

12 Consolidated Financial Statement 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, 2008 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. National Institute of Banking and Finance (Guarantee) Limited was audited by another firm of Chartered Accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for this subsidiary is based solely on the audit report of other auditor. The consolidated financial statements of the Bank for the year ended June 30, 2007 were audited by KPMG Taseer Hadi & Co., Chartered Accountants and M. Yousuf Adil Saleem & Co., Chartered Accountants whose report dated September 04, 2007 expressed a qualified opinion, in respect of net assets recoverable from the Reserve Bank of India, the Government of India and those pertaining to transactions in former East Pakistan as stated below.

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 1 to 38 and Accounting Policies for investments and transactions and balances with International Monetary Fund (IMF) as stated in note 4.2 and 4.16, 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 misstatements.

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. 2,262 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. 3,565 million and Rs. 5,590 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs.7,030 million and Rs. 2,125 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, 2008 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Accounting Standards 1 to 38 and Accounting Policies for investments and transactions and balances with International Monetary Fund (IMF) as stated in note 4.2 and 4.16 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.

M. Yousuf Adil Saleem & Co.

Chartered Accountants

Karachi

Date: 2nd September 2008

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

Karachi

Date: 2nd September 2008

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES - ISSUE DEPARTMENT
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2008**

	<i>Note</i>	<i>2008</i> <i>(Rupees in '000)</i>	<i>2007</i>
ASSETS			
Gold reserves held by the Bank	5	130,970,552	81,277,106
Foreign currency reserves	6	439,104,769	685,468,587
Special Drawing Rights of the International Monetary Fund	7	11,632,215	12,383,051
Notes and coins:			
Indian notes representing assets receivable from the Reserve Bank of India	9	683,678	638,249
Coins	10	2,718,036	3,012,270
		3,401,714	3,650,519
Investments	12	458,259,765	108,830,311
Commercial papers held in Bangladesh (former East Pakistan)	13	78,500	78,500
Assets held with the Reserve Bank of India	14	2,591,897	1,740,325
		1,046,039,412	893,428,399
LIABILITY			
Bank notes issued	15	1,046,039,412	893,428,399

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, 2008

	<i>Note</i>	<i>2008</i>	<i>2007</i>
		<i>(Rupees in '000)</i>	
ASSETS			
Local currency	10	181,913	135,646
Foreign currency reserves	6	197,206,165	162,815,117
Earmarked foreign currency balances	8	952,112	56,822,188
Special Drawing Rights of the International Monetary Fund	7	3,137,123	418,534
		<u>201,477,313</u>	<u>220,191,485</u>
Reserve tranche with the International Monetary Fund under quota arrangements	16	13,286	10,881
Securities purchased under agreement to resale	11	-	33,715,973
Current account of the Government of Balochistan	22.5	13,908,793	4,820,407
Current account of the Government of Azad Jammu and Kashmir	22.6	518,564	-
Investments	12	635,739,865	373,066,806
Loans, advances and bills of exchange	17	242,880,410	288,091,460
Balances due from the Governments of India and Bangladesh (former East Pakistan)	18	5,033,592	4,677,500
Property and equipment	19	18,522,284	19,019,433
Intangible assets	20	120,923	163,769
Other assets	21	17,605,450	15,433,411
Total assets		<u>1,135,820,480</u>	<u>959,191,125</u>
LIABILITIES			
Bills payable		1,224,446	571,942
Current accounts of the Governments	22	70,823,348	142,197,558
Securities sold under agreement to repurchase	23	6,758,751	61,816,757
Deposits of banks and financial institutions	24	424,549,382	305,168,576
Other deposits and accounts	25	145,601,026	104,135,996
Payable to the International Monetary Fund	26	91,263,686	85,063,742
Other liabilities	27	60,279,837	72,229,063
		<u>800,500,476</u>	<u>771,183,634</u>
Deferred liability - staff retirement benefits	28	12,183,991	11,484,789
Capital grant rural finance resource centre		59,430	59,431
Deferred income	29	206,244	340,845
Total liabilities		<u>812,950,141</u>	<u>783,068,699</u>
Net assets		<u>322,870,339</u>	<u>176,122,426</u>
REPRESENTED BY			
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	76,288,533	67,138,769
Unappropriated profit		96,440,491	9,139,871
		<u>174,354,982</u>	<u>77,904,598</u>
Unrealised appreciation on gold reserves	33	129,768,343	79,440,921
Surplus on revaluation of property and equipment	19.2	18,747,014	18,747,014
Minority interest	1.2	-	29,893
		<u>322,870,339</u>	<u>176,122,426</u>
CONTINGENCIES AND COMMITMENTS			
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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
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2008

	<i>Note</i>	2008 <i>(Rupees in '000)</i>	2007
Discount, interest / mark-up and / or return earned	35	104,882,577	92,513,195
Less: Interest / mark-up expense	36	3,748,759	5,289,092
		101,133,818	87,224,103
Commission income	37	720,289	656,268
Exchange gain- net	38	61,973,254	1,957,806
Dividend income		6,594,079	4,286,628
Other operating income - net	39	9,631,073	30,181,241
		180,052,513	124,306,046
Less: Direct operating expenses			
Bank notes printing charges	40	3,097,868	3,087,214
Agency commission	41	2,710,017	2,576,382
(Provision) / reversal of provision for:			
- loans, advances and other assets		-	(73,964)
- other doubtful assets		122,543	212,057
		122,543	138,093
		174,122,085	118,504,357
Less: General administrative and other expenses	42	8,888,130	9,210,501
OPERATING PROFIT		165,233,955	109,293,856
Other income - net	43	295,772	241,826
		165,529,727	109,535,682
Less: Other charges	44	736,368	803,069
PROFIT FOR THE YEAR		164,793,359	108,732,613

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
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2008

	Note	2008 (Rupees in '000)	2007
Profit for the year before non-cash items	45	147,134,270	81,551,621
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(67,560)	(61,632)
Reserve tranche with the International Monetary Fund under quota arrangements		(2,405)	(356)
Securities sold / (purchased) under agreement to re-sale		33,715,973	(33,715,973)
Investments		(614,591,949)	55,900,669
Discount income received		-	(73,808)
Loans, advances and bills of exchange		45,198,668	(54,651,446)
Indian notes representing assets receivable from the Reserve Bank of India		(45,429)	(75,681)
Assets held with the Reserve Bank of India		(47,765)	(41,399)
Other assets		(42,249,162)	(32,867,852)
		(578,089,629)	(65,587,478)
		(430,955,359)	15,964,143
Increase / (decrease) in liabilities:			
Bank notes issued		152,611,013	109,053,113
Bills payable		652,504	99,209
Current accounts of the Government		(80,981,160)	(815,703)
Securities sold under agreement to re-purchase		(55,058,006)	1,325,754
Deposits of banks and financial institutions		119,380,806	97,594,319
Other deposits and accounts		41,465,030	(505,246)
Payable to the International Monetary Fund		6,199,944	(4,802,498)
Other liabilities		(38,261,018)	(37,010,345)
		146,009,113	164,938,603
		(284,946,246)	180,902,746
Payment of retirement benefits and employees' compensated absences		(1,720,000)	(2,772,995)
Dividend received		6,594,079	4,286,628
Gold purchased		(169,831)	(6,311)
Proceeds from disposal of investment		16,868,262	(781,049)
Fixed capital expenditure		(317,548)	33,841,852
Proceeds from disposal of property and equipment		8,975	75,142
		21,263,937	34,643,267
Dividend paid to the Federal Government		(10,000)	(10,000)
(Decrease) / increase in cash and cash equivalents during the year		(263,692,309)	215,536,013
Cash and cash equivalents at beginning of the year		918,557,082	703,021,069
Cash and cash equivalents at end of the year	46	654,864,773	918,557,082

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
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2008

Note	Attributable to equity holders of parent													Minority Interest	Total Equity
	Share capital	Allocation of special drawing rights of IMF	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unappropriated profit	Unrealised appreciation on gold reserves	Surplus on revaluation of property and equipment	Total			
Balance at June 30, 2007	100,000	1,525,958	15,414,474	2,600,000	1,600,000	1,500,000	900,000	4,700,000	19,142,000	74,406,912	18,747,014	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	-	-	-	-	-	-	-	-	108,732,613	5,034,009	-	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	9,139,871	79,440,921	18,747,014	176,092,533	29,893	176,122,426	
Changes in equity for 2007 - 08															
Profit for the year	-	-	-	-	-	-	-	-	164,793,359	-	-	164,793,359	-	164,793,359	
Unrealised appreciation on revaluation of gold reserves	-	-	-	-	-	-	-	-	-	50,327,422	-	50,327,422	-	50,327,422	
Total recognised income and expense for the year	-	-	-	-	-	-	-	-	164,793,359	50,327,422	-	215,120,781	-	215,120,781	
Refund of advance against issue of share capital 1.2	-	-	-	-	-	-	-	-	-	-	-	-	(20,000)	(20,000)	
Transactions	-	-	9,893	-	-	-	*	-	-	-	-	-	(9,893)	-	
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)	-	(10,000)	
Transferred to reserve fund	-	-	9,139,871	-	-	-	-	-	(9,139,871)	-	-	-	-	-	
Balance profit transferred to the Federal Government	-	-	-	-	-	-	-	-	(68,342,868)	-	-	(68,342,868)	-	(68,342,868)	
Balance at June 30, 2008	100,000	1,525,958	64,988,533	2,600,000	1,600,000	1,500,000	900,000	4,700,000	96,440,491	129,768,343	18,747,014	322,860,446	-	322,870,339	

* The Central Board has proposed to transfer Rs 96,440 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

I. 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;
- organisation and management of the inter-bank settlement system and promotion of smooth functioning of payment systems;
- providing of loans and advances to the Government, banks, financial institutions and local authorities under various facilities;
- purchase, holding and sale of 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.

1.1 The financial statements are presented in Pak Rupees, which is the Bank's functional and presentation currency.

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

- SBP Banking Services Corporation ("the Corporation")- wholly owned subsidiary: SBP Banking Services Corporation was established under the SBP Banking Service Corporation Ordinance, 2001 in Pakistan 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 ("the Institute")- wholly own subsidiary: National Institute of Banking and Finance (Guarantee) Limited was incorporated in Pakistan 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. During the year by virtue of a resolution passed in the meeting of the Board of Directors of the Institute held on September 29, 2007 the Bank has taken the single share of the Institute held by the National Bank of Pakistan (NBP) and the advance against issue of shares has also been refunded to the NBP by the subsidiary. Accordingly, the Institute has become the wholly own subsidiary of the Bank.

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 4.16 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.

Subsidiaries are entities controlled by the Group. Control exist when the Group has power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

All material inter group balances and transaction have been eliminated.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except that investments, gold reserves foreign currency reserve, special drawing rights of IMF, certain investments and certain property and equipment, as referred to in their respective notes 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 4.16 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 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 4.16 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 judgment 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 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 re-measured to fair value. All related realized and unrealized gains and losses are recognised in the profit and loss account.

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

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 accumulated impairment losses, if any, and premiums and/or discounts are accounted for using effective interest method.

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

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and present value of expected future cash flows discounted at the financial 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 recognised when cash is advanced to borrowers. When a loan is uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited 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, these securities are measured at fair value except the strategic investments, including investments in National Bank of Pakistan, Habib Bank Limited, Allied Bank Limited and United Bank of Limited, and investments in securities the fair value of which cannot be determined reliably. Gain or loss on changes in fair value is taken to and 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 de-recognised by the Bank on the date it transfers risks and rewards. Securities held-to-maturity are de-recognised 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.

4.3 Derivative financial instruments

The Bank uses derivative financial instruments which include forwards, futures and currency swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 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 respectively. The resultant gains or losses from derivatives are included in the profit and loss account on a time proportional basis.

4.4 Collateralised borrowings / lending

Securities sold subject to a commitment to repurchase them at a pre-determined 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 recognised on the balance sheet and a consideration paid is recorded in "Securities purchased under agreement to resell". 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 recognised in the profit and loss account on time proportion basis.

4.5 Gold reserves

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

4.6 Property and equipment

Property 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 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. The useful life of assets is reviewed and adjusted if appropriated, at each balance sheet date.

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

Surplus arising on revaluation of property and equipment is credited to "Surplus on revaluation of property and equipment". The surplus on revaluation realised on disposal of property and equipment is transferred to unappropriated profit.

4.7 Intangibles

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

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

4.8 Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. An impairment loss is recognised in profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets. Balances considered bad and irrecoverable are written off from the books of account. Provisions against impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income / expense in the profit and loss account.

4.9 Compensated absences

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

4.10 Staff retirement benefits

The Bank operates:

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

Obligations for contributions to defined contribution provident plans are recognised as an expense in the profit and loss account as and when 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. Unrecognised actuarial gains and losses are recognised in the profit and loss account over the expected average remaining working lives of the employees.

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

4.11 Deferred income

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

4.12 Revenue recognition

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

4.13 Finances under profit and loss sharing arrangements

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

4.14 Taxation

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

4.15 Foreign currency translation

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

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 4.16, which are transferred to the Government of Pakistan account.

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

Commitments for outstanding forward foreign exchange contracts disclosed in note 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.

4.16 Transactions and balances with International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards (IASs) 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 recognised 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 year ended June 30, 2006, 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.

4.17 Provisions

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

4.18 Cash and cash equivalents

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

4.19 Financial instruments

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

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

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

4.20 Offsetting

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

		<i>Net content in troy ounces</i>	<i>2008 (Rupees in '000)</i>	<i>2007</i>
	<i>Note</i>			
5. GOLD RESERVES HELD BY THE BANK				
Opening balance		2,066,514	81,277,106	76,317,295
Additions during the year		3,694	169,831	6,311
Appreciation during the year due to revaluation	33	-	49,523,615	4,953,500
		2,070,208	130,970,552	81,277,106

6. FOREIGN CURRENCY RESERVES

Investments	6.1 & 6.2	241,920,666	211,328,676
Deposit accounts	6.3 & 6.4	355,534,449	606,819,214
Current accounts	6.2 & 6.3	38,855,819	30,135,814
		636,310,934	848,283,704

The above foreign currency reserves are held as follows:

Issue Department	439,104,769	685,468,587
Banking Department	197,206,165	162,815,117
	636,310,934	848,283,704

6.1 Investments

Held for trading	6.4	240,011,459	209,629,406
Held to maturity	6.5	1,699,851	1,503,826
Available for sale		209,356	195,444
		241,920,666	211,328,676

6.2 These include Rs. 211.18 million (2007: Rs. 197.15 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 0.75% to 5.82% (2007: 0.22% to 5.36%) 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 a custodian. Market value of these investments is equivalent to USD 3,700 million (2007: USD 3,542 million) .

6.5 This represents Bank's investment in Islamic Sukuk Bonds carrying mark-up at the rate of 3.63% (2007: 3.63%) per annum. The bond will mature on August 12, 2008.

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, 2008. 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.

	Note	2008 (Rupees in '000)	2007
SDRs were held as follows:			
By the Issue Department		11,632,215	12,383,051
By the Banking Department		3,137,123	418,534
		14,769,338	12,801,585

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.

	Note	2008 (Rupees in '000)	2007
10. LOCAL CURRENCY			
Bank notes held by the Banking Department	15	181,913	135,646
Coins		2,718,036	3,012,270
		2,899,949	3,147,916
Coins held as an asset of the Issue Department	10.1	(2,718,036)	(3,012,270)
		181,913	135,646

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, 2008.

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings and carries markup at Nil (2007: 8.78% to 9.50% per annum).

	Note	2008 (Rupees in '000)	2007
12. INVESTMENTS			
Loans and receivables originated by the Bank			
<i>Government securities</i>			
Market Treasury Bills (MTBs)	12.1		
Federal Government scrip	12.2	1,071,469,025	458,572,413
		2,740,000	2,740,000
		1,074,209,025	461,312,413
<i>Available for sale investments</i>			
<i>Investments in Banks and other financial institutions</i>			
<i>Ordinary shares</i>			
Listed		15,567,366	8,362,019
Unlisted		4,021,706	12,016,859
	12.3	19,589,072	20,378,878
Term Finance Certificates		282,400	282,400
Certificates of Deposits		112,351	112,351
		19,983,823	20,773,629
Provision against diminution in value of investments		(601,751)	(601,751)
		1,093,591,097	481,484,291
<i>Investment held to maturity - Pakistan Investment Bonds</i>			
		408,533	412,826
		1,093,999,630	481,897,117
Investment - MTBs held as assets of the Issue Department		(458,259,765)	(108,830,311)
		635,739,865	373,066,806

12.1 Investments in Government securities

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

	2008 (% per annum)	2007
Market Treasury Bills	9.26 to 11.19	8.49 to 8.90
Federal Government scrip	3	3

12.2 This includes securities having carrying value of Rs. 7,000 million (2007: Rs. 63,300 million) given as collateral under repurchase agreement borrowing arrangements.

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

	2008 % of Holding	2007	Note	2008 (Rupees in '000)	2007
Listed					
National Bank of Pakistan	75.20	75.20	12.3.2	1,100,807	1,100,807
United Bank Limited	19.49	22.74	12.3.3 & 12.3.4	5,919,530	6,910,574
Allied Bank Limited	10.07	10.07	12.3.5	350,638	350,638
Habib Bank Limited	40.61	-	12.3.6 & 12.3.7	8,196,391	-
				15,567,366	8,362,019
Unlisted					
Federal Bank for Cooperatives	75.00	75.00		150,000	150,000
Equity Participation Fund	65.81	65.81		102,000	102,000
Habib Bank Limited	-	48.05		-	9,695,153
				252,000	9,947,153
Other- investments with holding less than or equal to 50%				3,769,706	2,069,706
				4,021,706	12,016,859
				19,589,072	20,378,878

12.3.1 Investments in above entities have been made under the specific directives of the Government of Pakistan 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, 2008 amounted to Rs.99,489.75 million (2007: Rs. 160,655.25 million).

12.3.3 Market value of the Bank's investment in the shares of United Bank Limited at June 30, 2008 amounted to Rs.16,776.61 million (2007: Rs. 40,486.07 million).

12.3.4 The Cabinet Committee on Privatization in its meeting held on June 12, 2007 had decided that 30% of the Bank's holding would be divested in the form of Global Depository Receipts (GDRs) 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 559.72 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.5,063.78 million (USD 83.85 million), net of transaction cost, 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, 2008 amounted to Rs.5,548.25 million (2007: Rs. 7,534.20 million).

12.3.6 The Government of Pakistan (GOP) vide directive dated June 27, 2007, had approved divestment of 51,750,000 shares of Habib Bank Limited (HBL) representing 5% of GOP's share in HBL along with a green shoe option of 2.5%, through Initial Public Offering to the general public, except 500,100 un-allotted shares pending adjudication by the Securities and Exchange Commission of Pakistan, which was executed in July 2007..

12.3.7 Market value of the Bank's investment in the shares of HBL amounted to Rs. 64,310.51 million (2007: Rs.25,677.91 million was the break-up value at December 31, 2006 based on the financial statements of HBL for the year then ended).

12.4 During the year, by virtue of a resolution passed by the Board of Directors of NIBAF the single ordinary share held by the National Bank of Pakistan (NBP) was transferred to the Bank and the advance against share from NBP was refunded. Accordingly NIBAF has become the wholly owned subsidiary of the Bank.

13. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2007: 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).

	Note	2008 (Rupees in '000)	2007
14. ASSETS HELD WITH THE RESERVE BANK OF INDIA			
Gold reserves			
Opening balance		1,320,894	1,240,385
Appreciation from revaluation during the year	33	803,807	80,509
		<u>2,124,701</u>	<u>1,320,894</u>
Sterling securities		446,480	400,077
Government of India securities		16,037	14,972
Rupee coins		4,679	4,382
		<u>2,591,897</u>	<u>1,740,325</u>

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

	Note	2008 (Rupees in '000)	2007
15. BANK NOTES ISSUED			
Notes held with the Banking Department	10	181,913	135,646
Notes in circulation		1,045,857,499	893,292,753
		<u>1,046,039,412</u>	<u>893,428,399</u>

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

Quota allocated by the International Monetary Fund		115,303,703	94,817,476
Liability under quota arrangements		(115,290,417)	(94,806,595)
		<u>13,286</u>	<u>10,881</u>

	Note	2008 (Rupees in '000)	2007
17. LOANS, ADVANCES AND BILLS OF EXCHANGE			
Governments	17.1	8,700,000	13,500,000
Government owned / controlled financial institutions	17.2	119,234,156	132,807,462
Private sector financial institutions	17.3	113,217,197	143,400,797
		<u>232,451,353</u>	<u>276,208,259</u>
Employees		10,419,881	7,061,643
		<u>251,571,234</u>	<u>296,769,902</u>
Provision against doubtful balances		(8,612,324)	(8,599,942)
		<u>242,958,910</u>	<u>288,169,960</u>
Commercial papers held in issue department	13	(78,500)	(78,500)
		<u>242,880,410</u>	<u>288,091,460</u>

17.1 Loans and advances to the Governments

Federal Government	4,500,000	7,500,000
Provincial Government - Balochistan	4,200,000	6,000,000
	<u>8,700,000</u>	<u>13,500,000</u>

During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 8.90% and 10.29% (2007: 8.40% and 8.89%) per annum.

17.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2008	2007	2008	2007	2008	2007
	------(Rupees in '000)-----					
Agricultural sector 17.2.2	58,541,539	62,991,778	-	-	58,541,539	62,991,778
Industrial sector 17.2.2	12,400,626	14,591,388	7,118	592,786	12,407,744	15,184,174
Export sector	19,572,450	25,734,827	3,567	3,567	19,576,017	25,738,394
Housing sector	-	-	11,242,300	11,242,300	11,242,300	11,242,300
Others	17,466,556	17,650,816	-	-	17,466,556	17,650,816
	<u>107,981,171</u>	<u>120,968,809</u>	<u>11,252,985</u>	<u>11,838,653</u>	<u>119,234,156</u>	<u>132,807,462</u>

17.2.1 Above balances include Rs. 556.00 million (2007: Rs. 552.26 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. 50,174.09 million and Rs. 1,083.12 million (2007: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2007: Rs. 51,257.21 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		Other financial institutions		Total	
	2008	2007	2008	2007	2008	2007
	----- <i>(Rupees in '000)</i> -----					
Industrial sector	27,724,767	28,612,589	4,939,912	5,816,296	32,664,679	34,428,885
Export sector	80,545,536	108,964,930	-	-	80,545,536	108,964,930
Others	6,982	6,982	-	-	6,982	6,982
	108,277,285	137,584,501	4,939,912	5,816,296	113,217,197	143,400,797

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

	2008	2007
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.0 to 12	1.0 to 12
Employees loans	10	10
	2008	2007
<i>Note</i>	(<i>Rupees in '000</i>)	

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

India

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

Bangladesh (former East Pakistan)

Inter office balances	819,924	819,924
Loans and advances	4,173,215	3,817,123
	4,993,139	4,637,047
	5,033,592	4,677,500

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.

	2008	2007
	(<i>Rupees in '000</i>)	

19. PROPERTY AND EQUIPMENT

Operating fixed assets	19.1	18,191,681	18,597,982
Capital work-in-progress	19.3	330,603	421,451
		18,522,284	19,019,433

19.1 Operating fixed assets

2008								
	Cost / revalued amount at July 01	Additions / (deletions) during the year	Cost / revalued amount at June 30	Accumulated depreciation at July 01	Depreciation for the year on (deletions)	Accumulated depreciation at June 30	Net book value at June 30	Annual rate of depreciation %
(Rupees in '000)								
Freehold land	3,576,297	750	3,577,047	-	-	-	3,577,047	-
Leasehold land	12,762,205	-	12,762,205	353,748	353,748	707,496	12,054,709	over the term of lease
Buildings on freehold land	948,507	11,317	959,824	94,333	95,621	189,954	769,870	5
Buildings on leasehold land	1,450,818	73,250	1,524,068	141,361	145,293	286,654	1,237,414	5
Furniture and fixtures	170,726	17,792 (2,783)	185,735	65,775	17,771 (2,560)	80,986	104,749	10
Office equipment	496,841	184,055 (1,527)	679,369	330,114	78,301 (1,231)	407,184	272,185	20
EDP equipment	926,929	75,115 (150)	1,001,894	805,267	101,471 (136)	906,602	95,292	33.33
Motor vehicles	122,398	54,332 (22,287)	154,443	66,141	25,629 (17,742)	74,028	80,415	20
Library Book	755	-	755	755	-	755	-	
	20,455,476	416,611 (26,747)	20,845,340	1,857,494	817,834 (21,669)	2,653,659	18,191,681	

2007								
	Cost / revalued amount at July 01	Additions / (deletions) during the year	Cost / revalued amount at June 30	Accumulated depreciation at July 01	Depreciation for the year on (deletions)	Accumulated depreciation at June 30	Net book value at June 30	Annual rate of depreciation %
(Rupees in '000)								
Freehold land	3,577,047	- (750)	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 (3,312)	170,726	55,741	11,812 (1,778)	65,775	104,951	10
Office equipment	433,657	71,021 (7,837)	496,841	282,396	51,870 (4,152)	330,114	166,727	20
EDP equipment	841,690	133,109 (47,870)	926,929	673,670	141,063 (9,466)	805,267	121,662	33.33
Motor vehicles	120,217	18,009 (15,828)	122,398	51,177	23,074 (8,110)	66,141	56,257	20
Library Book	755	-	755	755	-	755	-	
	20,214,963	316,110 (75,597)	20,455,476	1,063,739	817,261 (23,506)	1,857,494	18,597,982	

19.2 Last revaluation was carried out on June 30, 2006.

19.2.1 Had there been no revaluation, the carrying value of the revalued assets would have been as follows: -

	<i>Note</i>	2008 (Rupees in '000)	2007
Freehold Land		36,183	35,433
Leasehold Land		17,390	18,141
Buildings on Freehold land		333,004	352,810
Buildings on Leasehold Land		426,823	385,733
		813,400	792,117

19.3 Capital work-in-progress

Buildings on freehold land	47,321	32,322
Buildings on leasehold land	198,902	182,936
Furniture and fixtures	100	19,642
Office equipment	81,367	174,601
EDP equipment	2,913	2,913
Intangible assets	-	9,037
	330,603	421,451

20. INTANGIBLE ASSETS

	Cost at July 01	Additions during the year	Cost at June 30	Accumulated amortisation at July 01	Amortis-ation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortis- ation %
	------(Rupees in '000)-----							
Software 2008	403,352	70,575	473,927	239,583	113,421	353,004	120,923	33.33
Software 2007	263,128	140,224	403,352	147,447	92,136	239,583	163,769	33.33

21. OTHER ASSETS

	<i>Note</i>	2008 (Rupees in '000)	2007
Amounts due from financial institutions under currency swap arrangements	21.1	1,818,325	1,815,625
Accrued interest / mark-up, discount and return		3,921,303	8,358,043
Exchange gain recoverable under exchange risk coverage scheme		-	9,518
Stationery and stamps on hand		77,661	68,721
Other advances, deposits and prepayments		1,109,158	2,068,694
Others		10,679,003	3,112,810
		17,605,450	15,433,411

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. The related obligation of the Bank to exchange foreign currency with the rupee counterpart has been disclosed in note 27.

	Note	2008 (Rupees in '000)	2007
22. CURRENT ACCOUNTS OF THE GOVERNMENTS			
Federal Government	22.1	18,354,023	79,631,865
Provincial Governments			
Punjab	22.2	11,367,875	15,844,409
Sindh	22.3	32,455,344	35,899,691
North West Frontier Province (NWFP)	22.4	8,646,106	9,853,725
Balochistan	22.5	-	-
		52,469,325	61,597,825
Government of Azad Jammu and Kashmir	22.6	-	967,868
		70,823,348	142,197,558
22.1 Federal Government			
Non-food account		196,666	38,586,093
Food account		306,328	344,448
Zakat fund account		13,475,361	14,154,753
Railways - ways and means advances	22.7	(20,945,231)	(12,649,222)
Fertilizer account		19,220	21,082
Saudi Arabia special loan account		4,124	4,124
Pakistan Baitul Mal fund account		541,270	375,246
Pakistan Railways special account		3,488,195	2,540,648
Government deposit account no. XII		5,276	5,276
Special transfer account		9,785,258	7,368,813
UN reimbursement account		11,477,556	28,880,604
		18,354,023	79,631,865
22.2 Provincial Government - Punjab			
Non-food account		(41,378,246)	(26,418,667)
Food account		3,383,354	692,554
Zakat fund account		38,786	107,606
District Government account no. IV		49,323,981	41,462,916
		11,367,875	15,844,409
22.3 Provincial Government - Sindh			
Non-food account		22,066,137	21,196,947
Food account		186,499	261,765
Zakat fund account		68,258	92
District Government account no. IV		10,134,450	14,440,887
		32,455,344	35,899,691
22.4 Provincial Government - NWFP			
Non-food account		2,463,074	6,069,177
Food account		1,214,100	(223,054)
Zakat fund account		4,935	4,240
District Government account no. IV		4,963,997	4,003,362
		8,646,106	9,853,725
22.5 Provincial Government - Balochistan			
Non-food account		(18,035,223)	(7,869,805)
Food account		914,760	116,902
Zakat fund account		91,439	488
District Government account no. IV		3,120,231	2,932,008
		(13,908,793)	(4,820,407)
Classified as a receivable balance	22.7	13,908,793	4,820,407
Net credit balance		-	-
22.6 The Government of Azad Jammu and Kashmir			
Net balance		(518,564)	967,868
Classified as a receivable balance	22.7	518,564	-
		-	967,868

22.7 These balances carry mark-up at 10.29% (2007: 8.89%) per annum.

23. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents repurchase agreement borrowings and are subject to markup at the rate of 9.74% to 9.95% (2007: 8.75% to 9.40%) per annum.

2008 2007
(Rupees in '000)

24. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

Foreign currency			
Scheduled banks		12,701,967	13,674,768
Held under Cash Reserve Requirement		57,849,627	47,025,513
		70,551,594	60,700,281
Local currency			
Scheduled banks		353,180,909	243,216,596
Financial institutions		814,353	1,250,014
Others		2,526	1,685
		353,997,788	244,468,295
		424,549,382	305,168,576

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

2008 2007
(per annum)

Foreign currency	1.46% to 4.72%	4.11% to 4.32%
Local currency	1.98% to 2.59%	1.98% to 2.59%

25. OTHER DEPOSITS AND ACCOUNTS

Note 2008 2007
(Rupees in '000)

Foreign currency			
Foreign central banks		30,603,600	27,207,900
International organisations		51,006,000	15,115,499
Others		14,580,025	10,095,784
		96,189,625	52,419,183
Local currency			
Special debt repayment	25.2	23,596,676	23,499,270
Government	25.3	11,012,500	11,012,500
Others		14,802,225	17,205,043
		49,411,401	51,716,813
		145,601,026	104,135,996

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

2008 2007
(per annum)

Foreign central banks	1.60% to 5.50%	5.18% to 5.58%
International organisations	4.26% to 7.15%	6.62% to 7.30%
Others	1.81% to 5.08%	5.07% to 5.16%

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

25.3 These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

26. PAYABLE TO INTERNATIONAL MONETARY FUND

Note 2008 2007
(Rupees in '000)

Borrowings under:			
Fund facilities	26.1	1,057,443	2,318,611
Other credit schemes		90,206,218	82,745,103
		91,263,661	85,063,714
Current account for administrative charges		25	28
		91,263,686	85,063,742

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:

2008 2007
(per annum)

Fund facilities	3.59% to 5.67%	4.82% to 5.34%
Other credit schemes	0.50%	0.50%

	Note	2008 (Rupees in '000)	2007
27. OTHER LIABILITIES			
Foreign currency			
Amounts due to financial institutions under currency swap arrangements	21.1	2,040,240	1,813,860
Accrued interest and discount on deposits		512,391	850,043
Charges on allocation of Special Drawing Rights of IMF		92,865	108,144
		2,645,496	2,772,047
Local currency			
Overdue mark-up and return	27.1	4,470,686	4,120,428
Unearned exchange risk fee		9,115	10,774
Remittance clearance account		1,036,714	1,289,875
Exchange loss payable under exchange risk coverage scheme		129,576	-
Balance payable to the Government of Pakistan		28,342,868	48,300,447
Dividend payable		10,000	10,000
Share of loss payable under profit and loss sharing arrangements		2,399,071	-
Payable to Government in respect of privatisation proceeds		2,929,066	2,929,066
Other accruals and provisions	27.2	7,386,965	7,146,199
Others		10,920,280	5,650,227
		57,634,341	69,457,016
		60,279,837	72,229,063

27.1 It includes markup suspended amounting to Rs. 3,857.61 million (2007: Rs. 3,501.52 million) that is recoverable from Government of Bangladesh (formerly East Pakistan) which is subject to the final settlement between the Government of Pakistan and the Government of Bangladesh.

	Note	2008 (Rupees in '000)	2007
27.2 Other accruals and provisions			
Interest payable		1,427	94,638
Agency commission		761,570	862,273
Provision for employees' compensated absences		2,267,808	2,148,077
Provision for other doubtful assets	27.2.1	2,350,727	2,273,602
Other provisions	27.3	1,308,382	1,175,858
Others		697,051	637,171
		7,386,965	7,191,619

27.2.1 It includes rupees 2,261 million (2007: rupees 2,157 million) relating to net assets recoverable from the Reserve Bank of India the Government of India and those pertaining to transaction in former East Pakistan.

	Note	2008 (Rupees in '000)	2007
27.3 Movement of other provisions			
Opening balance		1,175,858	1,156,785
Provision during the year		132,524	173,000
Reversed during the year		-	(153,927)
Closing balance		1,308,382	1,175,858

	Home remittance	Agriculture loan	Others (note 27.3.1)	Total
----- (Rupees in '000) -----				
Opening balance	260,363	173,660	741,835	1,175,858
Provision during the year	-	132,407	117	132,524
Reversed during the year	-	-	-	-
Closing balance	260,363	306,067	741,952	1,308,382

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

	Note	2008 (Rupees in '000)	2007
28. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS			
Gratuity	28.1	51,282	55,119
Pension		8,719,768	8,360,072
Benevolent fund scheme		947,587	941,756
Post retirement medical benefits		1,453,457	1,107,213
	42.2.3	<u>11,172,094</u>	10,464,160
Provident fund scheme		1,011,897	1,020,629
		<u>12,183,991</u>	<u>11,484,789</u>

28.1 Includes a fixed liability of Rs. 1.164 million (2007: 1.164 million) payable to certain employees.

29. DEFERRED INCOME

Opening balance		340,845	426,608
Grants received during the year		78,790	116,924
Amortisation during the year	44	<u>(213,391)</u>	<u>(202,687)</u>
Closing balance		<u>206,244</u>	<u>340,845</u>

29.1 This represents grant received for capital expenditure and, as indicated in note 4.13 to these financial statements, is being amortised over the useful lives of the related assets.

30. SHARE CAPITAL

Number of Shares		2008 (Rupees in '000)	2007
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 of the Bank are held 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 latest draft report issued by the IMF Committee on Balance Of Payment (BOPCOM) 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 exchange difference that would arise upon reclassification of the allocation of SDRs from equity to liability with retrospective effect. An amount of Rs. 6,935 million (2007: 4,689 million) has been proposed to be appropriated to Reserve Fund out of the profit for the year ended June 30, 2008. However, pending final report from the IMF BOPCOM, 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.

	Note	2008 (Rupees in '000)	2007
33. UNREALISED APPRECIATION ON GOLD RESERVES			
Opening balance		79,440,921	74,406,912
Appreciation on revaluation during the year:			
held by the Bank	5	49,523,615	4,953,500
held with the Reserve Bank of India	14	803,807	80,509
		50,327,422	5,034,009
		129,768,343	79,440,921

Gold reserves are revalued under the State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No. 42(vi) at the closing market rate fixed by the London Bullion Market Association on the last working day of the year.

	Note	2008 (Rupees in '000)	2007
34. CONTINGENCIES AND COMMITMENTS			

34.1 Contingencies

a) Contingent liability in respect of guarantees given on behalf of:

Government	52,494,332	43,746,787
Government owned / controlled bodies and authorities	11,261,613	44,021,427
	63,755,945	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.

	Note	2008 (Rupees in '000)	2007
d) Other claims against the Bank not acknowledged as debts		903,367	685,603

34.2 Commitments

Forward exchange contracts - sales	236,130,214	33,410,781
Forward exchange contracts - purchases	141,502,378	115,556,495
Futures - sale	22,536,696	51,314,571
Futures - purchase	65,350,752	22,553,704
Foreign currency placements	1,360,160	48,511,685
Import letters of credit	308,675,391	261,181,471
ESAF commitment with IMF	-	61,181
Others	263	-

	2008	2007
	(Rupees in '000)	
35. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	58,329,019	44,495,269
Other Government securities	174,238	162,559
Loans and advances to Government	3,445,678	2,503,067
Share of profit on finances under profit and loss sharing arrangements	6,441,138	10,611,858
Foreign currency deposits	26,976,642	26,460,957
Foreign currency securities	9,513,667	8,277,288
Others	2,195	2,197
	<u>104,882,577</u>	<u>92,513,195</u>
36. INTEREST / MARK-UP EXPENSE		
Deposits	3,690,893	5,214,491
Others	57,866	74,601
	<u>3,748,759</u>	<u>5,289,092</u>
37. COMMISSION INCOME		
Market Treasury Bills	31,973	83,029
Draft / payment orders	118,965	190,334
Prize Bonds and National Saving Certificates	187,723	206,605
Management of public debts	40,629	72,485
Pakistan Investment Bonds	340,700	102,950
Others	299	865
	<u>720,289</u>	<u>656,268</u>
38. EXCHANGE GAIN - Net		
Gain / (loss) on:		
Foreign currency placements, deposits, securities and other accounts - net	76,483,373	3,871,925
Open market operations (including currency swap arrangements)	(226,225)	(7,621)
Forward covers under Exchange Risk Coverage Scheme	(24,552)	86,013
Payable to IMF	(16,939,040)	(2,466,927)
Special Drawing Rights of IMF	2,559,679	331,686
	<u>61,853,235</u>	<u>1,815,076</u>
Exchange risk fee income	120,019	142,730
	<u>61,973,254</u>	<u>1,957,806</u>
	2008	2007
	(Rupees in '000)	
39. OTHER OPERATING INCOME - Net		
Penalties levied on banks and financial institutions	2,093,162	1,434,355
License / Credit Information Bureau fee recovered	97,342	42,087
Gain on sale of investment:		
Local	14,408,719	27,236,418
Foreign	1,122,263	789,695
	<u>15,530,982</u>	<u>28,026,113</u>
(Loss)/ Gain on remeasurement of securities classified as held for trading	(8,015,285)	605,602
Others - net	(75,128)	73,084
	<u>9,631,073</u>	<u>30,181,241</u>

Note

40. BANK NOTES PRINTING CHARGES

Bank notes 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% (2007: 0.15%) of the total amount of collection and remittances handled by NBP.

	Note	2008 (Rupees in '000)	2007
42. GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		4,007,153	3,598,196
Retirement benefits and employees' compensated absences		2,419,201	3,437,388
Contribution to SBP Employees' Welfare Trust		10,000	10,000
Rent and taxes		39,740	36,687
Insurance		13,588	10,687
Electricity, gas and water		167,652	156,365
Depreciation	19.1	817,834	817,261
Amortisation of intangible assets	20	113,421	92,136
Repairs and maintenance		259,602	154,842
Auditors' remuneration	42.1	5,611	4,984
Legal and professional		362,513	313,933
Travelling and recreation expenses		162,105	129,764
Daily expenses		57,413	34,794
Fuel		10,906	10,498
Conveyance		9,461	7,589
Postages, telegram / telex and telephone		122,935	98,164
Training		40,509	42,085
Examination/ testing services		1,144	1,014
Stationery		18,153	31,276
Remittance of treasure		-	18,613
Books and newspapers		18,969	15,048
Advertisement		9,090	26,031
Uniforms		60,562	17,418
Others		160,567	145,728
		8,888,129	9,210,501

42.1 Auditors' remuneration

	<i>M. Yousuf Adil Saleem & Co.</i>	<i>Ford Rhodes Sidat Hyder & Co.</i>	2008	2007
----- (Rupees in '000) -----				
State Bank of Pakistan				
Audit fee	1,150	1,150	2,300	2,000
Out of pocket expenses	100	100	200	200
	1,250	1,250	2,500	2,200
SBP Banking Services Corporation				
Audit fee	1,265	1,265	2,530	2,200
Out of pocket expenses	250	250	500	500
	1,515	1,515	3,030	2,700
National Institute of Banking and Finance (Guarantee) Limited				
KPMG Taseer Hadi & Co.				
Audit fee	-	-	80	80
Out of pocket expenses	-	-	1	4
	-	-	81	84
	2,765	2,765	5,611	4,984

42.2 Staff retirement benefits

42.2.1 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 4.00 (2007: 2.78) % per annum.
- Expected rate of discount 12.0 (2007: 11.0) % per annum.
- Expected rate of increase in salary 10.0 (2007: 8.9) % per annum.
- Expected rate of increase in pension 4.00 (2007: 2.78) % per annum.
- Medical cost increase 7.0 (2007: 5.71) % per annum.
- Personnel turnover 2.0 (2007: 2.0) % per annum.

42.2.2 Present value of the define benefit 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, 2008 based on actuarial valuation as of that date was as follows: -

		2008		
	Note	<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Net recognized liabilities</i>
------(Rupees in '000)-----				
Gratuity	42.2.4	58,871	(8,753)	50,118
Pension	42.2.4	10,204,547	(1,484,779)	8,719,768
Benevolent	42.2.4	1,134,346	(186,759)	947,587
Post retirement medical benefits	42.2.4	4,543,730	(3,090,273)	1,453,457
		15,941,494	(4,770,564)	11,170,930
		2007		
		<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Net recognized liabilities</i>
------(Rupees in '000)-----				
Gratuity	42.2.4	59,461	(5,506)	53,955
Pension	42.2.4	8,589,692	(229,620)	8,360,072
Benevolent	42.2.4	1,035,583	(93,827)	941,756
Post retirement medical benefits	42.2.4	3,213,026	(2,105,813)	1,107,213
		12,897,762	(2,434,766)	10,462,996

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

2008					
	<i>Net recognised liabilities at July 01</i>	<i>Charge for the year (note 42.2.4)</i>	<i>Payments during the year</i>	<i>Employees contribution</i>	<i>Net recognised liabilities at June 30</i>
------(Rupees in '000)-----					
Gratuity	53,955	9,543	(13,380)	-	50,118
Pension	8,360,072	1,242,004	(882,308)	-	8,719,768
Benevolent	941,756	167,254	(153,407)	(8,016)	947,587
Post retirement medical benefits	1,107,213	588,583	(242,339)	-	1,453,457
	10,462,996	2,007,384	(1,291,434)	(8,016)	11,170,930
2007					
	<i>Net recognised liabilities at July 01</i>	<i>Charge for the year (note 42.2.4)</i>	<i>Payments during the year</i>	<i>Employees contribution</i>	<i>Net recognised liabilities at June 30</i>
------(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
	9,809,629	2,630,355	(1,903,227)	(73,761)	10,462,996

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:

2008						
Current service cost	Interest cost	Settlement & curtailment	Actuarial loss recognised	Employees contributions	Total	
------(Rupees in '000)-----						
Gratuity	2,514	6,512	-	517	-	9,543
Pension	278,883	944,863	-	18,258	-	1,242,004
Benevolent	39,812	113,880	-	5,546	8,016	167,254
Post retirement medical benefits	86,409	353,483	-	148,691	-	588,583
	407,618	1,418,738	-	173,012	8,016	2,007,384

2007						
Current service cost	Interest cost	Settlement & curtailment	Actuarial loss recognised	Employees 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
	322,655	248,764	1,409,808	661,723	(12,595)	2,630,355

2008	2007	2006	2005	2004
------(Rupees in '000)-----				

42.2.5 Historical information

Gratuity

Present value of defined benefit obligation	58,871	59,461	74,194	92,000	85,914
Unrecognised actuarial (gain)/ loss	(8,753)	(5,506)	6,091	(5,000)	20,665
Provisions in respect of retirement benefit					
Liability in balance sheet	50,118	53,955	80,285	87,000	106,579
Experience adjustment arising on plan liabilities losses/ (gain)	6,632	4,211	(8,520)	20,144	(5,058)

Pension

Present value of defined benefit obligation	10,204,547	8,589,692	8,434,571	8,247,000	7,106,000
Unrecognised actuarial (gain)	(1,484,779)	(229,620)	(376,818)	(850,000)	(126,000)
Provisions in respect of retirement benefit					
Liability in balance sheet	8,719,768	8,360,072	8,057,753	7,397,000	6,980,000
Experience adjustment arising on plan liabilities loss/ (gain)	1,273,741	(117,735)	408,484	733,000	87,000

Benevolent Fund

Present value of defined benefit obligation	1,134,346	1,035,583	1,084,594	1,008,000	958,000
Unrecognised actuarial (gain)	(186,759)	(93,827)	(125,827)	(142,000)	(144,000)
Provisions in respect of retirement benefit					
Liability in balance sheet	947,587	941,756	958,767	866,000	814,000
Experience adjustment arising on plan liabilities loss/ (gain)	99,338	(22,303)	(6,390)	8,000	20,000

Post Retirement Medical Benefits

Present value of defined benefit obligation	4,543,730	3,213,026	2,863,632	2,221,000	1,434,000
Unrecognised actuarial (gain)/ loss	(3,090,273)	(2,105,813)	(2,150,808)	(1,790,000)	(1,090,000)
Provisions in respect of retirement benefit					
Liability in balance sheet	1,453,457	1,107,213	712,824	431,000	344,000
Experience adjustment arising on plan liabilities losses/ (gain)	1,132,465	165,511	493,437	758,000	765,000

42.3 Employees' compensated absences

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected nit credit method amounted to Rs. 2,308 million (2007: Rs. 2,148 million). An amount of Rs. 153 million (2007: Rs. 7 million) has been charged to / reversed from the profit and loss account in the current period based on the actuarial advice.

	Note	2008 (Rupees in '000)	2007
43. OTHER INCOME - NET			
Gain/ (loss) on disposal of property and equipment		3,897	2,616
Liabilities and provisions written back - net		36,303	599
Amortisation of deferred income	29	213,391	202,687
Others		42,181	35,924
		295,772	241,826

44. OTHER CHARGES

Charges on allocation of Special Drawing Rights of IMF		587,153	629,591
Others		149,215	173,478
		736,368	803,069

45. PROFIT FOR THE YEAR BEFORE NON-CASH ITEMS

Profit for the year		164,793,359	108,732,613
Adjustments for:			
Depreciation		817,834	817,261
Amortisation of intangible assets		113,421	92,136
Amortisation of deferred income		(213,391)	(202,687)
Provision for:			
- retirement benefits and employees' compensated absences		2,419,202	3,437,388
- loans, advances and other assets		12,382	(73,964)
- other doubtful assets		122,543	212,057
(Gain)/ loss on disposal of property and equipment		(3,897)	(2,616)
Gain on disposal of investments		(14,408,719)	(27,581,366)
Dividend income		(6,594,079)	(4,286,628)
Other accruals and provisions - net		75,615	407,427
		147,134,270	81,551,621

46. CASH AND CASH EQUIVALENTS

Local currency		2,899,949	3,147,916
Foreign currency reserves		636,243,374	845,785,393
Earmarked foreign currency balances		952,112	56,822,188
Special Drawing Rights of IMF		14,769,338	12,801,585
		654,864,773	918,557,082

47. 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 to 47.5. 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 Interest / mark-up rate risk management

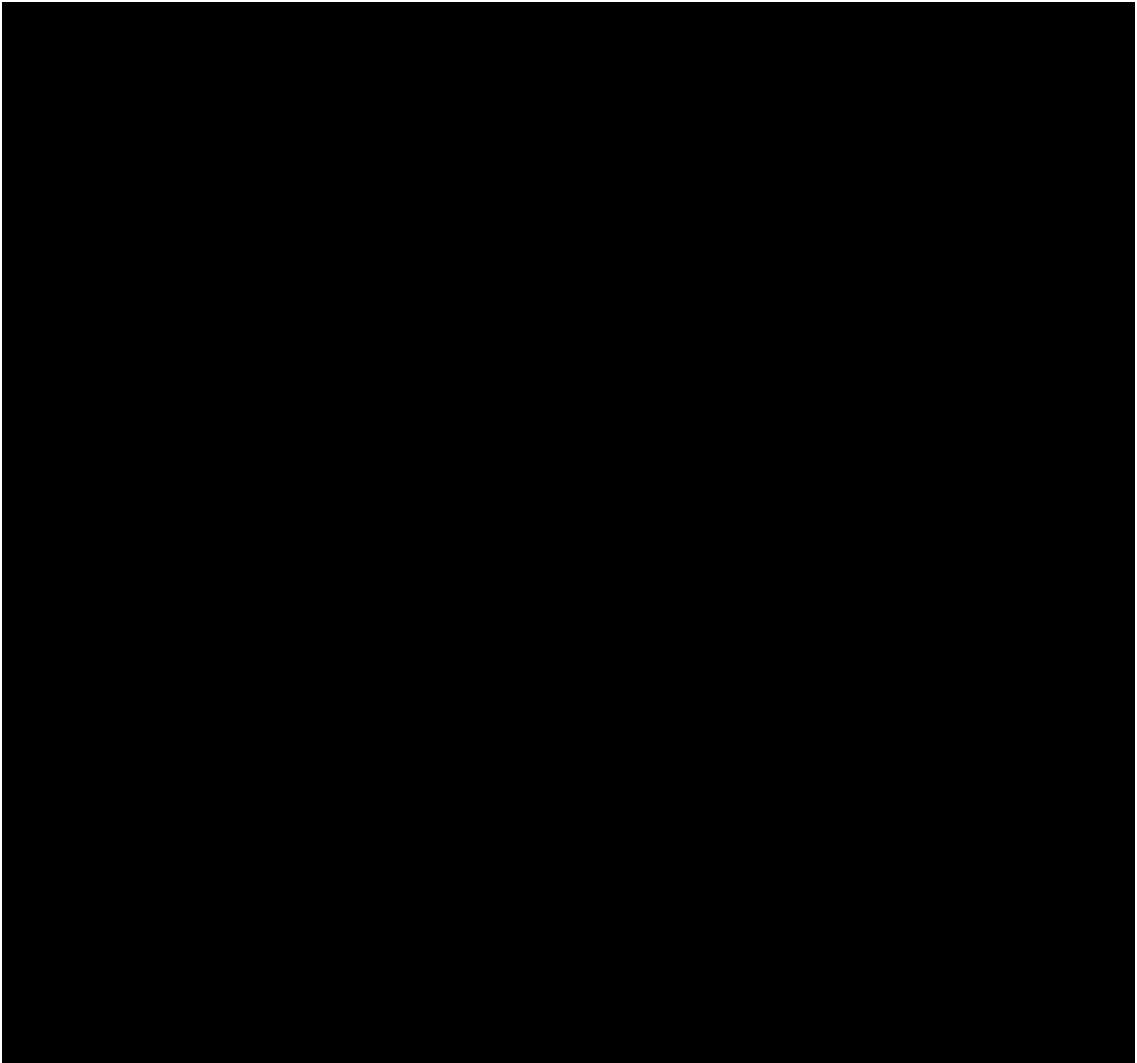
Interest / mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. The Bank has adopted appropriate policies to minimise its exposure to this risk. The Bank's management, the Central Board and the investment committee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

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47.1.1

	2008						
	Interest/ mark-up bearing			Non interest/ mark-up bearing			
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	Grand Total
<----- (Rupees in '000) ----->							
Financial assets							
Local currency (including rupee coins)	-	-	-	2,899,949	-	2,899,949	2,899,949
Foreign currency reserves	634,821,753	1,487,354	636,309,107	-	1,827	1,827	636,310,934
Earmarked foreign currency balances	952,112	-	952,112	-	-	-	952,112
Special Drawing Rights of International Monetary Fund	-	14,769,338	14,769,338	-	-	-	14,769,338
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	13,286	13,286	13,286
Current account of the Government of Balochistan	13,908,793	-	13,908,793	-	-	-	13,908,793
Current account of The Government of Azad Jammu and Kashmir	518,564	-	518,564	-	-	-	518,564
Investments	1,070,809,207	2,740,000	1,073,549,207	-	20,450,423	20,450,423	1,093,999,630
Loans, advances and bills of exchange	-	242,880,410	242,880,410	-	-	-	242,880,410
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	683,678	683,678	683,678
Assets held with the Reserve Bank of India	-	-	-	-	467,196	467,196	467,196
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	4,173,215	4,173,215	-	837	837	4,174,052
Other assets	-	-	-	3,921,303	13,539,657	17,460,960	17,460,960
	1,721,010,429	266,050,317	1,987,060,746	6,821,252	35,156,904	41,978,156	2,029,038,902
Financial liabilities							
Bank notes in circulation	-	-	-	-	1,046,039,412	1,046,039,412	1,046,039,412
Bills payable	-	-	-	1,224,446	-	1,224,446	1,224,446
Current accounts of the Government	-	-	-	541,270	-	541,270	541,270
Securities sold under an agreement to repurchase	6,758,751	-	6,758,751	-	-	-	6,758,751
Deposits of banks and financial institutions	-	57,849,627	57,849,627	366,699,755	-	366,699,755	424,549,382
Other deposits and accounts	24,781,225	81,358,090	106,139,315	621,535	38,840,176	39,461,711	145,601,026
Payable to International Monetary Fund	15,355,508	75,908,178	91,263,686	-	-	-	91,263,686
Other liabilities	-	-	-	32,523,505	24,088,124	56,611,629	56,611,629
	46,895,484	215,115,895	262,011,379	401,610,511	1,108,967,712	1,510,578,223	1,772,589,602
On balance sheet gap	1,674,114,945	50,934,422	1,725,049,367	(394,789,259)	(1,073,810,808)	(1,468,600,067)	256,449,300
Off Balance Sheet Financial Instruments							
Foreign Currency Placement	1,360,160	-	1,360,160	-	-	-	1,360,160
Forward exchange contracts - purchase	-	-	-	141,502,378	-	141,502,378	141,502,378
Futures contract - purchase	-	-	-	65,350,752	-	65,350,752	65,350,752
ESAF Commitment with IMF	-	-	-	-	-	-	-
Futures contract - sales	-	-	-	(22,536,696)	-	(22,536,696)	(22,536,696)
Forward exchange contracts - sales	-	-	-	(236,130,214)	-	(236,130,214)	(236,130,214)
Others	-	-	-	(263)	-	(263)	(263)
Off Balance Sheet Gap	1,360,160	-	1,360,160	(51,814,043)	-	(51,814,043)	(50,453,883)
Total Yield/Interest Risk Sensitivity Gap	1,675,475,105	50,934,422	1,726,409,527	(446,603,302)	(1,073,810,808)	(1,520,414,110)	205,995,417
Cumulative Yield/Interest Risk Sensitivity Gap	1,675,475,105	1,726,409,527	3,452,819,054	3,006,215,752	1,932,404,944	411,990,834	617,986,251

47.1.2 The effective interest / markup rate for the monetary financial assets and liabilities are mentioned in their respective notes to the financial statements.



47.3 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.

47.4 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.

47.5 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 Central Board. The mandates awarded to the managers require them to outperform 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. Safe custody of the portfolio is provided through carefully selected global custodian who is independent of the portfolio managers. The custodian also provides valuation, compliance, corporate actions and recovery, and other value added services which are typically provided by such custodian. The valuations provided by the custodian is 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 is 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 security price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the invests, 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 and equipment

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

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

50. DATE OF AUTHORISATION

These financial statements were authorised for issue on 2nd September 2008, by the Central Board of Directors of the Bank

51. GENERAL

51.1 Figures have been rounded off to the nearest thousand rupees.

51.2 Following material corresponding figures have been rearranged/ reclassified to reflect more appropriate presentation of event and transactions for the purpose of comparison:

<i>Description</i>	<i>Current Classification</i>	<i>Previous Classification</i>	<i>Amount (Rupees in '000)</i>
Gain on sale of investment	Other operating income - net	Othe income - net	27,236,418
Provision against other doubtful assets	Other assets	Other liabilities	45,420

Shamshad Akhtar
Governor

Yaseen Anwar
Deputy Governor

Muhammad Habib Khan
Director Finance