

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 (the Bank) and its subsidiaries, SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited (together "the Group")**, which comprise the consolidated balance sheet as at June 30, 2009 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 information. 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.

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 International Standards on Auditing. 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 Group has maintained a provision of Rs. 2,318 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. 4,053 million and Rs. 5,976 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 7,473 million and Rs. 2,556 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 financial position of the Bank and its subsidiaries as at June 30, 2009 and of its financial performance and its 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 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:

- a) note 30 to the financial statements. As explained in the note, the management will consider to reclassify the allocation of SDRs to liabilities from the accounting year ending June 30, 2010, as suggested by IMF in a letter written subsequent to the year end. Accordingly, the classification of SDR allocation as equity has been maintained in the financial statements.
- b) the additional information given in note 49 to the financial statements.

M. Yousuf Adil Saleem & Co.

Chartered Accountants
Karachi

Mushtaq Ali Hirani

Audit Engagement Partner
Date: October 12, 2009

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants
Karachi

Omer Chughtai

Audit Engagement Partner
Date: October 12, 2009

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES - ISSUE DEPARTMENT
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2009

| | <i>Note</i> | <i>2009</i> <i>(Rupees in '000)</i> | <i>2008</i> |
|--|-------------|--|-----------------------------|
| ASSETS | | | |
| Gold reserves held by the Bank | 5 | 157,543,551 | 130,970,552 |
| Foreign currency reserves | 6 | 378,121,392 | 439,104,769 |
| Special Drawing Rights of the International Monetary Fund | 7 | 6,318,150 | 11,632,215 |
| Notes and coins: | | | |
| Indian notes representing assets receivable from the Reserve Bank of India | 8 | 727,665 | 683,678 |
| Coins | 9 | 2,496,236 | 2,718,036 |
| | | 3,223,901 | 3,401,714 |
| Investments | 10 | 675,410,375 | 458,259,765 |
| Commercial papers held in Bangladesh (former East Pakistan) | 11 | 78,500 | 78,500 |
| Assets held with the Reserve Bank of India | 12 | 3,021,743 | 2,591,897 |
| | | <u>1,223,717,612</u> | <u>1,046,039,412</u> |
| LIABILITY | | | |
| Bank notes issued | 13 | <u>1,223,717,612</u> | <u>1,046,039,412</u> |

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

Syed Salim Raza
Governor

Yaseen Anwar
Deputy Governor

Muhammad Haroon Rasheed
Comptroller Finance

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES - BANKING DEPARTMENT
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2009

| | Note | 2009 (Rupees in '000) | 2008 |
|---|------|--------------------------|----------------------|
| ASSETS | | | |
| Local currency | 9 | 196,449 | 181,913 |
| Foreign currency reserves | 6 | 430,086,636 | 197,206,165 |
| Earmarked foreign currency balances | 14 | 33,959,461 | 12,040,910 |
| Special Drawing Rights of the International Monetary Fund | 7 | 6,117,522 | 3,137,123 |
| | | 470,360,068 | 212,566,111 |
| Reserve tranche with the International Monetary Fund under quota arrangements | 15 | 15,048 | 13,286 |
| Current account of the Government of Punjab | 21.2 | 40,915,860 | - |
| Current account of the Government of Balochistan | 21.5 | 7,127,734 | 13,908,793 |
| Current account of the Government of Azad Jammu and Kashmir | 21.6 | - | 518,564 |
| Investments | 10 | 495,387,378 | 635,739,865 |
| Loans, advances and bills of exchange | 16 | 339,782,241 | 242,880,410 |
| Balances due from the Governments of India and Bangladesh (former East Pakistan) | 17 | 5,416,132 | 5,033,592 |
| Property and equipment | 18 | 18,263,362 | 18,522,284 |
| Intangible assets | 19 | 116,393 | 120,923 |
| Other assets | 20 | 8,823,052 | 5,539,812 |
| Total assets | | 1,386,207,268 | 1,134,843,640 |
| LIABILITIES | | | |
| Bills payable | | 827,785 | 1,224,446 |
| Current accounts of the Governments | 21 | 66,621,868 | 70,823,348 |
| Securities sold under agreement to repurchase | 22 | - | 6,758,751 |
| Deposits of banks and financial institutions | 23 | 273,739,781 | 424,549,382 |
| Other deposits and accounts | 24 | 167,779,188 | 145,601,026 |
| Payable to the International Monetary Fund | 25 | 419,003,041 | 91,263,686 |
| Other liabilities | 26 | 45,286,505 | 59,302,997 |
| | | 973,258,168 | 799,523,636 |
| Deferred liability - staff retirement benefits | 27 | 13,796,014 | 12,183,991 |
| Capital grant rural finance resource centre | | 59,430 | 59,430 |
| Deferred income | 28 | 193,549 | 206,244 |
| Total liabilities | | 987,307,161 | 811,973,301 |
| Net assets | | 398,900,107 | 322,870,339 |
| REPRESENTED BY | | | |
| Share capital | 29 | 100,000 | 100,000 |
| Allocation of Special Drawing Rights of the International Monetary Fund | 30 | 1,525,958 | 1,525,958 |
| Reserves | 31 | 172,729,024 | 76,288,533 |
| Unappropriated profit | | 49,025,682 | 96,440,491 |
| | | 223,380,664 | 174,354,982 |
| Unrealised appreciation on gold reserves | 32 | 156,772,429 | 129,768,343 |
| Surplus on revaluation of property and equipment | 18.2 | 18,747,014 | 18,747,014 |
| | | 398,900,107 | 322,870,339 |
| CONTINGENCIES AND COMMITMENTS | 33 | | |

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

Syed Salim Raza
Governor

Yaseen Anwar
Deputy Governor

Muhammad Haroon Rasheed
Comptroller Finance

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2009

| | <i>Note</i> | 2009 <i>(Rupees in '000)</i> | 2008 |
|---|-------------|--|-------------|
| Discount, interest / mark-up and / or return earned | 34 | 183,112,028 | 104,882,577 |
| Less: Interest / mark-up expense | 35 | 8,085,169 | 3,748,759 |
| | | 175,026,859 | 101,133,818 |
| Commission income | 36 | 1,667,375 | 720,289 |
| Exchange gain- net | 37 | 34,725,139 | 61,973,254 |
| Dividend income | | 9,733,352 | 6,594,079 |
| Other operating income - net | 38 | 1,220,052 | 9,631,073 |
| Other income / (charges) - net | 39 | 55,916 | (440,596) |
| | | 222,428,693 | 179,611,917 |
| Less: Direct operating expenses | | | |
| Bank notes printing charges | 40 | 4,193,032 | 3,097,868 |
| Agency commission | 41 | 3,614,261 | 2,710,017 |
| (Reversal) of provision / provision for: | | | |
| - loans, advances and other assets | | (451,726) | - |
| - diminution in value of investments | | (98,687) | - |
| - other doubtful assets | | 62,615 | 122,543 |
| | | (487,798) | 122,543 |
| | | 215,109,198 | 173,681,489 |
| Less: General administrative and other expenses | 42 | 10,897,194 | 8,888,130 |
| PROFIT FOR THE YEAR | | 204,212,004 | 164,793,359 |

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

Syed Salim Raza
Governor

Yaseen Anwar
Deputy Governor

Muhammad Haroon Rasheed
Comptroller Finance

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2009

| | <i>Note</i> | 2009 (Rupees in '000) | 2008 |
|---|-------------|--|---------------|
| Profit for the year before non-cash items | 43 | 198,209,877 | 147,134,270 |
| (Increase) / decrease in assets: | | | |
| Foreign currency reserves not included in cash and cash equivalents | | 1,617,223 | (67,560) |
| Reserve tranche with the International Monetary Fund under quota arrangements | | (1,762) | (2,405) |
| Securities sold / (purchased) under agreement to re-sale | | - | 33,715,973 |
| Investments | | (76,800,508) | (614,591,949) |
| Discount income received | | 81,363 | - |
| Loans, advances and bills of exchange | | (96,451,307) | 45,198,668 |
| Indian notes representing assets receivable from the Reserve Bank of India | | (43,987) | (45,429) |
| Assets held with the Reserve Bank of India | | (381,299) | (47,765) |
| Other assets | | (3,286,689) | (34,500,401) |
| | | (175,266,966) | (570,340,868) |
| | | 22,942,911 | (423,206,598) |
| Increase / (decrease) in liabilities: | | | |
| Bank notes issued | | 177,678,200 | 152,611,013 |
| Bills payable | | (396,661) | 652,504 |
| Current accounts of the Governments | | (37,817,717) | (80,981,160) |
| Securities sold under agreement to re-purchase | | (6,758,751) | (55,058,006) |
| Deposits of banks and financial institutions | | (150,809,601) | 119,380,806 |
| Other deposits and accounts | | 22,178,162 | 41,465,030 |
| Payable to the International Monetary Fund | | 327,739,355 | 6,199,944 |
| Other liabilities | | (169,399,862) | (37,284,178) |
| | | 162,413,125 | 146,985,953 |
| | | 185,356,036 | (276,220,645) |
| Payment of retirement benefits and employees' compensated absences | | (1,711,855) | (1,720,000) |
| Proceeds from disposal of investment | | 19,740 | 16,868,262 |
| Dividend received | | 9,733,352 | 6,594,079 |
| Gold purchased | | - | (169,831) |
| Fixed capital expenditure | | (516,260) | (317,548) |
| Proceeds from disposal of property and equipment | | 20,926 | 8,975 |
| | | 7,545,903 | 21,263,937 |
| Dividend paid to the Federal Government | | (10,000) | (10,000) |
| Increase / (decrease) in cash and cash equivalents during the year | | 192,891,939 | (254,966,708) |
| Cash and cash equivalents at beginning of the year | | 663,590,374 | 918,557,082 |
| Cash and cash equivalents at end of the year | 44 | 856,482,313 | 663,590,374 |

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

Syed Salim Raza
Governor

Yaseen Anwar
Deputy Governor

Muhammad Haroon Rasheed
Comptroller Finance

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2009

Attribute to equity holders of parent

| | Allocation of special dividend rights of IMF | Share capital | Reserve fund | Rural credit fund | Industrial credit fund | Export credit fund | Loans guarantee fund | Housing credit fund | Unappropriated profit/(loss) | Unrealised appreciation on gold reserves | Surplus on revaluation of property, plant and equipment | Total | Minority Interest | Total |
|--|--|---------------|--------------|-------------------|------------------------|--------------------|----------------------|---------------------|------------------------------|--|---|---------------|-------------------|---------------|
| <i>Rupees in '000--</i> | | | | | | | | | | | | | | |
| 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 | - | - | - | - | - | - | - | - | - | - | - | - | (20,000) | (20,000) |
| Transactions | - | - | 9,893 | - | - | - | - | - | - | - | - | 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 Government of Pakistan | - | - | - | - | - | - | - | - | (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 | 322,870,339 | - | 322,870,339 |
| Changes in equity for 2008 - 09 | | | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | - | 204,212,004 | - | - | 204,212,004 | - | 204,212,004 |
| Unrealised appreciation on revaluation of gold reserves | - | - | - | - | - | - | - | - | 27,004,086 | - | - | 27,004,086 | - | 27,004,086 |
| Total recognised income and expense for the year | - | - | - | - | - | - | - | - | 204,212,004 | 27,004,086 | - | 231,216,090 | - | 231,216,090 |
| Dividend | - | - | - | - | - | - | - | - | (10,000) | - | - | (10,000) | - | (10,000) |
| Transferred to reserve fund | - | - | 96,440,491 | - | - | - | - | - | (96,440,491) | - | - | - | - | - |
| Balance profit transferred to the Federal Government | - | - | - | - | - | - | - | - | (155,176,322) | - | - | (155,176,322) | - | (155,176,322) |
| Balance at June 30, 2009 | 100,000 | 1,525,958 | 161,429,024 | 2,600,000 | 1,600,000 | 1,500,000 | 900,000 | 4,700,000 | *49,025,882 | 156,772,429 | 18,747,014 | 398,900,107 | - | 398,900,107 |

* The Central Board has proposed to transfer Rs 49,026 million to the Reserve fund after approval of the Federal Government.

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

Syed Salim Reza
Governor

Yaseen Anwar
Deputy Governor

Muhammad Haroon Rashid
Comptroller Finance

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

1. STATUS AND NATURE OF OPERATIONS

1.1 The Group comprises of:

1.1.1 State Bank of Pakistan (the Bank)

State Bank of Pakistan 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.

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

a) SBP Banking Services Corporation - wholly owned subsidiary:

SBP Banking Services Corporation (the 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.

b) National Institute of Banking and Finance (Guarantee) Limited - wholly owned subsidiary:

National Institute of Banking and Finance (Guarantee) Limited (the Institute) 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.

1.2 The head office of the Bank is situated at I.I.Chudrigar Road, Karachi, in the province of Sindh, Pakistan.

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

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 IASs adopted by the Central Board, the requirements of policies adopted by the Central Board take precedence.

Subsidiaries are entities controlled by the Bank. Control exist when the Bank 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 Bank and its subsidiaries. Financial statements of the subsidiaries have been consolidated on a line-by-line basis.

All material inter group balances and transactions have been eliminated.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention, except that 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 judgements estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities that are not readily available from other sources. 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 judgements about the carrying value of assets and liabilities, income and expenses. 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 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 47 to these financial statements.

3.2 Accounting standards that are not yet effective or not relevant

The following standards are applicable from the date mentioned below against the respective standard :-

| <i>Standards</i> | <i>Effective date (accounting period beginning on or after)</i> |
|--|---|
| IAS - 1 (Revised) Presentation of financial statements | January 1, 2009 |
| IAS - 23 (Revised) Borrowing costs | January 1, 2009 |
| IAS - 32 (Revised) Financial instruments: | January 1, 2009 |

The Group expects that the adoption of the above standards will not have any material impact on the Group's financial statements in the period of initial application other than to the extent of certain changes and/or enhancements in the presentation and disclosures in the financial statements resulting from the application of IAS 1. The revised IAS 1 was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009.

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 Group 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 Group 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 realised and unrealised 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 the Group 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 Group 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 the Group 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 Group 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 Group 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 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 Group on the date it transfers risks and rewards. Securities held-to-maturity are de-recognised on the day these are transferred by the Group. 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 Group 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 33.2 while the asset and liability portion of a currency swap are presented in Other Assets and Other Liabilities in notes 20 and 26 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 resale are not recognised on the balance sheet and an asset is recorded in respect of the consideration paid 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 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. Freehold land is stated at revalued amount. Leasehold 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 at the rates specified in note 18.1 to these financial statements. The residual value, useful life and depreciation methods are reviewed and adjusted if appropriate, 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.

Increases in carrying amount arising on revaluation of land and buildings are credited to revaluation surplus on revaluation of property and equipment. Decreases that offset previous increases of the same assets are charged against surplus on revaluation of property and equipment in equity, all other decreases are charged to the profit and loss account. The surplus on revaluation realised on 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 Group'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 Group makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates.

4.10 Staff retirement benefits

The Bank and the Corporation 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. In 2007, 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 unfunded 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.
 - a contributory provident fund and 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 and the Corporation 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 related 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 Group'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.
- Training and education fee is recognised on completion of relevant courses.
- Hostel income is recognised on performing services.

4.13 Finances under profit and loss sharing arrangements

The Group 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 and the Corporation is exempt from tax under section 49 of the State Bank of Pakistan Act, 1956. Further, income of the Institute is also exempt from income tax as per Clause 92 of Part I of Second Schedule to the Income Tax Ordinance, 2001.

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 33.2 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 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 Group 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 Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. 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 Group becomes a party to the contractual provisions of the instrument. The Group derecognises financial asset when it loses control of the contractual rights that comprise the financial asset. The Group derecognises a financial liability when the liability is extinguished, discharged, cancelled or expired.

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

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

Stocks and other consumables are valued at the lower of cost and net realizable value. Cost comprises cost of purchases and other costs incurred in bringing the items to their present location and condition. Replacement cost of the items is used to measure the net realizable value. Provision is made for stocks which are not used for a considerable period of time.

4.21 Accounts receivables and other receivables

Accounts receivables and other receivables are carried at invoice amount less an allowance for any uncollectible amounts. Known bad debts are written off when identified.

4.22 Trade and other payables

Liabilities for trade and other amounts payable are carried at amortized 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.

4.23 Offsetting

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

| | Note | Net content in troy ounces | 2009 (Rupees in '000) | 2008 |
|---|-----------|----------------------------------|--------------------------|--------------------|
| 5. GOLD RESERVES HELD BY THE GROUP | | | | |
| Opening balance | | 2,070,208 | 130,970,552 | 81,277,106 |
| Additions during the year | | - | - | 169,831 |
| Appreciation during the year due to revaluation | 32 | - | 26,572,999 | 49,523,615 |
| | | 2,070,208 | 157,543,551 | 130,970,552 |
| | | | | |
| | | | 2009 (Rupees in '000) | 2008 |
| 6. FOREIGN CURRENCY RESERVES | | | | |
| Investments | 6.1 & 6.2 | | 138,835,486 | 241,920,666 |
| Deposit accounts | 6.3 & 6.4 | | 383,978,460 | 355,534,449 |
| Current accounts | 6.2 & 6.3 | | 285,394,082 | 38,855,819 |
| | | | 808,208,028 | 636,310,934 |

The above foreign currency reserves are held as follows:

| | | |
|--------------------|--------------------|--------------------|
| Issue Department | 378,121,392 | 439,104,769 |
| Banking Department | 430,086,636 | 197,206,165 |
| | 808,208,028 | 636,310,934 |

6.1 Investments

| | | | |
|--------------------|-----|--------------------|--------------------|
| Held for trading | 6.4 | 138,612,661 | 240,011,459 |
| Held to maturity | | - | 1,699,851 |
| Available for sale | | 222,825 | 209,356 |
| | | 138,835,486 | 241,920,666 |

6.2 These include Rs. 224.77 million (2008: Rs. 211.18 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 0.01% to 5.75% (2008: 0.75% to 5.82%) 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 1,754 million (2008: USD 3,700 million).

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, 2009. Interest is credited by the IMF on the SDR holding of the Group at weekly interest rates on daily products of SDRs held during each quarter.

| | 2009 | 2008 |
|----------------------------|-------------------|-------------------|
| | (Rupees in '000) | |
| SDRs were held as follows: | | |
| By the Issue Department | 6,318,150 | 11,632,215 |
| By the Banking Department | 6,117,522 | 3,137,123 |
| | 12,435,672 | 14,769,338 |

8. 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 | 2009 | 2008 |
|--|------|--------------------|-------------|
| | | (Rupees in '000) | |
| 9. LOCAL CURRENCY | | | |
| Bank notes held by the Banking Department | 13 | 196,449 | 181,913 |
| Coins | | 2,496,236 | 2,718,036 |
| | | 2,692,685 | 2,899,949 |
| Coins held as an asset of the Issue Department | 9.1 | (2,496,236) | (2,718,036) |
| | | 196,449 | 181,913 |

9.1 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 year end.

| | Note | 2009 | 2008 |
|--|------|------------------|------|
| | | (Rupees in '000) | |

10. INVESTMENTS**Loans and receivables originated by the Group**

| | | | |
|------------------------------|------|----------------------|---------------|
| Government securities | 10.1 | | |
| Market Treasury Bills (MTBs) | 10.2 | 1,147,773,885 | 1,071,469,025 |
| Federal Government scrip | | 2,740,000 | 2,740,000 |
| | | 1,150,513,885 | 1,074,209,025 |

Available for sale investments**Investments in Banks and other financial institutions**

| | | | |
|--|------|----------------------|---------------|
| Ordinary shares | | | |
| Listed | | 15,564,908 | 15,567,366 |
| Unlisted | | 4,521,707 | 4,021,706 |
| | 10.3 | 20,086,615 | 19,589,072 |
| Term Finance Certificates | | 211,801 | 282,400 |
| Certificates of Deposits | | 84,264 | 112,351 |
| | | 20,382,680 | 19,983,823 |
| Provision against diminution in value of investments | 10.4 | (503,064) | (601,751) |
| | | 1,170,393,501 | 1,093,591,097 |
| Investment held to maturity - Pakistan Investment Bonds | | 404,252 | 408,533 |
| | | 1,170,797,753 | 1,093,999,630 |
| Investment - MTBs held as assets of the Issue Department | | (675,410,375) | (458,259,765) |
| | | 495,387,378 | 635,739,865 |

10.1 Investments in Government securities

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

| | 2009 (% per annum) | 2008 |
|--------------------------|-----------------------|---------------|
| Market Treasury Bills | 11.47 to 14.01 | 9.26 to 11.19 |
| Federal Government scrip | 3 | 3 |

10.2 This includes securities having carrying value of Nil (2008: Rs. 7,000 million) given as collateral under repurchase agreement borrowing arrangements.

10.3 Investments in shares of banks and other financial institutions (note 10.3.1)

| | 2009 % of Holding | 2008 | Note | 2009 (Rupees in '000) | 2008 |
|---|----------------------|-------|--------|--------------------------|------------|
| Listed | | | | | |
| National Bank of Pakistan | 75.20 | 75.20 | 10.3.2 | 1,100,806 | 1,100,807 |
| United Bank Limited | 19.49 | 19.49 | 10.3.3 | 5,919,530 | 5,919,530 |
| Allied Bank Limited | 10.07 | 10.07 | 10.3.4 | 350,638 | 350,638 |
| Habib Bank Limited | 40.55 | 40.61 | 10.3.5 | 8,193,934 | 8,196,391 |
| | | | | 15,564,908 | 15,567,366 |
| Unlisted | | | | | |
| Federal Bank for Cooperatives | 75.00 | 75.00 | | 150,000 | 150,000 |
| Equity Participation Fund | 65.81 | 65.81 | | 102,000 | 102,000 |
| | | | | 252,000 | 252,000 |
| Other- investments with holding less than or equal to 50% | | | | 4,269,707 | 3,769,706 |
| | | | | 4,521,707 | 4,021,706 |
| | | | | 20,086,615 | 19,589,072 |

10.3.1 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 Group does not exercise significant influence or control over these entities except for any regulatory purposes or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates, or joint ventures.

10.3.2 Market value of the Group's investment in the shares of National Bank of Pakistan at June 30, 2009 amounted to Rs. 54,254.63 million (2008: Rs. 99,489.75 million).

10.3.3 Market value of the Group's investment in the shares of United Bank Limited at June 30, 2009 amounted to Rs.8,304.31 million (2008: Rs. 16,776.61 million).

10.3.4 Market value of the Group's investment in the shares of Allied Bank Limited at June 30, 2009 amounted to Rs. 2,691.17 million (2008: Rs. 5,548.25 million).

10.3.5 Market value of the Group's investment in the shares of Habib Bank Limited amounted to Rs. 31,791.71 million (2008: Rs.64,310.51 million).

| | 2009 (Rupees in '000) | 2008 |
|--|--------------------------|---------|
| 10.4 Provision against diminution in value of investments | | |
| Opening balance | 601,751 | 601,751 |
| Reversal during the year | (98,687) | - |
| Closing balance | 503,064 | 601,751 |

11. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2008: 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 | 2009 (Rupees in '000) | 2008 |
|---|------|--------------------------|-----------|
| 12. ASSETS HELD WITH THE RESERVE | | | |
| BANK OF INDIA | | | |
| Gold reserves | | | |
| Opening balance | | 2,124,701 | 1,320,894 |
| Appreciation from revaluation during the year | 32 | 431,087 | 803,807 |
| | | 2,555,788 | 2,124,701 |
| Sterling securities | | 443,920 | 446,480 |
| Government of India securities | | 17,069 | 16,037 |
| Rupee coins | | 4,966 | 4,679 |
| | | 3,021,743 | 2,591,897 |

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 Group is subject to final settlement between the Governments of Pakistan and India.

| | Note | 2009 (Rupees in '000) | 2008 |
|--|------|--------------------------|---------------|
| 13. BANK NOTES ISSUED | | | |
| Notes held with the Banking Department | 9 | 196,449 | 181,913 |
| Notes in circulation | | 1,223,521,163 | 1,045,857,499 |
| | | 1,223,717,612 | 1,046,039,412 |

14. EARMARKED FOREIGN CURRENCY BALANCES

This represents foreign currency held with the Group that is earmarked to meet specific foreign currency commitments of the Group.

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

| | | |
|--|---------------|---------------|
| Quota allocated by the International Monetary Fund | 130,592,537 | 115,303,703 |
| Liability under quota arrangements | (130,577,489) | (115,290,417) |
| | 15,048 | 13,286 |

16. LOANS, ADVANCES AND BILLS OF EXCHANGE

| | | | |
|--|------|-------------|-------------|
| Governments | 16.1 | 28,733,244 | 8,700,000 |
| Government owned / controlled financial institutions | 16.2 | 131,892,462 | 119,234,156 |
| Private sector financial institutions | 16.3 | 176,349,704 | 113,217,197 |
| | | 308,242,166 | 232,451,353 |
| Employees | | 11,045,929 | 10,419,881 |
| | | 348,021,339 | 251,571,234 |
| Provision against doubtful balances | 16.4 | (8,160,598) | (8,612,324) |
| | | 339,860,741 | 242,958,910 |
| Commercial papers held in issue department | 11 | (78,500) | (78,500) |
| | | 339,782,241 | 242,880,410 |

16.1 Loans and advances to the Governments

| | | |
|-------------------------------------|------------|-----------|
| Federal Government | 1,500,000 | 4,500,000 |
| Provincial Government - Punjab | 10,000,000 | - |
| Provincial Government - Balochistan | 17,233,244 | 4,200,000 |
| | 28,733,244 | 8,700,000 |

During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 10.87% and 13.92% (2008: 8.90% and 10.29%) per annum.

16.2 Loans and advances to Government owned / controlled financial institutions

| | <i>Scheduled banks</i> | | <i>Other financial institutions</i> | | <i>Total</i> | |
|-------------------------------------|-------------------------------------|-------------|-------------------------------------|-------------|--------------------|-------------|
| | <i>2009</i> | <i>2008</i> | <i>2009</i> | <i>2008</i> | <i>2009</i> | <i>2008</i> |
| | <i>----- (Rupees in '000) -----</i> | | | | | |
| Agricultural sector 16.2.2 & 16.2.3 | 58,543,026 | 58,541,539 | - | - | 58,543,026 | 58,541,539 |
| Industrial sector 16.2.2 | 11,635,481 | 12,400,626 | - | 7,118 | 11,635,481 | 12,407,744 |
| Export sector | 33,185,792 | 19,572,450 | 3,567 | 3,567 | 33,189,359 | 19,576,017 |
| Housing sector | - | - | 11,242,300 | 11,242,300 | 11,242,300 | 11,242,300 |
| Others | 17,282,296 | 17,466,556 | - | - | 17,282,296 | 17,466,556 |
| | 120,646,595 | 107,981,171 | 11,245,867 | 11,252,985 | 131,892,462 | 119,234,156 |

16.2.1 Above balances include Rs. 560.00 million (2008: Rs. 556.00 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).

16.2.2 Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2008: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2008: 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.

16.2.3 It includes agricultural financing of Rs.8,000 million (2008: Rs. 8,000 million) given to Punjab Provincial Cooperative Bank Limited (PPCBL). The financing was guaranteed by the Government of Punjab (Provincial Government) and was repayable on December 31, 2007. Subsequent to the year end a rescheduling agreement has been arranged with the provincial government whereby it is agreed that repayment of the above loan would be made in twelve monthly installments of Rs. 250 million each and eighteen monthly installments of Rs.277.778 million starting from August 01, 2009. Further, mark up of Rs. 136.76 million on the above loan has been repaid on September 30, 2009.

16.3 Loans and advances to private sector financial institutions

| | <i>Scheduled banks</i> | | <i>Other financial institutions</i> | | <i>Total</i> | |
|-------------------|-------------------------------------|-------------|-------------------------------------|-------------|--------------------|-------------|
| | <i>2009</i> | <i>2008</i> | <i>2009</i> | <i>2008</i> | <i>2009</i> | <i>2008</i> |
| | <i>----- (Rupees in '000) -----</i> | | | | | |
| Industrial sector | 27,277,559 | 27,724,767 | 4,797,841 | 4,939,912 | 32,075,400 | 32,664,679 |
| Export sector | 144,267,322 | 80,545,536 | - | - | 144,267,322 | 80,545,536 |
| Others | 6,982 | 6,982 | - | - | 6,982 | 6,982 |
| | 171,551,863 | 108,277,285 | 4,797,841 | 4,939,912 | 176,349,704 | 113,217,197 |

| | <i>2009</i> | <i>2008</i> |
|---|-------------------------|-------------|
| | <i>(Rupees in '000)</i> | |
| 16.4 Provision against doubtful assets | | |
| Opening balance | 8,612,324 | 8,612,324 |
| Reversal during the year | (451,726) | - |
| Closing balance | 8,160,598 | 8,612,324 |

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

| | 2009 (% per annum) | 2008 |
|---|--------------------------|-----------|
| Government owned / controlled and private sector financial institutions | 1.0 to 12 | 1.0 to 12 |
| Employees loans | 10 | 10 |
| | 2009 (Rupees in '000) | 2008 |
| Note | | |

**17. 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 | 4,555,755 | 4,173,215 |
| | 5,375,679 | 4,993,139 |
| | 5,416,132 | 5,033,592 |

17.1 These represents interest bearing loans and advances provided to the Government of Bangladesh (former East Pakistan).

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

| | 2009 (Rupees in '000) | 2008 |
|------|--------------------------|------|
| Note | | |

18. PROPERTY AND EQUIPMENT

| | | | |
|--------------------------|------|-------------------|-------------------|
| Operating fixed assets | 18.1 | 17,828,049 | 18,191,681 |
| Capital work-in-progress | 18.3 | 435,313 | 330,603 |
| | | 18,263,362 | 18,522,284 |

18.1 Operating fixed assets

| 2009 | | | | | | | | |
|-----------------------------|-----------------------------------|---|-----------------------------------|-------------------------------------|---|-------------------------------------|---------------------------|-------------------------------|
| | Cost / revalued amount at July 01 | Additions / (deletions) during the year | Cost / revalued amount at June 30 | Accumulated depreciation at July 01 | Depreciation / (deletions) for the year | Accumulated depreciation at June 30 | Net book value at June 30 | Annual rate of depreciation % |
| | (Rupees in '000) | | | | | | | |
| Freehold land | 3,577,047 | - | 3,577,047 | - | - | - | 3,577,047 | - |
| Leasehold land | 12,762,205 | - | 12,762,205 | 707,496 | 349,116 | 1,056,612 | 11,705,593 | over the term of lease |
| Buildings on freehold land | 959,824 | 6,664 | 966,488 | 189,954 | 96,398 | 286,352 | 680,136 | 5 |
| Buildings on leasehold land | 1,524,068 | 54,370 | 1,578,438 | 286,654 | 157,003 | 443,657 | 1,134,781 | 5 |
| Furniture and fixtures | 185,735 | 7,268 (6,254) | 186,749 | 80,986 | 18,349 (4,917) | 94,418 | 92,331 | 10 |
| Office equipment | 679,369 | 105,920 (5,024) | 780,265 | 407,184 | 97,811 (4,349) | 500,646 | 279,619 | 20 |
| EDP equipment | 1,001,894 | 303,635 (17,059) | 1,288,470 | 906,602 | 131,996 (8,713) | 1,029,885 | 258,585 | 33.33 |
| Motor vehicles | 154,443 | 54,580 (29,692) | 179,331 | 74,028 | 29,470 (24,124) | 79,374 | 99,957 | 20 |
| Library Books | 755 | - | 755 | 755 | - | 755 | - | |
| | 20,845,340 | 532,437 (58,029) | 21,319,748 | 2,653,659 | 880,143 (42,103) | 3,491,699 | 17,828,049 | |
| 2008 | | | | | | | | |
| | Cost / revalued amount at July 01 | Additions / (deletions) during the year | Cost / revalued amount at June 30 | Accumulated depreciation at July 01 | Depreciation / (deletions) for the year | 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 Books | 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 | |

18.2 Last revaluation was carried out on June 30, 2006 by Sidat Hyder Morshed Associates (Pvt.) Ltd.

18.2.1 Subsequent to revaluation on June 30, 2001, which had resulted in a surplus of Rs.6,953.549 million, the freehold land, leasehold land, buildings on freehold land and leasehold land were revalued again on June 30, 2006 resulting in a net surplus of Rs.12,552.511 million. The valuation was conducted by the independent valuers. Land and buildings were valued on the basis of professional assessment of market values. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:-

| | 2009 | 2008 |
|-----------------------------|------------------|----------------|
| | (Rupees in '000) | |
| Freehold land | 36,183 | 36,183 |
| Leasehold land | 16,638 | 17,390 |
| Buildings on Freehold land | 308,211 | 333,004 |
| Buildings on Leasehold land | 446,314 | 426,823 |
| | 807,346 | 813,400 |

Revaluation surplus of Rs.759.05 million was transferred to unappropriated profits on disposal of assets in earlier years.

18.3 Capital work-in-progress

| | | |
|-----------------------------|----------------|----------------|
| Buildings on freehold land | 82,059 | 47,321 |
| Buildings on leasehold land | 268,781 | 198,902 |
| Furniture and fixtures | 776 | 100 |
| Office equipment | 80,784 | 81,367 |
| EDP equipment | 2,913 | 2,913 |
| | 435,313 | 330,603 |

19. 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 2009 | 473,927 | 76,838 | 550,765 | 353,004 | 81,368 | 434,372 | 116,393 | 33.33 |
| Software 2008 | 403,352 | 70,575 | 473,927 | 239,583 | 113,421 | 353,004 | 120,923 | 33.33 |

20. OTHER ASSETS

| | Note | 2009 | 2008 |
|---|------|------------------|------------------|
| | | (Rupees in '000) | |
| Amounts due from financial institutions under currency swap arrangements | 20.1 | 2,317,912 | 1,818,325 |
| Accrued interest / mark-up, discount and return | | 3,992,621 | 2,944,463 |
| Stationery and stamps on hand | | 85,257 | 77,661 |
| Other advances, deposits and prepayments | | 177,174 | 615,484 |
| Others | | 2,250,088 | 83,879 |
| | | 8,823,052 | 5,539,812 |

20.1 This represents the Group'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 Group to exchange foreign currency with the rupee counterpart has been disclosed in note 26.

| | Note | 2009 (Rupees in '000) | 2008 |
|--|------|--------------------------|--------------|
| 21. CURRENT ACCOUNTS OF THE GOVERNMENTS | | | |
| Federal Government | 21.1 | 44,237,301 | 18,354,023 |
| Provincial Governments | | | |
| Punjab | 21.2 | - | 11,367,875 |
| Sindh | 21.3 | 20,479,598 | 32,455,344 |
| North West Frontier Province (NWFP) | 21.4 | 695,329 | 8,646,106 |
| Balochistan | 21.5 | - | - |
| | | 21,174,927 | 52,469,325 |
| Government of Azad Jammu and Kashmir | 21.6 | 1,209,640 | - |
| | | 66,621,868 | 70,823,348 |
| 21.1 Federal Government | | | |
| Non-food account | | 58,739,303 | 196,666 |
| Food account | | 360,557 | 306,328 |
| Zakat fund account | | 14,952,611 | 13,475,361 |
| Railways - ways and means advances | 21.7 | (33,742,545) | (20,945,231) |
| Fertilizer account | | 19,220 | 19,220 |
| Saudi Arabia special loan account | | 4,124 | 4,124 |
| Pakistan Baitul Mal fund account | | 4,306 | 541,270 |
| Pakistan Railways special account | | 144,305 | 3,488,195 |
| Government deposit account no. XII | | 5,276 | 5,276 |
| Special transfer account | | 1,616 | 9,785,258 |
| UN reimbursement account | | 3,731,488 | 11,477,556 |
| Fata Zakat Fund Account | | 17,040 | - |
| | | 44,237,301 | 18,354,023 |
| 21.2 Provincial Government - Punjab | | | |
| Non-food account | | (99,208,876) | (41,378,246) |
| Food account | | 1,730,967 | 3,383,354 |
| Zakat fund account | | 104,597 | 38,786 |
| District Government account no. IV | | 56,457,452 | 49,323,981 |
| | | (40,915,860) | 11,367,875 |
| Classified as a receivable balance | 21.7 | 40,915,860 | - |
| Net credit balance | | - | 11,367,875 |
| 21.3 Provincial Government - Sindh | | | |
| Non-food account | | 7,360,652 | 22,066,137 |
| Food account | | 697,812 | 186,499 |
| Zakat fund account | | 37,392 | 68,258 |
| District Government account no. IV | | 12,383,742 | 10,134,450 |
| | | 20,479,598 | 32,455,344 |
| 21.4 Provincial Government - NWFP | | | |
| Non-food account | | (4,787,023) | 2,463,074 |
| Food account | | 387,840 | 1,214,100 |
| Zakat fund account | | 741 | 4,935 |
| District Government account no. IV | | 5,093,771 | 4,963,997 |
| | | 695,329 | 8,646,106 |

| | | 2009 | 2008 |
|---|---|------------------|----------------|
| | Note | (Rupees in '000) | |
| 21.5 Provincial Government - Balochistan | | | |
| Non-food account | | (10,324,853) | (18,035,223) |
| Food account | | 333,138 | 914,760 |
| Zakat fund account | | 1 | 91,439 |
| District Government account no. IV | | 2,863,980 | 3,120,231 |
| | | (7,127,734) | (13,908,793) |
| Classified as a receivable balance | 21.7 | 7,127,734 | 13,908,793 |
| Net credit balance | | - | - |
| 21.6 The Government of Azad Jammu and Kashmir | | | |
| Net Balance | | 1,209,640 | (518,564) |
| Classified as a receivable balance | 21.7 | - | 518,564 |
| Net credit balance | | 1,209,640 | - |
| 21.7 | These balances carry mark-up at 12.80% (2008: 10.29%) per annum. | | |
| 22. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE | | | |
| This represented repurchase agreement borrowings and are subject to markup at the rate of 4.10% to 11.18% (2008: 9.74% to 9.95%) per annum. | | | |
| | | 2009 | 2008 |
| | | (Rupees in '000) | |
| 23. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS | | | |
| Foreign currency | | | |
| Scheduled banks | | 19,510,623 | 12,701,967 |
| Held under Cash Reserve Requirement | | 64,382,992 | 57,849,627 |
| | | 83,893,615 | 70,551,594 |
| Local currency | | | |
| Scheduled banks | | 189,127,303 | 353,180,909 |
| Financial institutions | | 718,709 | 814,353 |
| Others | | 154 | 2,526 |
| | | 189,846,166 | 353,997,788 |
| | | 273,739,781 | 424,549,382 |
| 23.1 | The above deposits are free of interest except deposits under cash reserve requirements which are remunerated at the rates given below: | | |
| | | 2009 | 2008 |
| | | (per annum) | |
| Foreign currency | | 0.90% to 2.93% | 1.46% to 4.72% |
| Local currency | | 0.59% to 0.61% | 1.98% to 2.59% |

| | <i>Note</i> | 2009 <i>(Rupees in '000)</i> | 2008 |
|--|-------------|--|-------------|
| 24. OTHER DEPOSITS AND ACCOUNTS | | | |
| Foreign currency | | | |
| Foreign central banks | | 36,645,435 | 30,603,600 |
| International organisations | 24.2 | 61,075,725 | 51,006,000 |
| Others | | 19,173,063 | 14,580,025 |
| | | 116,894,223 | 96,189,625 |
| Local currency | | | |
| Special debt repayment | 24.3 | 23,682,875 | 23,596,676 |
| Government | 24.4 | 11,012,500 | 11,012,500 |
| Others | | 16,189,590 | 14,802,225 |
| | | 50,884,965 | 49,411,401 |
| | | 167,779,188 | 145,601,026 |

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

| | 2009 <i>(per annum)</i> | 2008 |
|-----------------------------|-----------------------------------|----------------|
| Foreign central banks | 0.42% to 2.16% | 1.60% to 5.50% |
| International organisations | 3.52% to 4.85% | 4.26% to 7.15% |
| Others | 0.02% to 1.80% | 1.81% to 5.08% |

24.2 A long-term deposit of USD 500 million by the State Administration Foreign Exchange (SAFE) China received during the year carrying interest at six month LIBOR plus 1% payable semi-annually and maturing in lump-sum on January 2012, has been set off against the rupee counterpart receivable from the Federal Government vide letter dated March 26, 2009 between SBP and Federal Government whereby the Federal Government has agreed to assume all liabilities and risks arising from SBP's agreement with SAFE China.

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

24.4 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.

| | <i>Note</i> | 2009 <i>(Rupees in '000)</i> | 2008 |
|---|-------------|--|-------------|
| 25. PAYABLE TO INTERNATIONAL MONETARY FUND | | | |
| Borrowings under: | | | |
| Fund facilities | 25.1 & 25.2 | 333,010,969 | 1,057,443 |
| Other credit schemes | | 85,992,043 | 90,206,218 |
| | | 419,003,012 | 91,263,661 |
| Current account for administrative charges | | 29 | 25 |
| | | 419,003,041 | 91,263,686 |

25.1 During the year, IMF granted a Stand By Arrangement Facility amounting to SDR 5,168.50 million. The amount will be disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2010. During the year, two tranches amounting to SDR 2,635.94 million have been received. The facility is subject to mark up based on the weekly rates determined by the IMF and is payable on each quarter. Subsequent to the year end, the facility has been extended up to SDR 7,235.90 million. The remaining balance is receivable in six tranches. The repayment of the facility will commence from February 2012 and will mature by April 2014.

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

25.3 Interest profile of payable to IMF is as under:

| | 2009 <i>(per annum)</i> | 2008 |
|----------------------|-----------------------------------|----------------|
| Fund facilities | 1.38% to 4.18% | 3.59% to 5.67% |
| Other credit schemes | 0.50% | 0.50% |

| | | 2009 (Rupees in '000) | 2008 |
|--|-------------|--------------------------|-------------------|
| 26. OTHER LIABILITIES | Note | | |
| Foreign currency | | | |
| Amounts due to financial institutions under currency swap arrangements | 20.1 | 2,443,103 | 2,040,240 |
| Accrued interest and discount on deposits | | 1,256,713 | 512,391 |
| Charges on allocation of Special Drawing Rights of IMF | | 15,554 | 92,865 |
| | | 3,715,370 | 2,645,496 |
| Local currency | | | |
| Overdue mark-up and return | 26.1 | 4,241,812 | 3,864,334 |
| Unearned exchange risk fee | | 5,479 | 9,115 |
| Remittance clearance account | | 1,044,332 | 1,036,714 |
| Exchange loss payable under exchange risk coverage scheme | | 128,916 | 129,576 |
| Balance payable to the Government of Pakistan | | 19,358,324 | 28,342,868 |
| Dividend payable | | 10,000 | 10,000 |
| Share of loss payable under profit and loss sharing arrangements | | 2,407,129 | 2,399,071 |
| Payable to Government in respect of privatisation proceeds | | 2,929,066 | 2,929,066 |
| Other accruals and provisions | 26.2 | 7,795,564 | 7,386,965 |
| Others | | 3,650,513 | 10,549,792 |
| | | 41,571,135 | 56,657,501 |
| | | 45,286,505 | 59,302,997 |

26.1 It includes markup suspended amounting to Rs. 4,240.15 million (2008: Rs. 3,857.61 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.

| | | 2009 (Rupees in '000) | 2008 |
|---|-------------|--------------------------|------------------|
| 26.2 Other accruals and provisions | Note | | |
| Agency commission | | 1,014,422 | 761,570 |
| Provision for employees' compensated absences | | 2,444,023 | 2,267,808 |
| Provision for other doubtful assets | 26.2.1 | 2,389,103 | 2,350,727 |
| Other provisions | 26.3 | 1,308,325 | 1,308,382 |
| Others | | 639,691 | 698,478 |
| | | 7,795,564 | 7,386,965 |

26.2.1 It includes Rs. 2,318 million (2008: Rs. 2,261 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.

| | | 2009 (Rupees in '000) | 2008 |
|--|--|--------------------------|------------------|
| 26.3 Movement of other provisions | | | |
| Opening balance | | 1,308,382 | 1,175,858 |
| Provision during the year | | - | 132,524 |
| Reversed during the year | | (57) | - |
| Closing balance | | 1,308,325 | 1,308,382 |

| | Home remittance | Agriculture loan | Others (note 26.3.1) | Total |
|--------------------------|------------------------------|---------------------|-------------------------|------------------|
| | ----- (Rupees in '000) ----- | | | |
| Opening balance | 260,363 | 306,067 | 741,952 | 1,308,382 |
| Reversed during the year | - | - | (57) | (57) |
| Closing balance | 260,363 | 306,067 | 741,895 | 1,308,325 |

26.3.1 This represents provision made in respect of various litigations against the Group.

| | Note | 2009 (Rupees in '000) | 2008 |
|---|--------|--------------------------|-------------------|
| 27. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS | | | |
| Gratuity | 27.1 | 54,432 | 51,282 |
| Pension | | 9,486,594 | 8,719,768 |
| Benevolent fund scheme | | 1,017,373 | 947,587 |
| Post retirement medical benefits | | 2,102,394 | 1,453,457 |
| | 42.2.3 | 12,660,793 | 11,172,094 |
| Provident fund scheme | | 1,135,221 | 1,011,897 |
| | | 13,796,014 | 12,183,991 |

27.1 Includes a fixed liability of Rs. 26.070 million (2008: 1.164 million) payable to certain employees.

28. DEFERRED INCOME

| | | | |
|---------------------------------|----|----------------|----------------|
| Opening balance | | 206,244 | 340,845 |
| Grants received during the year | | 198,811 | 78,790 |
| Amortisation during the year | 39 | (211,506) | (213,391) |
| Closing balance | | 193,549 | 206,244 |

28.1 This represents grant received for capital expenditure and, as indicated in note 4.11 to these financial statements, is being amortised over the useful lives of the related assets.

29. SHARE CAPITAL

| Number of Shares | | 2009 (Rupees in '000) | 2008 |
|---|---|--------------------------|---------|
| Authorised share capital | | | |
| 1,000,000 | Ordinary shares of Rs. 100 each | 100,000 | 100,000 |
| Issued, subscribed and paid-up capital | | | |
| 1,000,000 | Fully paid-up ordinary shares of Rs. 100 each | 100,000 | 100,000 |

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.

30.. ALLOCATION OF SPECIAL DRAWING RIGHTS OF IMF

30.1 The allocation of SDRs by the IMF has been reflected as part of the equity and carried at historical cost in line with the approved accounting policy by the Board. The draft report issued by the IMF Committee on Balance Of Payment (BOPCOM) in 2007 considered possibility to classify the 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 from equity to liability with retrospective effect. An amount of Rs. 8,326 million (2008: 6,935 million) has been proposed to be appropriated to Reserve Fund out of the profit for the year ended June 30, 2009. The total exchange differences as on June 30, 2009 amounting to Rs.19,949 million have been appropriated in the reserve fund.

30.2 Subsequent to the year end, in a letter written by Director - Statistics Department, IMF to the Bank, it is stated that in the monetary and financial statistics as published in International Financial Statistics (IFS), the SDR allocation would now be treated as liabilities to non-resident (foreign liabilities) and no longer as "shares and other equity" when held on the balance sheet of the central bank. The letter further states that these changes would be reflected for the first time in October 2009 issue of IFS and will also reflect the historical series at the same time and encourage the adoption of the new treatment of the SDR allocations in the macroeconomic accounts compiled and disseminated by the country, to ensure that the data published by the country and the IMF are consistent and follow the revised international guidelines. The same will be considered for adoption in the next accounting year. The same will be considered for adoption in the next accounting year.

31.1 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.

31.2 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 | 2009 (Rupees in '000) | 2008 |
|---|------|--------------------------|--------------------|
| 32. UNREALISED APPRECIATION ON GOLD RESERVES | | | |
| Opening balance | | 129,768,343 | 79,440,921 |
| Appreciation on revaluation during the year: | | | |
| held by the Bank | 5 | 26,572,999 | 49,523,615 |
| held with the Reserve Bank of India | 12 | 431,087 | 803,807 |
| | | 27,004,086 | 50,327,422 |
| | | 156,772,429 | 129,768,343 |

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.

| | 2009 (Rupees in '000) | 2008 |
|--|--------------------------|-------------------|
| 33. CONTINGENCIES AND COMMITMENTS | | |
| 33.1 Contingencies | | |
| a) Contingent liability in respect of guarantees given on behalf of: | | |
| Federal government | 72,410,976 | 52,494,332 |
| Federal government owned / controlled bodies and authorities | 13,420,789 | 11,261,613 |
| | 85,831,765 | 63,755,945 |

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 an 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.

| | 2009 (Rupees in '000) | 2008 |
|---|--------------------------|--------------|
| d) Other claims against the Bank not acknowledged as debts | 861,994 | 903,367 |
| 33.2 Commitments | | |
| Forward exchange contracts - sales | 186,209,260 | 236,130,214 |
| Forward exchange contracts - purchases | 46,802,117 | 141,502,378 |
| Futures - sale | 4,192,494 | 22,536,696 |
| Futures - purchase | 9,408,925 | 65,350,752 |
| Foreign currency placements | - | 1,360,160 |
| Capital commitments | 7,110 | - |
| Subscription of right shares | 500,000 | - |
| Others | - | 263 |
| 34. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED | | |
| Market Treasury Bills - net | 153,267,829 | 58,329,019 |
| Other Government securities | 258,052 | 174,238 |
| Loans and advances to Government | 6,485,358 | 3,445,678 |
| Share of profit on finances under profit and loss sharing arrangements | 12,312,218 | 6,441,138 |
| Foreign currency deposits | 5,070,410 | 26,976,642 |
| Foreign currency securities | 5,715,611 | 9,513,667 |
| Others | 2,549 | 2,195 |
| | 183,112,028 | 104,882,577 |
| 35. INTEREST / MARK-UP EXPENSE | | |
| Deposits | 8,048,417 | 3,690,893 |
| Others | 36,752 | 57,866 |
| | 8,085,169 | 3,748,759 |
| 36. COMMISSION INCOME | | |
| Market Treasury Bills | 205,418 | 31,973 |
| Draft / payment orders | 787,251 | 118,965 |
| Prize Bonds and National Saving Certificates | 213,472 | 187,723 |
| Management of public debts | 132,258 | 40,629 |
| Others | 328,976 | 340,999 |
| | 1,667,375 | 720,289 |
| | 2009 (Rupees in '000) | 2008 |
| 37. EXCHANGE GAIN - Net | | |
| Gain / (loss) on: | | |
| Foreign currency placements, deposits, securities and other accounts - net | 68,364,987 | 76,483,373 |
| Open market operations (including currency swap arrangements) | (402,789) | (226,225) |
| Forward covers under Exchange Risk Coverage Scheme | 9,059 | (24,552) |
| Payable to IMF | (35,194,554) | (16,939,040) |
| Special Drawing Rights of IMF | 1,818,855 | 2,559,679 |
| Others | 132 | - |
| | 34,595,690 | 61,853,235 |
| Exchange risk fee income | 129,449 | 120,019 |
| | 34,725,139 | 61,973,254 |
| 38. OTHER OPERATING INCOME - Net | | |
| Penalties levied on banks and financial institutions | 1,323,756 | 2,093,162 |
| License / Credit Information Bureau fee recovered | 67,859 | 97,342 |
| Gain / (loss) on sale of investments: | | |
| Local | 22,755 | 14,408,719 |
| Foreign | (5,516,503) | 1,122,263 |
| | (5,493,748) | 15,530,982 |
| Gain / (loss) on remeasurement of securities classified as held for trading | 5,660,437 | (8,015,285) |
| Others - net | (338,252) | (75,128) |
| | 1,220,052 | 9,631,073 |
| 39. OTHER INCOME / (CHARGES) - NET | | |
| Gain on disposal of property and equipment | 12,961 | 3,897 |
| Liabilities and provisions written back - net | 594 | 36,303 |
| Amortisation of deferred income | 211,506 | 213,391 |
| Others | 115,639 | (107,034) |
| Charges on allocation of Special Drawing Rights of IMF | (284,784) | (587,153) |
| | 55,916 | (440,596) |

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% (2008: 0.15%) of the total amount of collection and remittances handled by NBP.

| | Note | 2009 (Rupees in '000) | 2008 |
|---|------|--------------------------|------------------|
| 42. GENERAL ADMINISTRATIVE AND OTHER EXPENSES | | | |
| Salaries and other benefits | | 4,785,037 | 4,007,153 |
| Retirement benefits and employees' compensated absences | | 3,323,878 | 2,419,201 |
| Contribution to SBP Employees' Welfare Trust | | 10,000 | 10,000 |
| Rent and taxes | | 42,755 | 39,740 |
| Insurance | | 15,381 | 13,588 |
| Electricity, gas and water | | 224,622 | 167,652 |
| Depreciation | 18.1 | 880,143 | 817,834 |
| Amortisation of intangible assets | 19 | 81,368 | 113,421 |
| Repairs and maintenance | | 349,117 | 259,602 |
| Auditors' remuneration | 42.1 | 8,134 | 5,611 |
| Legal and professional | | 458,120 | 362,513 |
| Travelling and recreation expenses | | 162,716 | 162,105 |
| Daily expenses | | 51,110 | 57,413 |
| Fuel | | 10,671 | 10,906 |
| Conveyance | | 8,583 | 9,461 |
| Postages, telegram / telex and telephone | | 133,559 | 122,935 |
| Training | | 78,691 | 40,509 |
| Examination/ testing services | | 4,998 | 1,144 |
| Stationery | | 23,852 | 18,153 |
| Remittance of treasure | | 33,059 | - |
| Books and newspapers | | 20,730 | 18,969 |
| Advertisement | | 3,802 | 9,090 |
| Uniforms | | 84,614 | 60,562 |
| Others | | 102,254 | 160,568 |
| | | 10,897,194 | 8,888,130 |

42.1 Auditors' remuneration

| | M. Yousuf & Co. | Ernst & Young Ford Rhodes Sidat Hyder | 2009 (Rupees in '000) | 2008 |
|--|--------------------|---|--------------------------|-------|
| State Bank of Pakistan | | | | |
| Audit fee | 1,429 | 1,429 | 2,858 | 2,300 |
| Out of pocket expenses | 286 | 286 | 572 | 200 |
| | 1,715 | 1,715 | 3,430 | 2,500 |
| SBP Banking Services Corporation | | | | |
| Audit fee | 1,571 | 1,571 | 3,142 | 2,530 |
| Out of pocket expenses | 714 | 714 | 1,428 | 500 |
| | 2,285 | 2,285 | 4,570 | 3,030 |
| National Institute of Banking and Finance (Guarantee) Limited | | | | |
| KPMG Taseer Hadi & Co. | | | | |
| Audit fee | - | - | 134 | 80 |
| Out of pocket expenses | - | - | - | 1 |
| | - | - | 134 | 81 |
| | 4,000 | 4,000 | 8,134 | 5,611 |

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 5 (2007: 4) % per annum.
- Expected rate of discount 13 (2008: 12) % per annum.
- Expected rate of increase in salary 11 (2008: 10) % per annum.
- Expected rate of increase in pension 5 (2008: 4) % per annum.
- Medical cost increase 8 (2008: 7) % per annum.
- Personnel turnover 2 (2008: 2) % per annum.

42.2.2 Present value of the defined 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, 2009 based on actuarial valuation as of that date was as follows: -

| | | 2009 | | |
|----------------------------------|-------------|--|---|-----------------------------------|
| | Note | Present value of the defined benefit obligation | Unrecognised actuarial gain / (loss) | Net recognized liabilities |
| ------(Rupees in '000)----- | | | | |
| Gratuity | 42.2.5 | 41,116 | (12,754) | 28,362 |
| Pension | 42.2.5 | 12,602,432 | (3,115,838) | 9,486,594 |
| Benevolent | 42.2.5 | 1,200,605 | (183,232) | 1,017,373 |
| Post retirement medical benefits | 42.2.5 | 4,915,413 | (2,813,019) | 2,102,394 |
| | | 18,759,566 | (6,124,843) | 12,634,723 |
| 2008 | | | | |
| | | Present value of the defined benefit obligation | Unrecognised actuarial gain / (loss) | Net recognized liabilities |
| ------(Rupees in '000)----- | | | | |
| Gratuity | 42.2.5 | 58,871 | (8,753) | 50,118 |
| Pension | 42.2.5 | 10,204,547 | (1,484,779) | 8,719,768 |
| Benevolent | 42.2.5 | 1,134,346 | (186,759) | 947,587 |
| Post retirement medical benefits | 42.2.5 | 4,543,730 | (3,090,273) | 1,453,457 |
| | | 15,941,494 | (4,770,564) | 11,170,930 |

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

| 2009 | | | | | |
|----------------------------------|---------------------------------------|-----------------------------------|--------------------------|------------------------|---------------------------------------|
| | Net recognised liabilities at July 01 | Charge for the year (note 42.2.4) | Payments during the year | Employees contribution | Net recognised liabilities at June 30 |
| ----- (Rupees in '000) ----- | | | | | |
| Gratuity | 50,118 | 14,194 | (32,959) | (2,991) | 28,362 |
| Pension | 8,719,768 | 1,706,994 | (914,225) | (25,943) | 9,486,594 |
| Benevolent | 947,587 | 179,890 | (124,441) | 14,337 | 1,017,373 |
| Post retirement medical benefits | 1,453,457 | 903,305 | (254,368) | - | 2,102,394 |
| | 11,170,930 | 2,804,383 | (1,325,993) | (14,597) | 12,634,723 |
| | | | | | |
| 2008 | | | | | |
| | Net recognised liabilities at July 01 | Charge for the year (note 42.2.4) | Payments during the year | Employees contribution | Net recognised liabilities at June 30 |
| ----- (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 |

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:

| 2009 | | | | | |
|-------------------------------------|------------------|--------------------------------|---------------------------------|----------------------------|-----------|
| Current service cost | Interest cost | Settlement & curtailment | Actuarial loss recognised | Employees contributions | Total |
| ----- <i>(Rupees in '000)</i> ----- | | | | | |
| Gratuity | 4,214 | 7,065 | - | - | 14,194 |
| Pension | 339,455 | 1,224,545 | - | - | 1,706,994 |
| Benevolent | 43,298 | 136,122 | - | (14,337) | 179,890 |
| Post retirement medical benefits | 128,149 | 545,248 | - | - | 903,305 |
| | 515,116 | 1,912,980 | - | (14,337) | 2,804,383 |
| | | | | | |
| 2008 | | | | | |
| Current service cost | Interest cost | Settlement & curtailment | Actuarial loss recognised | Employees contributions | Total |
| ----- <i>(Rupees in '000)</i> ----- | | | | | |
| Gratuity | 2,514 | 6,512 | - | - | 9,543 |
| Pension | 278,883 | 944,863 | - | - | 1,242,004 |
| Benevolent | 39,812 | 113,880 | - | 8,016 | 167,254 |
| Post retirement medical benefits | 86,409 | 353,483 | - | - | 588,583 |
| | 407,618 | 1,418,738 | - | 8,016 | 2,007,384 |
| | | | | | |
| 2009 | | 2008 | 2007 | 2006 | 2005 |
| ----- <i>(Rupees in '000)</i> ----- | | | | | |

42.2.5 Historical information**Gratuity**

| | | | | | |
|---|---------------|---------|---------|---------|---------|
| Present value of defined benefit obligation | 41,116 | 58,871 | 59,461 | 74,194 | 92,000 |
| Unrecognised actuarial (gain)/ loss | (12,754) | (8,753) | (5,506) | 6,091 | (5,000) |
| Provisions in respect of retirement benefit | | | | | |
| Liability in balance sheet | 28,362 | 50,118 | 53,955 | 80,285 | 87,000 |
| Experience adjustment arising on plan liabilities losses/ (gain) | 36,241 | 6,632 | 4,211 | (8,520) | 20,144 |

Pension

| | | | | | |
|---|------------------|-------------|-----------|-----------|-----------|
| Present value of defined benefit obligation | 12,602,432 | 10,204,547 | 8,589,692 | 8,434,571 | 8,247,000 |
| Unrecognised actuarial (gain) | (3,115,838) | (1,484,779) | (229,620) | (376,818) | (850,000) |
| Provisions in respect of retirement benefit | | | | | |
| Liability in balance sheet | 9,486,594 | 8,719,768 | 8,360,072 | 8,057,753 | 7,397,000 |
| Experience adjustment arising on plan liabilities loss/ (gain) | 1,774,053 | 1,273,741 | (117,735) | 408,484 | 733,000 |

Benevolent Fund

| | | | | | |
|---|------------------|-----------|-----------|-----------|-----------|
| Present value of defined benefit obligation | 1,200,605 | 1,134,346 | 1,035,583 | 1,084,594 | 1,008,000 |
| Unrecognised actuarial (gain) | (183,232) | (186,759) | (93,827) | (125,827) | (142,000) |
| Provisions in respect of retirement benefit | | | | | |
| Liability in balance sheet | 1,017,373 | 947,587 | 941,756 | 958,767 | 866,000 |
| Experience adjustment arising on plan liabilities loss/ (gain) | 11,280 | 99,338 | (22,303) | (6,390) | 8,000 |

Post Retirement Medical Benefits

| | | | | | |
|---|------------------|-------------|-------------|-------------|-------------|
| Present value of defined benefit obligation | 4,915,413 | 4,543,730 | 3,213,026 | 2,863,632 | 2,221,000 |
| Unrecognised actuarial (gain) | (2,813,019) | (3,090,273) | (2,105,813) | (2,150,808) | (1,790,000) |
| Provisions in respect of retirement benefit | | | | | |
| Liability in balance sheet | 2,102,394 | 1,453,457 | 1,107,213 | 712,824 | 431,000 |
| Experience adjustment arising on plan liabilities losses/ (gain) | 428,486 | 1,132,465 | 165,511 | 493,437 | 758,000 |

42.3 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 2,444 million (2008: Rs. 2,308 million). An amount of Rs. 293 million (2008: Rs. 153 million) has been charged to from the profit and loss account in the current period based on the actuarial advice.

| | <i>Note</i> | <i>2009</i> <i>(Rupees in '000)</i> | <i>2008</i> |
|---|-------------|--|--------------|
| 43. PROFIT FOR THE YEAR BEFORE NON-CASH ITEMS | | | |
| Profit for the year | | 204,212,004 | 164,793,359 |
| Adjustments for: | | | |
| Depreciation | | 880,143 | 817,834 |
| Amortisation of intangible assets | | 81,368 | 113,421 |
| Amortisation of deferred income | | (211,506) | (213,391) |
| Provision for: | | | |
| - retirement benefits and employees' compensated absences | | 3,323,878 | 2,419,202 |
| - loans, advances and other assets | | (451,726) | 12,382 |
| - other doubtful assets | | 62,615 | 122,543 |
| - diminution in value of investments | | (98,687) | - |
| (Gain) / loss on disposal of property and equipment | | (12,961) | (3,897) |
| Gain on disposal of investments | | (17,283) | (14,408,719) |
| Dividend income | | (9,733,352) | (6,594,079) |
| Other accruals and provisions - net | | 175,384 | 75,615 |
| | | 198,209,877 | 147,134,270 |
| | | <i>2009</i> | <i>2008</i> |
| | | <i>(Rupees in '000)</i> | |

44. CASH AND CASH EQUIVALENTS

| | | |
|-------------------------------------|--------------------|-------------|
| Local currency | 2,692,685 | 2,899,949 |
| Foreign currency reserves | 807,394,495 | 633,880,177 |
| Earmarked foreign currency balances | 33,959,461 | 12,040,910 |
| Special Drawing Rights of IMF | 12,435,672 | 14,769,338 |
| | 856,482,313 | 663,590,374 |

45. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties in its normal course of business. Related parties include the Federal Government; as ultimate owner of the Bank, provincial government and government of Azad Jammu and Kashmir, government controlled enterprises / entities, and key management personnel of the Group.

45.1 Governments and related entities

The Bank is acting as an agent of the Federal Government and is responsible for functions conferred upon as disclosed in note 1 to these financial statements. Material transactions and balances outstanding from the federal and provincial governments are disclosed in the respective notes to these financial statements.

45.2 Remuneration to key management personnel

Key management personnel of the Group include members of the Central Board of Directors, Governor, Deputy Governors and other executives of the Bank who have responsibility for planning, directing and controlling the activities of the Bank. Fee of the non-executive member of the Central Board of Directors is determined by the Central Board. According to section 10 of the SBP Act, 1956, the remuneration of the Governor is determined by the President of Pakistan. Deputy Governors are appointed and their salaries are fixed by the Federal Government.

The remuneration of the key management personnel was as follows:

| | 2009 | 2008 |
|----------------------------------|-----------------------|--------|
| | <i>Rupees in '000</i> | |
| Short-term employee benefit | 66,544 | 59,192 |
| Post-employment benefit | 17,388 | 11,096 |
| Loans disbursed during the year | 4,672 | 40,468 |
| Loans repaid during the year | 10,758 | 9,330 |
| Interest charged during the year | - | 10 |
| Director's fees | 2,492 | 1,431 |

Short-term benefits include salary and benefits including housing allowance, medical allowance, free use of Bank maintained cars in accordance with their entitlements. Post employment benefits include gratuity, pension, benevolent fund and post retirement medical benefits.

46. RISK MANAGEMENT POLICIES

The Group is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 46.1 to 46.5. 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.

46.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Group's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by Government guarantees or by demand promissory notes. Geographical exposures are controlled by country limits and are updated as and when necessary with all limits formally reviewed on a periodic basis. The Group's exposure to credit risk associated with foreign operations is managed by monitoring compliance with investment limits for counterparties. The Group's credit risk mainly lies with exposure towards government sector and financial institutions.

46.2. 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.

46.2.1

| | 2009 | | | | | | |
|--|----------------------------------|-------------------------------|---------------|-------------------------------|-------------------------------|-----------------|----------------|
| | Interest/ mark-up bearing | | | Non interest/ mark-up bearing | | | Grand Total |
| | Maturity upto one year | Maturity after one year | Total | Maturity upto one year | Maturity after one year | Total | |
| | < ----- (Rupees in '000) ----- > | | | | | | |
| Financial assets | | | | | | | |
| Local currency (including rupee coins) | - | - | - | 2,692,685 | - | 2,692,685 | 2,692,685 |
| Foreign currency reserves | 805,380,793 | 2,602,465 | 807,983,258 | - | 224,770 | 224,770 | 808,208,028 |
| Earmarked foreign currency balances | - | - | - | 33,959,461 | - | 33,959,461 | 33,959,461 |
| Special Drawing Rights of International Monetary Fund | - | 12,435,672 | 12,435,672 | - | - | - | 12,435,672 |
| Reserve tranche with the International Monetary Fund under quota arrangements | - | - | - | - | 15,048 | 15,048 | 15,048 |
| Current account of the Government of Punjab | - | - | - | 40,915,860 | - | 40,915,860 | 40,915,860 |
| Current account of the Government of Balochistan | - | - | - | 7,127,734 | - | 7,127,734 | 7,127,734 |
| Investments | 1,147,773,885 | 2,740,000 | 1,150,513,885 | - | 20,283,866 | 20,283,866 | 1,170,797,751 |
| Loans, advances and bills of exchange | - | 339,782,241 | 339,782,241 | - | - | - | 339,782,241 |
| Indian notes representing assets receivable from the Reserve Bank of India | - | - | - | - | 727,665 | 727,665 | 727,665 |
| Assets held with the Reserve Bank of India | - | - | - | - | 465,955 | 465,955 | 465,955 |
| Balances due from the Governments of India and Bangladesh (former East Pakistan) | - | 4,555,755 | 4,555,755 | - | 837 | 837 | 4,556,592 |
| Other assets | - | - | - | 4,830,433 | 3,992,619 | 8,823,052 | 8,823,052 |
| | 1,953,154,678 | 362,116,133 | 2,315,270,811 | 89,526,173 | 25,710,760 | 115,236,933 | 2,430,507,744 |
| Financial liabilities | | | | | | | |
| Bank notes in circulation | - | - | - | - | 1,223,717,612 | 1,223,717,612 | 1,223,717,612 |
| Bills payable | - | - | - | 827,785 | - | 827,785 | 827,785 |
| Current accounts of the Government | 44,237,301 | - | 44,237,301 | 22,384,567 | - | 22,384,567 | 66,621,868 |
| Securities sold under an agreement to repurchase | - | - | - | - | - | - | - |
| Deposits of banks and financial institutions | - | 64,382,992 | 64,382,992 | - | 209,356,789 | 209,356,789 | 273,739,781 |
| Other deposits and accounts | 44,788,865 | 72,105,358 | 116,894,223 | 39,827,966 | 11,012,500 | 50,840,466 | 167,734,689 |
| Allocation of Special Drawing Rights | - | 1,525,958 | 1,525,958 | - | - | - | 1,525,958 |
| Payable to International Monetary Fund | 19,588,999 | 399,414,042 | 419,003,041 | - | - | - | 419,003,041 |
| Other liabilities | - | - | - | 27,902,933 | 17,383,570 | 45,286,504 | 45,286,504 |
| | 108,615,165 | 537,428,350 | 646,043,515 | 90,943,251 | 1,461,470,471 | 1,552,413,723 | 2,198,457,238 |
| On balance sheet gap | 1,844,539,513 | (175,312,217) | 1,669,227,296 | (1,417,079) | (1,435,759,711) | (1,437,176,790) | 232,050,506 |
| Off Balance Sheet Financial Instruments | | | | | | | |
| Forward exchange contracts - sales | - | - | - | (186,209,260) | - | (186,209,260) | (186,209,260) |
| Forward exchange contracts - purchases | - | - | - | 46,802,117 | - | 46,802,117 | 46,802,117 |
| Futures - sale | - | - | - | (4,192,494) | - | (4,192,494) | (4,192,494) |
| Futures - purchase | - | - | - | 9,408,925 | - | 9,408,925 | 9,408,925 |
| Subscription of Right Shares | - | - | - | 500,000 | - | 500,000 | 500,000 |
| | - | - | - | (133,690,712) | - | (133,690,712) | (133,690,712) |
| Off Balance Sheet Gap | - | - | - | (133,690,712) | - | (133,690,712) | (133,690,712) |
| Total Yield/Interest Risk Sensitivity Gap | 1,844,539,513 | (175,312,217) | 1,669,227,296 | 132,273,633 | (1,435,759,711) | (1,303,486,078) | 365,741,218 |
| Cumulative Yield/Interest Risk Sensitivity Gap | 1,844,539,513 | 1,669,227,296 | 3,338,454,594 | 3,470,728,225 | 2,034,968,514 | 731,482,436 | 1,097,223,654 |

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

| | 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 | - | - | - | 12,040,910 | - | 12,040,910 | 12,040,910 |
| 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 | - | - | - | 777,024 | 4,762,788 | 5,539,812 | 5,539,812 |
| | 1,705,630,960 | 266,050,317 | 1,971,681,277 | 32,737,137 | 26,380,035 | 56,525,275 | 2,028,206,552 |
| 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 | 18,354,023 | - | 18,354,023 | 52,469,325 | - | 52,469,325 | 70,823,348 |
| 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 |
| Allocation of Special Drawing Rights | - | 18,961,423 | 18,961,423 | - | - | - | 18,961,423 |
| Payable to International Monetary Fund | 15,355,508 | 75,908,178 | 91,263,686 | - | - | - | 91,263,686 |
| Other liabilities | - | - | - | 42,704,446 | 16,589,436 | 59,293,882 | 59,293,882 |
| | 65,249,507 | 1,057,931,194 | 1,124,142,124 | 463,719,507 | 1,101,469,024 | 1,565,188,531 | 2,707,330,655 |
| On balance sheet gap | 1,640,381,453 | (791,880,877) | 829,539,153 | (430,982,370) | (1,075,088,989) | (1,508,663,256) | (679,124,103) |
| 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) |
| Off Balance Sheet Gap | 1,360,160 | - | 1,360,160 | (51,813,780) | - | (51,813,780) | (50,453,620) |
| Total Yield/Interest Risk Sensitivity Gap | 1,639,021,293 | (791,880,877) | 828,178,993 | (379,168,590) | (1,075,088,989) | (1,456,849,476) | (628,670,483) |
| Cumulative Yield/Interest Risk Sensitivity Gap | 1,639,021,293 | 847,140,416 | 1,675,319,409 | 1,296,150,819 | 221,061,830 | (1,235,787,646) | (1,864,458,130) |

46.3 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 Group also holds from time to time, foreign currency assets and liabilities that arise from the implementation of domestic monetary policies. Any foreign currency exposure relating to these implementation activities are hedged through the use of foreign currency forwards, swaps and other transactions.

The Group also enters into forward foreign exchange contracts with the commercial banks and financial institutions to hedge against the currency risk on foreign currency swap transactions.

46.4 Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. In order to reduce the level of liquidity risk arising out of the local currency activities, the Group manages the daily liquidity position of the banking system including advancing and withdrawal of funds from the system for smoothening out daily peaks and troughs.

The risk arising out of the Group's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations.

46.5 Portfolio risk management

The Group 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 Group 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.

47. ACCOUNTING ESTIMATES AND JUDGMENTS

47.1 Provision against loans and advances

The Group 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.

47.2 Impairment of available-for-sale investments

The Group 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 Group 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.

47.3 Held-to-maturity investments

The Group 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.

47.4 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.

47.5 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.

48. 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 10.3.1 which are carried at cost less permanent impairment in value if any.

49. IMPACT OF IAS 39 AND IFRS 7

Note 2 to the financial statements describes the framework adopted by the Bank. The Bank has undertaken an exercise to prepare additional information, quantifying the effect / impact of International Accounting Standard IAS-39 "Financial Instruments: Recognition and Measurement" and International Financial Reporting Standard IFRS-7 "Financial Instruments : Disclosures" for the year ended June 30, 2009, which has been disclosed in Annexure - A to the financial statements.

50. POST BALANCE SHEET EVENT

The Group based on the letter # F.1(5) IF - 1/2007 dated September 28, 2009 from the Finance Division, Internal Finance Wing, of Government of Pakistan has decided to transfer Rs. 31,110 million from reserve fund to unappropriated profit.

51. DATE OF AUTHORISATION

These financial statements were authorised for issue on October 12, 2009 by the Central Board of Directors of the Bank.

52. GENERAL**52.1 Corresponding Figures**

52.1.1 Commitments in respect of letters of credit opened on behalf of the Government of Pakistan are not disclosed as commitments of the Bank and Corresponding figures have also been re-arranged.

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

| <i>Current Classification</i> | <i>Previous Classification</i> | <i>Amount</i> Rupees ('000) |
|-------------------------------------|--------------------------------|--------------------------------|
| Earmarked foreign currency balances | Other assets - others | 11,088,798 |
| Other assets | Other liabilities | 976,840 |
| Other income / (charges) - net | Other income | 294,220 |
| Other income / (charges) - net | Other charges | 736,368 |

52.3 Figures have been rounded off to the nearest thousand rupees, unless otherwise stated..

Syed Salim Raza
Governor

Yaseen Anwar
Deputy Governor

Muhammad Haroon Rasheed
Comptroller Finance

ANNEXURE - A

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Impact of IAS 39 and IFRS 7 on Bank's financial statements:

The following note provides additional information concerning value of assets and liabilities as appearing on the financial statements as per existing framework and value if the IAS 39 had been adopted by the Bank.

Impact of IAS 39 on Balance Sheet item:

| | | As at June 30, 2009 | | | | | |
|---|------|--------------------------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| | | As per Existing Accounting Framework | | | Under IAS 39 | | |
| | Note | Issue Department | Banking Department | Total | Reclassifications | Remeasurements | Total |
| | | Rs. In '000 | | | | | |
| ASSETS | | | | | | | |
| Local currency | 9 | 2,496,236 | 196,449 | 2,692,685 | - | - | 2,692,685 |
| Foreign currency reserves | 6 | 378,121,392 | 430,086,636 | 808,208,028 | (166,207) | - | 808,041,821 |
| Earmarked foreign currency balances | 14 | - | 33,959,461 | 33,959,461 | - | - | 33,959,461 |
| Special Drawing Rights of the International Monetary Fund | 7 | 6,318,150 | 6,117,522 | 12,435,672 | - | - | 12,435,672 |
| Securities purchased under resale agreements | - | - | - | - | - | - | - |
| Current account of the Government of Punjab | 21.5 | - | 40,915,860 | 40,915,860 | - | - | 40,915,860 |
| Current account with Government of Balochistan | 21.2 | - | 7,127,734 | 7,127,734 | - | - | 7,127,734 |
| Current account with the Government of Azad Jammu and Kashmir | 21.6 | - | - | - | - | - | - |
| Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary | - | - | - | - | - | - | - |
| Investments | 10 | 675,410,375 | 495,387,378 | 1,170,797,753 | 41,100 | 81,476,912 | 1,252,315,765 |
| Financial assets pledged as collateral | - | - | - | - | - | - | - |
| Loans, advances and bills of exchange | 16 | - | 339,782,241 | 339,782,241 | 3,307,998 | (72,040,285) | 271,049,954 |
| Reserve tranche with the IMF under quota arrangements | 15 | - | 15,048 | 15,048 | - | - | 15,048 |
| Indian notes representing asset receivable from the Reserve Bank of India | - | 727,665 | - | 727,665 | (727,665) | - | - |
| Commercial papers held in Bangladesh | 11 | 78,500 | - | 78,500 | (78,500) | - | - |
| Assets held with the Reserve Bank of India | 12 | 3,021,743 | - | 3,021,743 | (3,021,743) | - | - |
| Balances due from Governments of India and Bangladesh | 17 | - | 5,416,132 | 5,416,132 | (5,416,132) | - | (0) |
| Receivable from India and Bangladesh (former East Pakistan)-net | - | - | - | - | - | - | - |
| Gold reserves | 5 | 157,543,551 | - | 157,543,551 | - | - | 157,543,551 |
| Property and equipment | 18 | - | 18,263,362 | 18,263,362 | - | - | 18,263,362 |
| Intangible assets | 19 | - | 116,393 | 116,393 | - | - | 116,393 |
| Other assets | 20 | - | 8,823,052 | 8,823,052 | (6,285,318) | - | 2,537,734 |
| TOTAL ASSETS | | 1,223,717,612 | 1,386,207,267 | 2,609,924,880 | (12,346,467) | 9,436,627 | 2,607,015,040 |
| LIABILITIES AND EQUITY | | | | | | | |
| LIABILITIES | | | | | | | |
| Bills payable | - | - | 827,785 | 827,785 | - | - | 827,785 |
| Bank notes issued | 13 | 1,223,717,612 | - | 1,223,717,612 | - | - | 1,223,717,612 |
| Deposits of banks and financial institutions | 23 | - | 273,739,781 | 273,739,781 | 2,990 | - | 273,742,771 |
| Other deposits and accounts | 24 | - | 167,779,188 | 167,779,188 | 342,348 | - | 168,121,536 |
| Securities sold under repurchase agreements | 22 | - | - | - | - | - | - |
| Current accounts of Governments | 21 | - | 66,621,868 | 66,621,868 | - | - | 66,621,868 |
| Current account of SBP Banking Services Corporation- a subsidiary | - | - | - | - | - | - | - |
| Payable to the International Monetary Fund | 25 | - | 419,003,041 | 419,003,041 | 911,375 | - | 419,914,416 |
| Allocation of Special Drawing Rights of International Monetary Fund | 30 | - | - | - | 1,541,512 | 19,949,603 | 21,491,115 |
| Deferred liability - staff retirement benefits | 27 | - | 13,796,014 | 13,796,014 | - | - | 13,796,014 |
| Capital Grant rural finance resource centre | - | - | 59,430 | 59,430 | - | - | 59,430 |
| Deferred income | 28 | - | 193,549 | 193,549 | - | - | 193,549 |
| Other liabilities | 26 | - | 45,286,505 | 45,286,505 | (11,062,946) | - | 34,223,559 |
| Total liabilities | | 1,223,717,612 | 987,307,161 | 2,211,024,773 | (8,264,721) | 19,949,603 | 2,222,709,655 |
| EQUITY | | | | | | | |
| Share capital | 29 | - | 100,000 | 100,000 | - | - | 100,000 |
| Allocation of Special Drawing Rights of International Monetary Fund | 30 | - | 1,525,958 | 1,525,958 | (1,525,958) | - | - |
| Statutory reserves | 31 | - | 172,729,024 | 172,729,024 | - | (60,816,515) | 111,912,509 |
| Unrealised appreciation on gold reserves | 32 | - | 156,772,429 | 156,772,429 | (2,555,788) | - | 154,216,641 |
| Surplus on revaluation of property and equipment | 18.2 | - | 18,747,014 | 18,747,014 | - | - | 18,747,014 |
| Surplus on revaluation of securities | - | - | - | - | - | 81,476,912 | 81,476,912 |
| Unappropriated profit | - | - | 49,025,682 | 49,025,682 | - | (31,173,373) | 17,852,309 |
| Equity and reserves | | - | 398,900,107 | 398,900,107 | (4,081,746) | (10,512,976) | 384,305,385 |
| TOTAL LIABILITIES AND EQUITY | | 1,223,717,612 | 1,386,207,268 | 2,609,924,880 | (12,346,467) | 9,436,627 | 2,607,015,040 |

Impact of IAS 39 on Profit and Loss Account items:

| Note | As at June 30, 2009 | | | |
|--|---------------------|--------------------|--------------------|--------------------|
| | Existing Framework | Reclassifications | Remeasurements | Under IAS 39 |
| | Rs. In '000 | | | |
| Interest/ mark-up and similar income | 34 | 183,112,028 | (5,899,031) | 177,212,997 |
| Interest/ mark-up and similar expense | 35 | (8,085,169) | - | (8,085,169) |
| | | 175,026,859 | | 169,127,828 |
| Commission income | 36 | 1,667,375 | - | 1,667,375 |
| Exchange gain - net | | 34,725,139 | (34,725,139) | - |
| Net foreign exchange gain | 37 | - | 34,725,139 | (2,514,137) |
| Net gain on financial instruments designated at fair value | | - | 6,042,965 | 6,042,965 |
| Dividend income | | 9,733,352 | - | 9,733,352 |
| Other operating income - net | 39 | 1,220,052 | (91,914) | 1,128,138 |
| Other income / (charges) - net | 40 | 55,916 | (52,020) | 3,896 |
| Total operating income | | 222,428,693 | | 219,914,556 |
| Impairment charge/ (reversal) of: | | | | |
| - loans, advances and other assets | | (451,726) | (2,406,000) | (1,954,274) |
| -diminution in value of investments | | (98,687) | | 98,687 |
| - other doubtful assets | | 62,615 | - | (62,615) |
| | | (487,798) | | (1,918,202) |
| Net operating income | | 222,916,491 | | 217,996,354 |
| Operating expenses | | | | |
| Bank notes printing charges | 41 | (4,193,032) | - | (4,193,032) |
| Agency commission | 42 | (3,614,261) | - | (3,614,261) |
| General, administrative and other expenses | 43 | (10,897,194) | - | (10,897,192) |
| Other operating expenses | | | | |
| OPERATING PROFIT | | 204,212,004 | | 199,291,867 |
| PROFIT FOR THE YEAR | | 204,212,004 | (4,920,137) | 199,291,867 |

For the purpose of valuation of listed equity investments, rates quoted at Karachi Stock Exchange have been used. However, in view of the strategic nature of investments, the quoted rate may not be representative of fair value as disclosed in note 4.2 of these financial statements.

IFRS 7 concerns with certain disclosures regarding financial assets and financial liabilities including the liquidity risk, credit risk, market risk and sensitivity analysis thereof. The adoption of this standard would not impact materially the value of financial assets and financial liabilities as appearing on the balance sheet under the current accounting framework.

Reconciliation of Impact of IAS 39 on Profit and Loss Account:

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| | Amount Rs. 000 |
|--|--------------------|
| Profit for the Financial Year 2008-09 as per Previous GAAP | 204,212,004 |
| Impairment of Loans and Advances | (4,920,137) |
| Profit for the Financial Year 2008-09 as per IAS 39 | <u>199,291,867</u> |

Reconciliation of Impact of IAS 39 and IFRS 7 on Unappropriated Profit:

| | |
|--|---------------------|
| Un-Appropriated profit for the Financial Year 2008-09 as per Previous GAAP | 49,025,682 |
| Add: Reversal of Appropriations | |
| - For the year ended June 30, 2007 | 30,688,835 |
| - For the year ended June 30, 2008 | 9,139,871 |
| - For the year ended June 30, 2009 | 20,987,809 |
| | <u>60,816,515</u> |
| Less: Impairment on loans and advances charged to P & L | (72,040,285) |
| Less: Exchange difference on allocation of SDR of IMF charged to P&L | |
| - 2006 | (13,637,249) |
| - 2007 | (429,256) |
| - 2008 | (3,368,961) |
| - 2009 | (2,514,137) |
| | <u>(19,949,603)</u> |
| Un-Appropriated profit for the Financial Year 2008-09 as per IAS 39 | <u>17,852,309</u> |

Syed Salim Raza
Governor

Yaseen Anwar
Deputy Governor

Muhammad Haroon Rasheed
Comptroller Finance