

14 Financial Statement of SBP

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying unconsolidated financial statements of the State Bank of Pakistan (the Bank), which comprise of unconsolidated balance sheets of Issue Department and Banking Department respectively as at 30 June 2010 and unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The unconsolidated financial statements of the Bank for the year ended 30 June 2009 were audited by M. Yousuf Adil Saleem & Co. and Ernst & Young Ford Rhodes Sidat Hyder, whose report dated 12 October 2009 expressed a qualified opinion in respect of net assets recoverable from the Reserve Bank of India, the Government of India and those pertaining to transactions in Bangladesh (former East Pakistan) and emphasis of matters in respect of classification of Special Drawing Rights allocation and additional information on International Accounting Standard 39 – Financial Instruments: Recognition and Measurement and International Financial Reporting Standards 7 – Financial Instruments: Disclosures.

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, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in note 5.2, 5.5 and 5.16 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 unconsolidated 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.

Auditor's responsibility

Our responsibility is to express an opinion on these unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the

assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

The Bank has maintained a provision of Rs. 2,383 million relating to net assets recoverable from the Reserve Bank of India, the Government of India and those pertaining to transactions in Bangladesh (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. 5,128 million and Rs. 6,392 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs.7,952 million and Rs. 3,568 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 30 June 2010 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, gold reserves and transactions and balances with IMF as stated in note 5.2, 5.5 and 5.16 respectively, to the unconsolidated financial statements approved for adoption by the Central Board of the Bank.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the additional information given in note 51 to the unconsolidated financial statements.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner
Date: September 29, 2010

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner
Date: September 29, 2010

STATE BANK OF PAKISTAN - ISSUE DEPARTMENT
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2010

	<i>Note</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
		<i>----- (Rupees in '000) -----</i>		
ASSETS				
Gold reserves held by the Bank	6	219,942,435	157,543,551	130,970,552
Foreign currency reserves	7	472,412,239	378,121,392	439,104,769
Special Drawing Rights of the International Monetary Fund	8	6,295,600	6,318,150	11,632,215
Notes and coins:				
Indian notes representing assets receivable from the Reserve Bank of India	9	789,437	727,665	683,678
Coins	10	2,373,520	2,496,236	2,718,036
		3,162,957	3,223,901	3,401,714
Investments	12	671,487,115	675,410,375	458,259,765
Commercial papers held in Bangladesh (former East Pakistan)	13	78,500	78,500	78,500
Assets held with the Reserve Bank of India	14	4,016,051	3,021,743	2,591,897
Total Assets		1,377,394,897	1,223,717,612	1,046,039,412
LIABILITY				
Bank notes issued	15	1,377,394,897	1,223,717,612	1,046,039,412

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

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN - BANKING DEPARTMENT
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2010

	<i>Note</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
		<i>----- (Rupees in '000) -----</i>		
			<i>(Restated)</i>	<i>(Restated)</i>
ASSETS				
Local currency	10	117,427	196,449	181,913
Foreign currency reserves	7	621,600,395	430,086,636	197,206,165
Earmarked foreign currency balances	16	13,171,542	33,959,461	12,040,910
Special Drawing Rights of the International Monetary Fund	8	101,242,365	6,117,522	3,137,123
		736,131,729	470,360,068	212,566,111
Reserve tranche with the International Monetary Fund under quota arrangements	17	15,054	15,048	13,286
Securities purchased under agreement to resale	11	30,845,284	-	-
Current account of the Government of Punjab	23.2	3,936,712	40,915,860	-
Current account of the Government of Balochistan	23.5	-	7,127,734	13,908,793
Current account of the Government of Azad Jammu and Kashmir		-	-	518,564
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		74,558	107,918	47,751
Investments	12	514,235,048	495,348,215	635,700,774
Loans, advances and bills of exchange	18	386,086,660	331,853,796	235,099,049
Balances due from the Governments of India and Bangladesh (former East Pakistan)	19	5,829,001	5,416,132	5,033,592
Property and equipment	20	17,725,879	18,073,733	18,331,133
Intangible assets	21	47,758	116,393	120,923
Other assets	22	5,537,300	8,630,077	5,421,609
Total assets		1,700,464,983	1,377,964,974	1,126,761,585
LIABILITIES				
Bills payable		589,249	827,785	1,224,446
Current accounts of the Governments	23	42,584,981	66,621,868	70,823,348
Current account with SBP Banking Services Corporation- a subsidiary		3,383,274	3,702,522	2,369,636
Securities sold under agreement to repurchase	24	23,116,035	-	6,758,751
Deposits of banks and financial institutions	25	289,566,182	273,739,781	424,549,382
Other deposits and accounts	26	196,137,052	167,779,189	145,601,026
Payable to the International Monetary Fund	27	694,770,558	440,478,603	110,225,112
Other liabilities	28	29,337,101	43,016,815	57,179,315
		1,279,484,432	996,166,563	818,731,016
Deferred liability - staff retirement benefits	29	4,912,355	4,204,684	3,939,778
Deferred income	30	17,718	193,549	206,244
Total liabilities		1,284,414,505	1,000,564,796	822,877,038
Net assets		416,050,478	377,400,178	303,884,547
REPRESENTED BY				
Share capital	31	100,000	100,000	100,000
Reserves	32	149,181,864	161,081,013	71,575,331
Unappropriated profit		27,838,007	40,699,722	83,693,859
		177,119,871	201,880,735	155,369,190
Unrealised appreciation on gold reserves	33	220,183,593	156,772,429	129,768,343
Surplus on revaluation of property and equipment	20.2	18,747,014	18,747,014	18,747,014
Total equity		416,050,478	377,400,178	303,884,547
CONTINGENCIES AND COMMITMENTS	34			

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

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

**STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2010**

	<i>Note</i>	<i>2010 (Rupees in '000)</i>	<i>2009 (Restated)</i>
Discount, interest / mark-up and / or return earned	35	185,220,561	183,029,210
Less: Interest / mark-up expense	36	9,697,761	8,085,169
		175,522,800	174,944,041
Commission income	37	1,452,752	1,667,375
Exchange gain- net	38	11,710,916	32,211,002
Dividend income		9,513,278	9,733,352
Profit earned through subsidiaries	39	139,572	192,481
Other operating income - net	40	10,389,302	1,114,285
Other income - net	41	64,929	52,020
		208,793,549	219,914,556
Less: Direct operating expenses			
Bank notes printing charges	42	3,258,920	4,193,032
Agency commission	43	3,981,054	3,614,261
Provision / (reversal of provision) for:			
- loans, advances and other assets		(1,239,459)	(451,726)
- provision against claims		900,000	-
- diminution in value of investments		-	(98,687)
- other doubtful assets		74,639	62,615
		(264,820)	(487,798)
		201,818,395	212,595,061
Less: General administrative and other expenses	44	15,082,557	10,897,194
PROFIT FOR THE YEAR		186,735,838	201,697,867

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

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Comptroller Finance

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2010

	<i>2010</i>	<i>2009</i>
	<i>(Rupees in '000)</i>	<i>(Restated)</i>
Profit for the year	186,735,838	201,697,867
Other comprehensive income		
Unrealised appreciation on gold reserves	63,411,164	27,004,086
Total comprehensive income for the year	<u>250,147,002</u>	<u>228,701,953</u>

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

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2010

	Allocation of special drawing rights of IMF		Reserves						Unappropriated profit / (loss)	Unrealised appreciation on gold reserves	Surplus on revaluation of property and equipment	Total
			Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund				
(Rupees in '000)												
Balance at June 30, 2008 - as previously reported	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
Effect of change in accounting policy (Note 4.2)												
Reclassification of allocation of Special Drawing Rights (SDRs) of IMF	-	(1,525,958)	-	-	-	-	-	-	-	-	-	(1,525,958)
Transfer from Reserve fund	-	-	(4,688,835)	-	-	-	-	-	4,688,835	-	-	-
Exchange loss on reclassification of allocation of SDRs of IMF	-	-	-	-	-	-	-	-	(17,435,467)	-	-	(17,435,467)
	-	(1,525,958)	(4,688,835)	-	-	-	-	-	(12,746,632)	-	-	(18,961,425)
Balance at June 30, 2008 - Restated	100,000	-	60,275,331	2,600,000	1,600,000	1,500,000	900,000	4,700,000	83,693,859	129,768,343	18,747,014	303,884,547
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	201,697,867	-	-	201,697,867
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	-	27,004,086	-	27,004,086
	-	-	-	-	-	-	-	-	201,697,867	27,004,086	-	228,701,953
Transactions with owners												
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	(155,176,322)	-	-	(155,176,322)
	-	-	-	-	-	-	-	-	(155,186,322)	-	-	(155,186,322)
Other												
Transferred to reserve fund (Restated)	-	-	89,505,682	-	-	-	-	-	(89,505,682)	-	-	-
Balance at June 30, 2009	100,000	-	149,781,013	2,600,000	1,600,000	1,500,000	900,000	4,700,000	40,699,722	156,772,429	18,747,014	377,400,178
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	-	186,735,838	-	-	186,735,838
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	-	63,411,164	-	63,411,164
	-	-	-	-	-	-	-	-	186,735,838	63,411,164	-	250,147,002
Transactions with owners												
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	(211,486,702)	-	-	(211,486,702)
	-	-	-	-	-	-	-	-	(211,496,702)	-	-	(211,496,702)
Others												
Transferred to reserve fund	-	-	49,025,682	-	-	-	-	-	(49,025,682)	-	-	-
Exchange loss on reclassification of allocation of SDRs of IMF (Note 4.2)	-	-	(8,325,959)	-	-	-	-	-	8,325,959	-	-	-
Transferred from reserve fund	-	-	(52,598,872)	-	-	-	-	-	52,598,872	-	-	-
	-	-	(11,899,149)	-	-	-	-	-	11,899,149	-	-	-
Balance at June 30, 2010	100,000	-	137,881,864	2,600,000	1,600,000	1,500,000	900,000	4,700,000	27,838,007	220,183,593	18,747,014	416,050,478

* The Central Board has proposed to transfer Rs. 27,838 million to the Reserve fund after approval of the Federal Government.

** This includes Rs. 38,598,872 million in respect of appropriation against exposure in Zarai Taraqati Bank Limited (ZTBL) and House Building Finance Corporation Limited (HBFCCL) transferred from reserve fund to unappropriated profit upon the instruction of Ministry of Finance.

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

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2010

	<i>Note</i>	<i>2010</i> <i>(Rupees in '000)</i>	<i>2009</i> <i>(Restated)</i>
Profit for the year after non-cash items	45	178,572,144	193,518,008
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(16,631)	1,617,224
Reserve tranche with the International Monetary Fund under quota arrangements		(6)	(1,762)
Securities purchased under agreement to re-sale		(30,845,284)	-
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		33,360	(60,167)
Investments		(14,963,573)	(76,800,508)
Loans, advances and bills of exchange		(52,993,405)	(96,303,021)
Indian notes representing assets receivable from the Reserve Bank of India		(61,772)	(43,987)
Assets held with the Reserve Bank of India and balances due from government of India and Bangladesh		(394,897)	(381,299)
Other assets		3,092,777	(3,208,468)
		(96,149,431)	(175,181,988)
		82,422,713	18,336,020
Increase / (decrease) in liabilities:			
Bank notes issued		153,677,285	177,678,200
Bills payable		(238,536)	(396,661)
Current accounts of the Government		20,069,995	(37,817,717)
Current account with SBP Banking Services Corporation - a subsidiary		(319,248)	1,332,885
Securities sold under agreement to re-purchase		23,116,035	(6,758,751)
Deposits of banks and financial institutions		15,826,401	(150,809,601)
Other deposits and accounts		28,357,863	22,178,163
Payable to the International Monetary Fund		254,291,955	330,253,492
Other liabilities		5,217,280	(5,361,680)
		499,999,030	330,298,330
		582,421,743	348,634,350
Payment of retirement benefits and employees' compensated absences		(1,582,046)	(891,810)
Proceeds from disposal of investment		-	19,740
Dividend received		9,513,278	9,733,352
Fixed capital expenditure		(503,312)	(447,669)
Proceeds from disposal of property and equipment		60,949	14,842
		7,488,869	8,428,455
Surplus profit paid to Federal Government		(230,000,002)	(164,160,866)
Dividend paid to the Federal Government		(10,000)	(10,000)
		359,900,610	192,891,939
Cash and cash equivalents at beginning of the year		856,482,313	663,590,374
Cash and cash equivalents at end of the year	46	1,216,382,923	856,482,313

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

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

**STATE BANK OF PAKISTAN
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

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, gold reserves and transactions and balances with IMF as stated in note 5.2, 5.5 and 5.16 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 reserves, 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, gold reserves and transactions and balances with IMF as stated in note 5.2, 5.5 and 5.16 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, gold reserves and transactions and balances with IMF as stated in note 5.2, 5.5 and 5.16 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 adjustment in subsequent years are discussed in note 49 to these financial statements.

3.2 Accounting standards that are not yet effective or not relevant

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

<i>Standards / improvements</i>	<i>Effective date (accounting period beginning on or after)</i>
IAS 24 - Related Party Disclosures (Revised)	January 1, 2011
<i>Improvements/amendments to standards - 2009</i>	
IAS 1 Presentation of Financial Statements	January 1, 2010
IAS 7 Statement of Cash Flows	January 1, 2010

Standards / improvements**Effective date (accounting period
beginning on or after)**

IAS 17 Leases	January 1, 2010
IAS 36 Impairment of Assets	January 1, 2010
IAS 32 Financial Instruments: Presentation – Classification of Rights Issues	January 1, 2010

Improvements / amendments to standards - 2010

IAS 27 Consolidated and Separate Financial Statements	July 1, 2010
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The Bank expects that the adoption of the above standards/improvements 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 enhancement in the presentation and disclosures in the financial statements resulting from the application of amendments in IAS-7 and IAS-24.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Starting July 1, 2009, the Bank has changed its accounting policies in the following areas:

4.1 IAS - 1 "Presentation of Financial Statements (Revised)"

The Bank has adopted IAS - 1 "Presentation of Financial Statements (Revised)" which became effective during the year. The revised standard separates owner and non-owner changes in equity. In addition, the standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank has elected to present two statements.

Moreover the revised standard states that where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheet at the end of current period and comparative period. The Bank has accordingly presented restated balance sheets for the year ended 30 June 2009 and 2008.

4.2 Allocation of the Special Drawing Rights of the IMF

During the Current year, in a letter written by Director- Statistics Department, International Monetary Fund (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. Accordingly, the Bank has changed its accounting policy in line with above mentioned letter.

Previously, allocation of SDRs by the IMF had been reflected as part of the equity and carried at historical cost in line with the approved accounting policy of the Central Board. However, an appropriation equivalent to the cumulative exchange difference between the historical cost and the fair value of the SDRs that would arise upon reclassification of the allocation from equity to liability was made in previous years.

The above mentioned change in accounting policy is accounted for in accordance with the requirements of IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors" and allocation of SDR has been reclassified retrospectively as payable to IMF and is carried at revalued amount instead of historical cost. The reserve fund is reduced retrospectively by the amount of exchange difference which was previously appropriated.

The effect of this change in accounting policy on each financial statements line item affected for the current year and each prior period presented is given below:

	2010	2009	2008
	----- (Rupees in '000) -----		
Effect on Profit and Loss Account			
Increase / (decrease) in Exchange gain arising on Payable to IMF	2,375,755	(2,514,137)	-
Effect on Balance Sheet			
Increase / (Decrease) in Total Equity			
Allocation of special drawing rights of the International Monetary Fund	(1,525,958)	(1,525,958)	(1,525,958)
Reserve Fund	(19,949,604)	(11,623,645)	(4,688,835)
Unappropriated profit	2,375,955	(8,325,959)	(12,746,632)
Decrease in Net assets			
Increase in Payable to International Monetary Fund:	(19,099,807)	(21,475,562)	(18,961,425)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 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.

5.2 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 derivatives 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. The amount of impairment loss is recognised in profit and loss account.

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. Available for sale financial assets are considered impaired when there is significant or prolonged decline in fair value.

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.

5.3 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 34.2. The resultant gains or losses from derivatives are included in the profit and loss account.

5.4 *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. Both repurchase and reverse repurchase transactions are reported at transaction value inclusive of any accrued expense/ income.

5.5 *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 / diminution realised on disposal of gold is credited to the profit and loss account.

5.6 *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 20.1 to these financial statements. The useful life of assets is reviewed and adjusted if appropriated, at each balance sheet date.

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

Increase 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 profit and loss account. The surplus on revaluation realised on property and equipment is transferred to unappropriated profit.

5.7 *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.

5.8 *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. The recoverable amount is estimated as the present value of estimated future cash flows discounted at the assets original interest rate. 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.

If in a subsequent period amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment is recognised in the income statement (except for revalued non financial assets), to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. In case of reversal of impairment loss on revalued non financial assets carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment.

5.9 *Compensated absences*

The Bank makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates. The liability is estimated using the projected unit credit method.

5.10 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 is carried out as at June 30, 2010. Unrecognised actuarial gains and losses at the beginning of the year 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.

5.11 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.

5.12 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.
- Commission income is recognised when related services are rendered.
- 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.

5.13 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.

5.14 Taxation

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

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

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

5.16 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 (SDRs) by the IMF is recorded as a liability to non resident and is translated at closing exchange rate for SDRs prevailing at the balance sheet date. Exchange differences on translation of SDRs is recognised in profit and loss account. (Refer note 4.2)
- Commitment fee is charged to profit and loss account on date of the commitment of Funds by IMF
- Service charge is recognised in profit and loss account at the time of receipt of IMF tranches.

All other 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.

5.17 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.

5.18 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.

5.19 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 the contractual right to the cash flow from a financial asset expires or when the Bank transfers substantially all the risk and rewards of ownership of 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 local currency, foreign currency reserves and balances, investments, loans and advances, bills payable, deposits of banks and financial institutions, balances under repurchase and reverse transactions, 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.

5.20 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	2010 (Rupees in '000)	2009
6. GOLD RESERVES HELD BY THE BANK				
Opening balance		2,070,208	157,543,551	130,970,552
Appreciation during the year due to revaluation	33	-	62,398,884	26,572,999
		2,070,208	219,942,435	157,543,551

7. FOREIGN CURRENCY RESERVES

	Note	2010 (Rupees in '000)	2009
Investments	7.1 & 7.2	223,301,790	138,835,486
Deposit accounts	7.3 & 7.4	478,633,003	383,978,460
Current accounts	7.2 & 7.3	392,077,841	285,394,082
		1,094,012,634	808,208,028

The above foreign currency reserves are held as follows:

Issue Department	472,412,239	378,121,392
Banking Department	621,600,395	430,086,636
	1,094,012,634	808,208,028

7.1 Investments

Held for trading	7.4	214,521,911	138,612,661
Held to maturity	7.5	8,538,138	-
Available for sale		241,741	222,825
		223,301,790	138,835,486

7.2 These include Rs. 243.53 million (2009: Rs. 224.77 million) recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

7.3 The balance in current and deposit accounts carry interest at various rates ranging between 0.05% and 4.5% (2009: 0.01% and 5.75%) per annum.

7.4 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 2,564 million (2009: USD 1,754 million).

7.5 This represents USD Treasury Bills of a face value of USD 100 million (2009: Nil) and carrying purchase yield of 0.17% (2009: Nil). This USD Treasury Bill will mature on August 26, 2010 (2009: Nil).

8. 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, 2010. 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.

	2010 (Rupees in '000)	2009
SDRs were held as follows:		
By the Issue Department	6,295,600	6,318,150
By the Banking Department	101,242,365	6,117,522
	107,537,965	12,435,672

9. INDIAN NOTES REPRESENTING ASSETS RECEIVABLE FROM THE RESERVE BANK OF INDIA

These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Monetary Order from the Government of Pakistan. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

	Note	2010 (Rupees in '000)	2009
Bank notes held by the Banking Department	15	117,427	196,449
Coins		2,373,520	2,496,236
		2,490,947	2,692,685
Coins held as an asset of the Issue Department	10.1	(2,373,520)	(2,496,236)
		117,427	196,449

10.1 As mentioned in note 5.1, 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.

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings and carries markup at 12.05% to 12.13% (2009: Nil) and will mature on July 02, 2010.

	<i>Note</i>	2010 <i>(Rupees in '000)</i>	2009
12. INVESTMENTS			
<i>Loans and receivables originated by the Bank</i>			
<i>Government securities</i>	12.1		
Market Treasury Bills (MTBs)	12.2	1,161,638,060	1,147,109,714
Federal Government scrip		2,740,000	2,740,000
		1,164,378,060	1,149,849,714
<i>Available for sale investments</i>			
<i>Investments in Banks and other financial institutions</i>			
Ordinary shares			
Listed		15,564,595	15,564,909
Unlisted		4,957,247	4,521,706
	12.3	20,521,842	20,086,615
Term Finance Certificates		211,801	211,801
Certificates of Deposits		84,264	84,264
		20,817,907	20,382,680
Provision against diminution in value of investments	12.4	(503,064)	(503,064)
		20,314,843	19,879,616
<i>Investments in wholly owned subsidiaries</i>			
SBP Banking Services Corporation		1,000,000	1,000,000
National Institute of Banking and Finance (Guarantee) Limited - (NIBAF)		29,260	29,260
		1,029,260	1,029,260
		1,185,722,163	1,170,758,590
The above investments are held as follows:			
Issue Department - MTBs		671,487,115	675,410,375
Banking Department		514,235,048	495,348,215
		1,185,722,163	1,170,758,590

12.1 Investments in Government securities

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

	2010 <i>(% per annum)</i>	2009
Market Treasury Bills	11.89 to 12.27	11.47 to 14.01
Federal Government scrip	3	3

12.2 This includes securities having carrying value of Rs 23,600 million (2009: Nil) given as collateral under repurchase agreement borrowing arrangements.

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

	2010 <i>% of Holding</i>	2009	<i>Note</i>	2010 <i>(Rupees in '000)</i>	2009
<i>Listed</i>					
National Bank of Pakistan	75.20	75.20	12.3.2	1,100,807	1,100,807
United Bank Limited	19.49	19.49	12.3.3	5,919,530	5,919,530
Allied Bank Limited	10.07	10.07	12.3.4	350,638	350,638
Habib Bank Limited	40.55	40.55	12.3.5	8,193,621	8,193,934
				15,564,596	15,564,909
<i>Unlisted</i>					
Federal Bank for Cooperatives	75.00	75.00		150,000	150,000
Equity Participation Fund	65.81	65.81		37,540	102,000
				187,540	252,000
Other- investments with holding less than or equal to 50%				4,769,706	4,269,706
				4,957,246	4,521,706
				20,521,842	20,086,615

12.3.1 Investments in above entities have been made under the specific directives of the Government of Pakistan in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. The management of the Bank does not exercise significant influence or control over these entities except for any regulatory purposes or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates, or joint ventures.

12.3.2 Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2010 amounted to Rs. 64,853.83 million (2009: Rs. 54,254.63 million).

12.3.3 Market value of the Bank's investment in the shares of United Bank Limited at June 30, 2010 amounted to Rs.9,614.60 million (2009: Rs. 8,304.31 million).

12.3.4 Market value of the Bank's investment in the shares of Allied Bank Limited at June 30, 2010 amounted to Rs. 4,483.73 million (2009: Rs. 2,691.17 million).

12.3.5 Market value of the Bank's investment in the shares of Habib Bank Limited amounted to Rs. 39,519.10 million (2009: Rs.31,791.71 million).

	2010	2009
	(Rupees in '000)	
12.4 Provision against diminution in value of investments		
Opening balance	503,064	601,751
Reversal during the year	-	(98,687)
Closing balance	503,064	503,064

13. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2009: 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	2010	2009
		(Rupees in '000)	
14. ASSETS HELD WITH THE RESERVE BANK OF INDIA			
Gold reserves			
Opening balance		2,555,788	2,124,701
Appreciation from revaluation during the year	33	1,012,280	431,087
		3,568,068	2,555,788
Sterling securities		424,096	443,920
Government of India securities		18,518	17,069
Rupee coins		5,369	4,966
		4,016,051	3,021,743

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	2010	2009
		(Rupees in '000)	
15. BANK NOTES ISSUED			
Notes held with the Banking Department	10	117,427	196,449
Notes in circulation		1,377,277,470	1,223,521,163
		1,377,394,897	1,223,717,612

16. EARMARKED FOREIGN CURRENCY BALANCES

These represent certain foreign currency held with the Bank to meet foreign currency commitments of the Bank.

	2010	2009
	(Rupees in '000)	
17. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS		
Quota allocated by the International Monetary Fund	130,650,967	130,592,537
Liability under quota arrangements	(130,635,913)	(130,577,489)
	15,054	15,048

	Note	2010 (Rupees in '000)	2009
18. LOANS, ADVANCES AND BILLS OF EXCHANGE			
Governments	18.1	72,111,195	28,733,244
Government owned / controlled financial institutions	18.2	112,359,176	131,892,462
Private sector financial institutions	18.3	204,344,112	176,349,704
		316,703,288	308,242,166
Employees		4,259,434	3,105,102
		393,073,917	340,080,512
Provision against doubtful balances	18.4	(6,908,757)	(8,148,216)
		386,165,160	331,932,296
Commercial papers held in issue department	13	(78,500)	(78,500)
		386,086,660	331,853,796

18.1 Loans and advances to the Governments

Federal Government		-	1,500,000
Provincial Government - Punjab	18.1.1	51,356,336	10,000,000
Provincial Government - Balochistan	18.1.2	20,754,859	17,233,244
		72,111,195	28,733,244

During the year, mark-up on above balances due from the Federal and Provincial Governments was charged at various rates ranging between 11.92% and 12.53% (2009: 10.87% and 13.92%) per annum.

18.1.1 This includes current account receivable balance of the Government of Punjab amounting to Rs. 50,900 million (2009: Rs. Nil) converted in a loan balance under agreement carried out on November 10, 2009 and is effective from August 01, 2009. This loan is repayable in 48 equal installments of Rs. 1,060 million each starting from October 01, 2009. As at June 30, 2010, the outstanding balance of this loan amounts to Rs. 41,356 million. The loan is secured by the guarantee of Federal Government.

18.1.2 This includes current account receivable balance of the Government of Balochistan amounting to Rs. 8,765 million (2009: Rs. Nil) converted in a loan balance under agreement carried out on November 10, 2009 and is effective from August 01, 2009. This loan is repayable in 48 equal installments of Rs. 182.605 million each starting from October 01, 2009. As at June 30, 2010, the outstanding balance of this loan amounts to Rs. 7,121.56 million. The loan is secured by the guarantee of Federal Government.

18.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2010	2009	2010	2009	2010	2009
----- (Rupees in '000) -----						
Agricultural sector (18.2.1)	55,512,254	58,543,026	-	-	55,512,254	58,543,026
Industrial sector (18.2.2)	7,018,958	11,635,481	-	-	7,018,958	11,635,481
Export sector	21,642,791	33,185,792	3,567	3,567	21,646,358	33,189,359
Housing sector (18.2.3)	-	-	11,242,300	11,242,300	11,242,300	11,242,300
Others (18.2.1 and 18.2.2)	16,939,306	17,282,296	-	-	16,939,306	17,282,296
	101,113,309	120,646,595	11,245,867	11,245,867	112,359,176	131,892,462

18.2.1 Above balances include Rs. 563.00 million (2009: Rs. 560 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).

18.2.2 Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2009: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2009: Rs. 51,257.21 million) to Zarai Taraqati Bank Limited (ZTBL) in addition to the unsecured subordinated loan to ZTBL amounting to Rs. 3,204 million (2009: Rs. 3,204) classified in other loans and advances. The restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalised in due course.

18.2.3 This represents loan receivable from House Building Finance Corporation Limited (HBFCL) against seven credit lines on profit and loss sharing basis out of which four credit lines amounting to Rs. 7,489 million (2009: Rs. 7,489 million) are over due. These credit lines are secured by guarantee from Federal Government.

18.3 Loans and advances to private sector financial institutions

	<i>Scheduled banks</i>		<i>Other financial institutions</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>----- (Rupees in '000) -----</i>					
Industrial sector	36,142,134	27,277,559	4,198,578	4,797,841	40,340,712	32,075,400
Export sector	163,976,768	144,267,322	-	-	163,976,768	144,267,322
Others	26,632	6,982	-	-	26,632	6,982
	200,145,534	171,551,863	4,198,578	4,797,841	204,344,112	176,349,704

2010 2009
(Rupees in '000)

18.4 Provision against doubtful assets

Opening balance	8,148,216	8,599,942
Reversal during the year	(1,239,459)	(451,726)
Closing balance	6,908,757	8,148,216

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

	<i>2010</i>	<i>2009</i>
	<i>(% per annum)</i>	
Government owned / controlled and private sector financial institutions	1.0 to 12	1.0 to 12
Employees loans	10	10

Note 2010 2009
(Rupees in '000)

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

India

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

Bangladesh (former East Pakistan)

Inter office balances	819,924	819,924
Loans and advances	4,968,624	4,555,755
	5,788,548	5,375,679
	5,829,001	5,416,132

Note

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

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

Note 2010 2009
(Rupees in '000)

20. PROPERTY AND EQUIPMENT

Operating fixed assets	20.1	17,364,108	17,638,421
Capital work-in-progress	20.3	361,771	435,312
		17,725,879	18,073,733

20.1 Operating fixed assets

2010								
	Cost / revalued amount at July 01, 2009	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30, 2010	Accumulated depreciation at July 01, 2009	Depreciation for the year on (deletions) / transfers*	Accumulated depreciation at June 30, 2010	Net book value at June 30, 2010	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	1,056,612	298,157	1,354,769	11,407,436	over the term of lease
Buildings on freehold land	966,488	65,567	1,032,055	286,352	102,460	388,812	643,243	5
Buildings on leasehold land	1,578,438	139,837	1,718,275	443,657	170,126	613,783	1,104,492	5
Furniture and fixtures	97,046	6,105 (472)	102,679	52,904	9,321 (410)	61,815	40,864	10
Office equipment	413,187	62,447 (843)	474,791	239,694	66,122 (747)	305,069	169,722	20
EDP equipment	1,061,082	69,142 (37,666)	1,092,558	815,958	100,179 (26,063)	890,074	202,484	33.33
Motor vehicles	139,646	233,188 (97,932)	274,902	61,541	38,244 (43,703)	56,082	218,820	20
	20,595,139	576,286 (136,913)	21,034,512	2,956,718	784,609 (70,923)	3,670,404	17,364,108	
2009								
	Cost / revalued amount at July 01, 2008	Additions / (deletions) / transfers* during the year	Cost / revalued amount at June 30, 2009	Accumulated depreciation at July 01, 2008	Depreciation for the year on (deletions) / transfers*	Accumulated depreciation at June 30, 2009	Net book value at June 30, 2009	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
	20,170,523	461,817 (26,135) (11,066) *	20,595,139	2,166,877	812,657 (20,358) (2,458) *	2,956,718	17,638,421	

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

20.2.1 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 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:-

	2010 (Rupees in '000)	2009
Freehold Land	36,183	36,183
Leasehold Land	16,638	16,638
Buildings on Freehold land	339,042	308,211
Buildings on Leasehold Land	544,279	446,314
	936,142	807,346

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

20.3 Capital work-in-progress

	2010 (Rupees in '000)	2009
Buildings on freehold land	24,532	82,059
Buildings on leasehold land	245,734	268,781
Furniture and fixtures	-	776
Office equipment	91,085	80,783
EDP equipment	420	2,913
	361,771	435,312

21. INTANGIBLE ASSETS

	Cost at July 01, 2009	Additions during the year	Cost at June 30, 2010	Accumulated amortisation at July 01, 2009	Amortisation for the year	Accumulated amortisation at June 30, 2010	Net book value at June 30, 2010	Annual rate of amortis- ation
<i>(Rupees in '000)</i>								
Software 2010	550,765	6,953	557,718	434,372	75,588	509,960	47,758	33.33
Software 2009	473,927	76,838	550,765	353,004	81,368	434,372	116,393	33.33

Note 2010 2009
(Rupees in '000)

22. OTHER ASSETS

Amounts due from financial institutions under currency swap arrangements	-	2,317,912
Accrued interest / mark-up, discount and return	5,424,477	3,967,405
Other advances, deposits and prepayments	76,155	155,805
Others	36,668	2,188,955
	5,537,300	8,630,077

23. CURRENT ACCOUNTS OF THE GOVERNMENTS

Federal Government	23.1	32,186,713	44,237,301
Provincial Governments			
Punjab	23.2	-	-
Sindh	23.3	4,593,193	20,479,598
Khyber Pakhtunkhwa	23.4	4,836,416	695,329
Balochistan	23.5	868,755	-
		10,298,364	21,174,927
Government of Azad Jammu and Kashmir		99,904	1,209,640
		42,584,981	66,621,868

		2010 (Rupees in '000)	2009
23.1 Federal Government	Note		
Non-food account		53,219,844	58,739,303
Food account		337,270	360,557
Zakat fund account		14,646,387	14,952,611
Railways - ways and means advances	23.6	(39,797,658)	(33,742,545)
Fertilizer account		19,220	19,220
Saudi Arabia special loan account		4,124	4,124
Pakistan Baitul Mal fund account		6	4,306
Pakistan Railways special account		14,770	144,305
Government deposit account no. XII		5,276	5,276
Special transfer account		1,616	1,616
UN reimbursement account		3,731,492	3,731,488
Fata Zakat Fund Account		4,366	17,040
		32,186,713	44,237,301
23.2 Provincial Government - Punjab			
Non-food account		(56,792,138)	(99,208,876)
Food account		5,486,270	1,730,967
Zakat fund account		1,209,844	104,597
District Government account no. IV		46,159,312	56,457,452
		(3,936,712)	(40,915,860)
Classified as a receivable balance	23.6	3,936,712	40,915,860
Net balance		-	-
23.3 Provincial Government - Sindh			
Non-food account		(3,809,634)	7,360,652
Food account		291,090	697,812
Zakat fund account		39,602	37,392
District Government account no. IV		8,072,135	12,383,742
		4,593,193	20,479,598
23.4 Provincial Government - Khyber Pakhtunkhwa			
Non-food account		(2,401,638)	(4,787,023)
Food account		328,070	387,840
Zakat fund account		2,787	741
District Government account no. IV		6,907,197	5,093,771
		4,836,416	695,329
23.5 Provincial Government - Balochistan			
Non-food account		(2,636,497)	(10,324,853)
Food account		248,777	333,139
Zakat fund account		2	-
District Government account no. IV		3,256,473	2,863,980
		868,755	(7,127,734)
Classified as a receivable balance	23.6	-	7,127,734
Net debit balance		868,755	-

23.6 These balances carry mark-up at 12.97% (2009: 12.80%) per annum.

24. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

These represented repurchase agreement borrowings and are subject to markup at the rate of 9.5% (2009: 4.10% to 11.18%) per annum and will mature on 02 July 2010.

	2010	2009
	(Rupees in '000)	
25. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS		
Foreign currency		
Scheduled banks	19,623,589	19,510,623
Held under Cash Reserve Requirement	77,143,232	64,382,992
	96,766,821	83,893,615
Local currency		
Scheduled banks	191,976,774	189,127,303
Financial institutions	822,434	718,709
Others	153	154
	192,799,361	189,846,166
	289,566,182	273,739,781

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

	2010	2009
	(per annum)	
Foreign currency	Nil	0.90% to 2.93%
Local currency	Nil	0.59% to 0.61%

	Note	2010	2009
		(Rupees in '000)	
26. OTHER DEPOSITS AND ACCOUNTS			
Foreign currency			
Foreign central banks		38,431,485	36,645,435
International organisations	26.2	55,512,145	61,075,725
Others		21,996,679	19,173,063
		115,940,309	116,894,223
Local currency			
Special debt repayment	26.3	23,682,875	23,682,875
Government	26.4	11,012,500	11,012,500
Others	26.5	45,501,368	16,189,591
		80,196,743	50,884,966
		196,137,052	167,779,189

	2010	2009
	(per annum)	
26.1	The interest rate profile of the interest bearing deposits is as follows:	
	Foreign central banks	0.35% to 0.69% 0.42% to 2.16%
	International organisations	1.45% to 3.52% 3.52% to 4.85%
	Others	0.13% to 0.42% 0.02% to 1.80%
26.2	This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China carrying interest at six month LIBOR plus 1% payable semi-annually. Out of these, one deposit of USD 500 million 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.	
26.3	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.	
26.4	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.	
26.5	This includes Rs. 29,159 million (2009:Nil) standing to the credit of Government of Pakistan in respect of disbursement received from IMF.	

	Note	2010 (Rupees in '000)	2009 (Restated)
27. PAYABLE TO INTERNATIONAL MONETARY FUND			
Borrowings under:			
Fund facilities	27.1 & 27.2	503,662,196	333,010,969
Other credit scheme		66,161,720	85,992,043
Allocation of SDRs	27.3	124,946,613	21,475,562
		694,770,529	440,478,574
Current account for administrative charges		29	29
		694,770,558	440,478,603

27.1 IMF granted a Stand By Arrangement Facility amounting to SDR 5,168.50 million in FY 2008-09 which was extended up to SDR 7,235.90. The amount is being disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2010. Uptill June 30, 2010, 5 tranches amounting to SDR 3,984.94 million has been received. The facility is subject to mark up based on the weekly rates determined by the IMF and is payable on each quarter. The repayment of the facility will commence from February 2012 and will mature by April 2014.

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

27.3 This comprise of general allocation of SDR equivalent to Rs. 99,018.712 million and Special SDR allocation equivalent to Rs. 6,828.096 million by IMF during the year and allocation of SDR amounting to equivalent of Rs. 19,099.807 million (2009: 21,475.562 million) reclassified from equity to payable to IMF during the current year (Refer Note 4.2).

	2010 (per annum)	2009
27.4 Interest profile of payable to IMF is as under:		
Fund facilities	1.22% to 1.37%	1.38% to 4.18%
Other credit schemes	0.50%	0.50%

	Note	2010 (Rupees in '000)	2009
28. OTHER LIABILITIES			
Foreign currency			
Amounts due to financial institutions under currency swap arrangements		-	2,443,103
Accrued interest and discount on deposits		1,639,980	1,256,713
Charges on allocation of Special Drawing Rights of IMF		51,630	15,554
		1,691,610	3,715,370
Local currency			
Overdue mark-up and return	28.1	4,653,024	4,241,812
Unearned exchange risk fee		-	5,479
Remittance clearance account		1,237,145	1,044,332
Exchange loss payable under exchange risk coverage scheme		221,680	128,916
Balance payable to the Government of Pakistan		845,024	19,358,324
Dividend payable		10,000	10,000
Share of loss payable under profit and loss sharing arrangements		2,407,129	2,407,129
Payable to Government in respect of privatisation proceeds		2,929,066	2,929,066
Other accruals and provisions	28.2	10,248,329	5,916,227
Others		5,094,094	3,260,160
		27,645,491	39,301,445
		29,337,101	43,016,815

28.1 It represents markup suspended amounting to Rs. 4,653.02 million (2009: Rs. 4,240.15 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.

		2010 (Rupees in '000)	2009
28.2	Other accruals and provisions		
	Agency commission	4,908,686	1,014,422
	Provision for employees' compensated absences	794,995	564,686
	Provision for other doubtful assets	28.2.1 3,363,742	2,389,103
	Other provisions	28.3 612,966	1,308,325
	Others	567,940	639,691
		10,248,329	5,916,227

28.2.1 It includes Rs. 2,383 million (2009: 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.

		2010 (Rupees in '000)	2009
28.3	Movement of other provisions		
	Opening balance	1,308,325	1,308,382
	Provision during the year	75	-
	Payments during the year	(648,493)	-
	Reversal during the year	(46,941)	(57)
	Closing balance	612,966	1,308,325

	Home remittance	Agriculture loan	Others (note 28.3.1)	Total
	----- (Rupees in '000) -----			
Opening balance	260,363	306,067	741,895	1,308,325
Provision during the year	-	-	75	75
Payments during the year	-	-	(648,493)	(648,493)
Reversal during the year	-	(46,941)	-	(46,941)
Closing balance	260,363	259,126	93,477	612,966

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

		2010 (Rupees in '000)	2009
29. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS	Note		
Gratuity	29.1	24,417	22,061
Pension		3,200,467	2,900,124
Benevolent fund scheme		260,105	247,521
Post retirement medical benefits		1,103,641	815,886
	44.5.3	4,588,630	3,985,592
Provident fund scheme		323,725	219,092
		4,912,355	4,204,684

29.1 Includes a fixed liability of Rs. 25,882 million (2009: 26,070 million) payable to certain employees.

		2010 (Rupees in '000)	2009
30. DEFERRED INCOME	Note		
Opening balance		193,549	206,244
Grants received during the year		6,386	198,811
Amortisation during the year	41	(182,217)	(211,506)
Closing balance		17,718	193,549

30.1 This represents grant received for capital expenditure and, as indicated in note 5.11 to these financial statements, is being amortised over the useful lives of the related assets.

31. SHARE CAPITAL

<i>Number of Shares</i>		<i>2010</i>	<i>2009</i>
		<i>(Rupees in '000)</i>	
	Authorised share capital		
<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
	Issued, subscribed and paid-up capital		
<u>1,000,000</u>	Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>

The shares 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.

32. RESERVES**32.1 Reserve Fund**

This represents appropriations made out of the annual profits of the Bank in accordance with the provisions of the State Bank of Pakistan Act, 1956.

32.2 Other Funds

These represent appropriations made out of the surplus profits of the Bank for certain specified purposes in accordance with the provisions of the State Bank of Pakistan Act, 1956.

33. UNREALISED APPRECIATION ON GOLD RESERVES

	<i>Note</i>	<i>2010</i>	<i>2009</i>
		<i>(Rupees in '000)</i>	
Opening balance		156,772,429	129,768,343
Appreciation on revaluation during the year:			
held by the Bank	6	62,398,884	26,572,999
held with the Reserve Bank of India	14	1,012,280	431,087
		<u>63,411,164</u>	<u>27,004,086</u>
		<u>220,183,593</u>	<u>156,772,429</u>

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.

34. CONTINGENCIES AND COMMITMENTS**34.1 Contingencies**

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

Federal government	57,158,658	72,410,976
Federal government owned / controlled bodies and authorities	8,070,571	13,420,789
	<u>65,229,229</u>	<u>85,831,765</u>

Above guarantees are secured by counter guarantees either from the Government of Pakistan or local financial institutions.

b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) 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 filed a civil petition for leave to appeal in the Supreme Court of Pakistan. During the year, the Honourable Bench of the Supreme Court of Pakistan set aside the judgment of FST and allowed employees to avail proper forum. The employees have filed an appeal in the Honourable Lahore High Court, Rawalpindi Bench, the decision of which is pending. 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, the matter has been referred to an Arbitrator. Management is confident that the Bank will not incur any liability on this account.

	2010 (Rupees in '000)	2009 (Rupees in '000)
d) Other claims against the Bank not acknowledged as debts	986,800	861,994
34.2 Commitments		
Forward exchange contracts - sales	260,565,722	186,209,260
Forward exchange contracts - purchases	111,319,588	46,802,117
Futures - sale	70,179	4,192,494
Futures - purchase	69,084	9,408,925
Subscription of right shares	-	500,000
35. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Market Treasury Bills - net	147,791,477	153,267,829
Other Government securities	86,577	176,689
Loans and advances to Government	14,935,588	6,485,358
Share of profit on finances under profit and loss sharing arrangements	15,054,741	12,312,218
Foreign currency deposits	1,886,453	5,070,410
Foreign currency securities	5,319,466	5,715,611
Others	146,259	1,095
	185,220,561	183,029,210
36. INTEREST / MARK-UP EXPENSE		
Deposits	9,657,413	8,048,417
Others	40,348	36,752
	9,697,761	8,085,169
37. COMMISSION INCOME		
Market Treasury Bills	144,718	205,418
Draft / payment orders	715,593	787,251
Prize Bonds and National Saving Certificates	228,759	213,472
Management of public debts	52,204	132,258
Others	311,478	328,976
	1,452,752	1,667,375
38. EXCHANGE GAIN - Net	2010 (Rupees in '000)	2009 (Restated)
Gain / (loss) on:		
Foreign currency placements, deposits, securities and other accounts - net	9,744,759	68,364,987
Open market operations (including currency swap arrangements)	(45,476)	(402,789)
Forward covers under Exchange Risk Coverage Scheme	(4,096)	9,059
Payable to IMF	2,280,637	(35,194,554)
Special Drawing Rights of IMF	(390,496)	(695,282)
Others	79	132
	11,585,407	32,081,553
Exchange risk fee income	125,509	129,449
	11,710,916	32,211,002
39. PROFIT EARNED THROUGH SUBSIDIARIES	2010 (Rupees in '000)	2009 (Rupees in '000)
SBP Banking Services Corporation	63,605	86,714
NIBAF	75,967	116,259
	139,572	202,973

The above represents the profit of subsidiaries for the year ended June 30, 2010 transferred to the Bank in accordance with the arrangements mentioned in note 44.3.

	Note	2010 (Rupees in '000)	2009
40. OTHER OPERATING INCOME - Net			
Penalties levied on banks and financial institutions		1,450,696	1,323,756
License / Credit Information Bureau fee recovered		64,901	67,859
Gain/(loss) on sale of investment:			
Local		2,202	22,755
Foreign		(1,737,657)	(5,516,503)
		(1,735,455)	(5,493,748)
Gain on remeasurement of securities classified as held for trading		10,639,847	5,660,437
Others - net		(30,687)	(444,019)
		10,389,302	1,114,285

41. OTHER INCOME / (CHARGES)- NET

(Loss) / gain on disposal of property and equipment		(5,041)	9,065
Liabilities and provisions written back - net		41,578	594
Amortisation of deferred income	30	182,217	211,506
Charges on allocation of Special Drawing Rights of IMF		(278,181)	(284,784)
Others		124,356	115,639
		64,929	52,020

42. BANK NOTES PRINTING CHARGES

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

43. AGENCY COMMISSION

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15% (2009: 0.15%) of the total amount of collection and remittances handled by NBP.

	Note	2010 (Rupees in '000)	2009
44. GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		1,750,635	1,272,560
Retirement benefits and employees' compensated absences		1,833,585	1,156,716
Contribution to SBP Employees' Welfare Trust		10,000	10,000
Rent and taxes		74,745	33,672
Insurance		19,991	12,566
Electricity, gas and water		55,233	37,828
Depreciation	20.1	784,609	812,657
Amortisation of intangible assets	21	75,588	81,368
Repairs and maintenance		345,350	321,779
Auditors' remuneration	44.4	3,430	3,430
Legal and professional		361,712	447,722
Travelling and recreation expenses		102,738	67,693
Daily expenses		47,767	39,318
Fuel		35,834	8,677
Conveyance		4,270	4,100
Postages, telegram / telex and telephone		156,902	121,089
Training		34,234	49,009
Examination/ testing services		6,513	4,998
Stationery		12,876	12,718
Books and newspapers		24,917	19,157
Advertisement		6,728	2,054
Uniforms		1,957	1,772
Others		57,910	50,789
		5,807,524	4,571,672
Expenses allocated by:			
SBP Banking Services Corporation	44.1	4,097,096	2,230,123
National Institute of Banking and Finance (Guarantee) Limited		3,035	2,620
		4,100,131	2,232,743
Expenses reimbursed to:			
SBP Banking Services Corporation	44.2	5,007,396	4,011,615
National Institute of Banking and Finance (Guarantee) Limited		167,506	81,164
		5,174,902	4,092,779
		15,082,557	10,897,194

	Note	2010 (Rupees in '000)	2009
44.1 Expenses allocated by SBP Banking Services Corporation			
Retirement benefits and employees' compensated absences		4,028,095	2,165,258
Depreciation		69,001	64,865
		4,097,096	2,230,123
44.2 Expenses reimbursed to SBP Banking Services Corporation			
Salaries and other benefits		4,308,823	3,478,919
Rent and taxes		9,533	8,577
Insurance		3,481	2,605
Electricity, gas and water		179,409	170,107
Repairs and maintenance		20,706	19,385
Auditors' remuneration	44.4	4,570	4,570
Legal and professional		4,838	10,233
Travelling expenses		8,908	7,325
Daily expenses		13,909	11,792
Recreation allowance		167,059	84,334
Fuel		2,287	1,994
Conveyance		5,246	4,483
Postage and telephone		15,734	11,624
Training		20,695	21,622
Remittance of treasure		33,917	33,059
Stationery		10,327	9,219
Books and newspapers		1,560	1,332
Advertisement		3,345	1,748
Bank guards		91,033	68,355
Uniforms		19,180	14,487
Others		82,836	45,845
		5,007,396	4,011,615

44.3 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, 2010, as mentioned in note 39, has also been transferred to the Bank. Similar treatment is also followed by the other subsidiary, National Institute of Banking and Finance (Guarantee) Limited, under arrangements mutually agreed with the Bank.

44.4 Auditors' remuneration

Directors' remuneration	KPMG	Ernst & Young	Ernst & Young	M Yousuf	
	Taseer Hadi	Ford Rhodes	Ford Rhodes	Adil Saleem	
	& Co.	Sidat Hyder	Sidat Hyder	& Co.	
	2010				2009
	(Rupees in '000)				
State Bank of Pakistan					
Audit fee	1,429	1,429	2,858	1,429	2,858
Out of pocket expenses	286	286	572	286	572
	1,715	1,715	3,430	1,715	3,430
SBP Banking Services Corporation					
Audit fee	1,571	1,571	3,142	1,571	3,142
Out of pocket expenses	714	714	1,428	714	1,428
	2,285	2,285	4,570	2,285	4,570
	4,000	4,000	8,000	4,000	8,000

44.5 Staff retirement benefits

44.5.1 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 6.00 (2009: 5.0) % per annum.
- Expected rate of discount 14.0 (2009: 13.0) % per annum.
- Expected rate of increase in salary 12.0 (2009: 11.0) % per annum.
- Expected rate of increase in pension 8.00 (2009: 5.0) % per annum.
- Medical cost increase 9.0 (2009: 8.0) % per annum.
- Personnel turnover 2.0 (2009: 2.0) % per annum.

44.5.2 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, 2010 based on actuarial valuation as of that date was as follows: -

		2010		
	Note	Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Net recognized liabilities
----- <i>(Rupees in '000)</i> -----				
Gratuity	44.5.5	6,888	(8,353)	(1,465)
Pension	44.5.5	8,323,797	(5,123,330)	3,200,467
Benevolent	44.5.5	360,457	(100,352)	260,105
Post retirement medical benefits	44.5.5	2,348,166	(1,244,525)	1,103,641
		11,039,308	(6,476,560)	4,562,748

		2009		
		Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Net recognized liabilities
----- <i>(Rupees in '000)</i> -----				
Gratuity	44.5.5	3,077	(7,086)	(4,009)
Pension	44.5.5	3,650,528	(750,404)	2,900,124
Benevolent	44.5.5	284,458	(36,937)	247,521
Post retirement medical benefits	44.5.5	2,124,433	(1,308,547)	815,886
		6,062,496	(2,102,974)	3,959,522

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

2010					
<i>Net recognised liabilities at July 1, 2009</i>	<i>Charge for the year (note 44.5.4)</i>	<i>Payments during the year</i>	<i>Employees contribution/Amount transferred</i>	<i>Net recognised liabilities at June 30, 2010</i>	
----- <i>(Rupees in '000)</i> -----					
Gratuity	(4,009)	2,424	120	-	(1,465)
Pension	2,900,124	1,002,668	(702,325)	-	3,200,467
Benevolent	247,521	58,361	(49,712)	3,935	260,105
Post retirement medical benefits	815,886	457,966	(170,211)	-	1,103,641
	3,959,522	1,521,419	(922,128)	3,935	4,562,748
2009					
<i>Net recognised liabilities at July 1, 2008</i>	<i>Charge for the year (note 44.5.4)</i>	<i>Payments during the year</i>	<i>Employees contribution</i>	<i>Net recognised liabilities at June 30, 2009</i>	
----- <i>(Rupees in '000)</i> -----					
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
	3,742,701	1,012,783	(770,181)	(25,781)	3,959,522

44.5.4 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:

	2010				
	<i>Current service cost</i>	<i>Interest cost</i>	<i>Settlement & curtailment</i>	<i>Actuarial loss recognised</i>	<i>Employees contributions</i>
	<i>----- (Rupees in '000) -----</i>				
Gratuity	1,380	400	-	644	-
Pension	140,959	778,331	-	83,378	-
Benevolent	8,534	50,921	-	2,841	(3,935)
Post retirement medical benefits	36,392	290,719	-	130,855	-
	187,265	1,120,371	-	217,718	(3,935)
	1,521,419				
	2009				
	<i>Current service cost</i>	<i>Interest cost</i>	<i>Settlement & curtailment</i>	<i>Actuarial loss recognised</i>	<i>Employees contributions</i>
	<i>----- (Rupees in '000) -----</i>				
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	-
	103,650	737,018	-	175,268	(3,153)
	1,012,783				

44.5.5 Historical information

	2010	2009	2008	2007	2006
	<i>----- (Rupees in '000) -----</i>				
Gratuity					
Present value of defined benefit obligation	6,888	3,077	15,805	16,461	16,194
Unrecognised actuarial gain / (loss)	(8,353)	(7,086)	(3,508)	(5,506)	(909)
Net recognised (asset) / liability in balance sheet	(1,465)	(4,009)	12,297	10,955	15,285
Experience adjustment arising on plan liabilities losses / (gain)	1,911	(3,870)	(1,574)	-	(274)
Pension					
Present value of defined benefit obligation	8,323,797	3,650,528	3,524,735	3,310,692	3,425,571
Unrecognised actuarial gain	(5,123,330)	(750,404)	(603,254)	(341,620)	(370,818)
Net recognised (asset) / liability in balance sheet	3,200,467	2,900,124	2,921,481	2,969,072	3,054,753
Experience adjustment arising on plan liabilities loss / (gain)	4,456,304	201,991	290,103	-	(112,830)
Benevolent Fund					
Present value of defined benefit obligation	360,457	284,458	373,021	362,583	374,594
Unrecognised actuarial gain	(100,352)	(36,937)	(135,422)	(119,827)	(130,827)
Net recognised (asset) / liability in balance sheet	260,105	247,521	237,599	242,756	243,767
Experience adjustment arising on plan liabilities loss / (gain)	66,256	(88,812)	23,583	-	(545)
Post Retirement Medical Benefits					
Present value of defined benefit obligation	2,348,166	2,124,433	2,228,249	1,724,026	1,659,632
Unrecognised actuarial gain	(1,244,525)	(1,308,547)	(1,656,925)	(1,288,813)	(1,385,808)
Net recognised (asset) / liability in balance sheet	1,103,641	815,886	571,324	435,213	273,824
Experience adjustment arising on plan liabilities losses / (gains)	66,833	(237,916)	448,663	-	217,436

44.6 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. 794.99 million (2009 : Rs. 564.69 million). An amount of Rs. 261.16 million (2009: Rs. 83.32 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

	2010 (Rupees in '000)	2009 (Restated)
45. PROFIT FOR THE YEAR BEFORE NON-CASH ITEMS		
Profit for the year	186,735,838	201,697,867
Adjustments for:		
Depreciation	784,609	812,657
Amortisation of intangible assets	75,588	81,368
Amortisation of deferred income	(182,217)	(211,506)
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	1,833,585	1,156,716
- loans, advances and other assets	(1,239,459)	(451,726)
- other doubtful assets	74,639	62,615
- diminution in value of investments	-	(98,687)
Loss / (gain) on disposal of property and equipment	5,041	(9,065)
Gain on disposal of investments	(2,202)	(17,283)
Dividend income	(9,513,278)	(9,733,352)
Other accruals and provisions - net	-	228,404
	178,572,144	193,518,008

46. CASH AND CASH EQUIVALENTS

Local currency	2,490,947	2,692,685
Foreign currency reserves	1,093,182,469	807,394,495
Earmarked foreign currency balances	13,171,542	33,959,461
Special Drawing Rights of IMF	107,537,965	12,435,672
	1,216,382,923	856,482,313

47. 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.

47.1 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. Balances outstanding from the federal and provincial governments and related entities are disclosed in the respective notes to these financial statements.

47.2 Subsidiaries of the Bank

Material transactions with the subsidiaries have already been disclosed in the financial statements in note 39 and 44. The subsidiaries of the Bank and their primary activities are as follows:

47.2.1 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.

47.2.2 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.

47.3 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.

See below for the relevant information

	2010	2009
	(Rupees in '000)	
Short-term employee benefit	58,197	43,086
Post-employment benefit	25,781	17,388
Loans disbursed during the year	37,256	4,672
Loans repaid during the year	24,439	10,758
Director's fees	2,035	2,492

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

48. RISK MANAGEMENT POLICIES

The Bank is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 48.1 to 48.5. 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.

48.1 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.

48.2 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.

48.2.1

	2010						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Local currency (including rupee coins)	-	-	-	2,490,947	-	2,490,947	2,490,947
Foreign currency reserves	1,093,182,437	586,663	1,093,769,100	243,534	-	243,534	1,094,012,634
Earmarked foreign currency balance	-	-	-	13,171,542	-	13,171,542	13,171,542
Special Drawing Rights of International Monetary Fund	107,537,965	-	107,537,965	-	-	-	107,537,965
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	15,054	15,054	15,054
Securities purchased under agreement to resale	30,845,284	-	30,845,284	-	-	-	30,845,284
Current account of the Government of Punjab	3,936,712	-	3,936,712	-	-	-	3,936,712
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	74,558	-	74,558	74,558
Investments	1,161,638,060	3,036,065	1,164,674,125	-	21,551,102	21,551,102	1,186,225,227
Loans, advances and bills of exchange	206,808,757	121,804,926	328,613,683	59,805,860	4,654,374	64,460,234	393,073,917
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	789,437	-	789,437	789,437
Assets held with the Reserve Bank of India	-	-	-	447,983	-	447,983	447,983
Balances due from the Governments of India and Bangladesh (former East Pakistan)	4,968,624	-	4,968,624	837	-	837	4,969,461
Other assets	-	-	-	5,537,300	-	5,537,300	5,537,300
	2,608,917,839	125,427,654	2,734,345,493	82,561,998	26,220,530	108,782,528	2,843,128,021
Financial liabilities							
Bank notes in circulation	-	-	-	1,377,394,897	-	1,377,394,897	1,377,394,897
Bills payable	-	-	-	589,249	-	589,249	589,249
Current accounts of the Government	-	-	-	42,584,981	-	42,584,981	42,584,981
Securities sold under an agreement to repurchase	23,116,035	-	23,116,035	-	-	-	23,116,035
Current account with SBP Banking Services Corporation- a subsidiary	-	-	-	3,383,274	-	3,383,274	3,383,274
Deposits of banks and financial institutions	-	-	-	289,566,182	-	289,566,182	289,566,182
Other deposits and accounts	30,537,009	85,403,300	115,940,309	69,184,243	11,012,500	80,196,743	196,137,052
Payable to International Monetary Fund	21,775,319	672,995,239	694,770,558	-	-	-	694,770,558
Other liabilities	-	-	-	20,541,936	-	20,541,936	20,541,936
	75,428,363	758,398,539	833,826,902	1,803,244,762	11,012,500	1,814,257,262	2,648,084,164
On balance sheet gap	2,533,489,476	(632,970,885)	1,900,518,591	(1,720,682,764)	15,208,030	(1,705,474,734)	195,043,857
Forward exchange contracts - sales	-	-	-	(260,565,722)	-	(260,565,722)	(260,565,722)
Forward exchange contracts - purchases	-	-	-	111,319,588	-	111,319,588	111,319,588
Futures - sale	-	-	-	(70,179)	-	(70,179)	(70,179)
Futures - purchase	-	-	-	69,084	-	69,084	69,084
Off balance sheet gap	-	-	-	(149,247,229)	-	(149,247,229)	(149,247,229)
Total yield/Interest Risk Sensitivity Gap	2,533,489,476	(632,970,885)	1,900,518,591	(1,571,435,535)	15,208,030	(1,556,227,505)	344,291,086
Cumulative Yield/Interest Risk Sensitivity Gap	2,533,489,476	1,900,518,591	3,801,037,182	2,229,601,647	2,244,809,677	688,582,172	688,582,172

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

	2009 (Restated)						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Local currency (including rupee coins)	-	-	-	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 accounts of the Government	33,742,545	-	33,742,545	-	-	-	33,742,545
Current account of the Government of Punjab	40,915,860	-	40,915,860	-	-	-	40,915,860
Current account of the Government of Balochistan	7,127,734	-	7,127,734	-	-	-	7,127,734
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	-	340,080,512	340,080,512	-	-	-	340,080,512
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	-	-	-	8,630,077	-	8,630,077	8,630,077
	2,051,268,073	345,422,977	2,396,691,050	46,809,368	20,923,924	67,733,292	2,464,424,342
Financial liabilities							
Bank notes in circulation	-	-	-	1,223,717,612	-	1,223,717,612	1,223,717,612
Bills payable	-	-	-	827,785	-	827,785	827,785
Current accounts of the Government	-	-	-	100,364,413	-	100,364,413	100,364,413
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	420,889,604	440,478,603	-	-	-	440,478,603
Other liabilities	-	-	-	35,607,501	-	35,607,501	35,607,501
	128,760,856	492,994,962	621,755,818	1,613,404,588	11,012,500	1,624,417,088	2,246,172,906
On balance sheet gap	1,922,507,217	(147,571,985)	1,774,935,232	(1,566,595,220)	9,911,424	(1,556,683,796)	218,251,436
Off Balance Sheet Financial Instruments							
Forward exchange contracts - sales	-	-	-	(186,209,260)	-	(186,209,260)	(186,209,260)
Forward exchange contracts - purchases	-	-	-	46,802,117	-	46,802,117	46,802,117
Futures - sale	-	-	-	(4,192,494)	-	(4,192,494)	(4,192,494)
Futures - purchase	-	-	-	9,408,925	-	9,408,925	9,408,925
Subscription of right shares	-	-	-	500,000	-	500,000	500,000
Off Balance Sheet Gap	-	-	-	(133,690,712)	-	(133,690,712)	(133,690,712)
Total Yield/Interest Risk Sensitivity Gap	1,922,507,217	(147,571,985)	1,774,935,232	(1,432,904,508)	9,911,424	(1,422,993,084)	351,942,148
Cumulative Yield/Interest Risk Sensitivity Gap	1,922,507,217	1,774,935,232	3,549,870,464	2,116,965,956	2,126,877,380	703,884,296	703,884,296

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

* includes finances provided under profit and loss sharing arrangements.

48.3 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 transactions.

48.4 Liquidity risk management

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

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

48.5 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.

49. ACCOUNTING ESTIMATES AND JUDGMENTS

49.1 Provision against loans and advances

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

49.2 Impairment of available for-sale investments

The Bank determines that available-for-sale equity investments are impaired when there 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.

49.3 Held-to-maturity investments

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

49.4 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 44.5.1 to the unconsolidated financial statements.

49.5 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.

50. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

51. IMPACT OF IAS 39 AND IFRS 7

Although the Bank has not adopted International Accounting Standard IAS-39 "Financial Instruments: Recognition and Measurement" (IAS 39) and International Financial Reporting Standard IFRS-7 "Financial Instruments : Disclosures" (IFRS 7) for the year ended June 30, 2010, however, impacts of these standards are disclosed in Annexure - A to the financial statements.

52. DATE OF AUTHORISATION

These unconsolidated financial statements were authorised for issue on September 29, 2010, by the Central Board of Directors of the Bank.

53. GENERAL

53.1 Corresponding Figures

53.1.1 Previously lodging, catering and allied services expense of NIBAF amounting to Rs. 10.492 million were netted off from Food and beverage income. From the current year these have been reclassified in lodging, catering and allied services expense. Accordingly profit earned through NIBAF and expenses reimbursed to NIBAF are increased by this amount to reflect more appropriate presentation of event and transactions for the purpose of comparison.

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

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

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.

As at June 30, 2010							
As per Existing Accounting Framework				Under IAS 39			
		Issue Department	Banking Department	Total	Reclassifications	Remeasurements	Total
Note		(Rs. in '000)					
ASSETS							
Local currency	10	2,373,520	117,427	2,490,947	-	-	2,490,947
Foreign currency reserves	7	472,412,239	621,600,395	1,094,012,634	457,361	-	1,094,469,995
Earmarked foreign currency balances	16	-	13,171,542	13,171,542	-	-	13,171,542
Special Drawing Rights of the International Monetary Fund	8	6,295,600	101,242,365	107,537,965	-	-	107,537,965
Securities purchased under resale agreements	11	-	30,845,284	30,845,284	-	-	30,845,284
Current account with Government of Punjab	23.2	-	3,936,712	3,936,712	-	-	3,936,712
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		-	74,558	74,558	-	-	74,558
Investments	12	671,487,115	514,235,048	1,185,722,163	41,100	102,906,662	1,288,669,925
Loans, advances and bills of exchange	18	-	386,086,660	386,086,660	3,956,479	(72,040,285)	318,002,854
Reserve tranche with the IMF under quota arrangements	17	-	15,054	15,054	-	-	15,054
Indian notes representing asset receivable from the Reserve Bank of India	9	789,437	-	789,437	(789,437)	-	-
Commercial papers held in Bangladesh	13	78,500	-	78,500	(78,500)	-	-
Assets held with the Reserve Bank of India	14	4,016,051	-	4,016,051	(4,016,051)	-	-
Balances due from Governments of India and Bangladesh	19	-	5,829,001	5,829,001	(5,829,001)	-	-
Gold reserves	6	219,942,435	-	219,942,435	-	-	219,942,435
Property and equipment	20	-	17,725,879	17,725,879	-	-	17,725,879
Intangible assets	21	-	47,758	47,758	-	-	47,758
Other assets	22	-	5,537,300	5,537,300	(5,261,953)	-	275,347
TOTAL ASSETS		1,377,394,897	1,700,464,983	3,077,859,880	(11,520,002)	30,866,377	3,097,206,255
LIABILITIES AND EQUITY							
LIABILITIES							
Bills payable		-	589,249	589,249	-	-	589,249
Bank notes issued	15	1,377,394,897	-	1,377,394,897	-	-	1,377,394,897
Deposits of banks and financial institutions	25	-	289,566,182	289,566,182	2,882	-	289,569,064
Other deposits and accounts	26	-	196,137,052	196,137,052	228,752	-	196,365,804
Securities sold under repurchase agreements	24	-	23,116,035	23,116,035	-	-	23,116,035
Current accounts of Governments	23	-	42,584,981	42,584,981	-	-	42,584,981
Current account of SBP Banking Services Corporation- a subsidiary		-	3,383,274	3,383,274	-	-	3,383,274
Payable to the International Monetary Fund	27	-	694,770,558	694,770,558	1,407,742	-	696,178,300
Deferred liability - staff retirement benefits	29	-	4,912,355	4,912,355	-	-	4,912,355
Deferred income	30	-	17,718	17,718	-	-	17,718
Other liabilities	28	-	29,337,101	29,337,101	(9,591,309)	-	19,745,792
Total liabilities		1,377,394,897	1,284,414,505	2,661,809,402	(7,951,933)	-	2,653,857,469
EQUITY							
Share capital		-	100,000	100,000	-	-	100,000
Statutory reserves		-	149,181,864	149,181,864	-	(13,000,000)	136,181,864
Unrealised appreciation on gold reserves		-	220,183,593	220,183,593	(3,568,069)	-	216,615,524
Surplus on revaluation of property and equipment		-	18,747,014	18,747,014	-	-	18,747,014
Surplus on revaluation of securities		-	-	-	-	102,906,662	102,906,662
Unappropriated profit		-	27,838,007	27,838,007	-	(59,040,285)	(31,202,278)
Equity and reserves		-	416,050,478	416,050,478	(3,568,069)	30,866,377	443,348,786
TOTAL LIABILITIES AND EQUITY		1,377,394,897	1,700,464,983	3,077,859,880	(11,520,002)	30,866,377	3,097,206,255

Impact of IAS 39 on Profit and Loss Account items:

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	Note	As at June 30, 2010		
		Existing Framework	Reclassifications	Under IAS 39
		(Rs. in '000)		
Discount, interest / mark-up and / or return earned	35	185,220,561	-	185,220,561
Less: Interest / mark-up expense	36	(9,697,761)	-	(9,697,761)
		175,522,800		175,522,800
Commission income	37	1,452,752	-	1,452,752
Exchange gain - net	38	11,710,916	(11,710,916)	-
Net foreign exchange gain		-	11,957,889	11,957,889
Net gain on financial instruments designated at fair value		-	8,655,217	8,655,217
Dividend income		9,513,278	-	9,513,278
Other operating income - net	40	10,389,302	(8,837,261)	1,552,041
Other income - net	41	64,929	(64,929)	-
Total operating income		208,653,977		208,653,977
Impairment (charge)/ reversal of:				
- loans, advances and other assets		1,239,459	-	1,239,459
- provision against claims		(900,000)	-	(900,000)
- other doubtful assets		(74,639)	-	(74,639)
		264,820		264,820
Net operating income		208,918,797		208,918,797
Operating expenses				
Bank notes printing charges	42	(3,258,920)	-	(3,258,920)
Agency commission	43	(3,981,054)	-	(3,981,054)
General, administrative and other expenses	44	(15,082,557)	-	(15,082,557)
OPERATING PROFIT		186,596,266		186,596,266
Share of profit from subsidiaries	39	139,572	-	139,572
PROFIT FOR THE YEAR		186,735,838		186,735,838

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 5.2 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 2009-10 as per Previous GAAP	186,735,838
Profit for the Financial Year 2009-10 as per IAS 39	186,735,838

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

Un-Appropriated profit for the Financial Year 2009-10 as per Previous GAAP	27,838,007
Add: Appropriation held in reserve fund	
- For the year ended June 30, 2007	5,260,128
- For the year ended June 30, 2008	7,739,872
- For the year ended June 30, 2009	-
	13,000,000
Less: Impairment on loans and advances	(72,040,285)
Un-Appropriated profit for the Financial Year 2009-10 as per IAS 39	(31,202,278)

Shahid Hafiz Kardar
Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director