

# 13 Financial Statement of SBP

## **M. YOUSUF ADIL SALEEM & CO.**

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## **ERNST & YOUNG FORD RHODES**

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### **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the accompanying unconsolidated financial statements of the Issue and Banking Departments of the **State Bank of Pakistan (the Bank)**, which comprise the unconsolidated balance sheet as at June 30, 2009 and unconsolidated profit and loss account, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standard 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 Bank 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 unconsolidated financial statements give a true and fair view of the financial position of the Bank 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 50 to the financial statements.

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#### **M. Yousuf Adil Saleem & Co.**

Chartered Accountants  
Karachi

#### **Mushtaq Ali Hirani**

Audit Engagement Partner  
Date: October 12, 2009

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#### **Ernst & Young Ford Rhodes Sidat**

**Hyder**  
Chartered Accountants  
Karachi

#### **Omer Chughtai**

Audit Engagement Partner  
Date: October 12, 2009

**STATE BANK OF PAKISTAN - ISSUE DEPARTMENT**  
**UNCONSOLIDATED BALANCE SHEET**  
**AS AT JUNE 30, 2009**

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

The annexed notes from 1 to 53 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 - BANKING DEPARTMENT**  
**UNCONSOLIDATED BALANCE SHEET**  
**AS AT JUNE 30, 2009**

	<i>Note</i>	<i>2009</i> <i>(Rupees in '000)</i>	<i>2008</i>
<b>ASSETS</b>			
Local currency	9	<b>196,449</b>	181,913
Foreign currency reserves	6	<b>430,086,636</b>	197,206,165
Earmarked foreign currency balances	14	<b>33,959,461</b>	12,040,910
Special Drawing Rights of the International Monetary Fund	7	<b>6,117,522</b>	3,137,123
		<b>470,360,068</b>	212,566,111
Reserve tranche with the International Monetary Fund under quota arrangements	15	<b>15,048</b>	13,286
Current account of the Government of Punjab	21.2	<b>40,915,860</b>	-
Current account of the Government of Balochistan	21.5	<b>7,127,734</b>	13,908,793
Current account of the Government of Azad Jammu and Kashmir	21.6	-	518,564
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		<b>107,918</b>	47,751
Investments	10	<b>495,348,215</b>	635,700,774
Loans, advances and bills of exchange	16	<b>331,853,796</b>	235,099,049
Balances due from the Governments of India and Bangladesh (former East Pakistan)	17	<b>5,416,132</b>	5,033,592
Property and equipment	18	<b>18,073,733</b>	18,331,133
Intangible assets	19	<b>116,393</b>	120,923
Other assets	20	<b>8,630,077</b>	5,421,609
Total assets		<b>1,377,964,974</b>	1,126,761,585
<b>LIABILITIES</b>			
Bills payable		<b>827,785</b>	1,224,446
Current accounts of the Governments	21	<b>66,621,868</b>	70,823,348
Current account with SBP Banking Services Corporation- a subsidiary		<b>3,702,522</b>	2,369,636
Securities sold under agreement to repurchase	22	-	6,758,751
Deposits of banks and financial institutions	23	<b>273,739,781</b>	424,549,382
Other deposits and accounts	24	<b>167,779,189</b>	145,601,026
Payable to the International Monetary Fund	25	<b>419,003,041</b>	91,263,686
Other liabilities	26	<b>43,016,815</b>	57,179,315
		<b>974,691,001</b>	799,769,590
Deferred liability - staff retirement benefits	27	<b>4,204,684</b>	3,939,778
Deferred income	28	<b>193,549</b>	206,244
Total liabilities		<b>979,089,234</b>	803,915,612
<b>Net assets</b>		<b>398,875,740</b>	322,845,973
<b>REPRESENTED BY</b>			
Share capital	29	<b>100,000</b>	100,000
Allocation of Special Drawing Rights of the International Monetary Fund	30	<b>1,525,958</b>	1,525,958
Reserves	31	<b>172,704,657</b>	76,264,167
Unappropriated profit		<b>49,025,682</b>	96,440,491
		<b>223,356,297</b>	174,330,616
Unrealised appreciation on gold reserves	32	<b>156,772,429</b>	129,768,343
Surplus on revaluation of property and equipment	18.2	<b>18,747,014</b>	18,747,014
		<b>398,875,740</b>	322,845,973
<b>CONTINGENCIES AND COMMITMENTS</b>	33		

The annexed notes from 1 to 53 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**  
**UNCONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Note	2009 (Rupees in '000)	2008
Discount, interest / mark-up and / or return earned	34	183,029,210	104,804,382
Less: Interest / mark-up expense	35	8,085,169	3,748,759
		<b>174,944,041</b>	101,055,623
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
Profit earned through subsidiaries	38	192,481	140,043
Other operating income - net	39	1,114,285	9,570,777
Other income / (charges) - net	40	52,020	(442,148)
		<b>222,428,693</b>	179,611,917
Less: Direct operating expenses			
Bank notes printing charges	41	4,193,032	3,097,868
Agency commission	42	3,614,261	2,710,017
(Reversal) / Provision of provision for:			
- loans, advances and other assets		(451,726)	-
- diminution in value of investments		(98,687)	-
- other doubtful assets		62,615	122,543
		<b>(487,798)</b>	122,543
		<b>215,109,198</b>	173,681,489
Less: General administrative and other expenses	43	10,897,194	8,888,130
<b>PROFIT FOR THE YEAR</b>		<b>204,212,004</b>	164,793,359

The annexed notes from 1 to 53 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**  
**UNCONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<i>Note</i>	<b>2009</b> <b>(Rupees in '000)</b>	<b>2008</b>
Profit for the year before non-cash items	44	<b>196,032,145</b>	145,896,729
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		<b>1,617,224</b>	(67,560)
Reserve tranche with the International Monetary Fund under quota arrangements		<b>(1,762)</b>	(2,405)
Securities sold / (purchased) under agreement to re-sale		-	33,715,973
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		<b>(60,167)</b>	(33,906)
Investments		<b>(76,800,508)</b>	(614,544,698)
Loans, advances and bills of exchange		<b>(96,303,021)</b>	47,485,542
Indian notes representing assets receivable from the Reserve Bank of India		<b>(43,987)</b>	(45,429)
Assets held with the Reserve Bank of India		<b>(381,299)</b>	(47,765)
Other assets		<b>(3,208,468)</b>	(31,200,012)
		<b>(175,181,988)</b>	(564,740,260)
		<b>20,850,157</b>	(418,843,531)
Increase / (decrease) in liabilities:			
Bank notes issued		<b>177,678,200</b>	152,611,013
Bills payable		<b>(396,661)</b>	652,504
Current accounts of the Governments		<b>(37,817,717)</b>	(80,462,596)
Current account with SBP Banking Services Corporation - a subsidiary		<b>1,332,885</b>	(1,897,003)
Securities sold under agreement to re-purchase		<b>(6,758,751)</b>	(55,058,006)
Deposits of banks and financial institutions		<b>(150,809,601)</b>	119,380,806
Other deposits and accounts		<b>22,178,163</b>	41,465,030
Payable to the International Monetary Fund		<b>327,739,355</b>	6,199,944
Other liabilities		<b>(169,522,546)</b>	(41,285,633)
		<b>163,623,327</b>	141,606,059
		<b>184,473,484</b>	(277,237,472)
Payment of retirement benefits and employees' compensated absences		<b>(891,810)</b>	(792,186)
Proceeds from disposal of investment		<b>19,740</b>	16,868,261
Dividend received		<b>9,733,352</b>	6,594,079
Gold purchased		-	(169,831)
Fixed capital expenditure		<b>(447,669)</b>	(249,334)
Proceeds from disposal of property and equipment		<b>14,842</b>	29,775
		<b>8,428,455</b>	22,280,764
Dividend paid to the Federal Government		<b>(10,000)</b>	(10,000)
Increase / (decrease) in cash and cash equivalents during the year		<b>192,891,939</b>	(254,966,708)
Cash and cash equivalents at beginning of the year		<b>663,590,374</b>	918,557,082
Cash and cash equivalents at end of the year	45	<b>856,482,313</b>	663,590,374

The annexed notes from 1 to 53 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

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED JUNE 30, 2009

	Share capital	Allocation of special drawing rights of IMF	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unappropriated profit / (loss)	Unrealised appreciation on gold reserves	Surplus on revaluation of property, plant and equipment	Total
Balance at June 30, 2007	100,000	1,525,958	55,824,295	2,600,000	1,600,000	1,500,000	900,000	4,700,000	9,139,871	79,440,921	18,747,014	176,078,059
<b>Changes in equity for 2007 - 08</b>												
Profit for the year	-	-	-	-	-	-	-	-	164,793,359	-	-	164,793,359
Unrealised appreciation on revaluation of gold reserves	-	-	-	-	-	-	-	-	50,327,422	-	-	50,327,422
Total recognised income and expense for the year	-	-	-	-	-	-	-	-	164,793,359	50,327,422	-	215,120,781
Dividend	-	-	-	-	-	-	-	-	(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)
Balance at June 30, 2008	100,000	1,525,958	64,964,166	2,600,000	1,600,000	1,500,000	900,000	4,700,000	96,440,491	129,768,343	18,747,014	322,845,972
<b>Changes in equity for 2008 - 09</b>												
Profit for the year	-	-	-	-	-	-	-	-	204,212,004	-	-	204,212,004
Unrealised appreciation on revaluation of gold reserves	-	-	-	-	-	-	-	-	27,004,086	-	-	27,004,086
Total recognised income and expense for the year	-	-	-	-	-	-	-	-	204,212,004	27,004,086	-	231,216,090
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Transferred to reserve fund	-	-	96,440,491	-	-	-	-	-	(96,440,491)	-	-	-
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	(155,176,322)	-	-	(155,176,322)
Balance at June 30, 2009	100,000	1,525,958	161,404,657	2,600,000	1,600,000	1,500,000	900,000	4,700,000	*49,025,682	156,772,429	18,747,014	398,875,740

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

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

Syed Salim Raza  
Governor

Yaseen Anwar  
Deputy Governor

Muhammad Haroon Rashid  
Comptroller Finance

**STATE BANK OF PAKISTAN**  
**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**1. STATUS AND NATURE OF OPERATIONS**

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

- implementing the monetary 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 Governments, banks, financial institutions and local authorities under various facilities;
- purchase, holding and sale of shares of banks and financial institutions on the directives of the Federal Government; and
- acting as depository of the Government under specific arrangements between the Government and certain institutions.

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

**1.3** These financial statements are unconsolidated (separate) financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiaries are presented separately.

**1.4** The financial statements are presented in Pak Rupees, which is the Bank'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.

**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 judgments 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 judgments about the carrying values 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. Judgments made by the management in the application of International Accounting Standards 1 to 38 and policies for investments and transactions and balances with IMF as stated in note 4.2 and 4.16 respectively, approved for adoption by the Central Board of the Bank, that have significant effect on the financial statements and estimates with significant risk of material judgment in subsequent years are discussed in note 48 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 Bank expects that the adoption of the above standards will not have any material impact on the Bank'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 Bank are initially measured at cost being the fair value of consideration given. Transaction costs are included in the initial measurement of investments. Subsequent to initial measurement, the Bank measures and classifies its investments under the following categories:

#### **Held for trading**

These securities are either acquired for generating a profit from short term fluctuations in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These instruments are subsequently re-measured to fair value. All related 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 Bank commits to purchase or sell the investment, other wise transactions are treated as derivative until settlement occurs.

#### **Held to maturity**

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

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

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

#### **Loans and receivables**

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

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

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

**Available for sale securities (AFS)**

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

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

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

**4.3 Derivative financial instruments**

The Bank uses derivative financial instruments which include forwards, futures and foreign 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. Free hold land is stated at revalued amount. Lease hold land and buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any. Capital work-in-progress is valued at cost.

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

#### **4.9 Compensated absences**

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

#### **4.10 Staff retirement benefits**

The Bank operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. The Bank provided an option to employees covered under old scheme to join Employer Contributory Provident Fund Scheme -ECPF (new scheme) effective from June 1, 2007. Under this scheme contribution is made both by the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Bank service after June 1, 2007 are covered under the new scheme.
- b) a unfunded general provident fund (GPF) 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. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.
- 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.
  - an EGF 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 for those employees who joined the Bank after 1975 and before the introduction of EGF which is effective from June 1, 2007.
  - an un-funded benevolent fund scheme; and
  - an un-funded post retirement medical benefit scheme.

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

Annual provisions are made by the Bank to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2009. Unrecognised actuarial gains and losses are recognised in the profit and loss account over the expected average remaining working lives of the employees.

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

#### **4.11 Deferred income**

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

#### **4.12 Revenue recognition**

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

**4.13 Finances under profit and loss sharing arrangements**

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

**4.14 Taxation**

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

**4.15 Foreign currency translation**

Transactions denominated in foreign currencies are translated to Pak Rupees at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the closing rate 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 closing rate 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 accounting policy approved by the Central Board of the Bank. A summary of the policies followed by the Bank for recording of these transactions and balances is as follows:

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

All income or charges pertaining to balances with the IMF are taken to the profit and loss account, including the following:

- charges on borrowings under credit schemes and fund facilities,
- charges on net cumulative allocation of Special Drawing Rights; and
- return on holdings of Special Drawing Rights.

**4.17 Provisions**

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

**4.18 Cash and cash equivalents**

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

**4.19 Financial instruments**

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

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

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

**4.20 Offsetting**

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

	Note	Net content in troy ounces	2009 (Rupees in '000)	2008
<b>5. GOLD RESERVES HELD BY THE BANK</b>				
Opening balance		2,070,208	<b>130,970,552</b>	81,277,106
Additions during the year		-	-	169,831
Appreciation during the year due to revaluation	32	-	<b>26,572,999</b>	49,523,615
		<u>2,070,208</u>	<u><b>157,543,551</b></u>	<u>130,970,552</u>

## 6. FOREIGN CURRENCY RESERVES

Investments	6.1 & 6.2	<b>138,835,486</b>	241,920,666
Deposit accounts	6.3 & 6.4	<b>383,978,460</b>	355,534,449
Current accounts	6.2 & 6.3	<b>285,394,082</b>	38,855,819
		<u><b>808,208,028</b></u>	<u>636,310,934</u>

	Note	2009 (Rupees in '000)	2008
The above foreign currency reserves are held as follows:			
Issue Department		<b>378,121,392</b>	439,104,769
Banking Department		<b>430,086,636</b>	197,206,165
		<u><b>808,208,028</b></u>	<u>636,310,934</u>

### 6.1 Investments

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

**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 Bank at weekly interest rates on daily products of SDRs held during each quarter.

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

## 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 (Rupees in '000)	2008
<b>9. LOCAL CURRENCY</b>			
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 the year end.

	Note	2009 (Rupees in '000)	2008
<b>10. INVESTMENTS</b>			
<i>Loans and receivables originated by the Bank</i>			
<i>Government securities</i>	10.1		
Market Treasury Bills (MTBs)	10.2	1,147,109,714	1,070,809,207
Federal Government scrip		2,740,000	2,740,000
		1,149,849,714	1,073,549,207
<i>Available for sale investments</i>			
<i>Investments in Banks and other financial institutions</i>			
Ordinary shares			
Listed		15,564,909	15,567,366
Unlisted		4,521,706	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)
		19,879,616	19,382,072
<i>Investments in wholly owned subsidiaries</i>			
SBP Banking Services Corporation		1,000,000	1,000,000
Advance against issue of share capital (NIBAF)		29,260	29,260
		1,029,260	1,029,260
		1,170,758,590	1,093,960,539
The above investments are held as follows;			
Issue Department - MTBs		675,410,375	458,259,765
Banking Department		495,348,215	635,700,774
		1,170,758,590	1,093,960,539

### 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
<b>10.2</b>		
This includes securities having carrying value of Rs. 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
<b>Listed</b>					
National Bank of Pakistan	75.20	75.20	10.3.2	1,100,807	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
				<b>15,564,909</b>	15,567,366
<b>Unlisted</b>					
Federal Bank for Cooperatives	75.00	75.00		150,000	150,000
Equity Participation Fund	65.81	65.81		102,000	102,000
				<b>252,000</b>	252,000
Other- investments with holding less than or equal to 50%				4,269,706	3,769,706
				<b>4,521,706</b>	4,021,706
				<b>20,086,615</b>	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 Bank does not exercise significant influence or control over these entities except for any regulatory purposes or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates, or joint ventures.

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

**10.3.3** Market value of the Bank'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 Bank'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 Bank'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
<b>10.4 Provision against diminution in value of investments</b>		
Opening balance	601,751	601,751
Reversal during the year	(98,687)	-
Closing balance	<b>503,064</b>	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
<b>12. ASSETS HELD WITH THE RESERVE</b>			
<b>BANK OF INDIA</b>			
Gold reserves			
Opening balance		2,124,701	1,320,894
Appreciation from revaluation during the year	32	431,087	803,807
		<b>2,555,788</b>	2,124,701
Sterling securities		443,920	446,480
Government of India securities		17,069	16,037
Rupee coins		4,966	4,679
		<b>3,021,743</b>	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 Bank is subject to final settlement between the Governments of Pakistan and India.

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

#### 14. EARMARKED FOREIGN CURRENCY BALANCES

This represents foreign currency held by the Bank that is earmarked to meet specific foreign currency commitments of the Bank.

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

	2009 (Rupees in '000)	2008
Quota allocated by the International Monetary Fund	130,592,537	115,303,703
Liability under quota arrangements	(130,577,489)	(115,290,417)
	<b>15,048</b>	13,286

	Note	2009 (Rupees in '000)	2008
<b>16. LOANS, ADVANCES AND BILLS OF EXCHANGE</b>			
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
		<b>308,242,166</b>	232,451,353
Employees		3,105,102	2,626,138
		<b>340,080,512</b>	243,777,491
Provision against doubtful balances	16.4	(8,148,216)	(8,599,942)
		<b>331,932,296</b>	235,177,549
Commercial papers held in issue department	11	(78,500)	(78,500)
		<b>331,853,796</b>	235,099,049

##### 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
	<b>28,733,244</b>	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	<b>58,543,026</b>	58,541,539	-	-	<b>58,543,026</b>	58,541,539
Industrial sector 16.2.2	<b>11,635,481</b>	12,400,626	-	7,118	<b>11,635,481</b>	12,407,744
Export sector	<b>33,185,792</b>	19,572,450	<b>3,567</b>	3,567	<b>33,189,359</b>	19,576,017
Housing sector	-	-	<b>11,242,300</b>	11,242,300	<b>11,242,300</b>	11,242,300
Others	<b>17,282,296</b>	17,466,556	-	-	<b>17,282,296</b>	17,466,556
	<b>120,646,595</b>	107,981,171	<b>11,245,867</b>	11,252,985	<b>131,892,462</b>	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 Taraqiati Bank Limited (ZTBL). The restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalised in due course.

**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.However it remained outstanding and subsequent to the year end a rescheduling agreement has been arranged with the provincial government where the repayment of the above loan would now 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 upto June 30, 2009 has been repaid on September 30, 2009. Mark up on outstanding balance carry mark up at the rate applicable to six month treasury bills.

**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	<b>27,277,559</b>	27,724,767	<b>4,797,841</b>	4,939,912	<b>32,075,400</b>	32,664,679
Export sector	<b>144,267,322</b>	80,545,536	-	-	<b>144,267,322</b>	80,545,536
Others	<b>6,982</b>	6,982	-	-	<b>6,982</b>	6,982
	<b>171,551,863</b>	108,277,285	<b>4,797,841</b>	4,939,912	<b>176,349,704</b>	113,217,197

*2009*                      *2008*  
*(Rupees in '000)*

**16.4 Provision against doubtful assets**

Opening balance	<b>8,599,942</b>	8,599,942
Reversal during the year	<b>(451,726)</b>	-
Closing balance	<b>8,148,216</b>	8,599,942

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

	<i>2009</i>	<i>2008</i>
	<i>(% per annum)</i>	
Government owned / controlled and private sector financial institutions	<b>1.0 to 12</b>	1.0 to 12
Employees loans	<b>10</b>	10

	Note	2009 (Rupees in '000)	2008
<b>17. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)</b>			
<b>India</b>			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		837	837
		<b>40,453</b>	40,453
<b>Bangladesh (former East Pakistan)</b>			
Inter office balances		819,924	819,924
Loans and advances	17.1	4,555,755	4,173,215
		<b>5,375,679</b>	4,993,139
		<b>5,416,132</b>	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.

	Note	2009 (Rupees in '000)	2008
<b>18. PROPERTY AND EQUIPMENT</b>			
Operating fixed assets	18.1	17,638,421	18,003,646
Capital work-in-progress	18.3	435,312	327,487
		<b>18,073,733</b>	18,331,133

18.1 Operating fixed assets

	2009							
	Cost / revalued amount at July 01	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30	Accumulated depreciation at July 01	Depreciation for the year on (deletions) / transfers*	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	94,728	2,558 (240)	97,046	43,874	9,038 (8)	52,904	44,142	10
Office equipment	349,162	64,202 (177)	413,187	179,535	60,209 (50)	239,694	173,493	20
EDP equipment	781,621	292,247 (1,720) (11,066) *	1,061,082	701,858	117,987 (1,429) (2,458) *	815,958	245,124	33.33
Motor vehicles	121,868	41,776 (23,998)	139,646	57,506	22,906 (18,871)	61,541	78,105	20
	<b>20,170,523</b>	<b>461,817 (26,135) (11,066) *</b>	<b>20,595,139</b>	<b>2,166,877</b>	<b>812,657 (20,358) (2,458) *</b>	<b>2,956,718</b>	<b>17,638,421</b>	

2008								
	Cost / revalued amount at July 01	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30	Accumulated depreciation at July 01	Depreciation for the year on (deletions) / transfers*	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	93,927	7,919 (1,590) (5,528) *	94,728	36,108	9,133 (1,367)	43,874	50,854	10
Office equipment	211,140	150,179 (272) (11,885) *	349,162	132,876	46,854 (195)	179,535	169,627	20
EDP equipment	733,891	64,456 (16,726) *	781,621	648,070	65,304 (11,516) *	701,858	79,763	33.33
Motor vehicles	98,904	43,642 (20,678)	121,868	53,804	19,879 (16,177)	57,506	64,362	20
	<b>19,875,689</b>	<b>351,513 (22,540) (34,139) *</b>	<b>20,170,523</b>	<b>1,460,300</b>	<b>735,832 (17,739) (11,516) *</b>	<b>2,166,877</b>	<b>18,003,646</b>	

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
	<b>807,346</b>	<b>813,400</b>

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	-
Office equipment	80,783	78,351
EDP equipment	2,913	2,913
	<b>435,312</b>	<b>327,487</b>

### 19. INTANGIBLE ASSETS

	Cost at July 01	Additions during the year	Cost at June 30	Accumulated amortisation at July 01	Amortis- ation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortis- ation %
(Rupees in '000)								
Software 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

		2009	2008
		(Rupees in '000)	
<b>20. OTHER ASSETS</b>	<b>Note</b>		
Amounts due from financial institutions under currency swap arrangements	20.1	2,317,912	1,818,325
Accrued interest / mark-up, discount and return		3,967,405	2,929,004
Other advances, deposits and prepayments		155,805	590,401
Others		2,188,955	83,879
		<b>8,630,077</b>	<b>5,421,609</b>
20.1 This represents the Bank's right to receive rupee counterpart of the foreign currency on the maturity of certain currency swap arrangements with commercial banks. The related obligation of the Bank to exchange foreign currency with the rupee counterpart has been disclosed in note 26.			
<b>21. CURRENT ACCOUNTS OF THE GOVERNMENTS</b>	<b>Note</b>	<b>2009</b>	<b>2008</b>
		(Rupees in '000)	
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	-
		<b>66,621,868</b>	<b>70,823,348</b>
<b>21.1 Federal Government</b>			
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	-
		<b>44,237,301</b>	<b>18,354,023</b>
<b>21.2 Provincial Government - Punjab</b>			
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
<b>21.3 Provincial Government - Sindh</b>			
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
		<b>20,479,598</b>	<b>32,455,344</b>
<b>21.4 Provincial Government - NWFP</b>	<b>Note</b>	<b>2009</b>	<b>2008</b>
		(Rupees in '000)	
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
		<b>695,329</b>	<b>8,646,106</b>
<b>21.5 Provincial Government - Balochistan</b>			
Non-food account		(10,324,853)	(18,035,223)
Food account		333,139	914,760
Zakat fund account		-	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		<b>1,209,640</b>	(518,564)
Classified as a receivable balance	21.7	-	518,564
Net credit balance		<b>1,209,640</b>	-

21.7 These balances carry mark-up at 12.80% (2008: 10.29% ) per annum.

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

These 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 (Rupees in '000)	2008 (Rupees in '000)
<b>23. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS</b>			
<b>Foreign currency</b>			
Scheduled banks		<b>19,510,623</b>	12,701,967
Held under Cash Reserve Requirement		<b>64,382,992</b>	57,849,627
		<b>83,893,615</b>	70,551,594
<b>Local currency</b>			
Scheduled banks		<b>189,127,303</b>	353,180,909
Financial institutions		<b>718,709</b>	814,353
Others		<b>154</b>	2,526
		<b>189,846,166</b>	353,997,788
		<b>273,739,781</b>	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:

	Note	2009 (per annum)	2008 (per annum)
Foreign currency		<b>0.90% to 2.93%</b>	1.46% to 4.72%
Local currency		<b>0.59% to 0.61%</b>	1.98% to 2.59%

**24. OTHER DEPOSITS AND ACCOUNTS**

<b>Foreign currency</b>			
Foreign central banks		<b>36,645,435</b>	30,603,600
International organisations	24.2	<b>61,075,725</b>	51,006,000
Others		<b>19,173,063</b>	14,580,025
		<b>116,894,223</b>	96,189,625
<b>Local currency</b>			
Special debt repayment	24.3	<b>23,682,875</b>	23,596,676
Government	24.4	<b>11,012,500</b>	11,012,500
Others		<b>16,189,591</b>	14,802,225
		<b>50,884,966</b>	49,411,401
		<b>167,779,189</b>	145,601,026

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

	2009 (per annum)	2008 (per annum)
Foreign central banks	<b>0.42% to 2.16%</b>	1.60% to 5.50%
International organisations	<b>3.52% to 4.85%</b>	4.26% to 7.15%
Others	<b>0.02% to 1.80%</b>	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.

	Note	2009 (Rupees in '000)	2008 (Rupees in '000)
<b>25. PAYABLE TO INTERNATIONAL MONETARY FUND</b>			
Borrowings under:			
Fund facilities	25.1 & 25.2	<b>333,010,969</b>	1,057,443
Other credit schemes		<b>85,992,043</b>	90,206,218
		<b>419,003,012</b>	91,263,661
Current account for administrative charges		<b>29</b>	25
		<b>419,003,041</b>	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	2008
	(per annum)	
Fund facilities	1.38% to 4.18%	3.59% to 5.67%
Other credit schemes	0.50%	0.50%

## 26. OTHER LIABILITIES

### 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
		<b>3,715,370</b>	<b>2,645,496</b>

### 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	5,916,227	5,547,508
Others		3,260,160	10,265,567
		<b>39,301,445</b>	<b>54,533,819</b>
		<b>43,016,815</b>	<b>57,179,315</b>

**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 Governments of Pakistan and Bangladesh.

	Note	2009	2008
		(Rupees in '000)	
<b>26.2 Other accruals and provisions</b>			
Agency commission		1,014,421	761,570
Provision for employees' compensated absences		564,686	481,371
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		639,692	645,458
		<b>5,916,227</b>	<b>5,547,508</b>

**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 transactions in former East Pakistan.

	2009 (Rupees in '000)	2008
<b>26.3 Movement of other provisions</b>		
Opening balance	1,308,382	1,175,858
Provision during the year	-	132,524
Reversal during the year	(57)	-
Closing balance	<u>1,308,325</u>	<u>1,308,382</u>

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

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

	Note	2009 (Rupees in '000)	2008
<b>27. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS</b>			
Gratuity	27.1	22,061	13,461
Pension		2,900,124	2,921,481
Benevolent fund scheme		247,521	237,599
Post retirement medical benefits		<u>815,886</u>	<u>571,324</u>
	43.5.3	3,985,592	3,743,865
Provident fund scheme		<u>219,092</u>	<u>195,913</u>
		<u>4,204,684</u>	<u>3,939,778</u>

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

	Note	2009 (Rupees in '000)	2008
<b>28. DEFERRED INCOME</b>			
Opening balance		206,244	340,845
Grants received during the year		198,811	78,790
Amortisation during the year	40	<u>(211,506)</u>	<u>(213,391)</u>
Closing balance		<u>193,549</u>	<u>206,244</u>

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

The 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**

**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.

**31. RESERVES****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.

**32. UNREALISED APPRECIATION ON GOLD RESERVES**

	Note	2009 (Rupees in '000)	2008
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.

**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 the Arbitrator. Management is confident that the Bank will not incur any liability on this account, as such no provision has been made against the claim.

	2009 (Rupees in '000)	2008
d) Other claims against the Bank not acknowledged as debts	861,994	903,367

### 33.2 Commitments

	2009 (Rupees in '000)	2008
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
Subscription of right shares	500,000	-

	2009 (Rupees in '000)	2008
<b>34. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED</b>		
Market Treasury Bills - net	153,267,829	58,329,019
Other Government securities	176,689	97,777
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	1,095	461
	183,029,210	104,804,382

### 35. INTEREST / MARK-UP EXPENSE

Deposits	8,048,417	3,690,893
Others	36,752	57,866
	8,085,169	3,748,759

	2009	2008
	(Rupees in '000)	
<b>36. COMMISSION INCOME</b>		
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
	<b>1,667,375</b>	<b>720,289</b>
<b>37. EXCHANGE GAIN - Net</b>		
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	-
	<b>34,595,690</b>	<b>61,853,235</b>
Exchange risk fee income	129,449	120,019
	<b>34,725,139</b>	<b>61,973,254</b>
<b>38. PROFIT EARNED THROUGH SUBSIDIARIES</b>		
SBP Banking Services Corporation	86,714	79,747
National Institute of Banking and Finance (Guarantee) Limited	105,767	60,296
	<b>192,481</b>	<b>140,043</b>
The above represents the profit of subsidiaries for the year ended June 30, 2009 transferred to the Bank in accordance with the arrangements mentioned in note 43.3.		
	<b>Note</b>	
<b>39. OTHER OPERATING INCOME - Net</b>		
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 investment:		
Local	22,755	14,408,719
Foreign	(5,516,503)	1,122,263
	<b>(5,493,748)</b>	<b>15,530,982</b>
Gain / (loss) on remeasurement of securities classified as held for trading	5,660,437	(8,015,285)
Others - net	(444,019)	(135,424)
	<b>1,114,285</b>	<b>9,570,777</b>
<b>40. OTHER INCOME / (CHARGES)- NET</b>		
Gain on disposal of property and equipment	9,065	2,353
Liabilities and provisions written back - net	594	36,303
Amortisation of deferred income	211,506	213,391
Charges on allocation of Special Drawing Rights of IMF	(284,784)	(587,153)
Others	115,639	(107,042)
	<b>52,020</b>	<b>(442,148)</b>
<b>41. BANK NOTES PRINTING CHARGES</b>		
Bank notes printing charges are paid to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.		
<b>42. AGENCY COMMISSION</b>		
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
<b>43. GENERAL ADMINISTRATIVE AND OTHER EXPENSES</b>			
Salaries and other benefits		1,272,560	1,060,353
Retirement benefits and employees' compensated absences		1,156,716	906,717
Contribution to SBP Employees' Welfare Trust		10,000	10,000
Rent and taxes		33,672	30,980
Insurance		12,566	11,809
Electricity, gas and water		37,828	22,193
Depreciation	18.1	812,657	735,832
Amortisation of intangible assets	19	81,368	113,421
Repairs and maintenance		321,779	238,031
Auditors' remuneration	43.4	3,430	2,500
Legal and professional		447,722	359,320
Travelling and recreation expenses		67,693	62,891
Daily expenses		39,318	47,970
Fuel		8,677	8,330
Conveyance		4,100	3,873
Postages, telegram / telex and telephone		121,089	112,360
Training		49,009	17,307
Examination/ testing services		4,998	1,144
Stationery		12,718	8,768
Books and newspapers		19,157	17,554
Advertisement		2,054	7,526
Uniforms		1,772	1,680
Others		50,789	66,837
		<b>4,571,672</b>	<b>3,847,396</b>
Expenses allocated by:			
SBP Banking Services Corporation	43.1	2,230,123	1,590,123
National Institute of Banking and Finance (Guarantee) Limited		2,620	4,364
		<b>2,232,743</b>	<b>1,594,487</b>
Expenses reimbursed to:			
SBP Banking Services Corporation	43.2	4,011,615	3,376,624
National Institute of Banking and Finance (Guarantee) Limited		81,164	69,623
		<b>4,092,779</b>	<b>3,446,247</b>
		<b>10,897,194</b>	<b>8,888,130</b>
<b>43.1 Expenses allocated by SBP Banking Services Corporation</b>			
Retirement benefits and employees' compensated absences		2,165,258	1,512,485
Depreciation		64,865	77,638
		<b>2,230,123</b>	<b>1,590,123</b>
<b>43.2 Expenses reimbursed to SBP Banking Services Corporation</b>			
Salaries and other benefits		3,478,919	2,918,933
Rent and taxes		8,577	8,254
Insurance		2,605	1,537
Electricity, gas and water		170,107	133,677
Repairs and maintenance		19,385	16,929
Auditors' remuneration	43.4	4,570	3,030
Legal and professional		10,233	3,193
Travelling expenses		7,325	5,832
Daily expenses		11,792	9,443
Recreation allowance		84,334	90,755
Fuel		1,994	1,682
Conveyance		4,483	5,588
Postage and telephone		11,624	9,760
Training		21,622	13,812
Remittance of treasure		33,059	27,743
Stationery		9,219	7,938
Books and newspapers		1,332	1,415
Advertisement		1,748	1,564
Bank guards		68,355	57,988
Uniforms		14,487	12,810
Others		45,845	44,741
		<b>4,011,615</b>	<b>3,376,624</b>

## 43.3

SBP Banking Services Corporation (the Corporation), a wholly owned subsidiary of the Bank, carries out certain functions and activities principally relating to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly, under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while profit of the Corporation for the year ended June 30, 2009, as mentioned in note 38, has also been transferred to the Bank. Similar treatment is also followed by the other subsidiary, National Institute of Banking and Finance (Guarantee) Limited, under arrangements mutually agreed with the Bank.

## 43.4 Auditors' remuneration

	<i>M. Yousuf Adil Saleem &amp; Co.</i>	<i>Ernst &amp; Young Ford Rhodes Sidat Hyder</i>	2009	2008
			(Rupees in '000)	
<b>State Bank of Pakistan</b>				
Audit fee	1,429	1,429	<b>2,858</b>	2,300
Out of pocket expenses	286	286	<b>572</b>	200
	1,715	1,715	<b>3,430</b>	2,500
<b>SBP Banking Services Corporation</b>				
Audit fee	1,571	1,571	<b>3,142</b>	2,530
Out of pocket expenses	714	714	<b>1,428</b>	500
	2,285	2,285	<b>4,570</b>	3,030
	4,000	4,000	<b>8,000</b>	5,530

## 43.5 Staff retirement benefits

43.5.1 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 (2008: 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.

## 43.5.2 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		
		<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Net recognized liabilities</i>
		(Rupees in '000)		
Note				
Gratuity	43.5.5	3,077	(7,086)	(4,009)
Pension	43.5.5	3,650,528	(750,404)	2,900,124
Benevolent	43.5.5	284,458	(36,937)	247,521
Post retirement medical benefits	43.5.5	2,124,433	(1,308,547)	815,886
		<b>6,062,496</b>	<b>(2,102,974)</b>	<b>3,959,522</b>
		2008		
		<i>Present value of the defined benefit obligation</i>	<i>Unrecognised actuarial gain / (loss)</i>	<i>Net recognized liabilities</i>
		(Rupees in '000)		
Gratuity	43.5.5	15,805	(3,508)	12,297
Pension	43.5.5	3,524,735	(603,254)	2,921,481
Benevolent	43.5.5	373,021	(135,422)	237,599
Post retirement medical benefits	43.5.5	2,228,249	(1,656,925)	571,324
		<b>6,141,810</b>	<b>(2,399,109)</b>	<b>3,742,701</b>

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

2009					
	<i>Net recognised liabilities at July 01</i>	<i>Charge for the year (note 43.5.4)</i>	<i>Payments during the year</i>	<i>Employees contribution/Amount transferred</i>	<i>Net recognised liabilities at June 30</i>
------(Rupees in '000)-----					
Gratuity	12,297	5,417	(18,732)	(2,991)	(4,009)
Pension	2,921,481	539,529	(534,943)	(25,943)	2,900,124
Benevolent	237,599	59,510	(52,741)	3,153	247,521
Post retirement medical benefits	571,324	408,327	(163,765)	-	815,886
	<b>3,742,701</b>	<b>1,012,783</b>	<b>(770,181)</b>	<b>(25,781)</b>	<b>3,959,522</b>

  

2008					
	<i>Net recognised liabilities at July 01</i>	<i>Charge for the year (note 43.5.4)</i>	<i>Payments during the year</i>	<i>Employees contribution</i>	<i>Net recognised liabilities at June 30</i>
------(Rupees in '000)-----					
Gratuity	10,955	3,654	(2,312)	-	12,297
Pension	2,969,072	452,039	(499,630)	-	2,921,481
Benevolent	242,756	52,779	(61,026)	3,090	237,599
Post retirement medical benefits	435,213	293,773	(157,662)	-	571,324
	<b>3,657,996</b>	<b>802,245</b>	<b>(720,630)</b>	<b>3,090</b>	<b>3,742,701</b>

#### 43.5.4 Amount recognised in the profit and loss account

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

2009					
	<i>Current service cost</i>	<i>Interest cost</i>	<i>Settlement &amp; curtailment</i>	<i>Actuarial loss recognised</i>	<i>Employees contributions</i>
------(Rupees in '000)-----					
Gratuity	3,228	1,897	-	292	-
Pension	61,720	422,968	-	54,841	-
Benevolent	8,227	44,763	-	9,673	(3,153)
Post retirement medical benefits	30,475	267,390	-	110,462	-
	<b>103,650</b>	<b>737,018</b>	<b>-</b>	<b>175,268</b>	<b>(3,153)</b>

  

2008					
	<i>Current service cost</i>	<i>Interest cost</i>	<i>Settlement &amp; curtailment</i>	<i>Actuarial loss recognised</i>	<i>Employees contributions</i>
------(Rupees in '000)-----					
Gratuity	1,420	1,811	-	423	-
Pension	59,394	364,176	-	28,469	-
Benevolent	7,997	39,884	-	7,988	(3,090)
Post retirement medical benefits	23,579	189,643	-	80,551	-
	<b>92,390</b>	<b>595,514</b>	<b>-</b>	<b>117,431</b>	<b>(3,090)</b>

	2009	2008	2007	2006	2005
	----- (Rupees in '000) -----				
<b>43.5.5 Historical information</b>					
Gratuity					
Present value of defined benefit obligation	3,077	15,805	16,461	16,194	18,000
Unrecognised actuarial gain / (loss)	(7,086)	(3,508)	(5,506)	(909)	(2,000)
Provisions in respect of retirement benefit (asset) / liability in balance sheet	(4,009)	12,297	10,955	15,285	16,000
Experience adjustment arising on plan liabilities losses/ (gain)	3,870	(1,574)	-	(274)	4,098
Pension					
Present value of defined benefit obligation	3,650,528	3,524,735	3,310,692	3,425,571	3,482,000
Unrecognised actuarial gain	(750,404)	(603,254)	(341,620)	(370,818)	(521,000)
Provisions in respect of retirement benefit liability in balance sheet	2,900,124	2,921,481	2,969,072	3,054,753	2,961,000
Experience adjustment arising on plan liabilities loss / (gain)	201,991	290,103	-	(112,830)	452,000
Benevolent Fund					
Present value of defined benefit obligation	284,458	373,021	362,583	374,594	381,000
Unrecognised actuarial gain	(36,937)	(135,422)	(119,827)	(130,827)	(142,000)
Provisions in respect of retirement benefit liability in balance sheet	247,521	237,599	242,756	243,767	239,000
Experience adjustment arising on plan liabilities loss / (gain)	(88,812)	23,583	-	(545)	14,000
Post Retirement Medical Benefits					
Present value of defined benefit obligation	2,124,433	2,228,249	1,724,026	1,659,632	1,415,000
Unrecognised actuarial gain	(1,308,547)	(1,656,925)	(1,288,813)	(1,385,808)	(1,261,000)
Provisions in respect of retirement benefit liability in balance sheet	815,886	571,324	435,213	273,824	154,000
Experience adjustment arising on plan liabilities losses / (gains)	(237,916)	448,663	-	217,436	479,000

**43.6 Employees' compensated absences**

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 564.69 million (2008 : Rs. 481.37 million). An amount of Rs. 83.32 million (2008 : Rs. 49.05 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

**44. PROFIT FOR THE YEAR BEFORE NON-CASH ITEMS**

Profit for the year	204,212,004	164,793,359
Adjustments for:		
Depreciation	812,657	735,832
Amortisation of intangible assets	81,368	113,421
Amortisation of deferred income	(211,506)	(213,391)
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	1,156,716	906,717
- loans, advances and other assets	(451,726)	-
- other doubtful assets	62,615	122,543
- diminution in value of investments	(98,687)	-
Gain on disposal of property and equipment	(9,065)	(2,353)
Gain on disposal of investments	(17,283)	(14,408,719)
Dividend income	(9,733,352)	(6,594,079)
Other accruals and provisions - net	228,404	443,398
	<b>196,032,145</b>	<b>145,896,729</b>

	2009	2008
	(Rupees in '000)	
<b>45. CASH AND CASH EQUIVALENTS</b>		
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
	<b>856,482,313</b>	<b>663,590,374</b>

**46. RELATED PARTY TRANSACTIONS**

The Bank 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, subsidiaries and key management personnel of the Bank.

**46.1 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.

**46.2 Subsidiaries of the Bank**

The balances and material transactions with the subsidiaries have already been disclosed in the financial statements in note 38 and 43. The subsidiaries of the Bank and their primary activities are as follows:

**46.2.1 SBP Banking Services Corporation ("the Corporation") wholly own subsidiary**

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.

**46.2.2 National Institute of Banking and Finance (Guarantee) Limited ("the Institute") wholly own subsidiary**

The Institute is engaged in providing education and training in the field of banking, finance and allied areas.

**46.3 Remuneration to key management personnel**

Key management personnel of the Bank 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
	Rupees in '000	
Short-term employee benefit	43,086	39,672
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.

**47. RISK MANAGEMENT POLICIES**

The Bank is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 47.1 to 47.5. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

**47.1 Credit risk management**

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

## 47.2 INTEREST / MARK-UP RATE RISK

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.

## 47.2.1

	2009						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
<b>Financial assets</b>							
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 balance	-	-	-	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							
Current account of the Government of Azad Jammu & Kashmir	-	-	-	7,127,734	-	7,127,734	7,127,734
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	-	-	-	-
	-	-	-	107,918	-	107,918	107,918
Investments	1,147,109,714	2,740,000	1,149,849,714	-	20,908,876	20,908,876	1,170,758,590
Loans, advances and bills of exchange	-	331,853,796	331,853,796	-	-	-	331,853,796
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	-	-	-	4,662,673	3,967,404	8,630,077	8,630,077
	1,952,490,507	354,187,688	2,306,678,195	89,466,331	26,310,555	115,776,886	2,422,455,081
<b>Financial liabilities</b>							
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	45,446,941	-	45,446,941	21,174,927	-	21,174,927	66,621,868
Securities sold under an agreement to repurchase	-	-	-	-	-	-	-
Current account with SBP Banking Services Corporation- a subsidiary	-	-	-	3,702,522	-	3,702,522	3,702,522
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
Payable to International Monetary Fund	19,588,999	399,414,042	419,003,041	-	-	-	419,003,041
Other liabilities	-	-	-	27,512,581	15,504,233	43,016,814	43,016,814
	109,824,805	535,902,392	645,727,198	93,045,781	1,459,591,134	1,552,636,915	2,198,364,112
<b>On balance sheet gap</b>	<b>1,842,665,702</b>	<b>(181,714,704)</b>	<b>1,660,950,998</b>	<b>(3,579,448)</b>	<b>(1,433,280,579)</b>	<b>(1,436,860,029)</b>	<b>224,090,969</b>
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
Foreign currency placements	-	-	-	-	-	-	-
Subscription of Right Shares	-	-	-	500,000	-	500,000	500,000
Off balance sheet gap	-	-	-	(133,690,711)	-	(133,690,711)	(133,690,711)
Total yield/Interest Risk Sensitivity Gap	<b>1,842,665,702</b>	<b>(181,714,704)</b>	<b>1,660,950,998</b>	<b>130,111,264</b>	<b>(1,433,280,579)</b>	<b>(1,303,169,318)</b>	<b>357,781,680</b>
Cumulative Yield/Interest Risk Sensitivity Gap	<b>1,842,665,702</b>	<b>1,660,950,998</b>	<b>3,321,901,996</b>	<b>3,452,013,260</b>	<b>2,018,732,680</b>	<b>715,563,363</b>	<b>1,073,345,042</b>



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

	2008						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
<b>Financial assets</b>							
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 balance	-	-	-	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 Punjab	-	-	-	-	-	-	-
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	-	-	-	21,510,978	-	-	21,510,978
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	518,564	-	518,564	518,564
Investments	1,070,809,207	2,740,000	1,073,549,207	47,751	-	47,751	47,751
Loans, advances and bills of exchange	-	235,099,049	235,099,049	-	20,411,332	20,411,332	1,093,960,539
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	-	-	-	-
Assets held with the Reserve Bank of India	-	-	-	-	683,678	683,678	683,678
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	467,196	467,196	467,196
Other assets	-	4,173,215	4,173,215	-	837	837	4,174,052
	-	-	-	674,280	4,747,329	5,421,609	5,421,609
	1,705,630,960	258,268,956	1,963,899,916	51,601,225	26,325,485	56,415,732	2,041,826,626
<b>Financial liabilities</b>							
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	-	-	-	70,823,348	-	70,823,348	70,823,348
Securities sold under an agreement to repurchase	6,758,751	-	6,758,751	-	-	-	6,758,751
Current account with SBP Banking Services Corporation- a subsidiary	2,369,636	-	2,369,636	-	-	-	2,369,636
Deposits of banks and financial institutions	-	57,849,627	57,849,627	366,699,755	-	366,699,755	424,549,382
Other deposits and accounts	24,781,225	81,358,090	106,139,315	621,535	38,840,176	39,461,711	145,601,026
Payable to International Monetary Fund	15,355,508	75,908,178	91,263,686	-	-	-	91,263,686
Other liabilities	-	-	-	42,429,336	14,749,979	57,179,315	57,179,315
	49,265,120	215,115,895	264,381,015	481,798,420	1,099,629,567	1,581,427,987	1,845,809,002
<b>On balance sheet gap</b>	<b>1,656,365,840</b>	<b>43,153,061</b>	<b>1,699,518,901</b>	<b>(430,197,195)</b>	<b>(1,073,304,082)</b>	<b>(1,525,012,255)</b>	<b>196,017,624</b>
<b>Off Balance Sheet Financial Instruments</b>							
Forward exchange contracts - sales	-	-	-	(236,130,214)	-	(236,130,214)	(236,130,214)
Forward exchange contracts - purchases	-	-	-	141,502,378	-	141,502,378	141,502,378
Futures - sale	-	-	-	(22,536,696)	-	(22,536,696)	(22,536,696)
Futures - purchase	-	-	-	65,350,752	-	65,350,752	65,350,752
Foreign currency placements	1,360,160	-	1,360,160	-	-	-	1,360,160
Import letters of credit	-	-	-	-	-	-	-
Subscription of Right Shares	-	-	-	-	-	-	-
Foreign Currency	-	-	-	-	-	-	-
<b>Off Balance Sheet Gap</b>	<b>1,360,160</b>	<b>-</b>	<b>1,360,160</b>	<b>(51,813,780)</b>	<b>-</b>	<b>(51,813,780)</b>	<b>(50,453,620)</b>
<b>Total Yield/Interest Risk Sensitivity Gap</b>	<b>1,655,005,680</b>	<b>43,153,061</b>	<b>1,698,158,741</b>	<b>(378,383,415)</b>	<b>(1,073,304,082)</b>	<b>(1,473,198,475)</b>	<b>246,471,244</b>
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>	<b>1,655,005,680</b>	<b>1,698,158,741</b>	<b>3,396,317,482</b>	<b>3,017,934,067</b>	<b>1,944,629,985</b>	<b>471,431,510</b>	<b>717,902,754</b>

(a) On-balance sheet gap represents the net amounts of on-balance sheet items.

\* includes finances provided under profit and loss sharing arrangements.

**47.3 Currency risk management**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserves management function and the overall level of these assets is determined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Bank's compliance with the limits established for foreign currency positions is being regularly monitored by the management.

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

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

**47.4 Liquidity risk management**

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

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

**47.5 Portfolio risk management**

The Bank has appointed external managers to invest a part of the foreign exchange reserves in international fixed income securities. The external managers are selected after conducting a thorough due diligence by the Bank and externally hired investment consultants, and appointed after the approval of the Central Board. The mandates awarded to the managers require them to outperform the benchmarks which are based on fixed income global aggregate indices. The benchmarks are customized to exclude certain securities, currencies, and maturities to bring it to an acceptable level of risk and within the Bank's approved risk appetite. Managers are provided investment guidelines within which they have to generate excess returns over the benchmark. Safe custody of the portfolio is provided through carefully selected global custodian who is independent of the portfolio managers. The custodian also provides valuation, compliance, corporate actions and recovery, and other value added services which are typically provided by such custodian. The valuations provided by the custodian is reconciled with the portfolio managers, and recorded accordingly.

**48. ACCOUNTING ESTIMATES AND JUDGMENTS****48.1 Provision against loans and advances**

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

**48.2 Impairment of available for-sale investments**

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

**48.3 Held-to-maturity investments**

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

**48.4 Retirement Benefits**

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

#### 48.5 Useful life and residual value of property and equipment

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

#### 49. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the financial instruments reflected in the financial statements approximates their fair value, except strategic investments as mentioned in note 10.3.1 which are carried at cost less permanent impairment in value, if any.

#### 50. 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.

#### 51. POST BALANCE SHEET EVENT

The Bank 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.

#### 52. DATE OF AUTHORISATION

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

#### 53. GENERAL

##### 53.1 Corresponding Figures

53.1.1 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.

53.1.2 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

53.3 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 and disclosures 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		
		Issue Department	Banking Department	Total	Reclassifications	Remeasurements	Total
Note		Rs. In '000					
<b>ASSETS</b>							
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 with Government of Balochistan	21.5	-	7,127,734	7,127,734	-		7,127,734
Current account with Government of Punjab	21.2	-	40,915,859	40,915,859			40,915,859
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		-	107,918	107,918	-		107,918
Investments	10	675,410,375	495,348,215	1,170,758,590	41,100	81,476,912	1,252,276,602
Financial assets pledged as collateral		-	-	-	-		-
Loans, advances and bills of exchange	16	-	331,853,796	331,853,796	3,307,998	(72,040,285)	263,121,509
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)		-
Coins		-	-	-	-		-
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)		-
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	-	18,073,734	18,073,734	-		18,073,734
Intangible assets	19	-	116,393	116,393	-		116,393
Other assets	20	-	8,630,077	8,630,077	(6,285,318)		2,344,759
<b>TOTAL ASSETS</b>		<b>1,223,717,612</b>	<b>1,377,964,974</b>	<b>2,601,682,586</b>	<b>(12,346,467)</b>	<b>9,436,627</b>	<b>2,598,772,746</b>
<b>LIABILITIES AND EQUITY</b>							
<b>LIABILITIES</b>							
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	-	167,779,189	167,779,189	342,348		168,121,537
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		-	3,702,522	3,702,522	-		3,702,522
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	-	4,204,684	4,204,684	-		4,204,684
Deferred income	28	-	193,549	193,549	-		193,549
Other liabilities	26	-	43,016,815	43,016,815	(11,062,946)		31,953,869
<b>Total liabilities</b>		<b>1,223,717,612</b>	<b>979,089,234</b>	<b>2,202,806,846</b>	<b>(8,264,721)</b>	<b>19,949,603</b>	<b>2,214,491,728</b>
<b>EQUITY</b>							
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	-	172,704,657	172,704,657		(60,816,515)	111,888,142
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
<b>Equity and reserves</b>		<b>-</b>	<b>398,875,740</b>	<b>398,875,740</b>	<b>(4,081,746)</b>	<b>(10,512,976)</b>	<b>384,281,018</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,223,717,612</b>	<b>1,377,964,974</b>	<b>2,601,682,586</b>	<b>(12,346,467)</b>	<b>9,436,627</b>	<b>2,598,772,746</b>

## Impact of IAS 39 on Profit and Loss Account items:

		As at June 30, 2009			
		Existing Framework	Reclassifications	Remeasurements	Under IAS 39
Note		Rs. In '000			
Interest/ mark-up and similar income	34	183,029,210	(5,899,031)		177,130,179
Interest/ mark-up and similar expense	35	(8,085,169)	-		(8,085,169)
		<b>174,944,041</b>			<b>169,045,010</b>
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)	32,211,002
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	1,114,285	(91,914)		1,022,371
Other income / (charges) - net	40	52,020	(52,020)		-
<b>Total operating income</b>		<b>222,236,212</b>			<b>219,722,075</b>
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)
		<b>487,798</b>			<b>(1,918,202)</b>
<b>Net operating income</b>		<b>222,724,010</b>			<b>217,803,873</b>
<b>Operating expenses</b>					
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)	-		(10,897,194)
		<b>204,019,523</b>			<b>199,099,386</b>
<b>OPERATING PROFIT</b>		<b>204,019,523</b>			<b>199,099,386</b>
Share of profit from subsidiaries	38	192,481	-		192,481
<b>PROFIT FOR THE YEAR</b>		<b>204,212,004</b>	<b>-</b>	<b>(4,920,137)</b>	<b>199,291,867</b>

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