893,428,399	784,375,286
LIABILITY			
Bank notes issued	15	893,428,399	784,375,286

The annexed notes 1 to 51 form an integral part of these financial statements.

Shamshad Akhtar
 Governor

Yaseen Anwar
 Deputy Governor

Muhammad Habib Khan
 Director Finance

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

As at June 30, 2007

	Note	2007	2006
		(Rupees in '000)	
ASSETS			
Local currency	10	135,646	139,340
Foreign currency reserves	6	162,815,117	134,568,948
Earmarked foreign currency balances	8	56,822,188	-
Special Drawing Rights of the International Monetary Fund	7	418,534	1,088,559
		<u>220,191,485</u>	<u>135,796,847</u>
Reserve tranche with the International Monetary Fund under quota arrangements	16	10,881	10,525
Securities purchased under agreement to resale	11	33,715,973	-
Current account of the Government of Balochistan	22.5	4,820,407	8,904,268
Investments	12	373,066,806	408,378,142
Loans, advances and bills of exchange	17	288,091,460	233,366,050
Balances due from the Governments of India and Bangladesh (former East Pakistan)	18	4,677,500	4,374,048
Property, plant and equipment	19	19,019,433	19,547,984
Intangible assets	20	163,769	115,681
Other assets	21	15,478,831	12,612,292
Total assets		<u>959,236,545</u>	<u>823,105,837</u>
LIABILITIES			
Bills payable		571,942	472,733
Current accounts of the Government	22	142,197,558	147,097,122
Securities sold under agreement to repurchase	23	61,816,757	60,491,003
Deposits of banks and financial institutions	24	305,168,576	207,574,257
Other deposits and accounts	25	104,135,996	104,641,242
Payable to the International Monetary Fund	26	85,063,742	89,866,240
Other liabilities	27	72,274,483	60,997,960
		<u>771,229,054</u>	<u>671,140,557</u>
Deferred liability - staff retirement benefits	28	11,484,789	10,812,990
Capital grant rural finance resource centre		59,431	59,431
Deferred income	29	340,845	426,608
Total liabilities		<u>783,114,119</u>	<u>682,439,586</u>
Net assets		<u>176,122,426</u>	<u>140,666,251</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	67,138,769	26,714,474
Unappropriated profit		<u>9,139,871</u>	<u>19,142,000</u>
		<u>77,904,598</u>	<u>47,482,432</u>
Unrealised appreciation on gold reserves	33	79,440,921	74,406,912
Surplus on revaluation of property, plant and equipment	19.2	18,747,014	18,747,014
Minority interest		29,893	29,893
		<u>176,122,426</u>	<u>140,666,251</u>
CONTINGENCIES AND COMMITMENTS			
	34		

The annexed notes 1 to 51 form an integral part of these financial statements.

Shamshad Akhter
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

State Bank of Pakistan and its Subsidiaries
Consolidated Profit and Loss Account
For the year ended June 30, 2007

	Note	2007	2006
		(Rupees in '000)	
Discount, interest / mark-up and / or return earned	35	92,513,195	69,940,502
Interest / mark-up expense	36	5,289,092	4,047,802
		87,224,103	65,892,700
Commission income	37	656,268	441,033
Exchange gain- net	38	1,957,806	4,376,273
Dividend income		4,286,628	1,974,628
Other operating income-net	39	2,944,823	799,545
		97,069,628	73,484,179
Less: Direct operating expenses			
Note printing charges	40	3,087,214	2,431,476
Agency commission	41	2,576,382	2,190,528
Provision for:			
- loans, advances and other assets		(73,964)	-
- other doubtful assets		212,057	547,691
		138,093	547,691
		91,267,939	68,314,484
Less: General administrative and other expenses	42	9,210,501	6,956,813
OPERATING PROFIT		82,057,438	61,357,671
Other income	43	27,478,244	7,288,864
		109,535,682	68,646,535
Less: Other charges	44	803,069	462,747
PROFIT FOR THE YEAR		108,732,613	68,183,788

The annexed notes 1 to 51 form an integral part of these financial statements.

Shamshad Akhter
 Governor

Yaseen Anwar
 Deputy Governor

Muhammad Habib Khan
 Director Finance

State Bank of Pakistan and its Subsidiaries
Consolidated Cash Flow Statement
 For the year ended June 30, 2007

	Note	2007 (Rupees in '000)	2006
Profit for the year after non-cash items	45	81,144,194	70,515,839
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(61,632)	(248,459)
Reserve tranche with the International Monetary Fund under quota arrangements		(356)	(211)
Securities purchased under agreement to resale		(33,715,973)	9,115,545
Investments		55,900,669	(182,770,037)
Discount income received		(73,808)	58,995
Loans, advances and bills of exchange		(54,651,446)	(9,111,925)
Indian notes representing assets receivable from the Reserve Bank of India		(75,681)	30,413
Assets held with the Reserve Bank of India		(41,399)	(2,242)
Other assets		(32,867,852)	(4,730,693)
		(65,587,478)	(187,658,614)
Increase / (decrease) in liabilities:			
Bank notes issued		109,053,113	78,509,578
Bills payable		99,209	(626,953)
Current accounts of the Government		(815,703)	25,389,165
Securities sold under agreement to repurchase		1,325,754	59,282,390
Deposits of banks and financial institutions		97,594,319	11,261,988
Other deposits and accounts		(505,246)	13,511,971
Payable to the International Monetary Fund		(4,802,498)	(6,787,741)
Other liabilities		(37,010,345)	(3,482,602)
		164,938,603	177,057,796
		180,495,319	59,915,021
Payment of retirement benefits and employees' compensated absences		(2,772,995)	(989,238)
Dividend received		4,286,628	1,974,628
Gold purchased		(6,311)	(51,195)
Fixed capital expenditure		(781,049)	(362,107)
Proceeds from disposal of investment		33,841,852	-
Proceeds from disposal of property, plant and equipment		75,142	77,567
Capital Grant		-	59,430
		34,643,267	709,085
Dividend paid to Government of Pakistan		(10,000)	(10,000)
Increase in cash and cash equivalents during the year		215,128,586	60,614,106
Cash and cash equivalents at beginning of the year		703,021,069	642,406,963
Cash and cash equivalents at end of the year	46	918,149,655	703,021,069

The annexed notes 1 to 51 form an integral part of these financial statements.

Shamshad Akhter
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

State Bank of Pakistan
Consolidated Statement of Changes in Equity
For the year ended June 30, 2007

Share capital	Allocation of special drawing rights of IMF	Attributable to equity holders of parent							Unrealised appreciation on gold reserves	Surplus on revaluation of property, plant and equipment	Unappropriated profit	Total	Minority interest	Total equity
		Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Reserves						
------(Rupees in '000)-----														
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	-	-	-	-	-	-	-	-	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
Changes in equity for 2006-07														
Profit for the year	-	-	-	-	-	-	-	-	-	-	108,732,613	108,732,613	-	108,732,613
Unrealised appreciation on revaluation of gold reserves	-	-	-	-	-	-	-	-	5,034,009	-	-	5,034,009	-	5,034,009
Total recognised income and expense for the year	-	-	-	-	-	-	-	-	5,034,009	-	108,732,613	113,766,622	-	113,766,622
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Transferred to reserve fund	-	-	40,424,295	-	-	-	-	-	-	-	(40,424,295)	-	-	-
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(78,300,447)	(78,300,447)	-	(78,300,447)
Balance at June 30, 2007	100,000	1,525,958	55,838,769	2,600,000	1,600,000	1,500,000	900,000	4,700,000	79,440,921	18,747,014	9,139,871 *	176,092,533	29,893	176,122,426

* The Central Board has proposed to transfer Rs. 9,139 million to the reserve fund after approval of the Federal Government.

The annexed notes 1 to 51 form an integral part of these financial statements.

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

5. GOLD RESERVES HELD BY THE BANK	Net content in troy ounces	2007 (Rupees in '000)	2006
Opening balance	2,066,354	76,317,295	53,870,004
Additions during the year	160	6,311	51,195
Appreciation during the year due to revaluation 33	-	4,953,500	22,396,096
	<u>2,066,514</u>	<u>81,277,106</u>	<u>76,317,295</u>

6. FOREIGN CURRENCY RESERVES

Investments	6.1 & 6.2	211,328,676	196,420,546
Deposit accounts	6.3 & 6.4	606,819,214	490,545,283
Current accounts	6.3 & 6.2	30,135,814	2,915,208
		<u>848,283,704</u>	<u>689,881,037</u>

The above foreign currency reserves are held as follows:

- Issue Department	685,468,587	555,312,089
- Banking Department	162,815,117	134,568,948
	<u>848,283,704</u>	<u>689,881,037</u>

6.1 Investments

Held for trading	6.4	209,629,406	194,750,943
Held to maturity	6.5	1,503,826	1,497,334
Available for sale		195,444	172,269
		<u>211,328,676</u>	<u>196,420,546</u>

6.2 These assets include Rs. 197.150 million (2006: Rs. 173.773 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 0.22% to 5.36% per annum (2006: 0.96% to 5.54% 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 3,542 million (2006: USD 3,365.9 million).

6.5 This represents Bank's investment in Islamic Sukuk Bonds carrying mark-up at the rate of 3.625% per annum (2006: 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, 2007. 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:	2007	2006
	(Rupees in '000)	
By the Issue Department	12,383,051	12,035,520
By the Banking Department	418,534	1,088,559
	<u>12,801,585</u>	<u>13,124,079</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 have already been 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	135,646	139,340
Coins		3,012,270	2,865,468
		<u>3,147,916</u>	<u>3,004,808</u>
Rupee coins held as assets of the Issue Department	10.1	(3,012,270)	(2,865,468)
		<u>135,646</u>	<u>139,340</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 balance represents the face value of unissued coins held by the Bank at June 30, 2007.

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings and carried mark up 8.78% to 9.50% per annum.

12. INVESTMENTS	2007	2006
	(Rupees in '000)	
Loans and receivables originated by the Bank		
<i>Government securities</i>	<i>12.1</i>	
Market Treasury Bills (MTBs)	<i>12.2</i>	514,510,984
Federal Government scrip	<u>2,740,000</u>	<u>2,740,000</u>
	<u>461,312,413</u>	<u>517,250,984</u>
Available for sale investments		
<i>Investments in Banks and other financial institutions</i>		
Ordinary shares		
- Listed	<u>8,362,019</u>	<u>14,967,804</u>
- Unlisted	<u>12,016,859</u>	<u>11,576,859</u>
	<i>12.3</i> <u>20,378,878</u>	<u>26,544,663</u>
Term Finance Certificates	282,400	282,400
Certificates of Deposits	<u>112,351</u>	<u>112,351</u>
	<u>20,773,629</u>	<u>26,939,414</u>
Provision against diminution in value of investments	<u>(601,751)</u>	<u>(601,751)</u>
	<u>481,484,291</u>	<u>543,588,647</u>
Investment held to maturity - Pakistan Investment Bonds	<u>412,826</u>	<u>374,924</u>
	<u>481,897,117</u>	<u>543,963,571</u>
Investment - MTBs held as assets of the Issue Department	<u>(108,830,311)</u>	<u>(135,585,429)</u>
	<u>373,066,806</u>	<u>408,378,142</u>

12.1 Investments in Government securities

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

	2007	2006
	(% per annum)	
Market Treasury Bills	8.4850 to 8.9017	7.9447 to 8.4869
Federal Government scrip	3	3

12.2 This includes securities having carrying value of Rs. 63,300.000 million (2006: Rs. 62,098.533 million) given as collateral under repurchase agreement borrowing arrangements.

12.3 Investments in shares of banks and other financial institutions (note 12.3.1)

	2007	2006		2007	2006
	% of Holding			(Rupees in '000)	
Listed					
National Bank of Pakistan	75.20	75.20	12.3.2	1,100,807	1,100,807
United Bank Limited	22.74	44.48	12.3.3 & 12.3.4	6,910,574	13,516,359
Allied Bank Limited	10.07	10.07	12.3.5	350,638	350,638
				8,362,019	14,967,804
Unlisted					
Habib Bank Limited	48.05	48.05	12.3.6 & 12.3.7	9,695,153	9,695,153
Federal Bank for Cooperatives	75.00	75.00		150,000	150,000
Equity Participation Fund	65.81	65.81		102,000	102,000
				9,947,153	9,947,153
Other- investments with holding less than or equal to 50%				2,069,706	1,629,706
				12,016,859	11,576,859
				20,378,878	26,544,663

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, 2007 amounted to Rs. 160,655.248 million (2006: Rs. 114,906.093 million).

12.3.3 Market value of the Bank's investment in the shares of United Bank Limited at June 30, 2007 amounted to Rs. 40,486.067 million (2006: Rs. 39,676.443 million).

12.3.4 The Cabinet Committee on Privatization (CCoP) in its meeting held on June 12, 2007 has decided that 30% of the Bank's holding would be divested in the form of Global Depository Receipts (GDR) out of which 5% shares were returned back to the Bank. In pursuance to an agreement, dated June 14, 2007, entered into between the Government of Pakistan (GOP), the Privatization Commission and the Bank, together with the specific approval of the GOP, 175,951,092 shares of United Bank Limited (UBL), representing 21.74% interest of the Bank in UBL's paid up capital were sold and transferred by way of offshore offering of GDRs. Sale proceeds amounting to Rs. 33,842 million (USD 559.721 million), net of transaction costs, were received by the Bank on June 29, 2007.

Further, an "over-allotment option" was granted in the GDR offering circular to purchase additional GDRs representing 26,392,660 shares (3.26% of UBL's paid up capital). These shares were sold and proceeds of Rs. 5,063.781 million (USD 83.848 million), net of transaction costs, were received on July 13, 2007.

12.3.5 Market value of the Bank's investment in the shares of Allied Bank Limited at June 30, 2007, amounted to Rs. 7,534.202 million (2006: Rs. 3,976.309 million).

12.3.6 The Government of Pakistan (GOP) vide directive dated June 27, 2007, has approved divestment of 51,750,000 shares of Habib Bank Limited (HBL) representing 5% of GOP's share in HBL alongwith a greenshoe option of 2.5%, through Initial Public Offering to the general public to be executed in July 2007.

12.3.7 The break-up value of the Bank's investment in the shares of HBL amounted to Rs. 25,677.91 million (2006: Rs. 19,046.317 million) at December 31, 2006 based on the financial statements of HBL for the year then ended.

12.4 As at June 30, 2007, the capital of National Institute of Banking and Finance (Guarantee) Limited (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, 2007 is 59.4% (2006: 59.4%).

13. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2006: 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 BANK OF INDIA	2007	2006
	(Rupees in '000)	
Gold reserves		
- Opening balance	1,240,385	876,162
- Appreciation from revaluation during the year	33 80,509	364,223
	1,320,894	1,240,385
Sterling securities	400,077	360,948
Government of India securities	14,972	13,196
Rupee coins	4,382	3,888
	1,740,325	1,618,417

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	135,646	139,340
Notes in circulation		893,292,753	784,235,946
		893,428,399	784,375,286

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

Quota allocated by the International Monetary Fund		94,817,476	92,156,422
Liability under quota arrangements		(94,806,595)	(92,145,897)
		10,881	10,525

17. LOANS, ADVANCES AND BILLS OF EXCHANGE

Government	17.1	13,500,000	18,000,000
Government owned / controlled financial institutions	17.2	132,807,462	119,697,057
Private sector financial institutions	17.3	143,400,797	96,886,598
		276,208,259	216,583,655
Employees		7,061,643	7,534,801
		296,769,902	242,118,456
Provision against doubtful balances		(8,599,942)	(8,673,906)
		288,169,960	233,444,550
Commercial papers held in issue department	13	(78,500)	(78,500)
		288,091,460	233,366,050

17.1 Loans and advances to the Governments	2007	2006
	(Rupees in '000)	
Federal Government	7,500,000	10,500,000
Provincial Government - Balochistan	6,000,000	7,500,000
	<u>13,500,000</u>	<u>18,000,000</u>

During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 8.3949 % to 8.8871 % per annum (2006: 7.6905 % to 8.3296 % per annum).

17.2 Loans and advances to Government owned / controlled financial institutions

		Scheduled banks		Non-banking financial institutions		Total	
		2007	2006	2007	2006	2007	2006
----- (Rupees in '000) -----							
Agricultural sector	17.2.2	62,991,778	63,032,232	-	-	62,991,778	63,032,232
Industrial sector	17.2.2	14,591,388	4,009,425	592,786	750,825	15,184,174	4,760,250
Export sector		25,734,827	20,681,892	3,567	-	25,738,394	20,681,892
Housing sector		-	-	11,242,300	11,245,867	11,242,300	11,245,867
Others		17,650,816	17,835,076	-	2,141,740	17,650,816	19,976,816
		<u>120,968,809</u>	<u>105,558,625</u>	<u>11,838,653</u>	<u>14,138,432</u>	<u>132,807,462</u>	<u>119,697,057</u>

17.2.1 Above balances include Rs. 552.258 million (2006: Rs. 548.518 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 include Rs. 50,174.089 million and Rs. 1,083.124 million respectively, (2006: 50,174.089 million and 1,083.124 million, respectively) representing the cumulative Government guaranteed financing of Rs. 51,257.213 million (2006: 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	
		2007	2006	2007	2006	2007	2006
----- (Rupees in '000) -----							
Industrial sector		28,612,589	4,342,170	5,816,296	3,658,659	34,428,885	8,000,829
Export sector		108,964,930	87,378,787	-	-	108,964,930	87,378,787
Others		6,982	1,506,982	-	-	6,982	1,506,982
		<u>137,584,501</u>	<u>93,227,939</u>	<u>5,816,296</u>	<u>3,658,659</u>	<u>143,400,797</u>	<u>96,886,598</u>

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

	2007	2006
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.0 to 12	1.0 to 12
Employees loans	10	10

18. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)	2007	2006
	(Rupees in '000)	
India		
Advance against printing of notes	39,616	39,616
Receivable from the Reserve Bank of India	837	837
	40,453	40,453
Bangladesh (former East Pakistan)		
Inter office balances	819,924	819,924
Loans and advances	3,817,123	3,513,671
	4,637,047	4,333,595
	4,677,500	4,374,048

18.1 These represent interest bearing 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	19.1	18,597,982	19,151,224
Capital work-in-progress	19.3	421,451	396,760
		19,019,433	19,547,984

19.1 Operating fixed assets

	2007										
	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	3,577,047	-	-	-	3,576,297	-	-	-	-	3,576,297	-
Leasehold land	12,762,205	-	-	-	12,762,205	-	353,748	-	353,748	12,408,457	over the term of lease
Buildings on freehold land	940,828	7,679	-	-	948,507	-	94,333	-	94,333	854,174	5
Buildings on leasehold land	1,403,157	47,661	-	-	1,450,818	-	141,361	-	141,361	1,309,457	5
Furniture and fixtures	135,407	38,631	-	-	170,726	55,741	11,812	-	65,775	104,951	10
Office equipment	433,657	71,021	-	-	496,841	282,396	51,870	-	330,114	166,727	20
EDP equipment	841,690	133,109	-	-	926,929	673,670	141,063	-	805,267	121,662	33.33
Motor vehicles	120,217	18,009	-	-	122,398	51,177	23,074	-	66,141	56,257	20
Library Book	755	-	-	-	755	755	-	-	755	-	-
	20,214,963	316,110	-	-	20,455,476	1,063,739	817,261	-	1,857,494	18,597,982	
		(75,597) *					(23,506) *				
	2006										
	(Rupees in '000)										
Freehold land	827,382	-	-	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	-	-	135,407	41,071	14,670	-	55,741	79,666	10
Office equipment	355,624	78,394	-	-	433,657	241,119	41,618	-	282,396	151,261	20
EDP equipment	660,605	232,401	-	-	841,690	564,520	109,192	-	673,670	168,020	33.33
Motor vehicles	97,419	37,706	-	-	120,217	42,573	18,949	-	51,177	69,040	20
Library Book	726	29	-	-	755	726	29	-	755	-	-
	8,503,688	488,522	(1,243,654)	12,552,511	20,214,963	1,915,028	403,093	(1,243,654)	1,063,739	19,151,224	
		(34,828)					(10,726)				
		(51,276) *					(2) *				

19.2 Surplus on revaluation of property, plant and equipment

	2007	2006
	(Rupees in '000)	
Opening balance	18,747,014	6,194,503
Surplus arose on revaluation as at June 30	-	12,552,511
	<u>18,747,014</u>	<u>18,747,014</u>

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

19.3 Capital work in progress

	2007	2006
	(Rupees in '000)	
Buildings on freehold land	32,322	25,708
Buildings on leasehold land	182,936	148,268
Furniture and fixtures	19,642	22,270
Office equipment	174,601	115,744
EDP equipment	2,913	6,674
Intangible assets	9,037	78,096
	<u>421,451</u>	<u>396,760</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	2007	263,128	140,224	403,352	147,447	92,136	239,583	163,769	33.33
	2006	98,331	164,797	263,128	77,460	69,987	147,447	115,681	33.33

21. OTHER ASSETS

	2007	2006
	(Rupees in '000)	
Amounts due from financial institutions under currency swap arrangements	21.1 1,815,625	1,793,082
Accrued interest / mark-up and return	8,358,043	5,657,999
Exchange gain recoverable under exchange risk coverage scheme	9,518	-
Stationery and stamps on hand	68,721	62,290
Other advances, deposits and prepayments	2,114,114	2,395,615
Balance receivable from the Government of Pakistan	-	221
Others	3,112,810	2,703,085
	<u>15,478,831</u>	<u>12,612,292</u>

21.1 This represents the Bank's right to receive rupee equivalent 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		2007 (Rupees in '000)	2006
Federal Government	22.1	79,631,865	80,452,535
Provincial Governments			
- Punjab	22.2	15,844,409	26,536,666
- Sindh	22.3	35,899,691	27,935,196
- North West Frontier Province (NWFP)	22.4	9,853,725	7,474,126
- Balochistan	22.5	-	-
		61,597,825	61,945,988
Government of Azad Jammu and Kashmir		967,868	4,698,599
		142,197,558	147,097,122
22.1 Federal Government			
Non-food account		38,586,093	33,056
Food account		344,448	13,063
Zakat fund account		14,154,753	14,007,202
Railways - ways and means advances	22.6	(12,649,222)	(5,522,955)
Fertilizer account		21,082	34,495
Saudi Arabia special loan account		4,124	4,124
Pakistan Baitul Mal fund account		375,246	346,366
Pakistan Railways special account		2,540,648	2,011,650
Government deposit account no. XII		5,276	5,276
Special transfer account		7,368,813	53,814,741
UN reimbursement account		28,880,604	15,705,517
		79,631,865	80,452,535
22.2 Provincial Government - Punjab			
Non-food account		(26,418,667)	(3,057,044)
Food account		692,554	1,140,669
Zakat fund account		107,606	155,291
District Government account no. IV		41,462,916	28,297,750
		15,844,409	26,536,666
22.3 Provincial Government - Sindh			
Non-food account		21,196,947	21,045,688
Food account		261,765	358,481
Zakat fund account		92	86,809
District Government account no. IV		14,440,887	6,444,218
		35,899,691	27,935,196

22.4 Provincial Government - NWFP	2007	2006
	(Rupees in '000)	
Non-food account	6,069,177	5,330,813
Food account	(223,054)	359,919
Zakat fund account	4,240	1,480
District Government account no. IV	4,003,362	1,781,914
	9,853,725	7,474,126
22.5 Provincial Government - Balochistan		
Non-food account	(7,869,805)	(11,621,795)
Food account	116,902	28,179
Zakat fund account	488	1
District Government account no. IV	2,932,008	2,689,347
	(4,820,407)	(8,904,268)
Classified as a receivable balance	22.6 4,820,407	8,904,268
Net credit balance	-	-

22.6 These balances carry mark-up at 8.89% per annum (2006: 8.33% per annum).

23. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents repurchase agreement borrowings and are subject to mark-up at the rate of 8.75% to 9.40% per annum (2006: 6.25% to 8.90% per annum).

24. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

Foreign currency

Scheduled banks	13,674,768	19,537,121
Held under Cash Reserve Requirements	47,025,513	43,869,431
	60,700,281	63,406,552

Local currency

Scheduled banks	243,216,596	142,849,429
Non-banking financial institutions	1,250,014	1,316,827
Others	1,685	1,449
	244,468,295	144,167,705
	305,168,576	207,574,257

24.1 The above deposits are free of interest except deposits under Cash Reserve Requirements which are remunerated at the rates given below:

	2007	2006
	(% per annum)	
Foreign currency	4.11 to 4.32	2.34 to 4.11
Local currency	1.98 to 2.59	1.98 to 2.59

25. OTHER DEPOSITS AND ACCOUNTS		2007	2006
		(Rupees in '000)	
Foreign currency			
Foreign central banks		27,207,900	27,090,450
International organisations		15,115,500	15,050,250
Others		10,095,784	12,744,931
		52,419,184	54,885,631
Local currency			
Special debt repayment	25.2	23,499,270	23,273,267
Government	25.3	11,012,500	11,012,500
Others		17,205,042	15,469,844
		51,716,812	49,755,611
		104,135,996	104,641,242

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

	2007	2006
	(% per annum)	
Foreign central banks	5.18 to 5.58	3.28 to 5.51
International organisation	6.62 to 7.30	4.74 to 6.62
Others	5.07 to 5.16	4.35 to 4.86

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 equivalent 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		2007	2006
		(Rupees in '000)	
Borrowings under:			
- Fund facilities	26.1	2,318,611	3,943,564
- Other credit schemes		82,745,103	85,922,647
		85,063,714	89,866,211
Current account for administrative charges		28	29
		85,063,742	89,866,240

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:		2007	2006
			(% per annum)	
	Fund facilities		4.82 to 5.34	3.75 to 4.90
	Other credit schemes		0.5	0.5
27.	OTHER LIABILITIES			
	Foreign currency		2007	2006
			(Rupees in '000)	
	Amounts due to financial institutions under currency swap arrangements	21.1	1,813,860	1,806,030
	Accrued interest and discount on deposits		850,043	666,899
	Charges on allocation of Special Drawing Rights of IMF		108,144	91,195
	Others		-	53,780
			2,772,047	2,617,904
	Local currency			
	Overdue mark-up and return		4,120,428	3,815,707
	Unearned exchange risk fee		10,774	10,769
	Remittance clearance account		1,289,875	641,709
	Exchange loss payable under exchange risk coverage scheme		-	1,292
	Balance payable to the Government of Pakistan		48,300,447	39,091,788
	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	7,191,619	6,791,598
	Others		5,650,227	5,088,127
			69,502,436	58,380,056
			72,274,483	60,997,960
27.1	Other accruals and provisions			
	Interest payable		94,638	43,815
	Printing charges		-	136,085
	Agency commission		862,273	738,429
	Provision for employees' compensated absences	42.4	2,148,077	2,155,483
	Provision for other doubtful assets		2,273,602	1,156,785
	Other provisions	27.2	1,175,858	2,061,545
	Others		637,171	499,456
			7,191,619	6,791,598

27.2 Movement of other provisions	2007	2006
	(Rupees in '000)	
Opening balance	1,156,785	1,205,895
Provision during the year	173,000	-
Reversed during the year	(153,927)	(49,110)
Closing balance	<u>1,175,858</u>	<u>1,156,785</u>

	Home remittance	Agriculture loan	Others (note 27.2.1)	Total
----- (Rupees in '000) -----				
Opening balance	260,363	154,366	742,056	1,156,785
Provisions during the year	-	173,000	-	173,000
Reversed during the year	-	(153,706)	(221)	(153,927)
Closing balance	<u>260,363</u>	<u>173,660</u>	<u>741,835</u>	<u>1,175,858</u>

27.2.1 This represents provision made in respect of various litigations against the Bank.

28. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS	2007	2006
	(Rupees in '000)	
Gratuity	55,119	80,285
Pension	8,360,072	8,057,753
Benevolent fund scheme	941,756	958,767
Post retirement medical benefits	1,107,213	712,824
	42.2.3	10,464,160
Provident fund scheme	1,020,629	1,003,361
	<u>11,484,789</u>	<u>10,812,990</u>

29. DEFERRED INCOME		
Opening balance		426,608
Grants received during the year		116,924
Amortisation during the year	43	(202,687)
Closing balance		<u>340,845</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			
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. The draft report recently issued by the IMF Balance of Payment (BOP) Committee considers possibility of classifying allocation of SDRs as a liability. Accordingly, the Central Board has approved an annual appropriation equivalent to one-third of the cumulative exchange difference that would arise upon reclassification of the allocation of SDRs from equity to liability with retrospective effect. An amount of Rs. 4,689 million has been appropriated to Reserve Fund during the year ended June 30, 2007. However, pending final report from the IMF BOP Committee, the existing policy regarding allocation of SDRs has not yet been changed.

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		74,406,912	51,646,593
Appreciation on revaluation during the year:			
- held by the Bank	5	4,953,500	22,396,096
- held with the Reserve Bank of India	14	80,509	364,223
		5,034,009	22,760,319
		79,440,921	74,406,912

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	2007	2006
	(Rupees in '000)	
34.1 Contingencies		
a) Contingent liability in respect of guarantees given on behalf of:		
i) Government	43,746,787	43,746,787
ii) Government owned / controlled bodies and authorities	44,021,427	44,021,427
	<u>87,768,214</u>	<u>87,768,214</u>
<p>Above guarantees are secured by counter guarantees either from the Government of Pakistan or local financial institutions.</p>		
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 - sale	33,410,781	9,819,847
Forward exchange contracts - purchase	115,556,495	18,682,725
Futures - sale	51,314,571	9,071,691
Futures - purchase	22,553,704	9,377,201
Foreign currency placement	48,511,685	-
Import letters of credit	261,181,471	240,749,445
ESAF commitment with IMF	61,181	118,929
35. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	44,495,269	34,933,642
Other Government securities	162,559	117,617
Loans and advances to Government	2,503,067	2,530,474
Share of profit on finances under profit and loss sharing arrangements	10,611,858	8,374,826
Foreign currency deposits	26,460,957	17,314,137
Foreign currency securities	8,277,288	6,668,316
Others	2,197	1,490
	<u>92,513,195</u>	<u>69,940,502</u>

36. INTEREST / MARK-UP EXPENSE	2007	2006
	(Rupees in '000)	
Deposits and borrowings	5,214,491	3,981,369
Others	74,601	66,433
	<u>5,289,092</u>	<u>4,047,802</u>
 37. COMMISSION INCOME		
Market Treasury Bills	83,029	69,651
Draft / payment orders	190,334	62,655
Prize Bonds and National Saving Certificates	206,605	151,516
Management of public debts	72,485	64,367
Others	103,815	92,844
	<u>656,268</u>	<u>441,033</u>
 38. EXCHANGE GAIN - net		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	3,871,925	5,503,078
- Open market operations (including currency swap arrangements)	(7,621)	(15,480)
- Forward covers under Exchange Risk Coverage Scheme	86,013	(1,292)
- Payable to the IMF	(2,466,927)	(1,485,868)
- Special Drawing Rights of IMF	331,686	262,445
- Others	-	(34,536)
	<u>1,815,076</u>	<u>4,228,347</u>
Exchange risk fee income	142,730	147,926
	<u>1,957,806</u>	<u>4,376,273</u>
 39. OTHER OPERATING INCOME - net		
Penalties levied on banks and financial institutions	1,434,355	884,091
License / Credit Information Bureau fee recovered	42,087	34,274
Profit on sale of securities	789,695	900,081
Gain / (loss) on remeasurement of securities classified as held for trading	605,602	(1,019,214)
Others	73,084	313
	<u>2,944,823</u>	<u>799,545</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% (2006: 0.15%) of the total amount of collection and remittances handled by NBP.

42. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	2007	2006
	(Rupees in '000)	
Salaries and other benefits	3,598,196	3,181,267
Retirement benefits and employees' compensated absences	3,437,388	2,140,981
Contribution to SBP Employees' Welfare Trust	10,000	10,000
Rent and taxes	36,687	15,116
Insurance	10,687	6,163
Electricity, gas and water	156,365	140,500
Depreciation	817,261	403,093
Amortisation of intangible assets	92,136	69,987
Repairs and maintenance	154,842	138,305
Auditors' remuneration	4,984	4,326
Legal and professional	313,933	305,482
Travelling and recreation expenses	129,764	103,170
Daily expenses	34,794	41,381
Fuel	10,498	10,789
Conveyance	7,589	8,906
Postages, telegram / telex and telephone	98,164	88,547
Training	42,085	24,309
Examination/ testing services	1,014	2,993
Remittance of treasure	31,276	37,445
Stationery	18,613	14,934
Books and newspapers	15,048	12,265
Advertisement	26,031	16,357
Uniforms	17,418	15,010
Others	145,728	165,487
	9,210,501	6,956,813

42.1 Auditors' remuneration

	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co.	2007	2006
	----- (Rupees in '000) -----			
State Bank of Pakistan				
Audit fee	1,000	1,000	2,000	1,750
Out of pocket expenses	100	100	200	200
	1,100	1,100	2,200	1,950
SBP Banking Services Corporation				
Audit fee	1,100	1,100	2,200	1,750
Out of pocket expenses	250	250	500	500
	1,350	1,350	2,700	2,250
National Institute of Banking and Finance (Guarantee) Limited				
Audit fee	80	-	80	75
Out of pocket expenses	4	-	4	51
	84	-	84	126
	2,534	2,450	4,984	4,326

42.2 Staff retirement benefits

42.2.1 As mentioned in note 4.8, the Bank operates the following staff retirement benefit schemes:

- an unfunded gratuity scheme (old scheme) for all its employees other than those who opted for the new general provident fund scheme, or joined the Bank after 1975 and are entitled only to pension scheme benefits or those who opted for the contributory gratuity scheme effective June 1, 2007.
- an unfunded pension scheme;
- an unfunded contributory gratuity scheme (new scheme) was introduced by the Bank with effect from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
- an unfunded contributory benevolent fund scheme; and
- an unfunded 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 grants and contributions 2.78 % per annum (2006: 2.57 % per annum).
- Expected rate of discount 11.00 % per annum (2006: 10.8 % per annum).
- Expected rate of increase in salary 8.9 % per annum (2006: 8.7 % per annum).
- Expected rate of increase in pension 2.78 % per annum (2006: 2.57 % per annum).
- Medical cost increase 5.71 % per annum (2006: 5.5 % per annum).
- Personnel turnover 2.00 % per annum (2006: 2.00 % 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, 2007 based on actuarial valuation as of that date was as follows:

	2007		
	Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of the staff retirement benefits
	----- (Rupees in '000) -----		
Gratuity	59,461	(5,506)	53,955
Pension	8,589,692	(229,620)	8,360,072
Benevolent	1,035,583	(93,827)	941,756
Post retirement medical benefits	3,213,026	(2,105,813)	1,107,213
	<u>12,897,762</u>	<u>(2,434,766)</u>	<u>10,462,996</u>
	----- (Rupees in '000) -----		
	2006		
	Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of the staff retirement benefits
	----- (Rupees in '000) -----		
Gratuity	74,194	6,091	80,285
Pension	8,434,571	(376,818)	8,057,753
Benevolent	1,084,594	(125,827)	958,767
Post retirement medical benefits	2,863,632	(2,150,808)	712,824
	<u>12,456,991</u>	<u>(2,647,362)</u>	<u>9,809,629</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 June 30, 2006	Charge for the year	Payments during the year	Employees contribution	Net recognised liability at June 30, 2007
	(Rupees in '000)				
Gratuity	80,285	12,204	(38,534)	-	53,955
Pension	8,057,753	1,643,901	(1,255,226)	(86,356)	8,360,072
Benevolent	958,767	341,427	(371,033)	12,595	941,756
Post retirement medical benefits	712,824	632,823	(238,434)	-	1,107,213
2007	9,809,629	2,630,355	(1,903,227)	(73,761)	10,462,996
	Net recognised liability at June 30, 2005	Charge for the year	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

42.2.4 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:

	Current service cost	Actuarial gain / (loss)	Interest cost	Settlement cost	Employee Contributions	Total
	(Rupees in '000)					
Gratuity	2,218	(1,429)	9,027	2,388	-	12,204
Pension	228,555	30,198	945,647	439,501	-	1,643,901
Benevolent	35,264	10,000	136,270	172,488	12,595	341,427
Post retirement medical benefits	56,618	209,995	318,864	47,346	-	632,823
2007	322,655	248,764	1,409,808	661,723	12,595	2,630,355

	Current service cost	Actuarial gain / (loss)	Interest cost	Settlement cost	Employee Contributions	Total
	(Rupees in '000)					
Gratuity	2,805	1,785	9,529	-	-	14,119
Pension	239,024	64,686	928,405	-	-	1,232,115
Benevolent	35,624	9,796	113,685	-	(12,807)	146,298
Post retirement medical benefits	45,038	122,014	250,460	-	-	417,512
2006	322,491	198,281	1,302,079	-	(12,807)	1,810,044

42.2.5 Historical information

	2007	2006	2005	2004	2003
	(Rupees in '000)				
Gratuity					
Present value of defined benefit obligation	59,461	74,194	92,000	85,914	86,814
Unrecognised actuarial (loss) / gain	(5,506)	6,091	(5,000)	20,665	21,222
Provisions in respect of retirement benefits	-	-	-	-	-
Liability in balance sheet	53,955	80,285	87,000	106,579	108,036
Experience adjustment arising on plan liabilities (gains) / losses	4,211	(8,520)	20,144	(5,058)	(11,407)
Pension					
Present value of defined benefit obligation	8,589,692	8,434,571	8,247,000	7,106,000	7,064,560
Unrecognised actuarial (loss) / gain	(229,620)	(376,818)	(850,000)	(126,000)	(43,000)
Provisions in respect of retirement benefits	-	-	-	-	(2,765,000)
Liability in balance sheet	8,360,072	8,057,753	7,397,000	6,980,000	4,256,560
Experience adjustment arising on plan liabilities (gains) / losses	(117,735)	(408,484)	733,000	87,000	43,000
Benevolent Fund					
Present value of defined benefit obligation	1,035,583	1,084,594	1,008,000	958,000	994,184
Unrecognised actuarial (loss) / gain	(93,827)	(125,827)	(142,000)	(144,000)	(132,500)
Provisions in respect of retirement benefits	-	-	-	-	(253,000)
Liability in balance sheet	941,756	958,767	866,000	814,000	608,684
Experience adjustment arising on plan liabilities (gains) / losses	(22,303)	(6,390)	8,000	20,000	133,000
Post retirement Medical Benefits					
Present value of defined benefit obligation	3,213,026	2,863,632	2,221,000	1,434,000	738,825
Unrecognised actuarial (loss) / gain	(2,105,813)	(2,150,808)	(1,790,000)	(1,090,000)	(345,500)
Provisions in respect of retirement benefits	-	-	-	-	(88,000)
Liability in balance sheet	1,107,213	712,824	431,000	344,000	305,325
Experience adjustment arising on plan liabilities (gains) / losses	165,511	493,437	758,000	765,000	574,000

42.3 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. 2,148 million (2006: Rs. 2,155 million). An amount of Rs. 7 million (2006: Rs. 124 million) has been reversed from / charged to the profit and loss account in the current period based on the actuarial advice.

43. OTHER INCOME	2007	2006
	(Rupees in '000)	
Gain on disposal of property, plant and equipment	2,616	2,941
Liabilities and provisions written back - net	599	66,881
Gain on disposal of investments - net	27,236,418	3,421,587
Reversal of liability pertaining to demonitization of Rs. 5 denominated Bank note	-	3,545,871
Amortisation of deferred income	29 202,687	135,697
Others	35,924	115,887
	<u>27,478,244</u>	<u>7,288,864</u>
44. OTHER CHARGES		
Charges on allocation of Special Drawing Rights	629,591	462,079
Others	173,478	668
	<u>803,069</u>	<u>462,747</u>
45. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS		
Profit for the year	108,732,613	68,183,788
Adjustments for:		
Depreciation	817,261	403,094
Amortisation of intangible assets	92,136	69,987
Amortisation of deferred income	(202,687)	(135,697)
Provision for:		
- retirement benefits and employees' compensated absences	3,437,388	2,833,347
- loans, advances and other assets	(73,964)	-
- other doubtful assets	212,057	547,691
- investments		
Gain on disposal of property, plant and equipment	(2,616)	(7,041)
Gain on disposal of investment	(27,581,366)	-
Dividend income	(4,286,628)	(1,974,628)
Other accruals and provisions - net	-	595,298
	<u>81,144,194</u>	<u>70,515,839</u>
46. CASH AND CASH EQUIVALENTS		
Local currency	3,147,916	3,004,808
Foreign currency reserves	845,785,393	686,892,182
Earmarked foreign currency balances	56,822,188	-
Special Drawing Rights of IMF	12,801,585	13,124,079
	<u>918,557,082</u>	<u>703,021,069</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:

	2007						Grand Total
	Interest/ mark-up bearing			Non interest/ mark-up bearing			
	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							
Local currency (including rupee coins)	-	-	-	135,646	-	135,646	135,646
Foreign currency reserves	845,360,476	2,298,697	847,659,173	-	624,531	624,531	848,283,704
Earmarked foreign currency balance	56,822,188	-	56,822,188	-	-	-	56,822,188
Special Drawing Rights of International Monetary Fund	-	12,801,585	12,801,585	-	-	-	12,801,585
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	10,881	10,881	10,881
Securities purchased under agreement to resale	33,715,973	-	33,715,973	-	-	-	33,715,973
Current account of the Government of Balochistan	4,820,407	-	4,820,407	-	-	-	4,820,407
Investments	458,572,413	3,152,826	461,725,239	-	20,171,877	20,171,877	481,897,116
Loans, advances and bills of exchange	18,856	282,677,002	282,695,858	580,471	4,815,131	5,395,602	288,091,460
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	638,249	638,249	638,249
Assets held with the Reserve Bank of India	-	419,431	419,431	-	-	-	419,431
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	3,817,123	3,817,123	-	-	-	3,817,123
Other assets	-	-	-	8,429,590	1,815,625	10,245,215	10,245,215
	1,399,310,313	305,166,664	1,704,476,977	9,145,707	28,076,294	37,222,001	1,741,698,978
Financial liabilities							
Bank notes in circulation	-	-	-	-	893,428,399	893,428,399	893,428,399
Bills payable	-	-	-	571,942	-	571,942	571,942
Current accounts of the Government	-	-	-	-	142,197,558	142,197,558	142,197,558
Securities sold under an agreement to repurchase	61,816,757	-	61,816,757	-	-	-	61,816,757
Deposits of banks and financial institutions	-	47,025,513	47,025,513	-	258,143,063	258,143,063	305,168,576
Other deposits and accounts	-	42,323,400	42,323,400	-	44,607,554	44,607,554	86,930,954
Payable to International Monetary Fund	9,522,535	75,541,207	85,063,742	-	-	-	85,063,742
Other liabilities	-	-	-	64,489,287	1,682,000	66,171,287	66,171,287
	71,339,292	164,890,120	236,229,412	65,061,229	1,340,058,574	1,405,119,803	1,641,349,215
On balance sheet gap	1,327,971,021	140,276,544	1,468,247,565	(55,915,522)	(1,311,982,280)	(1,367,897,802)	100,349,763
2006							
	Interest/ mark-up bearing			Non interest/ mark-up bearing			Grand 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							
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
	1,282,619,962	28,134,193	1,310,754,154	99,430,514	99,737,984	199,168,497	1,509,922,651
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
	124,523,255	127,313,963	251,837,218	333,311,644	869,501,796	1,202,813,440	1,454,650,658
On balance sheet gap	1,158,096,707	(99,179,770)	1,058,916,936	(233,881,130)	(769,763,812)	(1,003,644,943)	55,271,993

* 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. 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

48.1 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.

48.2 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.

48.3 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.

48.4 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 42.2.1 to the financial statements.

48.5 Useful life and residual value of property, plant and equipment

Estimates of useful life and residual value of items of property, plant 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. DATE OF AUTHORISATION

These financial statements were authorised for issue on **04 SEP 2007** by the Central Board of Directors of the Bank.

51. GENERAL

Figures have been rounded off to the nearest thousand rupees.

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

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Financial Statements of SBP

KPMG TASEER HADI & CO.

Chartered Accountants
1st Floor, Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi

M. YOUSUF ADIL SALEEM & CO.

Chartered Accountants
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KCSHU, Shahrah-e-Faisal
Karachi

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying unconsolidated financial statements of the Issue and Banking Departments of the **State Bank of Pakistan**, which comprise the unconsolidated balance sheet as at June 30, 2007 and unconsolidated profit and loss account, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards as applicable in Pakistan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The Bank has maintained a provision of Rs. 2,157 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. 2,654 million and Rs. 5,230 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 6,563 million and Rs. 1,321 million, respectively.

Qualified Opinion

In our opinion, except for the financial effect of the matter stated in the preceding paragraph the unconsolidated financial statements give a true and fair view of the financial position of the Bank as of June 30, 2007 and of its financial performance, and its cash flows for the year then ended in accordance with 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.

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 as described in the said note. Pending issuance of final report of the committee, the classification of SDR Allocations as equity has been maintained in these financial statements.

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Date

M. Yousuf Adil Saleem & Co.
Chartered Accountants
Karachi

Date

State Bank of Pakistan
Notes to the Unconsolidated Financial Statements
For the year ended June 30, 2007

1. Status and Nature Of Operations

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

- implementing the monetary policy;
- issuing of currency;
- facilitation of free competition and stability in the financial system;
- licensing and supervision of banks including micro finance banks, development financial institutions and exchange companies;
- organization and management of the inter-bank settlement system and promotion of smooth functioning of payment systems;
- providing of loans and advances to the Government, banks, financial institutions and local authorities under various facilities;
- purchase, holding and sale of shares of banks and financial institutions on the directives of the Federal Government; and
- acting as depository of the Government under specific arrangements between the Government and certain institutions.

2. Statement of Compliance

These financial statements have been prepared in accordance with the requirements of International Accounting Standards (IASs) and policies for investments and transactions and balances with International Monetary Fund as stated in note 4.2 and 4.14, respectively, approved for adoption by the Central Board of the Bank. Under the power conferred by the State Bank of Pakistan Act, 1956, the Central Board has approved IAS-1 to IAS-38 for adoption. Where the requirements of policies adopted by the Central Board differ with the requirements of International Accounting Standards adopted by the Central Board, the requirements of policies adopted by the Central Board take precedence.

3. Basis of Measurement

These financial statements have been prepared under the historical cost convention, except that investments, gold reserves and certain fixed assets, as referred to in notes 4.2, 4.3 and 4.4 have been included at revalued amounts.

The preparation of financial statements in conformity with International Accounting Standards 1 to 38 and policies for investments and transactions and balances with IMF as stated in note 4.2 and 4.14, respectively, approved for adoption by the Central Board of the Bank requires management to make judgments, 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 judgments about the 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.

Judgments made by the management in the application of International Accounting Standards 1 to 38 and policies for investments and transactions and balances with IMF as stated in note 4.2 and 4.14, respectively approved for adoption by the Central Board of the Bank, that have significant effect on the financial statements and estimates with significant risk of material adjustment in subsequent years are discussed in note 49 to these financial statements.

4. Summary of Significant Accounting Policies

4.1 Bank notes and coins

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of notes is charged to the profit and loss account as and when incurred. Any unissued bank notes lying with the Bank are not reflected in the books of account.

The Bank also issues coins of various denominations on behalf of the Government of Pakistan (GOP). These coins are purchased from the GOP at their respective face values. The unissued coins form part of the assets of the Issue Department.

4.2 Investments

All investments acquired by the Bank are initially measured at cost being the fair value of consideration given. Transaction costs are included in the initial measurement of investments. Subsequent to initial measurement, the Bank measures and classifies its investments under the following categories:

Held for trading

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

All purchases and sales of investments categorized as held for trading that required delivery within the time frame established by regulation or market convention ('regular way' purchase and sale) are recognized at the trade date, which is the date Bank commits to purchase or sell the investment, otherwise transactions are treated as derivative until settlement occurs.

Held to maturity

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

All regular way purchases and sales are recognized at the trade date, which is the date Bank commits to purchase or sell the investment. Otherwise transactions are treated as derivative until settlement occurs.

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

Loans and receivables

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

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

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

Available for sale securities (AFS)

These are the securities which do not fall in any of the above three categories. Subsequent to initial recognition changes in fair value of these securities are taken to equity except the strategic investments, including investments in National Bank of Pakistan, Habib Bank Limited, Allied Bank Limited and United Bank Limited, and investments in securities the

fair value of which cannot be determined reliably. Gain or loss on changes in fair value is kept in equity until the investments are sold or disposed off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in the equity is included in profit and loss account.

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

Investments classified as held for trading or available for sale are derecognized by the Bank on the date it transfers risks and rewards. Securities held to maturity are derecognized on the day these are transferred by the Bank. Gains and losses on de-recognition of held for trading, held to maturity and AFS securities are taken to profit and loss account.

Derivative financial instruments

The Bank enters into derivative financial instruments, which include forwards and currency swaps. Derivatives are initially recorded at cost and are remeasured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 34.2 while the asset and liability portion of a currency swap are presented in Other Assets and Other Liabilities in notes 21 and 27 to the financial statements. The resultant gains or losses from derivatives are included in the profit and loss account on a time proportion basis.

Collateralized borrowings / lending

Securities sold subject to a commitment to repurchase them at a predetermined price, are retained on the balance sheet and a liability is recorded in respect of the consideration received in "Securities sold under agreement to repurchase". Conversely, securities purchased under analogous commitment to resell are not recognized on the balance sheet and a consideration paid is recorded in "Securities purchased under agreement to resale". The difference between the sale and repurchase price in the repurchase transactions and the purchase price and resale price in reverse repurchase transaction represents an expense and income, respectively, and recognized in the profit and loss account on time proportion basis.

4.3 Gold Reserves

Gold reserves, including those held with the Reserve Bank of India, are stated at the revalued amounts of the fine gold content thereof, in accordance with the requirements of the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations. Appreciation or depreciation, if any, on revaluation is taken to equity under the head of "Unrealized appreciation on gold reserves" account. Appreciation realized on disposal of gold is credited to the profit and loss account.

4.4 Property, Plant and Equipment

Property, plant and equipment except land, buildings and capital work in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Free hold land is stated at revalued amount. Lease hold land and buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any. Capital work in progress is valued at cost.

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

Depreciation on additions is charged to the profit and loss account from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are deleted / disposed off. Normal repairs and maintenance are charged to the profit and loss account as and when incurred; major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are included in profit and loss account.

Surplus arising on revaluation of property, plant and equipment is credited to “Surplus on revaluation of property, plant and equipment”. The surplus on revaluation realized on disposal of property, plant and equipment is transferred to equity.

4.5 Intangibles

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized using straight-line method over a period of three years. Where the carrying amount of an asset exceeds its estimated recoverable amount it is written down immediately to its recoverable amount.

4.6 Impairment

The carrying amounts of the Bank’s assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. An impairment loss is recognized in profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. Balances considered bad and irrecoverable are written off from the books of account. Provision against impairment is reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provision are recognized as income / expense in the profit and loss account.

4.7 Compensated Absences

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

4.8 Staff Retirement Benefits

The Bank operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined prior to 1975 and have opted to remain under the old scheme. During the year, the Bank has provided an option to employees covered under general provident fund scheme to join the contributory provident fund scheme effective from June 1, 2007. Moreover, employees joining the Bank service after June 1, 2007 will be covered under the contributory provident fund scheme.

- b) an unfunded general provident fund (new scheme) for all employees who joined after 1975 and those employees who had joined prior to 1975 but have opted for the new scheme.
- c) following other staff retirement benefit schemes:
 - an unfunded gratuity scheme (old scheme) for all its employees other than those who opted for the new general provident fund scheme, or joined the Bank after 1975 and are entitled only to pension scheme benefits or those who opted for the contributory gratuity scheme effective June 1, 2007.
 - an unfunded contributory gratuity scheme (new scheme) was introduced by the Bank with effect from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
 - an unfunded pension scheme;
 - an unfunded benevolent fund scheme; and
 - an unfunded post retirement medical benefit scheme.

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

Annual provisions are made by the Bank to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the Projected Unit Credit Method. Unrecognized actuarial gains and losses are recognized in the profit and loss account over the expected average remaining working lives of the employees.

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

4.9 Deferred Income

Grants received on account of capital expenditure are recorded as deferred income. These are amortised over the useful life of the relevant asset.

4.10 Revenue Recognition

- Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset. However, income on balances with Bangladesh (former East Pakistan), doubtful loans and advances and overdue return on investments are recognized as income on receipt basis.
- Dividend income is recognized when the Bank's right to receive dividend is established.
- Gains / losses on disposal of securities are recognized in profit and loss account at trade date.

- All other revenues are recognized on time proportion basis.

4.11 Finances under profit and loss sharing arrangements

The Bank provides various finances to financial institutions under profit and loss sharing arrangements. Share of profit / loss under these arrangements is recognized on time proportion basis.

4.12 Taxation

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

4.13 Foreign Currency Translation

Transactions denominated in foreign currencies are translated to Pak Rupees at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange prevailing at the balance sheet date.

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 4.14, which are transferred to the Government of Pakistan account.

Exchange differences arising under Exchange Risk Coverage Scheme and on currency swap transactions are recognized in the books of account on time proportion basis.

Commitments for outstanding forward foreign exchange contracts disclosed in note 34.2 to the financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

4.14 Transactions and Balances with International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards and the guidelines contained in the IMF Manual, Aide Memoire and specific arrangements entered into between the Bank and the Government. A summary of the policies followed by the Bank for recording of these transactions and balances is as follows:

- the Government's contribution for quota with the IMF is recorded by the Bank as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.
- exchange gains or losses arising on revaluation of borrowings from the IMF are recognized in the profit and loss account.
- the cumulative allocation of Special Drawing Rights by the IMF is treated as capital receipt and is not revalued.

- from the previous year, on the directive of Government of Pakistan, all income or charges pertaining to balances with the IMF are taken to the profit and loss account, earlier, income or charges pertaining to balances with the IMF were taken to the Government account, except for the following which were taken to the profit and loss account:
 - charges on borrowings under credit schemes other than fund facilities;
 - charges on net cumulative allocation of Special Drawing Rights; and
 - return on holdings of Special Drawing Rights.

4.15 Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

4.16 Cash and Cash Equivalents

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

4.17 Financial Instruments

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

Any gain or loss on the derecognizing of the financial assets and liabilities is included in the profit and loss account currently.

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

4.18 Offsetting

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

State Bank of Pakistan - Issue Department
Unconsolidated Balance Sheet

As at June 30, 2007

	Note	2007 (Rupees in '000)	2006
ASSETS			
Gold reserves held by the Bank	5	81,277,106	76,317,295
Foreign currency reserves	6	685,468,587	555,312,089
Special Drawing Rights of the International Monetary Fund	7	12,383,051	12,035,520
Notes and coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	9	638,249	562,568
- Coins	10	3,012,270	2,865,468
		3,650,519	3,428,036
Investments	12	108,830,311	135,585,429
Commercial papers held in Bangladesh (former East Pakistan)	13	78,500	78,500
Assets held with the Reserve Bank of India	14	1,740,325	1,618,417
		893,428,399	784,375,286
LIABILITY			
Bank notes issued	15	893,428,399	784,375,286

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

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

State Bank of Pakistan - Banking Department**Unconsolidated Balance Sheet**

As at June 30, 2007

	Note	2007 (Rupees in '000)	2006
ASSETS			
Local currency	10	135,646	139,340
Foreign currency reserves	6	162,815,117	134,568,948
Earmarked foreign currency balances	8	56,822,188	-
Special Drawing Rights of the International Monetary Fund	7	418,534	1,088,559
		<u>220,191,485</u>	<u>135,796,847</u>
Reserve tranche with the International Monetary Fund under quota arrangements	16	10,881	10,525
Securities purchased under agreement to resale	11	33,715,973	-
Current account of the Government of Balochistan	22.5	4,820,407	8,904,268
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		13,845	2,080
Investments	12	373,045,073	408,364,217
Loans, advances and bills of exchange	17	282,584,591	227,177,574
Balances due from the Governments of India and Bangladesh (former East Pakistan)	18	4,677,500	4,374,048
Property, plant and equipment	19	18,836,840	19,367,852
Intangible assets	20	163,769	115,681
Other assets	21	15,366,400	12,517,090
Total assets		<u>953,426,764</u>	<u>816,630,182</u>
LIABILITIES			
Bills payable		571,942	472,733
Current accounts of the Governments	22	142,197,558	147,097,122
Current account with SBP Banking Services Corporation - a subsidiary		4,266,639	2,897,163
Securities sold under agreement to repurchase	23	61,816,757	60,491,003
Deposits of banks and financial institutions	24	305,168,576	207,574,257
Other deposits and accounts	25	104,135,996	104,641,242
Payable to the International Monetary Fund	26	85,063,742	89,866,240
Other liabilities	27	69,961,403	58,784,561
		<u>773,182,613</u>	<u>671,824,321</u>
Deferred liability - staff retirement benefits	28	3,825,247	3,757,369
Deferred income	29	340,845	426,608
Total liabilities		<u>777,348,705</u>	<u>676,008,298</u>
Net assets		<u>176,078,059</u>	<u>140,621,884</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	67,124,295	26,700,000
Unappropriated profit		9,139,871	19,142,000
		<u>77,890,124</u>	<u>47,467,958</u>
Unrealised appreciation on gold reserves	33	79,440,921	74,406,912
Surplus on revaluation of property, plant and equipment	19.2	18,747,014	18,747,014
		<u>176,078,059</u>	<u>140,621,884</u>
CONTINGENCIES AND COMMITMENTS	34		

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

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

State Bank of Pakistan
Unconsolidated Profit and Loss Account
For the year ended June 30, 2007

	Note	2007	2006
		(Rupees in '000)	
Discount, interest / mark-up and / or return earned	35	92,439,532	69,880,260
Interest / mark-up expense	36	5,289,092	4,047,802
		87,150,440	65,832,458
Commission income	37	656,268	441,033
Exchange gain - net	38	1,957,806	4,376,273
Dividend income		4,286,628	1,974,628
Profit earned through subsidiaries	39	149,216	102,934
Other operating income - net	40	2,871,959	799,545
		97,072,317	73,526,871
Less: Direct operating expenses			
Note printing charges	41	3,087,214	2,431,476
Agency commission	42	2,576,382	2,190,528
Provision for:			
- loans, advances and other assets		(73,964)	-
- other doubtful assets		212,057	547,691
		138,093	547,691
		91,270,628	68,357,176
Less: General administrative and other expenses	43	9,210,501	6,956,813
OPERATING PROFIT		82,060,127	61,400,363
Other income - net	44	27,475,555	7,246,172
		109,535,682	68,646,535
Less: Other charges	45	803,069	462,747
PROFIT FOR THE YEAR		108,732,613	68,183,788

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

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

State Bank of Pakistan
Unconsolidated Cash Flow Statement

For the year ended June 30, 2007

	Note	2007	2006
		(Rupees in '000)	
Profit for the year after non-cash items	46	78,844,856	68,453,490
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(61,632)	(248,459)
Reserve tranche with the International Monetary Fund under quota arrangements		(356)	(211)
Securities purchased under agreement to resale		(33,715,973)	9,115,545
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		(11,765)	(559)
Investments		55,908,477	(182,660,359)
Loans, advances and bills of exchange		(55,333,053)	(8,085,276)
Indian notes representing assets receivable from the Reserve Bank of India		(75,681)	30,413
Assets held with the Reserve Bank of India		(41,399)	(2,242)
Other assets		(32,849,310)	(4,717,117)
		<u>(66,180,692)</u>	<u>(186,568,265)</u>
Increase / (decrease) in liabilities:			
Bank notes issued		109,053,113	78,509,578
Bills payable		99,209	(626,953)
Current accounts of the Government		(815,703)	25,389,165
Current account with SBP Banking Services Corporation - a subsidiary		1,369,476	(548,642)
Securities sold under agreement to repurchase		1,325,754	59,282,390
Deposits of banks and financial institutions		97,594,319	11,261,988
Other deposits and accounts		(505,246)	13,511,971
Payable to the International Monetary Fund		(4,802,498)	(6,787,741)
Other liabilities		(37,123,603)	(2,377,391)
		<u>166,194,821</u>	<u>177,614,365</u>
		<u>178,858,985</u>	<u>59,499,590</u>
Payment of retirement benefits and employees' compensated absences		(829,371)	(596,397)
Proceeds from disposal of investment		33,841,852	
Dividend received		4,286,628	1,974,628
Gold purchased		(6,311)	(51,195)
Fixed capital expenditure		(674,836)	(279,633)
Proceeds from disposal of property, plant and equipment		69,066	77,113
		<u>36,687,028</u>	<u>1,124,516</u>
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Increase in cash and cash equivalents during the year		<u>215,536,013</u>	60,614,106
Cash and cash equivalents at beginning of the year		<u>703,021,069</u>	642,406,963
Cash and cash equivalents at end of the year	47	<u><u>918,557,082</u></u>	<u><u>703,021,069</u></u>

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

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

State Bank of Pakistan
Unconsolidated Statement of Changes in Equity
For the year ended June 30, 2007

	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
----- (Rupees in '000) -----												
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 - 2006												
Profit for the year	-	-	-	-	-	-	-	-	-	-	68,183,788	68,183,788
Surplus on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-	12,552,511	-	12,552,511
Unrealised appreciation on revaluation of gold reserves	-	-	-	-	-	-	-	-	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
Changes in equity for 2006 - 2007												
Profit for the year	-	-	-	-	-	-	-	-	-	-	108,732,613	108,732,613
Unrealised appreciation on revaluation of gold reserves	-	-	-	-	-	-	-	-	5,034,009	-	-	5,034,009
Total recognised income and expense for the year	-	-	-	-	-	-	-	-	5,034,009	-	108,732,613	113,766,622
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Transferred to reserve fund	-	-	40,424,295	-	-	-	-	-	-	-	(40,424,295)	-
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(78,300,447)	(78,300,447)
Balance at June 30, 2007	100,000	1,525,958	55,824,295	2,600,000	1,600,000	1,500,000	900,000	4,700,000	79,440,921	18,747,014	* 9,139,871	176,078,059

* The Central Board has proposed to transfer Rs. 9,139 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

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

5. GOLD RESERVES HELD BY THE BANK	Net content in troy ounces	2007 (Rupees in '000)	2006
Opening balance	2,066,354	76,317,295	53,870,004
Additions during the year	160	6,311	51,195
Appreciation during the year due to revaluation 33	-	4,953,500	22,396,096
	<u>2,066,514</u>	<u>81,277,106</u>	<u>76,317,295</u>

6. FOREIGN CURRENCY RESERVES

Investments	6.1 & 6.2	211,328,676	196,420,546
Deposit accounts	6.3 & 6.4	606,819,214	490,545,283
Current accounts	6.3 & 6.2	30,135,814	2,915,208
		<u>848,283,704</u>	<u>689,881,037</u>

The above foreign currency reserves are held as follows:

- Issue Department	685,468,587	555,312,089
- Banking Department	162,815,117	134,568,948
	<u>848,283,704</u>	<u>689,881,037</u>

6.1 Investments

Held for trading	6.4	209,629,406	194,750,943
Held to maturity	6.5	1,503,826	1,497,334
Available for sale		195,444	172,269
		<u>211,328,676</u>	<u>196,420,546</u>

6.2 These include Rs. 197.150 million (2006: Rs. 173.773 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 0.22% to 5.36% per annum (2006: 0.96% to 5.54% 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 3,542 million (2006: USD 3,366 million).

6.5 This represents Bank's investment in Islamic Sukuk Bonds carrying mark-up at the rate of 3.625% per annum (2006: 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, 2007. 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:	2007	2006
	(Rupees in '000)	
By the Issue Department	12,383,051	12,035,520
By the Banking Department	418,534	1,088,559
	<u>12,801,585</u>	<u>13,124,079</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 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	135,646	139,340
Coins		<u>3,012,270</u>	2,865,468
		3,147,916	3,004,808
Coins held as assets of the Issue Department	10.1	<u>(3,012,270)</u>	<u>(2,865,468)</u>
		<u>135,646</u>	<u>139,340</u>

10.1 As mentioned in note 4.1, the Bank is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of unissued coins held by the Bank at June 30, 2007.

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings and carried mark up 8.78% to 9.50% per annum.

12. INVESTMENTS	2007	2006
	(Rupees in '000)	
Loans and receivables originated by the Bank		
<i>Government securities</i>	12.1	
Market Treasury Bills (MTBs)	12.2	457,934,246
Federal Government scrip		513,842,723
		<u>2,740,000</u>
		<u>460,674,246</u>
		516,582,723
Available for sale investments		
<i>Investments in Banks and other financial institutions</i>		
Ordinary shares		
- Listed		8,362,019
- Unlisted		14,967,804
	12.3	<u>12,016,859</u>
		<u>20,378,878</u>
		26,544,663
Term Finance Certificates		282,400
Certificates of Deposits		112,351
		<u>20,773,629</u>
		26,939,414
Provision against diminution in value of investments		(601,751)
		<u>20,171,878</u>
		26,337,663
<i>Investments in subsidiaries</i>		
SBP Banking Services Corporation - wholly owned subsidiary		1,000,000
Advance against issue of share capital (NIBAF)	12.4	29,260
		<u>1,029,260</u>
		<u>481,875,384</u>
		543,949,646
Investment - MTBs held as assets of the Issue Department		(108,830,311)
		<u>373,045,073</u>
		<u>408,364,217</u>

12.1 Investments in Government securities

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

	2007	2006
	(% per annum)	
Market Treasury Bills	8.4850 to 8.9017	7.9447 to 8.4869
Federal Government scrip	3	3

12.2 This includes securities having carrying value of Rs. 63,300.000 million (2006: Rs. 62,098.533 million) given as collateral under repurchase agreement borrowing arrangements.

12.3 Investments in shares of banks and other financial institutions (note 12.3.1)

	2007	2006		2007	2006
	% of Holding			(Rupees in '000)	
Listed					
National Bank of Pakistan	75.20	75.20	12.3.2	1,100,807	1,100,807
United Bank Limited	22.74	44.48	12.3.3 & 12.3.4	6,910,574	13,516,359
Allied Bank Limited	10.07	10.07	12.3.5	350,638	350,638
				8,362,019	14,967,804
Unlisted					
Habib Bank Limited	48.05	48.05	12.3.6 & 12.3.7	9,695,153	9,695,153
Federal Bank for Cooperatives	75.00	75.00		150,000	150,000
Equity Participation Fund	65.81	65.81		102,000	102,000
				9,947,153	9,947,153
Other- investments with holding less than or equal to 50%				2,069,706	1,629,706
				12,016,859	11,576,859
				20,378,878	26,544,663

- 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, 2007 amounted to Rs. 160,655.248 million (2006: Rs. 114,906.093 million).
- 12.3.3** Market value of the Bank's investment in the shares of United Bank Limited at June 30, 2007 amounted to Rs. 40,486.067 million (2006: Rs. 39,676.443 million).
- 12.3.4** The Cabinet Committee on Privatization (CCoP) in its meeting held on June 12, 2007 has decided that 30% of the Bank's holding would be divested in the form of Global Depository Receipts (GDR) out of which 5% shares were returned back to the Bank. In pursuance to an agreement, dated June 14, 2007, entered into between the Government of Pakistan (GOP), the Privatization Commission and the Bank, together with the specific approval of the GOP, 175,951,092 shares of United Bank Limited (UBL), representing 21.74% interest of the Bank in UBL's paid up capital were sold and transferred by way of offshore offering of GDRs. Sale proceeds amounting to Rs. 33,842 million (USD 559.721 million), net of transaction costs, were received by the Bank on June 29, 2007.
- Further, an "over-allotment option" was granted in the GDR offering circular to purchase additional GDRs representing 26,392,660 shares (3.26% of UBL's paid up capital). These shares were sold and proceeds of Rs. 5,063.781 million (USD 83.848 million), net of transaction costs, were received on July 13, 2007.
- 12.3.5** Market value of the Bank's investment in the shares of Allied Bank Limited at June 30, 2007, amounted to Rs.7,534.202 million (2006: Rs. 3,976.309 million).
- 12.3.6** The Government of Pakistan (GOP) vide directive dated June 27, 2007, has approved divestment of 51,750,000 shares of Habib Bank Limited (HBL) representing 5% of GOP's share in HBL alongwith a greenshoe option of 2.5%, through Initial Public Offering to the general public to be executed in July 2007.

12.3.7 The break-up value of the Bank's investment in the shares of HBL amounted to Rs. 25,677.91 million (2006: Rs. 19,046.317 million) at December 31, 2006 based on the financial statements of HBL for the year then ended.

12.4 As at June 30, 2007, the capital of National Institute of Banking and Finance (Guarantee) Limited (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, 2007, is 59.4% (2006: 59.4%).

13. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2006: 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 BANK OF INDIA	2007	2006
	(Rupees in '000)	
Gold reserves		
- Opening balance	1,240,385	876,162
- Appreciation from revaluation during the year	80,509	364,223
	1,320,894	1,240,385
Sterling securities	400,077	360,948
Government of India securities	14,972	13,196
Rupee coins	4,382	3,888
	1,740,325	1,618,417

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	<i>10</i>	135,646	139,340
Notes in circulation		893,292,753	784,235,946
		893,428,399	784,375,286

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

Quota allocated by the International Monetary Fund		94,817,476	92,156,422
Liability under quota arrangements		(94,806,595)	(92,145,897)
		10,881	10,525

17. LOANS, ADVANCES AND BILLS OF EXCHANGE

Government	<i>17.1</i>	13,500,000	18,000,000
Government owned / controlled financial institutions	<i>17.2</i>	132,807,462	119,697,057
Private sector financial institutions	<i>17.3</i>	143,400,797	96,886,598
		276,208,259	216,583,655
Employees		1,554,774	1,346,325
		291,263,033	235,929,980
Provision against doubtful balances		(8,599,942)	(8,673,906)
		282,663,091	227,256,074
Commercial papers held in issue department	<i>13</i>	(78,500)	(78,500)
		282,584,591	227,177,574

17.1 Loans and advances to the Governments	2007	2006
	(Rupees in '000)	
Federal Government	7,500,000	10,500,000
Provincial Government - Balochistan	6,000,000	7,500,000
	<u>13,500,000</u>	<u>18,000,000</u>

During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 8.3949 % to 8.8871 % per annum (2006: 7.6905 % to 8.3296 % per annum).

17.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Non-banking financial institutions		Total	
	2007	2006	2007	2006	2007	2006
----- (Rupees in '000) -----						
Agricultural sector 17.2.2	62,991,778	63,032,232	-	-	62,991,778	63,032,232
Industrial sector 17.2.2	14,591,388	4,009,425	592,786	750,825	15,184,174	4,760,250
Export sector	25,734,827	20,681,892	3,567	-	25,738,394	20,681,892
Housing sector	-	-	11,242,300	11,245,867	11,242,300	11,245,867
Others	17,650,816	17,835,076	-	2,141,740	17,650,816	19,976,816
	<u>120,968,809</u>	<u>105,558,625</u>	<u>11,838,653</u>	<u>14,138,432</u>	<u>132,807,462</u>	<u>119,697,057</u>

17.2.1 Above balances include Rs. 552.258 million (2006: Rs. 548.518 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 include Rs. 50,174.089 million and Rs. 1,083.124 million respectively, (2006: 50,174.089 million and 1,083.124 million, respectively) representing the cumulative Government guaranteed financing of Rs. 51,257.213 million (2006: Rs. 51,257.213 million) to Zarai Taraqati 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	
	2007	2006	2007	2006	2007	2006
----- (Rupees in '000) -----						
Industrial sector	28,612,589	4,342,170	5,816,296	3,658,659	34,428,885	8,000,829
Export sector	108,964,930	87,378,787	-	-	108,964,930	87,378,787
Others	6,982	1,506,982	-	-	6,982	1,506,982
	<u>137,584,501</u>	<u>93,227,939</u>	<u>5,816,296</u>	<u>3,658,659</u>	<u>143,400,797</u>	<u>96,886,598</u>

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

	2007	2006
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.0 to 12	1.0 to 12
Employees loans	10	10

18. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)2007
(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
3,817,123	3,513,671
4,637,047	4,333,595
4,677,500	4,374,048

18.1 These represents interest bearing 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 EQUIPMENTOperating fixed assets
Capital work-in-progress

19.1

18,415,389

18,974,303

19.3

421,451

393,549

18,836,840**19,367,852****19.1 Operating fixed assets**

2007										
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	3,577,047	-	-	3,576,297	-	-	-	-	3,576,297	-
Leasehold land	12,762,205	(750) *	-	12,762,205	-	353,748	-	353,748	12,408,457	over the term of lease
Buildings on freehold land	940,828	7,679	-	948,507	-	94,333	-	94,333	854,174	5
Buildings on leasehold land	1,403,157	47,661	-	1,450,818	-	141,361	-	141,361	1,309,457	5
Furniture and fixtures	81,422	32,941 (20,436) *	-	93,927	27,530	8,578	-	36,108	57,819	10
Office equipment	175,148	40,048 (4,056) *	-	211,140	107,602	26,535 (1,261) *	-	132,876	78,264	20
EDP equipment	696,694	84,417 (47,220) *	-	733,891	582,262	74,698 (8,890) *	-	648,070	85,821	33.33
Motor vehicles	97,862	14,376 (13,334) *	-	98,904	42,666	17,644 (6,506) *	-	53,804	45,100	20
19,734,363	227,122 (85,796) *	-	-	19,875,689	760,060	716,897 (16,657) *	-	1,460,300	18,415,389	

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	428,476	92,413	(520,889)	-	12,762,205	over the term of lease
Buildings on freehold land	781,962	9,279	(330,659)	940,828	285,451	45,208	(330,659)	-	940,828	5
Buildings on leasehold land	1,064,676	107,254	(392,106)	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 (34,123) (51,276) *	(1,243,654)	12,552,511	19,734,363	1,681,708	332,029 (10,023) (2) *	(1,243,654)	760,060	18,974,303	

19.2 Surplus on revaluation of property, plant and equipment

	2007	2006
	(Rupees in '000)	
Opening balance	18,747,014	6,194,503
Surplus arose on revaluation as at June 30	-	12,552,511
	<u>18,747,014</u>	<u>18,747,014</u>

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

19.3 Capital work in progress

Buildings on freehold land	32,322	25,708
Buildings on leasehold land	182,936	145,057
Furniture and fixtures	19,642	22,270
Office equipment	174,601	115,744
EDP equipment	2,913	6,674
Intangible assets	9,037	78,096
	<u>421,451</u>	<u>393,549</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 2007	263,128	140,224	403,352	147,447	92,136	239,583	163,769	33.33
2006	98,331	164,797	263,128	77,460	69,987	147,447	115,681	33.33

21. OTHER ASSETS

	2007	2006
	(Rupees in '000)	
Amounts due from financial institutions under currency swap arrangements	21.1	1,815,625
Accrued interest / mark-up, discount and return	8,336,115	1,793,082
Exchange gain recoverable under exchange risk coverage scheme	9,518	5,645,498
Other advances, deposits and prepayments	2,092,332	-
Balance receivable from the Government of Pakistan	-	2,375,280
Others	3,112,810	221
	<u>15,366,400</u>	<u>2,703,009</u>
	<u>15,366,400</u>	<u>12,517,090</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		2007	2006
		(Rupees in '000)	
Federal Government	22.1	79,631,865	80,452,535
Provincial Governments			
- Punjab	22.2	15,844,409	26,536,666
- Sindh	22.3	35,899,691	27,935,196
- North West Frontier Province (NWFP)	22.4	9,853,725	7,474,126
- Balochistan	22.5	-	-
		61,597,825	61,945,988
Government of Azad Jammu and Kashmir		967,868	4,698,599
		142,197,558	147,097,122
22.1 Federal Government			
Non-food account		38,586,093	33,056
Food account		344,448	13,063
Zakat fund account		14,154,753	14,007,202
Railways - ways and means advances	22.6	(12,649,222)	(5,522,955)
Fertilizer account		21,082	34,495
Saudi Arabia special loan account		4,124	4,124
Pakistan Baitul Mal fund account		375,246	346,366
Pakistan Railways special account		2,540,648	2,011,650
Government deposit account no. XII		5,276	5,276
Special transfer account		7,368,813	53,814,741
UN reimbursement account		28,880,604	15,705,517
		79,631,865	80,452,535
22.2 Provincial Government - Punjab			
Non-food account		(26,418,667)	(3,057,044)
Food account		692,554	1,140,669
Zakat fund account		107,606	155,291
District Government account no. IV		41,462,916	28,297,750
		15,844,409	26,536,666
22.3 Provincial Government - Sindh			
Non-food account		21,196,947	21,045,688
Food account		261,765	358,481
Zakat fund account		92	86,809
District Government account no. IV		14,440,887	6,444,218
		35,899,691	27,935,196

22.4 Provincial Government - NWFP	2007	2006
	(Rupees in '000)	
Non-food account	6,069,177	5,330,813
Food account	(223,054)	359,919
Zakat fund account	4,240	1,480
District Government account no. IV	4,003,362	1,781,914
	9,853,725	7,474,126
22.5 Provincial Government - Balochistan		
Non-food account	(7,869,805)	(11,621,795)
Food account	116,902	28,179
Zakat fund account	488	1
District Government account no. IV	2,932,008	2,689,347
	(4,820,407)	(8,904,268)
Classified as a receivable balance	4,820,407	8,904,268
Net credit balance	-	-
22.6	These balances carry mark-up at 8.89% per annum (2006: 8.33% per annum).	
23.	SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE	
	This represents repurchase agreement borrowings and are subject to mark-up at the rate of 8.75% to 9.40% per annum (2006: 6.25% to 8.90% per annum).	
24.	DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	
Foreign currency		
Scheduled banks	13,674,768	19,537,121
Held under Cash Reserve Requirements	47,025,513	43,869,431
	60,700,281	63,406,552
Local currency		
Scheduled banks	243,216,596	142,849,429
Non-banking financial institutions	1,250,014	1,316,827
Others	1,685	1,449
	244,468,295	144,167,705
	305,168,576	207,574,257

- 24.1** The above deposits are free of interest except deposits under Cash Reserve Requirements which are remunerated at the rates given below:

	2007	2006
	(% per annum)	
Foreign currency	4.11 to 4.32	2.34 to 4.11
Local currency	1.98 to 2.59	1.98 to 2.59

25. OTHER DEPOSITS AND ACCOUNTS

Foreign currency

Foreign central banks	27,207,900	27,090,450
International organisations	15,115,500	15,050,250
Others	10,095,784	12,744,931
	52,419,184	54,885,631

Local currency

Special debt repayment	25.2	23,499,270	23,273,267
Government	25.3	11,012,500	11,012,500
Others		17,205,042	15,469,844
		51,716,812	49,755,611
		104,135,996	104,641,242

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

	2007	2006
	(% per annum)	
Foreign central banks	5.18 to 5.58	3.28 to 5.51
International organisations	6.62 to 7.30	4.74 to 6.62
Others	5.07 to 5.16	4.35 to 4.86

- 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 equivalent 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	2007	2006
	(Rupees in '000)	
Borrowings under:		
- Fund facilities	26.1 2,318,611	3,943,564
- Other credit schemes	<u>82,745,103</u>	<u>85,922,647</u>
	85,063,714	89,866,211
Current account for administrative charges	<u>28</u>	<u>29</u>
	85,063,742	89,866,240

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:	2007	2006
	(% per annum)	
Fund facilities	4.82 to 5.34	3.75 to 4.90
Other credit schemes	0.5	0.5

27. OTHER LIABILITIES

Foreign currency

Amounts due to financial institutions under currency swap arrangements		
	21.1 1,813,860	1,806,030
Accrued interest and discount on deposits	850,043	720,679
Charges on allocation of Special Drawing Rights of IMF	<u>108,144</u>	<u>91,195</u>
	2,772,047	2,617,904

Local currency

Overdue mark-up and return	4,120,428	3,815,707
Unearned exchange risk fee	10,774	10,769
Remittance clearance account	1,289,875	641,709
Exchange loss payable under exchange risk coverage scheme	-	1,292
Balance payable to the Government of Pakistan	48,300,447	39,091,788
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 5,134,236	4,795,760
Others	5,394,530	4,870,566
	67,189,356	56,166,657
	<u>69,961,403</u>	<u>58,784,561</u>

27.1 Other accruals and provisions		2007	2006
		(Rupees in '000)	
Interest payable		94,638	43,815
Printing charges		-	136,085
Agency commission		862,273	738,429
Provision for employees' compensated absences	43.6	466,077	401,483
Provision for other doubtful assets		2,273,602	2,061,545
Other provisions	27.2	1,175,858	1,156,785
Others		261,788	257,618
		5,134,236	4,795,760

27.2 Movement of other provisions			
Opening balance		1,156,785	1,205,895
Provision during the year		173,000	-
Reversed during the year		(153,927)	(49,110)
Closing balance		1,175,858	1,156,785

	Home remittance	Agriculture loan	Others (note 27.2.1)	Total
------(Rupees in '000) -----				
Opening balance	260,363	154,366	742,056	1,156,785
Provisions during the year	-	173,000	-	173,000
Reversed during the year	-	(153,706)	(221)	(153,927)
Closing balance	260,363	173,660	741,835	1,175,858

27.2.1 This represents provision made in respect of various litigations against the Bank.

28. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS

Gratuity		12,119	15,285
Pension		2,969,072	3,054,753
Benevolent fund scheme		242,756	243,767
Post retirement medical benefits		435,213	273,824
	43.5.3	3,659,160	3,587,629
Provident fund scheme		166,087	169,740
		3,825,247	3,757,369

29. DEFERRED INCOME

Opening balance		426,608	414,061
Grants received during the year		116,924	148,244
Amortisation during the year	44	(202,687)	(135,697)
Closing balance		340,845	426,608

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

Number of shares		2007 (Rupees in '000)	2006
	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. The draft report recently issued by the IMF Balance of Payment (BOP) Committee considers possibility of classifying allocation of SDRs as a liability. Accordingly, the Central Board has approved an annual appropriation equivalent to one-third of the cumulative exchange difference that would arise upon reclassification of the allocation of SDRs from equity to liability with retrospective effect. An amount of Rs. 4,689 million has been appropriated to Reserve Fund during the year ended June 30, 2007. However, pending final report from the IMF BOP Committee, the existing policy regarding allocation of SDRs has not yet been changed.

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		74,406,912	51,646,593
Appreciation on revaluation during the year:			
- held by the Bank	5	4,953,500	22,396,096
- held with the Reserve Bank of India	14	80,509	364,223
		5,034,009	22,760,319
		<u>79,440,921</u>	<u>74,406,912</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	2007	2006
	(Rupees in '000)	
34.1 Contingencies		
a) Contingent liability in respect of guarantees given on behalf of:		
i) Government	32,322,123	43,746,787
ii) Government owned / controlled bodies and authorities	41,614,722	44,021,427
	73,936,845	87,768,214
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	685,603	685,603
34.2 Commitments		
Forward exchange contracts - sale	33,410,781	9,819,847
Forward exchange contracts - purchase	115,556,495	18,682,725
Futures - sale	51,314,571	9,071,691
Futures - purchase	22,553,704	9,377,201
Foreign currency placement	48,511,685	-
Import letters of credit	261,181,471	240,749,445
ESAF commitment with IMF	61,181	118,483
35. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	44,495,269	34,874,647
Other Government securities	90,849	117,617
Loans and advances to Government	2,503,067	2,530,474
Share of profit on finances under profit and loss sharing arrangements	10,611,858	8,374,826
Foreign currency deposits	26,460,957	17,314,137
Foreign currency securities	8,277,288	6,668,316
Others	244	243
	92,439,532	69,880,260

36. INTEREST / MARK-UP EXPENSE	2007	2006
	(Rupees in '000)	
Deposits and borrowings	5,214,491	3,981,369
Others	74,601	66,433
	<u>5,289,092</u>	<u>4,047,802</u>
37. COMMISSION INCOME		
Market Treasury Bills	83,029	69,651
Draft / payment orders	190,334	62,655
Prize Bonds and National Saving Certificates	206,605	151,516
Management of public debts	72,485	64,367
Others	103,815	92,844
	<u>656,268</u>	<u>441,033</u>
38. EXCHANGE GAIN - net		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	3,871,925	5,503,078
- Open market operations (including currency swap arrangements)	(7,621)	(15,480)
- Forward covers under Exchange Risk Coverage Scheme	86,013	(1,292)
- Payable to IMF	(2,466,927)	(1,485,868)
- Special Drawing Rights of IMF	331,686	262,445
- Others	-	(34,536)
	<u>1,815,076</u>	<u>4,228,347</u>
Exchange risk fee income	142,730	147,926
	<u>1,957,806</u>	<u>4,376,273</u>
39. PROFIT EARNED THROUGH SUBSIDIARIES		
SBP Banking Services Corporation	76,352	60,696
National Institute of Banking and Finance (Guarantee) Limited	72,864	42,238
	<u>149,216</u>	<u>102,934</u>
The above represents the net profit of subsidiaries for the year ended June 30, 2007 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	1,434,355	884,091
License / Credit Information Bureau fee recovered	42,087	34,274
Profit on sale of securities	789,695	900,081
Gain / (loss) on remeasurement of securities classified as held for trading	605,602	(1,019,214)
Others	220	313
	<u>2,871,959</u>	<u>799,545</u>
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% (2006: 0.15%) of the total amount of collection and remittances handled by NBP.

43. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	2007	2006
	(Rupees in '000)	
Salaries and other benefits	845,306	761,419
Retirement benefits and employees' compensated absences	961,843	837,509
Contribution to SBP Employees' Welfare Trust	10,000	10,000
Rent and taxes	28,424	7,534
Insurance	9,114	4,778
Electricity, gas and water	15,696	14,989
Depreciation	19.1 716,897	332,029
Amortisation of intangible assets	20 92,136	69,987
Repairs and maintenance	140,261	124,401
Auditors' remuneration	43.4 2,200	1,950
Legal and professional	312,563	303,227
Travelling and recreation expenses	50,765	37,856
Daily expenses	27,375	29,851
Fuel	8,235	7,954
Conveyance	2,803	3,364
Postages, telegram / telex and telephone	87,293	75,585
Training	23,747	4,392
Examination / testing services	1,014	2,993
Remittance of treasure	-	-
Stationery	12,395	7,340
Books and newspapers	13,705	11,240
Advertisement	25,665	15,760
Uniforms	1,813	1,927
Others	50,809	83,287
	3,440,059	2,749,372
Expenses allocated by:		
- SBP Banking Services Corporation	43.1 2,572,169	1,370,798
- National Institute of Banking and Finance (Guarantee) Limited	3,740	3,739
	2,575,909	1,374,537
Expenses reimbursed to:		
- SBP Banking Services Corporation	43.2 3,135,927	2,773,637
- National Institute of Banking and Finance (Guarantee) Limited	58,606	59,267
	3,194,533	2,832,904
	9,210,501	6,956,813

43.1 Expenses allocated by SBP Banking Services Corporation

Retirement benefits and employees' compensated absences	2,475,545	1,303,472
Depreciation	96,624	67,326
	2,572,169	1,370,798

43.2 Expenses reimbursed to SBP Banking Services Corporation	2007	2006
	(Rupees in '000)	
Salaries and other benefits	2,727,309	2,395,588
Rent and taxes	7,703	7,162
Insurance	1,478	1,296
Electricity, gas and water	129,976	115,690
Repairs and maintenance	9,478	9,751
Auditors' remuneration	2,700	2,250
Legal and professional	1,245	2,127
Travelling expenses	4,130	4,947
Daily expenses	7,419	11,530
Recreation allowance	69,882	60,367
Fuel	1,500	2,066
Conveyance	3,157	3,167
Postage and telephone	9,965	11,815
Training	13,868	13,419
Remittance of treasure	31,276	37,445
Stationery	4,932	5,039
Books and newspapers	1,183	890
Advertisement	366	597
Bank guards	51,364	46,206
Uniforms	15,605	13,083
Others	41,391	29,202
	<u>3,135,927</u>	<u>2,773,637</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, 2007, 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.	2007	2006
	----- (Rupees in '000) -----			
State Bank of Pakistan				
Audit fee	1,000	1,000	2,000	1,750
Out of pocket expenses	100	100	200	200
	<u>1,100</u>	<u>1,100</u>	<u>2,200</u>	<u>1,950</u>
SBP Banking Services Corporation				
Audit fee	1,100	1,100	2,200	1,750
Out of pocket expenses	250	250	500	500
	<u>1,350</u>	<u>1,350</u>	<u>2,700</u>	<u>2,250</u>
	<u>2,450</u>	<u>2,450</u>	<u>4,900</u>	<u>4,200</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 unfunded gratuity scheme (old scheme) for all its employees other than those who opted for the new general provident fund scheme, or joined the Bank after 1975 and are entitled only to pension scheme benefits or those who opted for the contributory gratuity scheme effective June 1, 2007.
- an unfunded pension scheme;
- an unfunded contributory gratuity scheme (new scheme) was introduced by the Bank with effect from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
- an unfunded contributory benevolent fund scheme; and
- an unfunded 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 grants and contributions 2.78 % per annum (2006: 2.57 % per annum).
- Expected rate of discount 11.00 % per annum (2006: 10.8 % per annum).
- Expected rate of increase in salary 8.9 % per annum (2006: 8.7 % per annum).
- Expected rate of increase in pension 2.78 % per annum (2006: 2.57 % per annum).
- Medical cost increase 5.71 % per annum (2006: 5.5 % per annum).
- Personnel turnover 2.00 % per annum (2006: 2.00 % per annum)

43.5.2 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, 2007 based on actuarial valuation as of that date was as follows:

	2007		
	Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Provision made in respect of the staff retirement benefits
	----- (Rupees in '000) -----		
Gratuity	16,461	(5,506)	10,955
Pension	3,310,692	(341,620)	2,969,072
Benevolent	362,583	(119,827)	242,756
Post retirement medical benefits	<u>1,724,026</u>	<u>(1,288,813)</u>	<u>435,213</u>
	<u>5,413,762</u>	<u>(1,755,766)</u>	<u>3,657,996</u>

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

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

	2007				
	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	-	3,204	(7,534)	-	(4,330)
Pension	-	503,901	(503,226)	(86,356)	(85,681)
Benevolent	-	70,427	(74,033)	2,595	(1,011)
Post retirement medical benefits	-	295,823	(134,434)	-	161,389
	<u>-</u>	<u>873,355</u>	<u>(719,227)</u>	<u>(83,761)</u>	<u>70,367</u>

	2006				
	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
	<u>3,380,000</u>	<u>775,248</u>	<u>(570,031)</u>	<u>2,412</u>	<u>3,587,629</u>

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:

	2007					Total
	Current service cost	Interest cost	Settlement & curtailment	Actuarial loss recognised	Employees contributions	
	----- (Rupees in '000) -----					
Gratuity	218	2,027	388	571	-	3,204
Pension	54,555	393,647	26,501	29,198	-	503,901
Benevolent fund scheme	6,264	44,270	11,488	11,000	(2,595)	70,427
Post retirement medical benefits	9,618	185,864	3,346	96,995	-	295,823
	<u>70,655</u>	<u>625,808</u>	<u>41,723</u>	<u>137,764</u>	<u>(2,595)</u>	<u>873,355</u>
	----- (Rupees in '000) -----					
	2006					Total
	Current service cost	Interest cost	Settlement & curtailment	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>-</u>	<u>131,254</u>	<u>(2,412)</u>	<u>775,248</u>

43.5.5 Historical information

	2007	2006	2005	2004	2003
	----- (Rupees in '000) -----				
Gratuity					
Present value of defined benefit obligation	16,461	16,194	18,000	17,471	15,638
Unrecognised actuarial (loss) / gain	(5,506)	(909)	(2,000)	5,000	10,833
Provisions in respect of retirement benefits	-	-	-	-	(19,471)
Liability in balance sheet	<u>10,955</u>	<u>15,285</u>	<u>16,000</u>	<u>22,471</u>	<u>7,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	-	(274)	4,098	2,041	1,446
	<u>-</u>	<u>(274)</u>	<u>4,098</u>	<u>2,041</u>	<u>1,446</u>
Pension					
Present value of defined benefit obligation	3,310,692	3,425,571	3,482,000	3,065,000	3,020,000
Unrecognised actuarial (loss) / gain	(341,620)	(370,818)	(521,000)	(74,000)	22,000
Provisions in respect of retirement benefits	-	-	-	-	(2,765,000)
Liability in balance sheet	<u>2,969,072</u>	<u>3,054,753</u>	<u>2,961,000</u>	<u>2,991,000</u>	<u>277,000</u>
Experience adjustment arising on plan liabilities (gains) / losses	-	(112,830)	452,000	95,000	(22,000)
	<u>-</u>	<u>(112,830)</u>	<u>452,000</u>	<u>95,000</u>	<u>(22,000)</u>
Benevolent Fund					
Present value of defined benefit obligation	362,583	374,594	381,000	384,000	387,000
Unrecognised actuarial (loss) / gain	(119,827)	(130,827)	(142,000)	(137,000)	(120,500)
Provisions in respect of retirement benefits	-	-	-	-	(253,000)
Liability in balance sheet	<u>242,756</u>	<u>243,767</u>	<u>239,000</u>	<u>247,000</u>	<u>13,500</u>
Experience adjustment arising on plan liabilities (gains) / losses	-	(545)	14,000	24,000	121,000
	<u>-</u>	<u>(545)</u>	<u>14,000</u>	<u>24,000</u>	<u>121,000</u>
Post retirement Medical Benefits					
Present value of defined benefit obligation	1,724,026	1,659,632	1,415,000	945,000	463,000
Unrecognised actuarial (loss) / gain	(1,288,813)	(1,385,808)	(1,261,000)	(821,000)	(345,500)
Provisions in respect of retirement benefits	-	-	-	-	(88,000)
Liability in balance sheet	<u>435,213</u>	<u>273,824</u>	<u>154,000</u>	<u>124,000</u>	<u>29,500</u>
Experience adjustment arising on plan liabilities (gains) / losses	-	217,436	479,000	496,000	346,000
	<u>-</u>	<u>217,436</u>	<u>479,000</u>	<u>496,000</u>	<u>346,000</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. 466.077 million (2006: Rs. 401.483 million). An amount of Rs. 64.59 million (2006: Rs. 33.483 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

44. OTHER INCOME - net	2007	2006
	(Rupees in '000)	
(Loss) / gain on disposal of property, plant and equipment	(73)	2,487
Liabilities and provisions written back - net	599	66,881
Gain on disposal of investments - net	27,236,418	3,421,587
Reversal of liability pertaining to demonitization of Rs. 5 denominated Bank note	-	3,545,871
Amortisation of deferred income	29 202,687	135,697
Others	35,924	73,649
	<u>27,475,555</u>	<u>7,246,172</u>
45. OTHER CHARGES		
Charges on allocation of Special Drawing Rights	629,591	462,079
Others	173,478	668
	<u>803,069</u>	<u>462,747</u>
46. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS		
Profit for the year	108,732,613	68,183,788
Adjustments for:		
Depreciation	716,897	332,029
Amortisation of intangible assets	92,136	69,987
Amortisation of deferred income	(202,687)	(135,697)
Provision for:		
- retirement benefits and employees' compensated absences	961,843	837,509
- loans, advances and other assets	(73,964)	-
- other doubtful assets	212,057	547,691
Loss / (gain) on disposal of property, plant and equipment	73	(2,487)
Gain on disposal of investments	(27,581,366)	-
Dividend income	(4,286,628)	(1,974,628)
Other accruals and provisions - net	273,882	595,298
	<u>78,844,856</u>	<u>68,453,490</u>
47. CASH AND CASH EQUIVALENTS		
Local currency	3,147,916	3,004,808
Foreign currency reserves	845,785,393	686,892,182
Earmarked foreign currency balances	56,822,188	-
Special Drawing Rights of IMF	12,801,585	13,124,079
	<u>918,557,082</u>	<u>703,021,069</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:

	2007						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	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							
Local currency (including rupee coins)	-	-	-	135,646	-	135,646	135,646
Foreign currency reserves	845,360,476	2,298,697	847,659,173	-	624,531	624,531	848,283,704
Earmarked foreign currency balance	56,822,188	-	56,822,188	-	-	-	56,822,188
Special Drawing Rights of International Monetary Fund	-	12,801,585	12,801,585	-	-	-	12,801,585
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	10,881	10,881	10,881
Securities purchased under agreement to resale	33,715,973	-	33,715,973	-	-	-	33,715,973
Current account of the Government of Balochistan	4,820,407	-	4,820,407	-	-	-	4,820,407
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	13,845	-	13,845	13,845
Investments	457,934,246	2,740,000	460,674,246	-	21,201,138	21,201,138	481,875,384
Loans, advances and bills of exchange	-	282,584,591	282,584,591	-	-	1	282,584,591
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	638,249	638,249	638,249
Assets held with the Reserve Bank of India	-	419,431	419,431	-	-	-	419,431
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	3,817,123	3,817,123	-	-	-	3,817,123
Other assets	-	-	-	13,452,296	1,815,625	15,267,921	15,267,921
	1,398,653,290	304,661,427	1,703,314,717	13,601,787	24,290,424	37,892,212	1,741,206,928
Financial liabilities							
Bank notes in circulation	-	-	-	-	* 893,428,399	893,428,399	893,428,399
Bills payable	-	-	-	571,942	-	571,942	571,942
Current accounts of the Government	-	-	-	-	142,197,558	142,197,558	142,197,558
Securities sold under an agreement to repurchase	61,816,757	-	61,816,757	-	-	-	61,816,757
Current account with SBP Banking Services Corporation- a subsidiary	6,479,830	-	6,479,830	-	-	-	6,479,830
Deposits of banks and financial institutions	-	47,025,513	47,025,513	-	258,143,063	258,143,063	305,168,576
Other deposits and accounts	-	42,323,400	42,323,400	-	44,607,554	44,607,554	86,930,954
Payable to International Monetary Fund	9,522,535	75,541,207	85,063,742	-	-	-	85,063,742
Other liabilities	-	-	-	12,149,758	-	12,149,758	12,149,758
	77,819,122	164,890,120	242,709,242	12,721,700	1,338,376,574	1,351,098,274	1,593,807,516
On balance sheet gap	1,320,834,168	139,771,308	1,460,605,475	880,088	(1,314,086,150)	(1,313,206,062)	147,399,412
	2006						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand 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							
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
Earmarked foreign currency balances	-	-	-	-	-	-	-
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
Securities purchased under an agreement to resale	-	-	-	-	-	-	-
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
	1,285,782,707	27,897,591	1,313,680,298	91,835,265	97,509,815	189,345,080	1,503,025,378
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
	127,420,418	127,313,963	254,734,381	325,476,508	875,123,533	1,200,600,041	1,455,334,422
On balance sheet gap	1,158,362,289	(99,416,372)	1,058,945,917	(233,641,242)	(777,613,718)	(1,011,254,961)	47,690,956

* 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. 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

49.1 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.

49.2 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 investee, industry and sector performance, changes in technology, and operational and financing cash flows.

49.3 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.

49.4 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.

49.5 Useful life and residual value of property, plant and equipment

Estimates of useful life and residual value of items of property, plant 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. DATE OF AUTHORISATION

These financial statements were authorised for issue on **04 SEP 2007** by the Central Board of Directors of the Bank.

52. GENERAL

Figures have been rounded off to the nearest thousand rupees.

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance

15. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on **4th Sept 2007** by the Board of Directors of the Corporation.

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation

Balance Sheet

As at June 30, 2007

	<i>Note</i>	2007	2006
		(Rupees in '000)	
ASSETS			
Balance in current account with State Bank of Pakistan		4,266,639	2,897,163
Investments	5	921,826	923,924
Employees loans and advances		5,506,869	6,188,476
Other assets		100,201	84,282
Property, plant and equipment	6	175,206	170,333
Total assets		<u>10,970,741</u>	<u>10,264,178</u>
LIABILITIES			
Other liabilities	7	2,311,199	2,208,557
Deferred liabilities - staff retirement benefits	8	7,659,542	7,055,621
Total liabilities		<u>9,970,741</u>	<u>9,264,178</u>
Net assets		<u><u>1,000,000</u></u>	<u><u>1,000,000</u></u>
REPRESENTED BY:			
Share capital	9	<u><u>1,000,000</u></u>	<u><u>1,000,000</u></u>

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

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation

Profit and Loss Account

For the year ended June 30, 2007

	<i>Note</i>	2007	2006
		(Rupees in '000)	
Discount and interest earned	<i>10</i>	73,663	60,242
Net operating expenses - establishment costs	<i>11</i>		
Total expenses		5,708,096	4,144,435
Reimbursed by the State Bank of Pakistan		(3,135,927)	(2,773,637)
Allocated to the State Bank of Pakistan		(2,572,169)	(1,370,798)
		-	-
Gain on disposal of property, plant and equipment		2,689	454
BALANCE PROFIT TRANSFERRED TO THE STATE BANK OF PAKISTAN		76,352	60,696

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

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation

Cash Flow Statement

For the year ended June 30, 2007

	Note	2007	2006
		(Rupees in '000)	
Cash flows from operating activities			
Loss after non-cash items	12	(563,903)	(1,401,592)
Expenses reimbursed by the State Bank of Pakistan		3,135,927	2,773,637
Balance profit transferred to the State Bank of Pakistan		(76,352)	(60,696)
Retirement benefits and employees' compensated absences paid		(1,943,624)	(392,841)
Discount income received		73,808	58,995
		<u>625,856</u>	<u>977,503</u>
Decrease / (Increase) in assets			
- Employee loans and advances		681,607	(1,026,649)
- Other assets		(15,919)	(13,576)
Increase / (Decrease) in liabilities			
- Other liabilities		174,642	(415,542)
Net cash generated from / (used in) operating activities		<u>1,466,186</u>	<u>(478,264)</u>
Cash flows from investing activities			
Fixed capital expenditure		(104,885)	(80,414)
Investment sold		2,098	9,582
Proceeds from disposal of property, plant and equipment		6,077	454
Net cash (used in) investing activities		<u>(96,710)</u>	<u>(70,378)</u>
Net increase / (decrease) in cash and cash equivalents		<u>1,369,476</u>	<u>(548,642)</u>
Cash and cash equivalents at beginning of the year		<u>2,897,163</u>	3,445,805
Cash and cash equivalents at end of the year		<u><u>4,266,639</u></u>	<u><u>2,897,163</u></u>

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

Muhammad Kamran Shahzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation
Statement of Changes in Equity
For the year ended June 30, 2007

	Share capital	Unappropriated profit	Total
	-----	(Rupees in '000)	-----
Balance as at June 30, 2005	1,000,000	-	1,000,000
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>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total recognised income and expense for the year - profit for the year	-	76,352	76,352
Balance profit transferred to the State Bank of Pakistan	-	(76,352)	(76,352)
Balance as at June 30, 2007	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

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

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP Banking Services Corporation

Notes to the Financial Statements

For the year ended June 30, 2007

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

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

		2007	2006
		(Rupees in '000)	
Government securities			
Market Treasury Bill	5.1	509,000	551,577
Pakistan Investment Bonds	5.2	412,826	372,347
		<u>921,826</u>	<u>923,924</u>

5.1 Market Treasury Bill carries mark-up at the rate of 9.0 percent per annum (2006: 8.8 percent per annum) and is due to mature in March 2008.

5.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6 percent per annum (2006: 8.0 percent per annum) and are due to mature in 2013 and 2016.

6. PROPERTY, PLANT AND EQUIPMENT

Operating fixed assets	6.1	175,206	167,122
Capital work-in-progress	6.2	-	3,211
		<u>175,206</u>	<u>170,333</u>

6.1 Operating fixed assets

The following is a statement of operating fixed assets:

2007	Cost at July 1, 2006	Additions/ (deletions)/ adjustments* during the year	Cost at June 30, 2007	Accumulated depreciation at July 1, 2006	Charge for the year/ (accumulated depreciation on deletions)/ adjustments*	Accumulated depreciation at June 30, 2007	Net book value at June 30, 2007	Annual rate of depreciation %
----- (Rupees in '000) -----								
Furniture and fixtures	37,484	26,126 (3,312) 13,668 *	73,966	17,471	1,585 (1,778) 13,668 *	30,946	43,020	10
Office equipment	227,595	30,860 (3,781) 78,498 *	333,172	145,365	24,623 (2,891) 78,498 *	245,595	87,577	20
EDP equipment	141,023	48,147 (650) 14,041 *	202,561	89,773	65,170 (576) 14,041 *	168,408	34,153	33.33
Motor vehicles	19,450	2,963 (2,494) 9,530 *	29,449	5,821	5,246 (1,604) 9,530 *	18,993	10,456	20
	<u>425,552</u>	<u>108,096 (10,237) 115,737 *</u>	<u>639,148</u>	<u>258,430</u>	<u>96,624 (6,849) 115,737 *</u>	<u>463,942</u>	<u>175,206</u>	
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 (40)	141,023	47,634	42,179 (40)	89,773	51,250	33.33
Motor vehicles	11,843	8,272 (665)	19,450	3,137	3,349 (665)	5,821	13,629	20
	<u>339,719</u>	<u>86,538 (705)</u>	<u>425,552</u>	<u>191,809</u>	<u>67,326 (705)</u>	<u>258,430</u>	<u>167,122</u>	

6.2 Capital work-in-progress		2007	2006
		(Rupees in '000)	
Furniture and fixtures		-	386
Others		-	2,825
		<u>-</u>	<u>3,211</u>
7. OTHER LIABILITIES			
Accruals and provisions	7.1	2,057,383	1,995,838
Others		253,816	212,719
		<u>2,311,199</u>	<u>2,208,557</u>
7.1 Accruals and provisions			
Provision for employees' compensated absences		1,682,000	1,754,000
Others		375,383	241,838
		<u>2,057,383</u>	<u>1,995,838</u>
8. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS			
Gratuity		43,000	65,000
Pension		5,391,000	5,003,000
Benevolent fund scheme		699,000	715,000
Post retirement medical benefits		672,000	439,000
		<u>6,805,000</u>	<u>6,222,000</u>
Provident fund scheme		854,542	833,621
		<u>7,659,542</u>	<u>7,055,621</u>
9. SHARE CAPITAL			
	2007	2006	
	(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		71,710	58,995
Interest on staff loans		1,953	1,247
		<u>73,663</u>	<u>60,242</u>

11. NET OPERATING EXPENSES - ESTABLISHMENT COSTS		2007	2006
		(Rupees in '000)	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		2,727,309	2,395,588
Rent and taxes		7,703	7,162
Insurance		1,478	1,296
Electricity, gas and water		129,976	115,690
Repair and maintenance		9,478	9,751
Auditors' remuneration	11.6	2,700	2,250
Legal and professional		1,245	2,127
Travelling		4,130	4,947
Daily expenses		7,419	11,530
Passages		69,882	60,367
Fuel		1,500	2,066
Conveyance		3,157	3,167
Postages, telex and telephone		9,965	11,815
Training		13,868	13,419
Remittance of treasure		31,276	37,445
Stationery		4,932	5,039
Books and newspapers		1,183	890
Advertisement		366	597
Bank guards		51,364	46,206
Uniforms		15,605	13,083
Others		41,391	29,202
		3,135,927	2,773,637
Allocable to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences		2,475,545	1,303,472
Depreciation	6.1	96,624	67,326
		2,572,169	1,370,798
		5,708,096	4,144,435

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 valuation of these schemes:

	Percent per annum	
	2007	2006
- Expected rate of increase in salary level	8.90%	8.60%
- Expected rate of discount	11.00%	10.80%
- Medical cost trend	5.70%	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, 2006	Charge for the year	Payments during the year	Employee Contributions	Recognised liability as at June 30, 2007
	------(Rupees in '000)-----				
Gratuity	65,000	9,000	(31,000)	-	43,000
Pension	5,003,000	1,140,000	(752,000)	-	5,391,000
Benevolent fund scheme	715,000	271,000	(297,000)	10,000	699,000
Post retirement medical benefits	439,000	337,000	(104,000)	-	672,000
	<u>6,222,000</u>	<u>1,757,000</u>	<u>(1,184,000)</u>	<u>10,000</u>	<u>6,805,000</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:

	2007			2006
	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	43,000	43,000	-	65,000
Pension	5,279,000	5,391,000	112,000	5,003,000
Benevolent fund scheme	673,000	699,000	26,000	715,000
Post retirement medical benefits	1,489,000	672,000	(817,000)	439,000
	<u>7,484,000</u>	<u>6,805,000</u>	<u>(679,000)</u>	<u>6,222,000</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	Settlement cost	Employee Contributions	Total
	------(Rupees in '000)-----					
Gratuity	2,000	(2,000)	7,000	2,000	-	9,000
Pension	174,000	1,000	552,000	413,000	-	1,140,000
Benevolent fund scheme	29,000	(1,000)	92,000	161,000	10,000	271,000
Post retirement medical benefits	47,000	113,000	133,000	44,000	-	337,000
2007	<u>252,000</u>	<u>111,000</u>	<u>784,000</u>	<u>620,000</u>	<u>10,000</u>	<u>1,757,000</u>
2006	<u>260,000</u>	<u>68,000</u>	<u>717,000</u>	<u>-</u>	<u>10,000</u>	<u>1,035,000</u>

11.4 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2007 using the Projected Unit Credit Method. An amount of Rs.72 million has been reversed during the year as compared to charge of Rs.95 million in year 2006 based on actuarial recommendations.

11.5 Historical information	2007	2006	2005	2004	2003
	------(Rupees in '000)-----				
Pension					
Present value of defined benefit obligation	5,279,000	5,009,000	4,765,000	4,041,000	4,044,560
Unrecognised actuarial (loss) / gain	112,000	(6,000)	(329,000)	(52,000)	(65,000)
Liability in balance sheet	<u>5,391,000</u>	<u>5,003,000</u>	<u>4,436,000</u>	<u>3,989,000</u>	<u>3,979,560</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>(117,735)</u>	<u>(295,654)</u>	<u>281,000</u>	<u>(8,000)</u>	<u>65,000</u>
Gratuity					
Present value of defined benefit obligation	43,000	58,000	74,000	68,443	71,176
Unrecognised actuarial (loss) / gain	-	7,000	(3,000)	15,665	10,389
Liability in balance sheet	<u>43,000</u>	<u>65,000</u>	<u>71,000</u>	<u>84,108</u>	<u>81,565</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>4,211</u>	<u>(8,246)</u>	<u>16,046</u>	<u>(7,099)</u>	<u>(12,853)</u>
Medical					
Present value of defined benefit obligation	1,489,000	1,204,000	806,000	489,000	275,825
Unrecognised actuarial (loss) / gain	(817,000)	(765,000)	(529,000)	(269,000)	-
Liability in balance sheet	<u>672,000</u>	<u>439,000</u>	<u>277,000</u>	<u>220,000</u>	<u>275,825</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>165,511</u>	<u>276,001</u>	<u>279,000</u>	<u>269,000</u>	<u>228,000</u>
Benevolent Fund					
Present value of defined benefit obligation	673,000	710,000	627,000	574,000	607,184
Unrecognised actuarial (loss) / gain	26,000	5,000	-	(7,000)	(12,000)
Liability in balance sheet	<u>699,000</u>	<u>715,000</u>	<u>627,000</u>	<u>567,000</u>	<u>595,184</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>(22,303)</u>	<u>(5,845)</u>	<u>(6,000)</u>	<u>(4,000)</u>	<u>12,000</u>
M. Yousuf Adil Saleem & Co. KPMG Taseer Hadi & Co. 2007 2006					
------(Rupees in '000)-----					
11.6 Auditors' remuneration					
Audit fee		1,100	1,100	2,200	1,750
Out of pocket expenses		250	250	500	500
		<u>1,350</u>	<u>1,350</u>	<u>2,700</u>	<u>2,250</u>
12. LOSS AFTER NON-CASH ITEMS					
Net profit for the year				76,352	60,696
Expenses reimbursed by the State Bank of Pakistan				(3,135,927)	(2,773,637)
Expenses allocated to the State Bank of Pakistan				<u>(2,572,169)</u>	<u>(1,370,798)</u>
				<u>(5,631,744)</u>	<u>(4,083,739)</u>
Adjustments for:					
Depreciation				96,624	67,326
Provision for retirement benefits and employees' compensated absences				2,475,545	1,303,472
Expenses allocated to the State Bank of Pakistan				2,572,169	1,370,798
Discount on Government securities				(73,808)	(58,995)
Gain on disposal of property, plant and equipments				(2,689)	(454)
				<u>5,067,841</u>	<u>2,682,147</u>
				<u>(563,903)</u>	<u>(1,401,592)</u>

13. FINANCIAL ASSETS AND LIABILITIES

2007	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								
Balance in current account with the State Bank of Pakistan		-	-	-	4,266,639	-	4,266,639	4,266,639
Investments	8.0 - 9.6	509,000	412,826	921,826	-	-	-	921,826
Employee loans and advances	10	18,856	92,411	111,267	580,471	4,815,131	5,395,602	5,506,869
		<u>527,856</u>	<u>505,237</u>	<u>1,033,093</u>	<u>4,847,110</u>	<u>4,815,131</u>	<u>9,662,241</u>	<u>10,695,334</u>
Financial liabilities								
Other liabilities		-	-	-	629,199	1,682,000	2,311,199	2,311,199
		-	-	-	629,199	1,682,000	2,311,199	2,311,199
On balance sheet gap		<u>527,856</u>	<u>505,237</u>	<u>1,033,093</u>	<u>4,217,911</u>	<u>3,133,131</u>	<u>7,351,042</u>	<u>8,384,135</u>
2006								
Financial assets								
Balance in current account with the State Bank of Pakistan		-	-	-	2,897,163	-	2,897,163	2,897,163
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
		<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>

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 classifies non-derivative 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 are described in note 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 **4th Sept 2007** by the Board of Directors of the Corporation.

Muhammad Kamran Shehzad
Managing Director

Riaz Nazar Ali
Director Accounts

SBP BANKING SERVICES CORPORATION
CASH FLOW STATEMENT - WORKING
FOR THE YEAR ENDED JUNE 30, 2007

(Rs '000)

1. Retirement benefits and employees' compensated absences paid	
Opening Balance - July 01, 2006	
Staff retirement benefits	7,055,621
Employees compensates absences	1,754,000
	8,809,621
Add provision made in the current year	2,475,545
Closing Balance as at June 30, 2007	
Staff retirement benefits	7,659,542
Employees compensates absences	1,682,000
	9,341,542
Payments made in the current year	<u>1,943,624</u>
2. Interest Income received	
Invetsment in securities	
Opening	923,924
Closing	(921,826)
Add: Decrease in investments in PIB during the year	2,098
Income accrued	71,710
Net movement	<u>73,808</u>
3. Employee Loans granted / recoveries during the year	
Opening balance	6,188,476
Less: Balance as at June 30, 2007	5,506,869
Net recoveries in the year	<u>681,607</u>
4. Other Assets	
Balance as at June 30, 2007	84,282
Less: Opening balance	100,201
	<u>(15,919)</u>
5. Other Liabilities	
Others	
Balance as at June 30, 2007	
Accruals and provisions - others	253,816
Other liability others	375,383
	629,199
Opening Balance	
Accruals and provisions- others	212,719
Other liability others	241,838
	454,557
Net Balance -inflow in movement	<u>174,642</u>
6. CWIP	
Opening balance	3,211
Closing balance	-
Decrease in CWIP - netted off from addition (non-cash item)	(3,211)
Additions to PPE	108,096
Total capital expenditure	<u>104,885</u>
7. Proceeds from disposal of fixed assets	
Cost of asset disposed	10,237
Accumulated depreciation	(6,849)
Net Book Value	3,388
Add Profit	2,689
Proceeds on disposal of fixed assets	<u>6,077</u>

15

Financial Statements of NIBAF

KPMG TASEER HADI & CO.
Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of National Institute of Banking and Finance (Guarantee) Limited ("the Institute") as at 30 June 2007 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 Institute'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 the 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 Institute as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss 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 Institute's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Institute;

- (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 the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Institute's affairs as at 30 June 2007 and of the surplus, its cash flow 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 (XVIII of 1980).

The financial statements for the year ended 30 June 2006 were audited by another firm of auditors whose report dated 08 September 2006 expressed an unqualified opinion.

ISLAMABAD

**KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS**

National Institute of Banking and Finance (Guarantee) Limited
Notes to the Financial Statements
For The Year Ended 30 June 2007

1. Legal Status and Operations

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. Also refer note 11 to these financial statements.

2. Statement of Compliance and Significant Estimates

2.1 Statement of Compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Significant Estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, 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 experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying value of assets and liabilities that are not readily apparent 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 estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

2.2.1 Property, plant and Equipment

The Institute reviews the residual values and useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on depreciation charge and impairment.

2.2.2 Impairment

The Institute's assessment relating to impairment of assets is discussed in notes 3.3

2.2.3 Provision for slow moving stocks and other receivables

The Institute assesses the amount of provision for slow moving stocks on the basis of their actual pattern of usage. Provision is determined for those stocks, which are not used for considerable period of time. Provision for other receivables is determined by using judgement based on past business practices, probability of recovery and lapsed time period of due balance.

3 Summary of Significant Accounting Policies

3.1. Accounting Convention

These financial statements have been prepared under the historical cost convention except investments held to maturity which have been recognized at amortized cost.

3.2. Property, Plant and Equipment

These are stated at cost less accumulated depreciation and provision for impairment, if any.

Depreciation on additions is charged from the month the asset is available for use and on disposal up to the month preceding the month of disposal. Depreciation for the year is calculated using the straight line method at rates given in note 4 to the financial statements and included in the income and expenditure account.

Maintenance and normal repairs are charged to income as and when incurred. Major extensions, renewals and improvements are capitalized.

Gains and losses on disposal of property, plant and equipment are taken to the income and expenditure account currently.

3.3. Impairment

The carrying amounts of the Institute's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of assets is estimated and impairment losses are recognized as expense in the income and expenditure account.

3.4. Stocks

Stocks and other consumables are valued at weighted average cost. Provision is made for stocks which are not used for a considerable period of time.

3.5. Accounts receivables and other receivables

Accounts receivables and other receivables are carried at invoice amount. Known bad debts are written off when identified.

3.6. Investment

Investment held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Institute has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method.

3.7. Trade and other payables

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Institute.

3.8. Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, cash with banks in current and deposit accounts.

3.9. Financial instruments

Financial assets and liabilities are recognized when the Institute becomes a party to contractual provisions of the instrument. These are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or amortized cost as the case may be.

The Institute de-recognizes a financial assets or a portion of financial asset when, and only when, the Institute loses control of the contractual right that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished i.e., when the obligation specified in the contract is discharged, cancelled or expired.

Any gain or loss from re-measuring the derivative financial instrument at fair value is recognized in the income and expenditure account.

3.10. Offsetting financial assets and liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Institute has a legal enforceable right to set-off the recognized amounts and intends either to settle on net basis or to realize the asset and settle the liability simultaneously.

3.11. Provisions

A provision is recognized in the balance sheet when the Institute has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the can be made of the amount of obligation.

3.12. Revenue recognition

- i) Training and education fee is recognized on completion of relevant courses.
- ii) Hostel income is recognized on performance of services.
- iii) Profit on bank accounts and interest on investment is accounted for on a time proportion basis using the applicable rate of interest.

3.13. Taxation

Income of the Institute, being a subsidiary of State Bank of Pakistan is exempted from income 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-1 of Second Schedule to the Income Tax Ordinance, 2001

3.14. New accounting standards and IFRIC interpretations that are not yet effective

The following standards, interpretations and amendments in approved accounting standards are only effective for accounting periods beginning on or after 1 July 2007 and are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in the certain cases:

- IAS 1 - Presentation of Financial Statements - Amendments Relating to Capital Disclosures;
- IAS 23 - Borrowing Costs (as revised);
- IAS 41 -Agriculture;
- IFRS 2 - Share-based Payments;
- IFRS 3 - Business Combinations;
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations;
- IFRS 6 - Exploration for and Evaluation of Mineral Resources;
- IFRIC 10 - Interim Financial Reporting and Impairment;
- IFRIC 11 - Group and Treasury Share Transactions;
- IFRIC 12 - Service Concession Arrangements;
- IFRIC 13 - Customer Loyalty Programmes; and
- IFRIC 14 The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

National Institute of Banking & Finance (Guarantee) Limited**Balance Sheet**

As at June 2007

	Note	2007 Rupees	2006 Rupees
NON CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	4	7,387,469	9,799,174
LONG TERM DEPOSITS		401,400	401,400
CURRENT ASSETS			
Stocks	5	851,911	669,647
Short term investment-Related party	6	129,167,234	119,261,335
Receivable against training programs-unsecured, considered good		10,709,422	9,318,745
Advances, prepayments and other receivables	7	267,553	453,771
Due from associated undertaking	8	3,515,825	3,293,903
Bank balances	9	-	75,607
		144,511,945	133,073,008
		152,300,814	143,273,582
SHAREHOLDERS' EQUITY			
Authorized share capital (20,000,000 Ordinary shares of Rs.10 each)		200,000,000	200,000,000
Issued, subscribed and paid up capital	10	70	70
Accumulated surplus		24,367,267	24,367,267
		24,367,337	24,367,337
NON- CURRENT LIABILITIES			
Advance against issue of shares	11	49,260,760	49,260,760
Capital grant	12	59,429,900	59,429,900
		108,690,660	108,690,660
CURRENT LIABILITIES			
Due to associated undertaking	13	17,360,822	5,374,194
Creditors, accrued and other liabilities	14	1,881,995	4,841,391
		19,242,817	10,215,585
		152,300,814	143,273,582
CONTINGENCIES AND COMMITMENTS	15		

The annexed notes 1 to 23 form an integral part of these financial statements.

CHIEF EXECUTIVE_____
DIRECTOR

National Institute of Banking & Finance (Guarantee) Limited
Income & Expenditure Account
For the year ended June 2007

	Note	2007 Rupees	2006 Rupees
INCOME			
Hostel income	16	33,957,096	25,371,878
Training and education fee	17	20,119,552	11,024,952
Other income	18	9,888,432	5,841,486
		63,965,080	42,238,316
EXPENDITURE			
Administrative and general expenses	19	(62,346,249)	(63,005,893)
Surplus/(deficit) for the year before taxation		1,618,831	(20,767,577)
Tax refund	20	8,898,809	-
Surplus/(deficit) for the year after taxation		10,517,640	(20,767,577)

The annexed notes 1 to 23 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

National Institute of Banking & Finance (Guarantee) Limited**Cash Flow Statement**

For the year ended June 2007

	Note	2007 Rupees	2006 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(deficit) for the year before taxation		1,618,831	(20,767,577)
<i>Adjustments for:</i>			
Depreciation		3,739,803	3,709,141
Other income		(9,888,432)	(5,841,486)
		(6,148,629)	(2,132,345)
Operating profit before working capital changes		(4,529,798)	(22,899,922)
<i>Changes in working capital</i>			
Increase/ (decrease) in current liabilities:			
Due to associated undertaking excluding profit allocation		1,468,988	21,326,434
Creditors, accrued and other liabilities		(2,959,396)	1,606,157
Unearned income		-	(471,428)
		(1,490,408)	22,461,163
(Increase)/ decrease in current assets			
Stocks		(182,264)	17,131
Receivable against training programs		(1,390,677)	-
Advances, prepayments and other receivables		186,218	2,641,623
Due from associated undertaking		(221,922)	-
		(1,608,645)	2,658,754
Net changes in working capital		(3,099,053)	25,119,917
Tax refund		8,898,809	-
<i>Net cash generated from operating activities</i>		1,269,958	2,219,995
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(1,328,098)	(2,030,192)
Profit received on deposit accounts and miscellaneous income		106,048	232,341
Investment purchased during the year		(123,515)	(113,652,190)
<i>Net cash used in investing activities</i>		(1,345,565)	(115,450,041)
CASH FLOW FROM FINANCING ACTIVITIES			
Capital grant-Rural Finance Resource Centre		-	59,429,900
<i>Net cash generated from financing activities</i>		-	59,429,900
<i>Net (decrease) in cash and cash equivalents</i>		(75,607)	(53,800,146)
<i>Cash and cash equivalents at beginning of the year</i>	9	75,607	53,875,753
<i>Cash and cash equivalents at end of the year</i>	9	-	75,607

The annexed notes 1 to 23 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

National Institute of Banking & Finance (Guarantee) Limited

Statement of Changes in Equity

For the year ended June 2007

	Share Capital	Accumulated Surplus	Total
		(Rupees)	
Balance as on 01 July 2005	70	24,367,267	24,367,337
Deficit for the year	-	(20,767,577)	(20,767,577)
Deficit allocated to State Bank of Pakistan-(Parent entity)	-	20,767,577	20,767,577
Balance as at 30 June 2006	70	24,367,267	24,367,337
Surplus for the year	-	10,517,640	10,517,640
Surplus allocated to State Bank of Pakistan-(Parent entity)	-	(10,517,640)	(10,517,640)
Balance as at 30 June 2007	70	24,367,267	24,367,337

The annexed notes 1 to 23 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

4 PROPERTY, PLANT AND EQUIPMENT

	<i>Tangible-owned</i>				Total
	Furniture and fixtures	Electronic data processing equipment	Office equipment	Vehicles	
(Rupees)					
Cost					
Balance as at 01 July 2005	16,377,389	2,334,998	30,646,456	2,904,504	52,263,347
Additions during the year	123,990	1,637,535	268,667	-	2,030,192
Balance as at 30 June 2006	16,501,379	3,972,533	30,915,123	2,904,504	54,293,539
Balance as at 01 July 2006	16,501,379	3,972,533	30,915,123	2,904,504	54,293,539
Additions during the year	-	544,788	113,310	670,000	1,328,098
Balance as at 30 June 2007	16,501,379	4,517,321	31,028,433	3,574,504	55,621,637
Depreciation					
Balance as on 01 July 2005	9,102,263	569,605	28,542,468	2,570,888	40,785,224
Depreciation charge for the year	1,637,889	1,065,575	886,601	119,076	3,709,141
Balance as at 30 June 2006	10,740,152	1,635,180	29,429,069	2,689,964	44,494,365
Balance as on 01 July 2006	10,740,152	1,635,180	29,429,069	2,689,964	44,494,365
Depreciation charge for the year	1,649,155	1,194,491	712,157	184,000	3,739,803
Balance as at 30 June 2007	12,389,307	2,829,671	30,141,226	2,873,964	48,234,168
Carrying amounts - 2006	5,761,227	2,337,353	1,486,054	214,540	9,799,174
Carrying amounts - 2007	4,112,072	1,687,650	887,207	700,540	7,387,469
Rates of depreciation	10%	33.33%	20%	20%	

4.1 Assets except for land and buildings in use of the Institute, were transferred by State Bank of Pakistan. No amount, for its use, has been charged by State Bank of Pakistan to the Institute.

4.2 The depreciation charge for the year has been allocated to administrative and general expenses.

5 This represents stationery and other consumable items.

	2007 Rupees	2006 Rupees
6 SHORT TERM INVESTMENT - RELATED PARTY		
Investment held to maturity		
Government Treasury Bills	129,167,234	119,261,335
	<u>129,167,234</u>	<u>119,261,335</u>

This investment were purchased by the Institute from the State Bank of Pakistan (Parent entity) for a period of 12 months. This investment is shown at amortized cost by using effective rate of interest @ 9.00 % per annum (2006: 8.79% per annum). This investment is in Subsidiary General Ledger Account maintained by the State Bank of Pakistan-Banking Services Corporation, Karachi.

	2007 Rupees	2006 Rupees
7 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES		
Advances to staff -Unsecured, considered good	26,828	160,677
Prepayments	217,177	271,046
Other receivables-Unsecured, considered good	23,548	22,048
	<u>267,553</u>	<u>453,771</u>

8 DUE FROM ASSOCIATED UNDERTAKING-Considered good **NOTE**

Receivable from State Bank of Pakistan - Parent Entity	8.1	3,515,825	3,293,903
		<u>3,515,825</u>	<u>3,293,903</u>

8.1 This represents claim lodged with State Bank of Pakistan for reimbursement of expenses incurred by the Institute in connection with the establishment of Rural Finance Resource Centre in pursuance of Rural Finance Sector Development Programme loan agreement No.1987-PAK dated 23 December 2002 between GoP and Asian Development Bank.

9 BANK BALANCES

Balance in deposit accounts	-	75,607
	<u>-</u>	<u>75,607</u>

10 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

7 ordinary shares of Rs.10 each issued for cash	70	70
	<u>70</u>	<u>70</u>

10.1 State Bank of Pakistan and National Bank of Pakistan hold 06 and 01 (2006: 06 and 01 respectively) ordinary shares of the Institute respectively.

	2007 Rupees	2006 Rupees
11 ADVANCE AGAINST 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>

During the year, the Board of Directors of the Institute in its meeting held on 17 May 2007 resolved to convert the Institute into a single member company by way of holding 100% shares by State Bank of Pakistan. In the light of this decision, National Bank of Pakistan has requested the State Bank of Pakistan to arrange refund of Rs.20 million vide letter No. FCD/BOI&SW/2007/194 dated July 13, 2007.

12 CAPITAL GRANT

This represents capital grant amounting to US \$ one million received by the Institute in January 2005 from State Bank of Pakistan for establishment of Rural Finance Resource Centre. The grant disbursed by SBP is out of the proceeds of grant given by the Government of Pakistan (GoP) vide Asian Development Bank loan agreement No. 1987-PAK dated 23 December 2002 without outlining any terms and conditions for its utilization.

13 DUE TO ASSOCIATED UNDERTAKING	2007	2006
	Rupees	Rupees
State Bank of Pakistan-Parent entity	17,360,822	5,374,194
	<u>17,360,822</u>	<u>5,374,194</u>

This represents the current account of the Institute with the State Bank of Pakistan to manage the financial affairs of the Institute.

14 CREDITORS, ACCRUED AND OTHER LIABILITIES	2007	2006
	Rupees	Rupees
Creditors	1,117,601	3,718,808
Traveling and training cost payable	80,170	486,827
Accrued expenses	370,000	407,500
Salaries and stipend payables	-	162,764
Security deposits	314,224	65,492
	<u>1,881,995</u>	<u>4,841,391</u>

15 CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments at the year end.

16 HOSTEL INCOME	NOTE	2007	2006
		Rupees	Rupees
Rental charges		24,273,852	13,731,123
Service charges		4,000,447	9,868,165
Food and beverage charges	16.1	5,682,797	1,772,590
		<u>33,957,096</u>	<u>25,371,878</u>

16.1 Food and beverages charges are net of related food and beverage expenses.

17 TRAINING AND EDUCATION FEE	2007	2006
	Rupees	Rupees
International courses	13,768,939	2,553,952
Domestic courses	225,613	976,000
Islamic banking courses	6,125,000	7,495,000
	<u>20,119,552</u>	<u>11,024,952</u>

18 OTHER INCOME	Note	2007	2006
		Rupees	Rupees
Profit on deposit accounts		47,908	201,544
Interest on investment-Endowment fund		9,782,384	5,609,145
Miscellaneous income		58,140	30,797
		9,888,432	5,841,486
19 ADMINISTRATIVE AND GENERAL EXPENSES			
Salaries, wages and other benefits		25,581,390	23,862,774
Training costs		4,470,474	6,498,188
Repair and maintenance		5,102,799	4,151,546
Lodging, catering and allied services		4,901,340	5,840,120
Traveling and conveyance		1,629,436	2,375,308
Printing and stationery		1,285,729	2,554,748
Medical expenses		1,248,662	396,778
Electricity, gas and water		10,693,093	9,821,247
Telephone and fax charges		741,481	921,431
Vehicle running expenses		762,822	769,482
General consumables		153,120	185,258
Security charges		660,550	614,000
Insurance		95,480	88,883
Newspapers, books and periodicals		160,197	164,894
Postage and courier		164,430	226,672
Entertainment		86,340	81,621
Audit fee (including out of pocket)		84,182	125,622
Rent, rates and taxes		560,000	420,000
Legal and professional charges		124,800	128,100
Depreciation	4	3,739,803	3,709,141
Others		100,121	70,080
		62,346,249	63,005,893

20 TAX REFUND

20.1 The Appeal filed by the institute before the Commissioner of Income Tax (Appeals) in the tax year 2005 for challenging the rejection as an exempt educational institution status was settled in favour of the Institute. Another appeal filed by the institute against the imposition of penalty of Rs. 2,429,313 under section 108 of the repealed Income Tax Ordinance, 1979 at the High Court was settled against the Institute. As a net effect of both the decisions and within the scope of section 170 (3) of the Income Tax Ordinance, 2001, an amount of Rs.8,898,809 was refunded by the tax authorities to the Institute during the year.

State Bank of Pakistan Annual Performance Review 2007
FOR THE YEAR ENDED 30 JUNE 2007

21 FINANCIAL ASSETS AND LIABILITIES

21.1 Interest rate risk exposure

The institute's exposure to interest rate risk and the effective rates on its financial assets and liabilities as of 30 June 2007 are as follows:

	2007		Interest/mark-up bearing					Non-interest/mark-up bearing			2007	
	Effective interest rates %	Maturity upto one year	In more than one year but not later than two years	In more than two year but not later than three years	In more than three year but not later than four years	In more than four year but not later than five years	Maturity after five years	Sub Total	Maturity upto one year	Maturity after one year	Sub Total	Total (Rupees)
Financial Assets												
Deposits		-	-	-	-	-	-	-	-	401,400	401,400	401,400
Short term investment	8.79-9.00%	129,167,234	-	-	-	-	-	129,167,234	-	-	-	129,167,234
Receivable against training programs		-	-	-	-	-	-	-	10,709,422	-	10,709,422	10,709,422
Other receivables		-	-	-	-	-	-	-	50,376	-	50,376	50,376
Due from associated undertakings		-	-	-	-	-	-	-	3,515,825	-	3,515,825	3,515,825
		129,167,234	-	-	-	-	-	129,167,234	14,275,623	401,400	14,677,023	143,844,257
Financial liabilities												
Recognized												
Due to associated undertaking		-	-	-	-	-	-	-	17,360,822	-	17,360,822	17,360,822
Creditors, accrued and other liabilities		-	-	-	-	-	-	-	1,881,995	-	1,881,995	1,881,995
		-	-	-	-	-	-	-	19,242,817	-	19,242,817	19,242,817
Unrecognized												
Contingencies and commitments		-	-	-	-	-	-	-	-	-	-	-
On balance sheet gap		129,167,234	-	-	-	-	-	129,167,234	(4,967,194)	401,400	(4,565,794)	124,601,440
Cumulative interest/markup sensitivity gap		129,167,234	129,167,234	129,167,234	129,167,234	129,167,234	129,167,234	129,167,234	(4,967,194)	(4,565,794)	(4,565,794)	124,601,440
2006												
		Interest/mark-up bearing					Non-interest/mark-up bearing			2006		
	Effective interest rates %	Maturity upto one year	In more than one year but not later than two years	In more than two year but not later than three years	In more than three year but not later than four years	In more than four year but not later than five years	Maturity after five years	Sub Total	Maturity upto one year	Maturity after one year	Sub Total	Total (Rupees)
Financial assets												
Deposits		-	-	-	-	-	-	-	-	401,400	401,400	401,400
Short term investment	8.79%	119,261,335	-	-	-	-	-	119,261,335	-	-	-	119,261,335
Receivable against training programs		-	-	-	-	-	-	-	9,318,745	-	9,318,745	9,318,745
Other receivables		-	-	-	-	-	-	-	182,725	-	182,725	182,725
Due from associated undertakings		-	-	-	-	-	-	-	3,293,903	-	3,293,903	3,293,903
Bank balances	3%	75,607	-	-	-	-	-	75,607	-	-	-	75,607
		119,336,942	-	-	-	-	-	119,336,942	12,795,373	401,400	13,196,773	132,533,715
Financial liabilities												
Recognized												
Due to associated undertaking		-	-	-	-	-	-	-	5,374,194	-	5,374,194	5,374,194
Creditors, accrued and other liabilities		-	-	-	-	-	-	-	4,841,391	-	4,841,391	4,841,391
		-	-	-	-	-	-	-	10,215,585	-	10,215,585	10,215,585
Unrecognized												
Contingencies and commitments		-	-	-	-	-	-	-	-	-	-	-
On balance sheet gap		119,336,942	-	-	-	-	-	119,336,942	2,579,788	401,400	2,981,188	122,318,130
Cumulative interest/markup sensitivity gap		119,336,942	119,336,942	119,336,942	119,336,942	119,336,942	119,336,942	119,336,942	2,579,788	2,981,188	2,981,188	122,318,130

21.2 Fair value of financial assets and liabilities

The carrying value of all the financial assets and liabilities reflected in the financial statements approximate their fair values.

21.3 Currency risk

The Institute is not exposed any significant level of currency risk.

21.4 Liquidity risk

The Institute believes that it is not exposed to any significant level of liquidity risk.

21.5 Concentration of Credit risk

All financial assets except cash in hand are subject to credit risk. The Institute believes that it is not exposed to major concentration of credit risk.

**State Bank of Pakistan Annual Performance Review 2007
FOR THE YEAR ENDED 30 JUNE 2007**

22 TRANSACTIONS WITH RELATED PARTIES

The Institute is a subsidiary of State Bank of Pakistan and associated company of National Bank of Pakistan, which hold 85.71% and 14.29% shares of the Institute respectively. Therefore all member companies of State Bank of Pakistan and National Bank of Pakistan are related parties of the Institute. Other related parties comprise of directors and key management personnel and entities over which directors are able to exercise influence.

All transactions are made by the State Bank of Pakistan (related party), on behalf of the Institute. Transactions with other related parties are not disclosed as the management is of the opinion that it is impracticable to disclose such transactions due to the nature of the Institute's operations.

Balances with related parties including remuneration and benefits to key management personnel and Chief Executive Officer under the terms of their employment are as follows:

	2007	2006
	Rupees	Rupees
Parent Entity		
<i>Balances at the year end</i>		
Short term Investment	129,167,234	119,261,335
Due to associated undertaking-State Bank of Pakistan-Related party	17,360,822	5,374,194
Receivable from State Bank of Pakistan against Rural Finance Resource Centre Program	3,515,825	3,293,903
Advance against issue of shares	29,260,770	29,260,770
<i>Transactions during the year</i>		
Investment purchased/matured and re-invested	123,735,358	119,261,335
Value of assets transferred	434,788	1,488,735
Income received on behalf of the Institute	69,709,790	42,238,316
Expenses incurred on behalf of the parent entity	369,794	275,447
Expenses incurred on behalf of the Institute	62,346,249	63,005,893
Expenses incurred on behalf of State Bank of Pakistan against Rural Finance Resource Centre Program	221,922	3,293,903
Allocation of surplus/deficit	10,517,640	(20,767,577)
Associated Undertaking		
<i>Balances at the year end</i>		
Bank balance	-	75,607
Advance against issue of shares	19,999,990	19,999,990
Remuneration to Chief Executive Officer, Director and Key Management Personnel		
<i>Transactions during the year</i>		
Salaries, wages and other benefits to:		
-Chief Executive Officer	1,981,678	1,684,641
-Director	5,000	2,000
-Key Management Personnel	14,546,664	11,745,776

23 GENERAL

23.1 These financial statements were authorized for issue by the Board of Directors on **29th Sep 2007**

23.2 Figures have been rounded off to the nearest rupee, unless otherwise stated.

CHIEF EXECUTIVE

DIRECTOR