13 Consolidated Financial Statement of SBP and its Subsidiaries

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of the **State Bank of Pakistan (the Bank) and its subsidiaries, SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited (together "the Group"),** which comprise of consolidated balance sheets of Issue Department and Banking Department respectively as at 30 June 2010 and consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have also expressed separate joint opinions on the unconsolidated financial statements of the State Bank of Pakistan and its subsidiary, SBP Banking Services Corporation. National Institute of Banking and Finance (Guarantee) Limited was audited by another firm of Chartered Accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for this subsidiary is based solely on the audit report of other auditor .The consolidated financial statements of the Group 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 former 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 consolidated 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Basis for qualified opinion

The Group 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 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 consolidated financial statements give a true and fair view of the financial position of the Bank and its subsidiaries 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 consolidated 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 50 to the consolidated 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

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

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

	Note	***2010***	*2009*	*2008*
		------------(Rupees in '000)--------------		
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
		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 1 to 52 form an integral part of these consolidated financial statements.

Shahid Hafiz Kardar	***Muhammad Kamran Shehzad***	***Muhammad Haroon Rasheed***
Governor	***Deputy Governor***	***Executive Director***

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

	Note	**2010**	2009	2008
		-------------(Rupees in '000)-----------		
			(Restated)	(Restated)
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
Investments	12	**514,282,364**	495,387,378	635,739,865
Loans, advances and bills of exchange	18	**396,748,185**	339,782,241	242,880,410
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	**17,977,317**	18,263,362	18,522,284
Intangible assets	21	**47,758**	116,393	120,923
Other assets	22	**5,697,892**	8,823,052	5,539,812
Total assets		**1,711,511,296**	1,386,207,268	1,134,843,640
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
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	**32,356,073**	45,286,504	59,302,996
		1,279,120,130	994,733,730	818,485,061
Deferred liability - staff retirement benefits	29	**16,239,173**	13,796,014	12,183,991
Capital grant rural finance resource centre		**59,430**	59,430	59,430
Deferred income	30	**17,718**	193,549	206,244
Total liabilities		**1,295,436,451**	1,008,782,723	830,934,726
Net assets		**416,074,845**	377,424,545	303,908,914
REPRESENTED BY				
Share capital	31	**100,000**	100,000	100,000
Reserves	32	**149,206,231**	161,105,380	71,599,698
Unappropriated profit		**27,838,007**	40,699,722	83,693,859
		177,144,238	201,905,102	155,393,557
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
		416,074,845	377,424,545	303,908,914
CONTINGENCIES AND COMMITMENTS	34			

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

Shahid Hafiz Kardar	***Muhammad Kamran Shehzad***	***Muhammad Haroon Rasheed***
Governor	***Deputy Governor***	***Executive Director***

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

	Note	2010	2009
		(Rupees in '000)	(Restated)
Discount, interest / mark-up and / or return earned	35	**185,282,406**	183,112,028
Less: Interest / mark-up expense	36	**9,697,761**	8,085,169
		175,584,645	175,026,859
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
Other operating income - net	39	**10,465,269**	1,230,544
Other income - net	40	**66,689**	55,916
		208,793,549	219,925,048
Less: Direct operating expenses			
Bank notes printing charges	41	**3,258,920**	4,193,032
Agency commission	42	**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	212,605,553
Less: General administrative and other expenses	43	**15,082,557**	10,907,686
PROFIT FOR THE YEAR		**186,735,838**	201,697,867

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

Shahid Hafiz Kardar	***Muhammad Kamran Shehzad***	***Muhammad Haroon Rasheed***
Governor	***Deputy Governor***	***Executive Director***

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

	2010	*2009*
	(Rupees in '000)	
		(Restated)
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	**250,147,002**	228,701,953

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

Shahid Hafiz Kardar	***Muhammad Kamran Shehzad***	***Muhammad Haroon Rasheed***
Governor	***Deputy Governor***	***Executive Director***

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

	Share capital	Allocation of special drawing rights of IMF	---Reserves--- Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unappropriated profit / (loss)	Unrealised appreciation on gold reserves	Surplus on revaluation of property and equipment	Total
	(Rupees in '000)											
Balance at June 30, 2008 - as previously reported	100,000	1,525,958	64,988,533	2,600,000	1,600,000	1,500,000	900,000	4,700,000	96,440,491	129,768,343	18,747,014	322,870,339
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	-	60,299,698	2,600,000	1,600,000	1,500,000	900,000	4,700,000	83,693,859	129,768,343	18,747,014	303,908,914
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	-	149,805,380	2,600,000	1,600,000	1,500,000	900,000	4,700,000	40,699,722	156,772,429	18,747,014	377,424,545
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	-	137,906,231	2,600,000	1,600,000	1,500,000	900,000	4,700,000	* 27,838,007	220,183,593	18,747,014	416,074,845

* 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 Taraqiati Bank Limited (ZTBL) and House Building Finance Corporation Limited (HBFCL) transferred from reserve fund to unappropriated profit upon the instruction of Ministry of Finance.

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

Shahid Hafiz Kardar	*Muhammad Kamran Shehzad*	*Muhammad Haroon Rasheed*
Governor	*Deputy Governor*	*Executive Director*

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

	Note	2010	2009
		(Rupees in '000)	
			(Restated)
Profit for the year after non-cash items	44	**182,672,407**	195,695,740
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		**(16,631)**	1,617,223
Reserve tranche with the International Monetary Fund under quota arrangements		**(6)**	(1,762)
Securities purchased under agreement to re-sale		**(30,845,284)**	-
Investments		**(14,971,726)**	(76,800,508)
Loans, advances and bills of exchange		**(55,714,103)**	(96,451,307)
Indian notes representing assets receivable from the Reserve Bank of India		**(61,772)**	(43,987)
Assets held with the Reserve Bank of India		**(394,897)**	(381,299)
Other assets		**3,125,160**	(3,286,689)
		(98,879,259)	(175,348,329)
		83,793,148	20,347,411
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)
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**	22,178,162
Payable to the International Monetary Fund		**254,291,955**	330,253,492
Other liabilities		**5,296,432**	(5,157,633)
		500,397,430	329,169,491
		584,190,578	349,516,902
Payment of retirement benefits and employees' compensated absences		**(3,225,160)**	(1,711,855)
Proceeds from disposal of investment		**-**	19,740
Dividend received		**9,513,278**	9,733,352
Fixed capital expenditure		**(647,604)**	(516,260)
Proceeds from disposal of property and equipment		**79,520**	20,926
		5,720,034	7,545,903
Surplus profit paid to Federal Government		**(230,000,002)**	(164,160,866)
Dividend paid to the Federal Government		**(10,000)**	(10,000)
Increase in cash and cash equivalents during the year		**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	45	**1,216,382,923**	856,482,313

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

Shahid Hafiz Kardar	***Muhammad Kamran Shehzad***	***Muhammad Haroon Rasheed***
Governor	***Deputy Governor***	***Executive Director***

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

1. *STATUS AND NATURE OF OPERATIONS*

1.1 The Group comprises of:

1.1.1 **State Bank of Pakistan (the Bank)**

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

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

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

a) SBP Banking Services Corporation ("the Corporation") - wholly owned subsidiary:
SBP Banking Services Corporation was established under the SBP Banking Service Corporation Ordinance, 2001 in Pakistan and commenced its operations with effect from January 2, 2002. It is responsible for carrying out certain statutory and administrative functions and activities principally relating to public dealing on behalf of the State Bank of Pakistan.

b) National Institute of Banking and Finance (Guarantee) Limited ("the Institute") - wholly owned subsidiary:
National Institute of Banking and Finance (Guarantee) Limited was incorporated in Pakistan under the Companies Ordinance, 1984 as a company limited by guarantee. The Institute is engaged in providing education and training in the field of banking, finance and allied areas.

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

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

2. *STATEMENT OF COMPLIANCE*

These consolidated 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 International Monetary Fund 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.

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

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

All material inter group balances and transactions have been eliminated.

3. *BASIS OF MEASUREMENT*

3.1 These consolidated 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 consolidated financial statements in conformity with International Accounting Standards 1 to 38 and policies for investments, gold reserves and transactions and balances with International Monetary Fund 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 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 International Monetary Fund 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 consolidated financial statements and estimates with significant risk of material judgment in subsequent years are discussed in note 48 to these consolidated 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:-

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

The Group expects that the adoption of the above standards/ improvements will not have any material impact on the Group's consolidated 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 consolidated 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 Group has changed its accounting policies in the following areas:

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

The Group 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 Group 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 Group has accordingly presented restated balance sheets for the year ended June 30, 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 Central Board. However, an annual 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 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	**2,375,755**	(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 Group are initially measured at cost being the fair value of consideration given. Transaction costs are included in the initial measurement of investments. Subsequent to initial measurement, the Group measures and classifies its investments under the following categories:

Held for trading
These securities are either acquired for generating a profit from short term fluctuations in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These instruments are subsequently re-measured to fair value. All related realised and unrealised gains and losses are recognised in the profit and loss account.

All purchases and sales of investments categorised as held-for-trading that required delivery with in the time frame established by regulation or market convention ('regular way' purchase and sale) are recognised at the trade date, which is the date Group 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 Group has the positive intent and ability to hold to maturity other than loans and receivables. These securities are carried at amortized cost, less accumulated impairment losses, if any, and premiums and/or discounts are accounted for using effective interest method.

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

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

Loans and receivables

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

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

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

Available for sale securities (AFS)

These are the securities which do not fall in any of the above three categories. Subsequent to initial recognition, these securities are measured at fair value except the strategic investments, including investments in National Bank of Pakistan, Habib Bank Limited, Allied Bank Limited and United Bank Limited, and investments in securities the fair value of which cannot be determined reliably. Gain or loss on changes in fair value is taken to and kept in equity until the investments are sold or disposed off, or until the investments are determined to be impaired, at that time cumulative gain or loss previously reported in the equity is included in profit and loss account. 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 Group on the date it transfers risks and rewards. Securities held to maturity are de-recognised on the day these are transferred by the Group. Gains and losses on de-recognition of held for trading, held to maturity and AFS securities are taken to profit and loss account.

5.3 Derivative financial instruments

The Group 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 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 20.1 to these consolidated 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 Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. 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 Group 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 and the Corporation 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.
- a contributory provident fund and contributory gratuity scheme (new scheme) was introduced by the Bank effective from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old Scheme).
- an un-funded pension scheme;
- an un-funded benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

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

Annual provisions are made by the Group 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 Group's right to receive dividend is established.
- Gains/losses on disposal of securities are recognised in profit and loss account at trade date.
- All other revenues are recognised on time proportion basis.
- Training and education fee is recognised on completion of relevant courses.
- Hostel income is recognised on performing services.

5.13 Finances under profit and loss sharing arrangements

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

5.14 Taxation

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

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 gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 5.16, which are transferred to the Government of Pakistan account.

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

Commitments for outstanding forward foreign exchange contracts disclosed in note 34.2 to the consolidated 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 Group for recording of these transactions and balances is as follows:

- the Government's contribution for quota with the IMF is recorded by the Group 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 Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

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 Group becomes a party to the contractual provisions of the instrument. The Group derecognises financial asset when the contractual right to the cash flow from a financial asset expires or when the Group transfers substantially all the risk and rewards of ownership of the financial asset. The Group derecognises a financial liability when the liability is extinguished, discharged, cancelled or expired.

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

Financial instruments carried on the balance sheet include 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 Stationery and other consumables

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

5.21 Accounts receivables and other receivables

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

5.22 Trade and other payables

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

5.23 Offsetting

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

6. GOLD RESERVES HELD BY THE BANK

	Note	Net content in troy ounces	2010	2009
			(Rupees in '000)	
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

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% to 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	*2009*
	(Rupees in '000)	
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	2009
		(Rupees in '000)	
10. LOCAL CURRENCY			
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 2, 2010.

	Note	2010	2009
		(Rupees in '000)	
12. INVESTMENTS			
Loans and receivables originated by the Bank			
Government securities	12.1		
Market Treasury Bills (MTBs)	12.2	**1,162,314,665**	1,147,773,885
Federal Government scrip		**2,740,000**	2,740,000
		1,165,054,665	1,150,513,885
Available for sale investments			
Investments in Banks and other financial institutions			
Ordinary shares			
Listed		**15,564,595**	15,564,908
Unlisted		**4,957,247**	4,521,707
	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)
		1,185,369,508	1,170,393,501
Investment held to maturity - Pakistan Investment Bonds		**399,971**	404,252
		1,185,769,479	1,170,797,753
Investment - MTBs held as assets of the Issue Department		**(671,487,115)**	(675,410,375)
		514,282,364	495,387,378

12.1 ***Investments in Government securities***

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

	2010	2009
	(% per annum)	
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	2009	Note	2010	2009
	% of Holding			(Rupees in '000)	
Listed					
National Bank of Pakistan	**75.20**	75.20	12.3.2	**1,100,807**	1,100,806
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	15,564,908
Unlisted					
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**	4,269,707
				4,957,246	4,521,707
				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 Group does not exercise significant influence or control over these entities except for any regulatory purposes or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates, or joint ventures.

12.3.2 Market value of the Group'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 Group'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 Group'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 Group's investment in the shares of Habib Bank Limited at June 30, 2010 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 Group 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 Group to meet foreign currency commitments of the Group.

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

	2010	2009
	(Rupees in '000)	
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

18. LOANS, ADVANCES AND BILLS OF EXCHANGE

	Note	2010	2009
		(Rupees in '000)	
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		**14,920,959**	11,045,929
		403,735,442	348,021,339
Provision against doubtful balances		**(6,908,757)**	(8,160,598)
		396,826,685	339,860,741
Commercial papers held in issue department	13	**(78,500)**	(78,500)
		396,748,185	339,782,241

18.1 Loans and advances to the Governments

	Note	2010	2009
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 (18.2.2)	**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 & 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 Taraqiati Bank Limited (ZTBL) in addition to the unsecured subordinated loan to ZTBL amounting to Rs. 3,204 million (2009: Rs. 3,204 million) 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

	Scheduled banks		Other financial institutions		Total	
	2010	2009	**2010**	2009	**2010**	2009
	--------(Rupees in '000)--------					
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

18.4 Provision against doubtful assets

	2010	2009
	(Rupees in '000)	
Opening balance	**8,160,598**	8,612,324
Reversal during the year	**(1,251,841)**	(451,726)
Closing balance	**6,908,757**	8,160,598

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

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

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

	Note	**2010**	2009
		(Rupees in '000)	
India			
Advance against printing of notes		**39,616**	39,616
Receivable from the Reserve Bank of India		**837**	837
		40,453	40,453
Bangladesh (former East Pakistan)			
Inter office balances		**819,924**	819,924
Loans and advances	19.1	**4,968,624**	4,555,755
		5,788,548	5,375,679
		5,829,001	5,416,132

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.

20. PROPERTY AND EQUIPMENT

	Note	**2010**	2009
		(Rupees in '000)	
Operating fixed assets	20.1	**17,615,328**	17,828,049
Capital work-in-progress	20.3	**361,989**	435,313
		17,977,317	18,263,362

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	186,749	22,226 (3,214)	205,761	94,418	17,070 (2,648)	108,840	96,921	10
Office equipment	780,265	138,439 (15,257)	903,447	500,646	108,813 (2,512)	606,947	296,500	20
EDP equipment	1,288,470	71,262 (39,184) 16,904 *	1,337,452	1,029,885	108,402 (26,238) 8,556 *	1,120,605	216,847	33.33
Motor vehicles	179,331	275,415 (104,552) 5,815 *	356,009	79,374	51,617 (48,010) 186 *	83,167	272,842	20
Library Books	755	-	755	755	-	755	-	
	21,319,748	**712,746 (162,207) 22,719**	**21,893,006**	**3,491,699**	**856,645 (79,408) 8,742**	**4,277,678**	**17,615,328**	

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

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	*2009*
	(Rupees in '000)	
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

Buildings on freehold land	**24,532**	82,059
Buildings on leasehold land	**245,734**	268,781
Furniture and fixtures	**-**	776
Office equipment	**91,303**	80,784
EDP equipment	**420**	2,913
	361,989	435,313

21. INTANGIBLE ASSETS

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

22. OTHER ASSETS

	Note	***2010***	*2009*
		(Rupees in '000)	
Amounts due from financial institutions under currency swap arrangements		**-**	2,317,912
Accrued interest / mark-up, discount and return		**5,447,464**	3,992,621
Stationery and stamps on hand		**97,678**	85,257
Other advances, deposits and prepayments		**96,855**	177,174
Others		**55,895**	2,250,088
		5,697,892	8,823,052

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

		Note	2010	2009
			(Rupees in '000)	
23.1	***Federal Government***			
	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**	333,138
	Zakat fund account		**2**	1
	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 July 2, 2010.

25. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

	2010	2009
	(Rupees in '000)	
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%

26. OTHER DEPOSITS AND ACCOUNTS

	Note	2010	2009
		(Rupees in '000)	
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

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

	2010	2009
	(per annum)	
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	2009
		(Rupees in '000)	
			(Restated)

27. PAYABLE TO INTERNATIONAL MONETARY FUND

	Note	2010	2009
Borrowings under:			
Fund facilities	27.1 & 27.2	**503,662,196**	333,010,969
Other credit schemes		**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 in current financial year. 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. 19,099.805 million (2009: 21,475.562 million) reclassified from equity to payable to IMF during the current year (Refer Note 4.2).

27.4 Interest profile of payable to IMF is as under:

	2010	2009
	(per annum)	
Fund facilities	**1.22% to 1.37%**	1.38% to 4.18%
Other credit schemes	**0.50%**	0.50%

28. OTHER LIABILITIES

	Note	2010	2009
		(Rupees in '000)	
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	**12,777,148**	7,795,564
Others		**5,584,247**	3,650,512
		30,664,463	41,571,134
		32,356,073	45,286,504

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.

		Note	2010	2009
			(Rupees in '000)	
28.2	***Other accruals and provisions***			
	Agency commission		**4,908,686**	1,014,422
	Provision for employees' compensated absences		**3,323,814**	2,444,023
	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
			12,777,148	7,795,564

28.2.1 It includes Rs. 2,383 million (2009: Rs. 2,318 million) relating to net assets recoverable form the Reserve Bank of India the Government of India and those pertaining to transactions in former East Pakistan.

		2010	2009
		(Rupees in '000)	
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)**	-
	Reversed 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)**
Reversed 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 Group.

	Note	2010	2009
		(Rupees in '000)	
29. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS			
Gratuity	29.1	**40,506**	54,432
Pension		**10,921,297**	9,486,594
Benevolent fund scheme		**1,125,978**	1,017,373
Post retirement medical benefits		**2,853,973**	2,102,394
	43.2.2	**14,941,754**	12,660,793
Provident fund scheme		**1,297,419**	1,135,221
		16,239,173	13,796,014

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

	Note	2010	2009
		(Rupees in '000)	
30. DEFERRED INCOME			
Opening balance		**193,549**	206,244
Grants received during the year		**6,386**	198,811
Amortisation during the year	40	**(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 consolidated financial statements, is being amortised over the useful lives of the related assets.

31. SHARE CAPITAL

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

The 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

	Note	2010	2009
		(Rupees in '000)	
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
		63,411,164	27,004,086
		220,183,593	156,772,429

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:

	2010	2009
	(Rupees in '000)	
Government	**57,158,658**	72,410,976
Government owned / controlled bodies and authorities	**8,070,571**	13,420,789
	65,229,229	85,831,765

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	2009
	(Rupees in '000)	
d) Other claims against the Group not acknowledged as debts	**986,800**	861,994

34.2 Commitments

	2010	2009
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
Capital commitments	**59,000**	7,110

35. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED

	2010	2009
Market Treasury Bills - net	**147,791,477**	153,267,829
Other Government securities	**146,849**	258,052
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	**147,832**	2,549
	185,282,406	183,112,028

36. INTEREST / MARK-UP EXPENSE

	2010	2009
Deposits	**9,657,413**	8,048,417
Others	**40,348**	36,752
	9,697,761	8,085,169

37. COMMISSION INCOME

	2010	2009
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	2009
	(Rupees in '000)	(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

	Note	2010	2009
		(Rupees in '000)	
39. 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		**45,280**	(327,760)
		10,465,269	1,230,544

40. OTHER INCOME - NET

	Note	2010	2009
(Loss) / gain on disposal of property and equipment		**(3,281)**	12,961
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
		66,689	55,916

41. BANK NOTES PRINTING CHARGES

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

42. AGENCY COMMISSION

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

	Note	2010	2009
		(Rupees in '000)	
43. GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		**6,281,947**	4,785,037
Retirement benefits and employees' compensated absences		**5,863,572**	3,323,878
Contribution to SBP Employees' Welfare Trust		**10,000**	10,000
Rent and taxes		**84,782**	42,755
Insurance		**23,904**	15,381
Electricity, gas and water		**249,507**	224,622
Depreciation	20.1	**856,645**	880,143
Amortisation of intangible assets	21	**75,588**	81,368
Repairs and maintenance		**376,302**	349,117
Auditors' remuneration	43.1	**8,123**	8,134
Legal and professional		**366,609**	458,120
Travelling and recreation expenses		**116,580**	162,716
Daily expenses		**61,676**	51,110
Fuel		**38,121**	10,671
Conveyance		**9,516**	8,583
Postages, telegram / telex and telephone		**173,661**	133,559
Training		**67,827**	78,691
Examination/ testing services		**6,513**	4,998
Stationery		**26,148**	23,852
Remittance of treasure		**33,917**	33,059
Books and newspapers		**26,721**	20,730
Advertisement		**10,073**	3,802
Uniforms		**112,170**	84,613
Others		**202,655**	112,747
		15,082,557	10,907,686

43.1 Auditors' remuneration

	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	2010	Ernst & Young Ford Rhodes Sidat Hyder	M.Yousuf Adil Saleem & Co.	2009
	-----(Rupees in '000)-----					
State Bank of Pakistan						
Audit Fee	1,429	1,429	**2,858**	1,429	1,429	**2,858**
Out of pocket expenses	286	286	**572**	286	286	**572**
	1,715	1,715	**3,430**	1,715	1,715	**3,430**
SBP Banking Services Corporation						
Audit Fee	1,571	1,571	**3,142**	1,571	1,571	**3,142**
Out of pocket expenses	714	714	**1,428**	714	714	**1,428**
	2,285	2,285	**4,570**	2,285	2,285	**4,570**
NIBAF						
Audit Fee	-	-	**123**	-	-	**134**
	4,000	4,000	**8,123**	4,000	4,000	**8,134**

43.2 Staff retirement benefits

43.2.1 During the year the actuarial valuations of the above defined benefit obligations were carried out under the projected Unit Credit Method using following significant assumptions:

- Expected rate of increase in grants and contributions 6 (2009: 5) % per annum.
- Expected rate of discount 14 (2009: 13) % per annum.
- Expected rate of increase in salary 12 (2009: 11) % per annum.
- Expected rate of increase in pension 8 (2009: 5) % per annum.
- Medical cost increase 9 (2009: 8) % per annum.
- Personnel turnover 2 (2009: 2) % per annum.

43.2.2 Present value of the define benefit obligations

Present values of obligations under the retirement benefit schemes and liabilities recognised there against for the past services of the employees at June 30, 2010 based on actuarial valuation as of that date was as follows: -

	Note	**2010**		
		Present value of the defined benefit obligation	***Unrecognised actuarial gain / (loss)***	***Net recognized liabilities***
		---------------(Rupees in '000)--------------------		
Gratuity	43.2.5	**42,982**	**(28,358)**	**14,624**
Pension	43.2.5	**22,545,593**	**(11,624,296)**	**10,921,297**
Benevolent	43.2.5	**1,577,127**	**(451,149)**	**1,125,978**
Post retirement medical benefits	43.2.5	**5,672,184**	**(2,818,211)**	**2,853,973**
		29,837,886	**(14,922,014)**	**14,915,872**

	Note	*2009*		
		Present value of the defined benefit obligation	*Unrecognised actuarial gain / (loss)*	*Net recognized liabilities*
		---------------(Rupees in '000)--------------------		
Gratuity	43.2.5	41,116	(12,754)	28,362
Pension	43.2.5	12,602,432	(3,115,838)	9,486,594
Benevolent	43.2.5	1,200,605	(183,232)	1,017,373
Post retirement medical benefits	43.2.5	4,915,413	(2,813,019)	2,102,394
		18,759,566	(6,124,843)	12,634,723

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

	2010				
	Net recognised liabilities at July 01, 2009	***Charge for the year (note 43.2.4)***	***Payments during the year***	***Employees contribution***	***Net recognised liabilities at June 30 , 2010***
	--------(Rupees in '000)--------				
Gratuity	**28,362**	**14,378**	**(28,116)**	**-**	**14,624**
Pension	**9,486,594**	**3,254,168**	**(1,819,465)**	**-**	**10,921,297**
Benevolent	**1,017,373**	**257,460**	**(165,133)**	**16,278**	**1,125,978**
Post retirement medical benefits	**2,102,394**	**1,091,020**	**(339,441)**	**-**	**2,853,973**
	12,634,723	**4,617,026**	**(2,352,155)**	**16,278**	**14,915,872**

	2009				
	Net recognised liabilities at July 01, 2008	*Charge for the year (note 43.2.4)*	*Payments during the year*	*Employees contribution*	*Net recognised liabilities at June 30 , 2009*
	--------(Rupees in '000)--------				
Gratuity	50,118	14,194	(32,959)	(2,991)	28,362
Pension	8,719,768	1,706,994	(914,225)	(25,943)	9,486,594
Benevolent	947,587	179,890	(124,441)	14,337	1,017,373
Post retirement medical benefits	1,453,457	903,305	(254,368)	-	2,102,394
	11,170,930	2,804,383	(1,325,993)	(14,597)	12,634,723

43.2.4 Amount recognised in the profit and loss account

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

	2010					
	Current service cost	***Interest cost***	***Settlement & curtailment***	***Actuarial loss recognised***	***Employees contributions***	***Total***
	--------(Rupees in '000)--------					
Gratuity	**3,082**	**8,763**	**-**	**2,533**	**-**	**14,378**
Pension	**623,343**	**2,284,621**	**-**	**346,204**	**-**	**3,254,168**
Benevolent	**65,088**	**189,554**	**-**	**19,096**	**(16,278)**	**257,460**
Post retirement						**-**
medical benefits	**135,201**	**688,194**	**-**	**267,625**	**-**	**1,091,020**
	826,714	**3,171,132**	**-**	**635,458**	**(16,278)**	**4,617,026**

	2009					
	Current service cost	*Interest cost*	*Settlement & curtailment*	*Actuarial loss recognised*	*Employees contributions*	*Total*
	--------(Rupees in '000)--------					
Gratuity	4,214	7,065	-	2,915	-	14,194
Pension	339,455	1,224,545	-	142,994	-	1,706,994
Benevolent	43,298	136,122	-	14,807	(14,337)	179,890
Post retirement						
medical benefits	128,149	545,248	-	229,908	-	903,305
	515,116	1,912,980	-	390,624	(14,337)	2,804,383

43.2.5 Historical information

	2010	2009	2008	2007	2006
	----(Rupees in '000)----				
Gratuity					
Present value of defined benefit obligation	**42,982**	41,116	58,871	59,461	74,194
Unrecognised actuarial (gain)/ loss	**(28,358)**	(12,754)	(8,753)	(5,506)	6,091
Provisions in respect of retirement benefit Liability in balance sheet	**14,624**	28,362	50,118	53,955	80,285
Experience adjustment arising on plan liabilities losses/ (gain)	**18,137**	36,241	6,632	4,211	(8,520)
Pension					
Present value of defined benefit obligation	**22,545,593**	12,602,432	10,204,547	8,589,692	8,434,571
Unrecognised actuarial (gain)	**(11,624,296)**	(3,115,838)	(1,484,779)	(229,620)	(376,818)
Provisions in respect of retirement benefit Liability in balance sheet	**10,921,297**	9,486,594	8,719,768	8,360,072	8,057,753
Experience adjustment arising on plan liabilities loss/ (gain)	**8,854,662**	1,774,053	1,273,741	(117,735)	408,484
Benevolent Fund					
Present value of defined benefit obligation	**1,577,127**	1,200,605	1,134,346	1,035,583	1,084,594
Unrecognised actuarial gain	**(451,149)**	(183,232)	(186,759)	(93,827)	(125,827)
Provisions in respect of retirement benefit Liability in balance sheet	**1,125,978**	1,017,373	947,587	941,756	958,767
Experience adjustment arising on plan liabilities loss/ (gain)	**287,013**	11,280	99,338	(22,303)	(6,390)
Post Retirement Medical Benefits					
Present value of defined benefit obligation	**5,672,184**	4,915,413	4,543,730	3,213,026	2,863,632
Unrecognised actuarial (gain)/ loss	**(2,818,211)**	(2,813,019)	(3,090,273)	(2,105,813)	(2,150,808)
Provisions in respect of retirement benefit Liability in balance sheet	**2,853,973**	2,102,394	1,453,457	1,107,213	712,824
Experience adjustment arising on plan liabilities losses/ (gain)	**272,817**	428,486	1,132,465	165,511	493,437

43.3 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the projected unit credit method amounted to Rs. 794.99 million (2009 : Rs. 2,444 million). An amount of Rs. 261.16 million (2009: Rs. 293 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

44. PROFIT FOR THE YEAR BEFORE NON-CASH ITEMS

	2010	2009
	(Rupees in '000)	(Restated)
Profit for the year	**186,735,838**	201,697,867
Adjustments for:		
Depreciation	**856,645**	880,143
Amortisation of intangible assets	**75,588**	81,368
Amortisation of deferred income	**(182,217)**	(211,506)
Provision for:		
- retirement benefits and employees' compensated absences	**5,863,572**	3,323,878
- 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	**3,281**	(12,961)
Gain on disposal of investments	**(2,202)**	(17,283)
Dividend income	**(9,513,278)**	(9,733,352)
Other accruals and provisions - net	**-**	175,384
	182,672,407	195,695,740

45. CASH AND CASH EQUIVALENTS

	2010	2009
	(Rupees in '000)	
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

46. RELATED PARTY TRANSACTIONS

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

46.1 Governments and related entities

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

46.2 Remuneration to key management personnel

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

The remuneration of the key management personnel was as follows:

	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.

47. RISK MANAGEMENT POLICIES

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

47.1 Credit risk management

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

47.2 *Interest / mark-up rate risk management*

Interest / mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. The Group has adopted appropriate policies to minimise its exposure to this risk.

47.2.1

	2010						
	Interest/ mark-up bearing			Non interest/ mark-up bearing			
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	Grand Total
	< - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - -	(Rupees in '000)	- - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - >
Financial assets							
Local currency (including rupee coins)	-	-	-	2,490,947	-	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 balances	-	-	-	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
Investments	1,162,314,665	3,436,036	1,165,750,701	-	20,521,842	20,521,842	1,186,272,543
Loans, advances and bills of exchange	206,827,369	121,929,753	328,757,122	61,001,978	13,963,083	74,965,061	403,722,183
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	-	-	-	5,697,892	-	5,697,892	5,697,892
	2,604,644,432	130,921,076	2,735,565,508	83,844,150	34,499,979	118,344,129	2,853,909,637
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
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	-	-	-	23,560,908	-	23,560,908	23,560,908
	75,428,363	758,398,539	833,826,902	1,802,880,460	11,012,500	1,813,892,960	2,647,719,862
On balance sheet gap	**2,529,216,069**	**(627,477,463)**	**1,901,738,606**	**(1,719,036,310)**	**23,487,479**	**(1,695,548,831)**	**206,189,775**
Off Balance Sheet Financial Instruments							
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	**2,529,216,069**	**(627,477,463)**	**1,901,738,606**	**(1,569,789,081)**	**23,487,479**	**(1,546,301,602)**	**355,437,004**
Cumulative Yield/Interest Risk Sensitivity Gap	**2,529,216,069**	**1,901,738,606**	**3,803,477,212**	**2,233,688,131**	**2,257,175,610**	**710,874,008**	**710,874,008**

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

	2009 (Restated)						
	Interest/ mark-up bearing			Non interest/ mark-up bearing			
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	Grand Total
	< - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - -	(Rupees in '000)	- - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - -	- - - - - - - - - - - - - - - >
Financial assets							
Local currency (including rupee coins)	-	-	-	2,692,685	-	2,692,685	2,692,685
Foreign currency reserves	805,380,793	2,602,465	807,983,258	224,770	-	224,770	808,208,028
Earmarked foreign currency balances	-	-	-	33,959,461	-	33,959,461	33,959,461
Special Drawing Rights of International			-	-	-	-	-
Monetary Fund	12,435,672	-	12,435,672	-	-	-	12,435,672
Reserve tranche with the International Monetary							
Fund under quota arrangements	-	-	-	-	15,048	15,048	15,048
Current 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
Investments	1,147,773,885	3,440,317	1,151,214,202	-	20,086,615	20,086,615	1,171,300,817
Loans, advances and bills of exchange	15,168	340,173,657	340,188,825	797,832	7,034,682	7,832,514	348,021,339
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	-	-	-	8,823,052	-	8,823,052	8,823,052
	2,051,947,412	346,216,439	2,398,163,851	47,692,257	27,136,345	74,828,602	2,472,992,453
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
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	39,827,996	11,012,500	50,840,496	167,734,719
Payable to International Monetary Fund	19,588,999	420,889,604	440,478,603	-	-	-	440,478,603
Other liabilities	-	-	-	27,902,933	17,383,570	45,286,503	45,286,503
	128,760,856	492,994,962	621,755,818	1,601,997,528	28,396,070	1,630,393,598	2,252,149,416
On balance sheet gap	1,923,186,556	(146,778,523)	1,776,408,033	(1,554,305,271)	(1,259,725)	(1,555,564,996)	220,843,037
Off Balance Sheet Financial Instruments							
Forward exchange contracts - Sales	-	-	-	(186,209,260)	-	(186,209,260)	(186,209,260)
Forward exchange contracts - purchase	-	-	-	46,802,117	-	46,802,117	46,802,117
Futures - sales	-	-	-	(4,192,494)	-	(4,192,494)	(4,192,494)
Future - purchases	-	-	-	(9,408,925)	-	(9,408,925)	(9,408,925)
Subscription of Right Shares	-	-	-	500,000	-	500,000	500,000
Off Balance Sheet Gap	-	-	-	(152,508,562)	-	(152,508,562)	(152,508,562)
Total Yield/Interest Risk Sensitivity Gap	1,923,186,556	(146,778,523)	1,776,408,033	(1,401,796,709)	(1,259,725)	(1,403,056,434)	373,351,599
Cumulative Yield/Interest Risk Sensitivity Gap	1,923,186,556	1,776,408,033	3,552,816,066	2,151,019,357	2,149,759,632	746,703,197	746,703,197

47.3 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Group'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 Group's compliance with the limits established for foreign currency positions is being regularly monitored by the management.

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

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

47.4 Liquidity risk management

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

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

47.5 Portfolio risk management

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

48. ACCOUNTING ESTIMATES AND JUDGMENTS

48.1 Provision against loans and advances

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

48.2 Impairment of available for-sale investments

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

48.3 Held-to-maturity investments

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

48.4 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 43.2.1 to the consolidated financial statements.

48.5 Useful life and residual value of property and equipment

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

49. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

50. IMPACT OF IAS 39 AND IFRS 7

Although the Group 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 consolidated financial statements.

51. DATE OF AUTHORISATION

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

52. GENERAL

52.1 Corresponding Figures

52.1.1 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 by NIBAF in lodging, catering and allied services expense. Accordingly other operating income and General administrative and other expenses are increased by this amount to reflect more appropriate presentation of event and transactions for the purpose of comparison.

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

Shahid Hafiz Kardar	***Muhammad Kamran Shehzad***	***Muhammad Haroon Rasheed***
Governor	***Deputy Governor***	***Executive Director***

ANNEXURE -A

Note No. 50 Impact of IAS 39 and IFRS 7 on Group's consolidated financial statements:

The following note provides additional information concerning value of assets and liabilities as appearing on the consolidated financial statements as per existing framework and value if the IAS 39/IFRS 7 had been adopted by the Bank.

Impact of IAS 39 and IFRS 7 on Balance Sheet item:

	As at June 30, 2010					
	As per Existing Accounting Framework			Under IAS 39 / IFRS 7		
	Issue Department	Banking Department	Total	Reclassifications	Remeasurements	Total
	Rs. In '000					
ASSETS						
Local currency	2,373,520	117,427	2,490,947	-	-	2,490,947
Foreign currency reserves	472,412,239	621,600,395	1,094,012,634	457,361	-	1,094,469,995
Earmarked foreign currency balances	-	13,171,542	13,171,542	-	-	13,171,542
Special Drawing Rights of the International Monetary Fund	6,295,600	101,242,365	107,537,965	-	-	107,537,965
Securities purchased under resale agreements	-	30,845,284	30,845,284	-	-	30,845,284
Current account with Government of Punjab	-	3,936,712	3,936,712	-	-	3,936,712
Investments	671,487,115	514,282,364	1,185,769,479	41,100	102,906,662	1,288,717,241
Loans, advances and bills of exchange	-	396,748,185	396,748,185	3,979,466	(72,040,285)	328,687,366
Reserve tranche with the IMF under quota arrangements	-	15,054	15,054	-	-	15,054
Indian notes representing asset receivable from the Reserve Bank of India	789,437	-	789,437	(789,437)	-	-
Commercial papers held in Bangladesh	78,500	-	78,500	(78,500)	-	-
Assets held with the Reserve Bank of India	4,016,051	-	4,016,051	(4,016,051)	-	-
Balances due from Governments of India and Bangladesh	-	5,829,001	5,829,001	(5,829,001)	-	-
Gold reserves	219,942,435	-	219,942,435	-	-	219,942,435
Property and equipment	-	17,977,317	17,977,317	-	-	17,977,317
Intangible assets	-	47,758	47,758	-	-	47,758
Other assets	-	5,697,892	5,697,892	(5,284,940)	-	412,952
TOTAL ASSETS	**1,377,394,897**	**1,711,511,296**	**3,088,906,193**	**(11,520,002)**	**30,866,377**	**3,108,252,568**
LIABILITIES AND EQUITY						
LIABILITIES						
Bills payable	-	589,249	589,249	-	-	589,249
Bank notes issued	1,377,394,897		1,377,394,897	-	-	1,377,394,897
Deposits of banks and financial institutions	-	289,566,182	289,566,182	2,882	-	289,569,064
Other deposits and accounts	-	196,137,052	196,137,052	228,752	-	196,365,804
Securities sold under repurchase agreements	-	23,116,035	23,116,035	-	-	23,116,035
Current accounts of Governments	-	42,584,981	42,584,981	-	-	42,584,981
Payable to the International Monetary Fund	-	694,770,558	694,770,558	1,407,742	-	696,178,300
Deferred liability - staff retirement benefits	-	16,239,173	16,239,173	-	-	16,239,173
Capital Grant rural finance resource centre	-	59,430	59,430	-	-	59,430
Deferred income	-	17,718	17,718	-	-	17,718
Other liabilities	-	32,356,073	32,356,073	(9,591,309)	-	22,764,764
Total liabilities	**1,377,394,897**	**1,295,436,451**	**2,672,831,348**	**(7,951,933)**	**-**	**2,664,879,415**
EQUITY						
Share capital	-	100,000	100,000	-	-	100,000
Statutory reserves	-	149,206,231	149,206,231	-	(13,000,000)	136,206,231
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	**-**	**416,074,845**	**416,074,845**	**(3,568,069)**	**30,866,377**	**443,373,153**
TOTAL LIABILITIES AND EQUITY	**1,223,717,612**	**1,711,511,296**	**3,088,906,193**	**(11,520,002)**	**30,866,377**	**3,108,252,568**

Impact of IAS 39 and IFRS 7 on Profit and Loss Account items:

	As at June 30, 2010			
	Existing Framework	Reclassifications	Remeasurements	Under IAS 39/ IFRS 7
	Rs. In '000			
Interest/ mark-up and similar income	185,282,406	-	-	185,282,406
Interest/ mark-up and similar expense	(9,697,761)	-	-	(9,697,761)
	175,584,645			**175,584,645**
Commission income	1,452,752	-	-	1,452,752
Exchange gain - net	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	10,465,269	(8,835,501)	-	1,629,768
Other income - net	66,689	(66,689)	-	-
Total operating income	**208,793,549**			**208,793,549**
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	**209,058,369**			**209,058,369**
Operating expenses				
Bank notes printing charges	(3,258,920)	-	-	(3,258,920)
Agency commission	(3,981,054)	-	-	(3,981,054)
General, administrative and other expenses	(15,082,557)	-	-	(15,082,557)
OPERATING PROFIT	**186,735,838**	**-**	**-**	**186,735,838**

The adoption of IAS 39 would result in certain reclassifications to the Balance Sheet as disclosed above and no impact to the Profit distributable to the shareholders.

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 consolidated 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 and IFRS 7 on Profit and Loss Account:

	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: Reversal of Appropriations		
- 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	***Muhammad Kamran Shehzad***	***Muhammad Haroon Rasheed***
Governor	***Deputy Governor***	***Executive Director***