

13 Financial Statements of SBP

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying unconsolidated financial statements of the State Bank of Pakistan (the Bank), which comprise of unconsolidated balance sheets of Issue Department and Banking Department respectively as at 30 June 2011 and unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

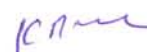
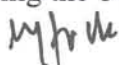
Management's responsibility for the financial statements

Management of the Bank is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the International Accounting Standards 1 to 38 and accounting policies for bank notes and coins, investments, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in note 4.1, 4.2, 4.5 and 4.16 respectively, to the unconsolidated financial statements approved for adoption by the Central Board of the Bank. Management is also responsible for the preparation and fair presentation of Impact of IAS 39 and IFRS 7 on the Bank's financial statements as disclosed in Annexure A to the unconsolidated financial statements, and for such internal controls as management determines are necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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



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

Basis for qualified opinion

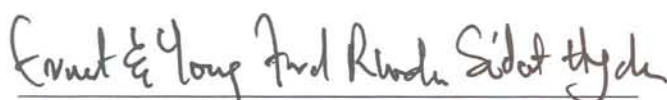
The Bank has maintained a provision of Rs. 2,464 million relating to net assets recoverable from the Reserve Bank of India, the Government of India and those pertaining to transactions in Bangladesh (former East Pakistan). This provision has been recorded as other liability of the Banking Department and the relevant assets and liabilities have not been netted off. Accordingly, assets of the Issue Department and Banking Department are overstated by Rs. 5,987 million and Rs. 6,880 million respectively and liabilities and unrealized appreciation on gold reserve of the Banking Department are overstated by Rs. 8,522 million and Rs. 4,345 million, respectively.

Qualified opinion

In our opinion, except for the financial effect of the matter stated in the preceding paragraph, the unconsolidated financial statements give a true and fair view of the financial position of the Bank as at 30 June 2011 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 bank notes and coins, investments, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in note 4.1, 4.2, 4.5 and 4.16 respectively, to the unconsolidated financial statements approved for adoption by the Central Board of the Bank.

Emphasis of Matter

We draw attention to additional information given in note 49 to the unconsolidated financial statements. Our opinion is not qualified in respect of this matter.



Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner
Date: 8 October 2011



KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

STATE BANK OF PAKISTAN - ISSUE DEPARTMENT
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
ASSETS			
Gold reserves held by the Bank	5	267,969,374	219,942,435
Foreign currency reserves	6	400,387,512	472,412,239
Special Drawing Rights of the International Monetary Fund	7	6,869,850	6,295,600
Notes and coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	8	827,549	789,437
- Coins	9	2,225,301	2,373,520
		3,052,850	3,162,957
Investments	11	916,804,517	671,487,115
Commercial papers held in Bangladesh (former East Pakistan)	12	78,500	78,500
Assets held with the Reserve Bank of India	13	4,825,442	4,016,051
Total assets		<u>1,599,988,045</u>	<u>1,377,394,897</u>
LIABILITY			
Bank notes issued	14	<u>1,599,988,045</u>	<u>1,377,394,897</u>

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

Yaseen Anwer
Acting Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN - BANKING DEPARTMENT
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
ASSETS			
Local currency	9	154,558	117,427
Foreign currency reserves	6	888,392,762	621,600,395
Earmarked foreign currency balances	15	75,464,270	13,171,542
Special Drawing Rights of the International Monetary Fund	7	95,318,553	101,242,365
		1,059,330,143	736,131,729
Reserve tranche with the International Monetary Fund under quota arrangements	16	16,392	15,054
Securities purchased under agreement to resale	10	63,660,336	30,845,284
Current account of the Government of Punjab	22.2	-	3,936,712
Current account of the Government of Azad Jammu & Kashmir		586,181	-
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		104,997	74,558
Investments	11	470,394,747	514,235,048
Loans, advances and bills of exchange	17	374,321,899	386,086,660
Balances due from the Governments of India and Bangladesh (former East Pakistan)	18	6,312,679	5,829,001
Property and equipment	19	24,446,771	17,725,879
Intangible assets	20	21,495	47,758
Other assets	21	7,883,698	5,682,663
Total assets		2,007,079,338	1,700,610,346
LIABILITIES			
Bills payable		780,155	589,249
Current accounts of the Governments	22	217,968,067	42,584,981
Current account with SBP Banking Services Corporation- a subsidiary		6,033,302	3,383,274
Securities sold under agreement to repurchase	23	-	23,116,035
Deposits of banks and financial institutions	24	349,426,939	289,566,182
Other deposits and accounts	25	189,162,447	196,137,052
Payable to the International Monetary Fund	26	732,764,340	694,770,558
Other liabilities	27	33,044,899	29,482,464
		1,529,180,149	1,279,629,795
Deferred liability - staff retirement benefits	28	5,853,295	4,912,355
Deferred income	29	-	17,718
Total liabilities		1,535,033,444	1,284,559,868
Net assets		472,045,894	416,050,478
REPRESENTED BY			
Share capital	30	100,000	100,000
Reserves	31	177,019,871	149,181,864
Unappropriated profit		-	27,838,007
		177,119,871	177,119,871
Unrealised appreciation on gold reserves	32	268,947,619	220,183,593
Surplus on revaluation of property and equipment	19.2	25,978,404	18,747,014
Total equity		472,045,894	416,050,478
CONTINGENCIES AND COMMITMENTS			
	33		

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

Yaseen Anwer
Acting Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
Discount, interest / mark-up and / or return earned	34	215,652,000	185,924,766
Less: Interest / mark-up expense	35	(13,393,884)	(10,401,966)
		202,258,116	175,522,800
Commission income	36	1,958,328	1,452,752
Exchange gain- net	37	1,927,333	11,710,916
Dividend income		11,923,782	9,513,278
Profit earned through subsidiaries	38	162,994	139,572
Other operating (loss) / income-net	39	(11,598,617)	10,389,302
Other (charges) / income - net	40	(441,971)	64,929
		206,189,965	208,793,549
Less: Direct operating expenses			
Bank notes printing charges	41	4,575,741	3,258,920
Agency commission	42	4,210,424	3,981,054
Provision for / (reversal of provision):			
- loans, advances and other assets		(510,848)	(1,239,459)
- provision against claims		1,106,326	900,000
- diminution in value of investments		84,162	-
- other doubtful assets		80,823	74,639
		760,463	(264,820)
		196,643,337	201,818,395
Less: General administrative and other expenses	43	15,667,599	15,082,557
PROFIT FOR THE YEAR		180,975,738	186,735,838

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

Yaseen Anwer
Acting Governor

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Deputy Governor

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Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
	(Rupees in '000)	
Profit for the year	180,975,738	186,735,838
Other comprehensive income		
Unrealised appreciation on gold reserves	48,764,026	63,411,164
Surplus on revaluation of property and equipment	7,231,390	-
	55,995,416	63,411,164
Total comprehensive income for the year	236,971,154	250,147,002

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

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Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

	Share capital	Reserves						Unappropriated profit	Unrealised appreciation on gold reserves	Surplus on revaluation of property and equipment	Total
		Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund				
		----- (Rupees in '000) -----									
Balance as at June 30, 2009	100,000	149,781,013	2,600,000	1,600,000	1,500,000	900,000	4,700,000	40,699,722	156,772,429	18,747,014	377,400,178
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	186,735,838	-	-	186,735,838
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	63,411,164	-	63,411,164
	-	-	-	-	-	-	-	186,735,838	63,411,164	-	250,147,002
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(211,486,702)	-	-	(211,486,702)
	-	-	-	-	-	-	-	(211,496,702)	-	-	(211,496,702)
Others											
Transferred to reserve fund	-	49,025,682	-	-	-	-	-	(49,025,682)	-	-	-
Exchange loss on reclassification of allocation of SDRs of IMF	-	(8,325,959)	-	-	-	-	-	8,325,959	-	-	-
Transferred from reserve fund	-	(52,598,872)	-	-	-	-	-	52,598,872	-	-	-
	-	(11,899,149)	-	-	-	-	-	11,899,149	-	-	-
Balance as at June 30, 2010	100,000	137,881,864	2,600,000	1,600,000	1,500,000	900,000	4,700,000	27,838,007	220,183,593	18,747,014	416,050,478
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	180,975,738	-	-	180,975,738
Surplus on revaluation of property and equipment	-	-	-	-	-	-	-	-	-	7,231,390	7,231,390
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	48,764,026	-	48,764,026
	-	-	-	-	-	-	-	180,975,738	48,764,026	7,231,390	236,971,154
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(180,965,738)	-	-	(180,965,738)
	-	-	-	-	-	-	-	(180,975,738)	-	-	(180,975,738)
Others											
Transferred to reserve fund	-	27,838,007	-	-	-	-	-	(27,838,007)	-	-	-
Balance as at June 30, 2011	100,000	165,719,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	268,947,619	25,978,404	472,045,894

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

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Acting Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 (Rupees in '000)	2010
Profit for the year after non-cash items	44	171,573,897	178,572,144
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(65,183)	(16,631)
Reserve tranche with the International Monetary Fund under quota arrangements		(1,338)	(6)
Securities purchased under agreement to re-sale		(32,815,052)	(30,845,284)
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		(30,439)	33,360
Investments		(201,477,907)	(14,963,573)
Loans, advances and bills of exchange		12,275,610	(52,993,405)
Indian notes representing assets receivable from the Reserve Bank of India		(38,112)	(61,772)
Assets held with the Reserve Bank of India and balances due from government of India and Bangladesh		(514,614)	(394,897)
Other assets		(2,201,035)	2,947,414
		(224,868,070)	(96,294,794)
		(53,294,173)	82,277,350
Increase / (decrease) in liabilities:			
Bank notes issued		222,593,148	153,677,285
Bills payable		190,906	(238,536)
Current accounts of the Government		178,692,249	20,069,995
Current account with SBP Banking Services Corporation - a subsidiary		2,650,028	(319,248)
Securities sold under agreement to re-purchase		(23,116,035)	23,116,035
Deposits of banks and financial institutions		59,860,757	15,826,401
Other deposits and accounts		(6,974,605)	28,357,863
Payable to the International Monetary Fund		37,993,782	254,291,955
Other liabilities		(361,523)	5,362,643
		471,528,707	500,144,393
		418,234,534	582,421,743
Payment of retirement benefits and employees' compensated absences		(1,171,233)	(1,582,046)
Proceeds from disposal of investments		6,350	-
Dividend received		11,923,782	9,513,278
Fixed capital expenditure		(438,203)	(503,312)
Proceeds from disposal of property and equipment		54,134	60,949
		10,374,830	7,488,869
Surplus profit paid to Federal Government		(176,999,995)	(230,000,002)
Dividend paid		(10,000)	(10,000)
Increase in cash and cash equivalents during the year		251,599,369	359,900,610
Cash and cash equivalents at beginning of the year		1,216,382,923	856,482,313
Cash and cash equivalents at end of the year	45	1,467,982,292	1,216,382,923

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

Yaseen Anwer
Acting Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

1.4 The unconsolidated financial statements ("the financial statements") are presented in Pak Rupees, which is the Bank's functional and presentation currency.

2. BASIS OF PREPERATION

These financial statements have been prepared in accordance with the requirements of International Accounting Standards (IASs) and policies for bank notes and coins, investments, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in note 4.1, 4.2, 4.5 and 4.16 respectively approved for adoption by the Central Board of the Bank. Under the power conferred by the State Bank of Pakistan Act, 1956, the Central Board has approved IAS-1 to IAS-38 for adoption. Where the requirements of policies adopted by the Central Board differ with the requirements of IASs adopted by the Central Board, the requirements of policies adopted by the Central Board take precedence.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention, except that gold reserves, foreign currency 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.

3.2 Use of estimates and judgments

The preparation of financial statements in conformity with International Accounting Standards 1 to 38 and policies for bank notes and coins, investments, gold reserves and transactions and balances with IMF as stated in note 4.1, 4.2, 4.5 and 4.16 respectively, approved for adoption by the Central Board of the Bank, requires management to make judgments estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of International Accounting Standards 1 to 38 and policies for bank notes and coins, investments, gold reserves and transactions and balances with IMF as stated in note 4.1, 4.2, 4.5 and 4.16 respectively, approved for adoption by the Central Board of the Bank, that have significant effect on the financial statements and estimates with significant risk of material adjustment in subsequent years are as follows:

3.2.1 *Provision against loans and advances*

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

3.2.2 *Impairment of available-for-sale investments*

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

3.2.3 *Held-to-maturity investments*

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

3.2.4 Retirement Benefits

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

3.2.5 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.

3.3 Accounting standards / improvements / amendments that are not yet effective or not relevant

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

Standards / improvements		Effective date (accounting period beginning on or after)
IAS 1	Presentation of items of other comprehensive Income (amendments)	July 1, 2012
IAS 12	Income Tax (Amendment) – Deferred Taxes on Investment Property	January 1, 2012
IAS 19	Employee Benefits - Amended (2011)	January 1, 2013
IAS 24	Related Party Disclosures (Revised 2009)	January 1, 2011
IAS 27	Separate Financial Statements (2011)	January 1, 2013
IAS 28	Investment in Associates and Joint Ventures (2011)	January 1, 2013
IFRIC 14	IAS 19 (amendment) - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction	January 1, 2011

The Bank expects that the adoption of the above revisions and interpretations of the standards will not have any material impact on the Bank's financial statements in the period of initial application other than to the extent of certain changes and / or enhancement in the presentation and disclosures in the financial statements resulting from the application of amendments in IAS-24 and IAS-1.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Bank notes and coins

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of notes is charged to the profit and loss account as and when incurred. Any un-issued bank notes lying with the Bank are not reflected in the books of account.

The Bank also issues coins of various denominations on behalf of the Government of Pakistan (GOP). These coins are purchased from the GOP at their respective face values. The un-issued coins form part of the assets of the Issue Department.

4.2 Investments

All investments acquired by the Bank are initially measured at cost being the fair value of consideration given. Transaction costs are included in the initial measurement of investments. Subsequent to initial measurement, the Bank measures and classifies its investments under the following categories:

Held for trading

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

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

Held to maturity

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

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

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

Loans and receivables

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

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

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

Available for sale securities (AFS)

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

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

Derecognition

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

4.3 Derivative financial instruments

The Bank uses derivative financial instruments which include forwards, futures and foreign currency swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 33.2. The resultant gains or losses from derivatives are included in the profit and loss account.

4.4 Collateralised borrowings / lending

Securities sold subject to a commitment to repurchase them at a pre-determined price, are retained on the balance sheet and a liability is recorded in respect of the consideration received in “Securities sold under agreement to repurchase”. Conversely, securities purchased under analogous commitment to resale are not recognised on the balance sheet and an asset is recorded in respect of the consideration paid in “Securities purchased under agreement to resale”. The difference between the sale and repurchase price in the repurchase transactions and the purchase price and resale price in reverse repurchase transaction represents an expense and income, respectively, and recognised in the profit and loss account on time proportion basis. Both repurchase and reverse repurchase transactions are reported at transaction value inclusive of any accrued expense/ income.

4.5 Gold reserves

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

4.6 Property and equipment

Property and equipment except land, buildings and capital work in progress are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Free hold land is stated at revalued amount. Lease hold land and buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any. Capital work-in-progress is valued at cost.

Depreciation on property and equipment are charged to profit and loss account applying the straight-line method whereby the cost/revalued amount of an asset is written off over its estimated useful life at the rates specified in note 19.1 to these financial statements. The useful life of assets is reviewed and adjusted if appropriated, at each balance sheet date.

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

Increase in carrying amount arising on revaluation of land and buildings are credited to revaluation surplus on revaluation of property and equipment. Decreases that offset previous increases of the same assets are charged against surplus on revaluation of property and equipment in equity, all other decreases are charged to profit and loss account. The surplus on revaluation realised on property and equipment is transferred to unappropriated profit.

4.7 Intangibles

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment

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

4.8 Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. 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 profit and loss (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.

4.9 Compensated absences

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

4.10 Staff retirement benefits

The Bank operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. The Bank provided an option to employees covered under old scheme to join the funded 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) an 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 funded Employees Gratuity Fund (EGF) was introduced by the Bank effective from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
- an un-funded pension scheme for those employees who joined the Bank after 1975 and before the introduction of EGF which is effective from June 1, 2007.
- an un-funded benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

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

Annual provisions are made by the Bank to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 2011. 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.

4.11 Deferred income

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

4.12 Revenue recognition

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

4.13 Finances under profit and loss sharing arrangements

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

4.14 Taxation

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

4.15 Foreign currency translation

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

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 4.16, which are transferred to the Government of Pakistan account.

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

Commitments for outstanding forward foreign exchange contracts disclosed in note 33.2 to the financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the closing rate of exchange ruling on the balance sheet date.

4.16 Transactions and balances with International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of accounting policy approved by the Central Board of the Bank. A summary of the policies followed by the Bank for recording of these transactions and balances is as follows:

- the Government's contribution for quota with the IMF is recorded by the Bank as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.
- exchange gains or losses arising on revaluation of borrowings from the IMF are recognised in the profit and loss account.
- the cumulative allocation of Special Drawing Rights (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.
- 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 SDRs; and
- return on holdings of SDRs.

4.17 Provisions

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

4.18 Cash and cash equivalents

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

4.19 Financial instruments

Financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. The Bank derecognises financial asset when the contractual right to the cash flow from a financial asset expires or when the Bank transfers substantially all the risk and rewards of ownership of the financial asset. The Bank derecognises a financial liability when the liability is extinguished, discharged, cancelled or expired.

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

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

4.20 Offsetting

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

	Note	Net content in troy ounces	2011 (Rupees in '000)	2010
5. GOLD RESERVES HELD BY THE BANK				
Opening balance		2,070,208	219,942,435	157,543,551
Additions during the year		321	41,368	-
Appreciation during the year due to revaluation	32		47,985,571	62,398,884
		<u>2,070,529</u>	<u>267,969,374</u>	<u>219,942,435</u>

6. FOREIGN CURRENCY RESERVES

Investments	6.1 & 6.2	257,860,663	223,301,790
Deposit accounts	6.3 & 6.4	429,735,892	515,849,219
Current accounts	6.2 & 6.3	56,275,472	21,797,295
Securities purchased under agreement to resale	6.5	544,908,247	333,064,330
		<u>1,288,780,274</u>	<u>1,094,012,634</u>

The above foreign currency reserves are held as follows:

Issue Department	400,387,512	472,412,239
Banking Department	888,392,762	621,600,395
	<u>1,288,780,274</u>	<u>1,094,012,634</u>

6.1 Investments

Held for trading	6.4	214,625,939	214,521,911
Held to maturity	6.6	42,981,312	8,538,138
Available for sale		253,412	241,741
		<u>257,860,663</u>	<u>223,301,790</u>

6.2 These include Rs. 255.623 million (2010: Rs. 243.53 million) recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

6.3 The balance in current and deposit accounts carry interest at various rates ranging between 0.02% and 5.00% (2010: 0.05% and 4.50%) per annum.

6.4 These include investments made in international market through reputable Fund Managers. The activities of the Fund Managers are being monitored through a custodian. Market value of these investments is equivalent to USD 2,632.34 million (2010: USD 2,564 million).

6.5 These represent Repurchase Agreement lendings and carry mark-up in USD at 0.0072% and 0.0075% having maturity on July 1, 2011.

6.6 This represents USD Treasury Bills of a face value of USD 500 million (2010: USD 100 million) and carrying purchase yield of 0.06% (2010: 0.17%). This USD Treasury Bill will mature between July 07, 2011 and August 04, 2011 (2010: August 26, 2010).

7. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Bank at June 30, 2011. 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.

SDRs were held as follows:	2011 (Rupees in '000)	2010
- By the Issue Department	6,869,850	6,295,600
- By the Banking Department	95,318,553	101,242,365
	<u>102,188,403</u>	<u>107,537,965</u>

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

These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

9. LOCAL CURRENCY	Note	2011 (Rupees in '000)	2010
Bank notes held by the Banking Department	14	154,558	117,427
Coins		<u>2,225,301</u>	<u>2,373,520</u>
		2,379,859	2,490,947
Coins held as an asset of the Issue Department	9.1	<u>(2,225,301)</u>	<u>(2,373,520)</u>
		<u>154,558</u>	<u>117,427</u>

9.1 As mentioned in note 4.1, the Bank is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of unissued coins held by the Bank at the year end.

10. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings with various financial institutions and carries markup at 13.27% to 14.00% (2010: 12.05% to 12.13%) and will mature on July 02, 2011 (2010: July 02, 2010).

11. INVESTMENTS

Loans and receivables originated by the Bank	Note	2011 (Rupees in '000)	2010
Government securities			
Market Treasury Bills (MTBs)	11.1	1,363,117,299	1,161,638,060
Federal Government scrip	11.2	<u>2,740,000</u>	<u>2,740,000</u>
		1,365,857,299	1,164,378,060
Available for sale investments			
Investments in Banks and other financial institutions			
Ordinary shares			
- Listed		15,563,789	15,564,595
- Unlisted		<u>4,957,247</u>	<u>4,957,247</u>
	11.3	20,521,036	20,521,842
Term Finance Certificates		169,441	211,801
Certificates of Deposits		<u>67,411</u>	<u>84,264</u>
		20,757,888	20,817,907
Provision against diminution in value of investments	11.4	<u>(445,183)</u>	<u>(503,064)</u>
		20,312,705	20,314,843
Investments in wholly owned subsidiaries			
SBP Banking Services Corporation		1,000,000	1,000,000
National Institute of Banking and Finance (Guarantee) Limited - NIBAF		<u>29,260</u>	<u>29,260</u>
		1,029,260	1,029,260
		<u>1,387,199,264</u>	<u>1,185,722,163</u>
The above investments are held as follows:			
Issue department - MTBs		916,804,517	671,487,115
Banking Department		<u>470,394,747</u>	<u>514,235,048</u>
		<u>1,387,199,264</u>	<u>1,185,722,163</u>

11.1 Investments in Government securities

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

	2011 (% per annum)	2010
Market Treasury Bills	13.41 to 13.68	11.89 to 12.27
Federal Government scrip	3	3

11.2 This includes securities having carrying value of Nil (2010: Rs 23,600 million) given as collateral under repurchase agreement borrowing arrangements.

11.3 Investments in shares of banks and other financial institutions (note 11.3.1)

	2011 % of holding	2010	Note	2011 (Rupees in '000)	2010
Listed					
- National Bank of Pakistan	75.20	75.20	11.3.2	1,100,807	1,100,807
- United Bank Limited	19.49	19.49	11.3.3	5,919,530	5,919,530
- Allied Bank Limited	10.07	10.07	11.3.4	350,638	350,638
- Habib Bank Limited	40.60	40.55	11.3.5	8,192,814	8,193,621
				<u>15,563,789</u>	<u>15,564,596</u>
Unlisted					
- Federal Bank for Cooperatives	75.00	75.00		150,000	150,000
- Equity Participation Fund	65.81	65.81		37,540	37,540
				<u>187,540</u>	<u>187,540</u>
Other- investments with holding less than or equal to 50%				<u>4,769,706</u>	<u>4,769,706</u>
				<u>4,957,246</u>	<u>4,957,246</u>
				<u>20,521,035</u>	<u>20,521,842</u>

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

11.3.2 Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2011 amounted to Rs. 63,766.18 million (2010: Rs. 64,853.83 million).

11.3.3 Market value of the Bank's investment in the shares of United Bank Limited at June 30, 2011 amounted to Rs. 14,769.71 million (2010: Rs. 9,614.60 million).

11.3.4 Market value of the Bank's investment in the shares of Allied Bank Limited at June 30, 2011 amounted to Rs. 5,554.78 million (2010: Rs. 4,483.73 million).

11.3.5 Market value of the Bank's investment in the shares of Habib Bank Limited at June 30, 2011 amounted to Rs. 51,931.98 million (2010: Rs. 39,519.10 million).

	2011 (Rupees in '000)	2010
11.4 Provision against diminution in value of investments		
Opening balance	503,064	503,064
Add: Provision during the year	1,331	-
Less: Reversal during the year	(59,212)	-
Closing balance	<u>445,183</u>	<u>503,064</u>

12. COMMERCIAL PAPERS

These represent face value of certain commercial papers amounting to Rs. 78.5 million (2010: 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).

13. ASSETS HELD WITH THE RESERVE BANK OF INDIA

	Note	2011 (Rupees in '000)	2010
Gold reserves			
- Opening balance		3,568,068	2,555,788
- Appreciation from revaluation during the year	32	<u>778,455</u>	<u>1,012,280</u>
		<u>4,346,523</u>	<u>3,568,068</u>
Sterling securities		<u>453,889</u>	<u>424,096</u>
Government of India securities		19,412	18,518
Rupee coins		5,618	5,369
		<u>4,825,442</u>	<u>4,016,051</u>

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

14. BANK NOTES ISSUED	Note	2011 (Rupees in '000)	2010
Notes held with the Banking Department	9	154,558	117,427
Notes in circulation		<u>1,599,833,487</u>	<u>1,377,277,470</u>
		<u>1,599,988,045</u>	<u>1,377,394,897</u>

15. EARMARKED FOREIGN CURRENCY BALANCES

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

16. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS	Note	2011 (Rupees in '000)	2010
Quota allocated by the International Monetary Fund		142,259,472	130,650,967
Liability under quota arrangements		<u>(142,243,080)</u>	<u>(130,635,913)</u>
		<u>16,392</u>	<u>15,054</u>

17. LOANS, ADVANCES AND BILLS OF EXCHANGE

Governments	17.1	56,082,403	72,111,195
Government owned / controlled financial institutions	17.2	116,419,871	112,359,176
Private sector financial institutions	17.3	203,213,017	204,344,112
		319,632,888	316,703,288
Employees		5,083,016	4,259,434
		380,798,307	393,073,917
Provision against doubtful balances	17.4	(6,397,908)	(6,908,757)
		374,400,399	386,165,160
Commercial papers held in issue department	12	(78,500)	(78,500)
		<u>374,321,899</u>	<u>386,086,660</u>

17.1 Loans and advances to the Governments

Provincial Government - Punjab	17.1.1	37,093,810	51,356,336
Provincial Government - Balochistan	17.1.2	15,988,593	20,754,859
Provincial Government - Khyber Pakhtunkhwa	17.1.3	3,000,000	-
		<u>56,082,403</u>	<u>72,111,195</u>

During the year, mark-up on above balances due from the Provincial Governments was charged at various rates ranging between 12.22% to 13.64% (2010: 11.92% and 12.53%) per annum.

17.1.1 This includes current account receivable balance of the Government of Punjab amounting to Rs. 50,900 million 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, 2011, the outstanding balance of this loan amounts to Rs. 28,631 million (2010: Rs 41,356 million). The loan is secured by the guarantee of Federal Government.

17.1.2 This includes current account receivable balance of the Government of Balochistan amounting to Rs. 8,765 million 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, 2011, the outstanding balance of this loan amounts to Rs. 4,930 million (2010: Rs 7,122 million). The loan is secured by the guarantee of Federal Government.

17.1.3 This represents bridge financing facility extended to Government of Khyber Pakhtunkhwa under agreement carried out on December 28, 2010. This loan is repayable in 16 equal quarterly installments of Rs. 187.5 million starting from December 31, 2011 along with mark-up at the rate of 3 months weighted average Treasury Bill rate of the last auction of the preceeding quarter.

17.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Agricultural sector (17.2.1)	52,744,249	55,512,254	-	-	52,744,249	55,512,254
Industrial sector (17.2.1 and 17.2.3)	6,469,232	7,018,958	-	-	6,469,232	7,018,958
Export sector (17.2.3)	13,635,043	21,642,791	3,567	3,567	13,638,610	21,646,358
Housing sector (17.2.2)	-	-	11,242,300	11,242,300	11,242,300	11,242,300
Others (17.2.1, 17.2.3 and 17.2.4)	32,325,480	16,939,306	-	-	32,325,480	16,939,306
	<u>105,174,004</u>	<u>101,113,309</u>	<u>11,245,867</u>	<u>11,245,867</u>	<u>116,419,871</u>	<u>112,359,176</u>

17.2.1 Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2010: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2010: 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 (2010: 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.

17.2.2 This represents loan receivable from House Building Finance Corporation Limited (HBFCL) against seven credit lines on profit and loss sharing basis out of which five credit lines amounting to Rs. 9,689 million (2010: Rs. 7,489 million) are over due. These credit lines are secured by guarantee from Federal Government.

17.2.3 Exposure to the industrial and export sector include Rs. 1,054 million and Rs. 20 million (2010: Rs. 1,054 and Rs. 20 million) respectively, representing cumulative financing of Rs. 1,074 million to Industrial Development Bank of Pakistan (IDBP). Furthermore, other loans and advances include Rs. 13,000 million and Rs. 340.783 million which are secured by the Government guarantee and other Government securities respectively. During the year the Federal Cabinet has approved the windingup of the IDBP.

17.2.4 Above balances include Rs. 567 million (2010: Rs. 563 million) which are recoverable from various financial institutions operating in Bangladesh (former East Pakistan). The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

17.3 Loans and advances to private sector financial institutions

	Scheduled banks		Other financial institutions		Total	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Agricultural sector	495,931	-	184,152	-	680,083	-
Industrial sector	36,527,923	36,142,134	4,462,024	4,198,578	40,989,947	40,340,712
Export sector	161,517,505	163,976,768	-	-	161,517,505	163,976,768
Others	25,482	26,632	-	-	25,482	26,632
	<u>198,566,841</u>	<u>200,145,534</u>	<u>4,646,176</u>	<u>4,198,578</u>	<u>203,213,017</u>	<u>204,344,112</u>

	2011	2010
	(Rupees in '000)	
Opening balance	6,908,757	8,148,216
Reversal during the year	(510,849)	(1,239,459)
Closing balance	<u>6,397,908</u>	<u>6,908,757</u>

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

	2011	2010
	(% per annum)	
Government owned / controlled and private sector financial institutions	1.0 to 12	1.0 to 12
Employees loans	10	10

18. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)	Note	2011	2010
		(Rupees in '000)	
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		837	837
		<u>40,453</u>	<u>40,453</u>
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans and advances	18.1	5,452,302	4,968,624
		<u>6,272,226</u>	<u>5,788,548</u>
		<u>6,312,679</u>	<u>5,829,001</u>

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

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

19. PROPERTY AND EQUIPMENT	Note	2011	2010
		(Rupees in '000)	
Operating fixed assets	19.1	24,049,939	17,364,108
Capital work-in-progress	19.3	396,832	361,771
		<u>24,446,771</u>	<u>17,725,879</u>

19.1 Operating fixed assets

2011											
	Cost / revalued amount at July 01, 2010	Additions / (deletions) during the year	Revaluation during the year	Reversal due to revaluation	Cost / revalued amount at June 30, 2011	Accumulated depreciation at July 01, 2010	Depreciation for the year/ (deletions)/ Adjustments	Reversal due to revaluation	Accumulated depreciation at June 30, 2011	Net book value at June 30, 2011	Annual rate of depreciation %
(Rupees in '000)											
Freehold land	3,577,047	2,941	211,670	-	3,791,658	-	-	-	-	3,791,658	-
Leasehold land	12,762,205	600	5,625,949	(1,652,952)	16,735,802	1,354,769	298,183	(1,652,952)	-	16,735,802	over the term of lease
Buildings on freehold land	1,032,055	13,183	470,331	(496,375)	1,019,194	388,812	107,563	(496,375)	-	1,019,194	5
Buildings on leasehold land	1,718,275	31,550	923,440	(794,315)	1,878,950	613,783	180,636	(794,315)	-	1,878,950	5
							(104)				
Furniture and fixtures	102,679	3,390	-	-	106,267	61,815	9,479	-	71,492	34,775	10
		-					-				
		198					198				
Office equipment	474,791	106,198	-	-	607,425	305,069	68,240	-	400,237	207,188	20
		(2,073)					(1,581)				
		28,509					28,509				
EDP equipment	1,092,558	212,952	-	-	1,247,382	890,074	174,784	-	1,043,105	204,277	33.33
		(58,128)					(21,753)				
Motor vehicles	274,902	24,998	-	-	272,679	56,082	51,416	-	94,584	178,095	20
		(27,221)					(12,914)				
	21,034,512	395,812	7,231,390	(2,943,642)	25,659,357	3,670,404	890,301	(2,943,642)	1,609,418	24,049,939	
		(87,422)					(36,248)				
		28,707					28,603				
2010											
	Cost / revalued amount at July 01, 2009	Additions / (deletions) during the year	Revaluation during the year	Reversal due to revaluation	Cost / revalued amount at June 30, 2010	Accumulated depreciation at July 01, 2009	Depreciation for the year/ (deletions)/ Adjustments	Reversal due to revaluation	Accumulated depreciation at June 30, 2010	Net book value at June 30, 2010	Annual rate of depreciation %
(Rupees in '000)											
Freehold land	3,577,047	-	-	-	3,577,047	-	-	-	-	3,577,047	-
Leasehold land	12,762,205	-	-	-	12,762,205	1,056,612	298,157	-	1,354,769	11,407,436	over the term of lease
Buildings on freehold land	966,488	65,567	-	-	1,032,055	286,352	102,460	-	388,812	643,243	5
Buildings on leasehold land	1,578,438	139,837	-	-	1,718,275	443,657	170,126	-	613,783	1,104,492	5
Furniture and fixtures	97,046	6,105	-	-	102,679	52,904	9,321	-	61,815	40,864	10
		(472)					(410)				
Office equipment	413,187	62,447	-	-	474,791	239,694	66,122	-	305,069	169,722	20
		(843)					(747)				
EDP equipment	1,061,082	69,142	-	-	1,092,558	815,958	100,179	-	890,074	202,484	33.33
		(37,666)					(26,063)				
Motor vehicles	139,646	233,188	-	-	274,902	61,541	38,244	-	56,082	218,820	20
		(97,932)					(43,703)				
	20,595,139	576,286	-	-	21,034,512	2,956,718	784,609	-	3,670,404	17,364,108	
		(136,913)					(70,923)				
							-				

19.2 Last revaluation is carried out on June 30, 2011 by Iqbal A.Nanjee & Co. (Pvt.) Ltd.

19.2.1 Subsequent to revaluation on June 30, 2006, which had resulted in a net surplus of Rs.12,552.511 million, the freehold land, leasehold land, buildings on freehold land and leasehold land were revalued again on June 30, 2011 and resulting in a net surplus of Rs.7,231.390 million. The valuation was conducted by the independent valuers. Land and buildings were valued on the basis of professional assessment of market values. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:-

	2011 (Rupees in '000)	2010
Freehold land	39,124	36,183
Leasehold land	16,469	16,638
Buildings on Freehold land	316,830	339,042
Buildings on Leasehold land	532,381	544,279
	<u>904,804</u>	<u>936,142</u>

	2011 (Rupees in '000)	2010
19.3 Capital work-in-progress		
Buildings on freehold land	31,647	24,532
Buildings on leasehold land	251,466	245,734
Office equipment	107,445	91,085
EDP equipment	6,274	420
	<u>396,832</u>	<u>361,771</u>

20. INTANGIBLE ASSETS

		Cost at July 01, 2010	Additions during the year	Cost at June 30, 2011	Accumulated amortisation at July 01, 2010	Amortisation for the year	Accumulated amortisation at June 30,	Net book value at June 30, 2011	Annual rate of amortisation %
------(Rupees in '000)-----									
Software	2011	557,718	7,330	565,048	509,960	33,593	543,553	21,495	33.33
Software	2010	550,765	6,953	557,718	434,372	75,588	509,960	47,758	33.33

21. OTHER ASSETS

	Note	2011 (Rupees in '000)	2010
Accrued interest / mark-up, discount and return		7,295,110	5,569,840
Other advances, deposits and prepayments		552,331	76,155
Others		36,257	36,668
		<u>7,883,698</u>	<u>5,682,663</u>

22. CURRENT ACCOUNTS OF THE GOVERNMENTS

Federal Government	22.1	119,186,027	32,186,713
Provincial Governments			
- Punjab	22.2	25,614,248	-
- Sindh	22.3	34,319,349	4,593,193
- Khyber Pakhtunkhwa	22.4	30,481,993	4,836,416
- Balochistan	22.5	8,366,450	868,755
		98,782,040	10,298,364
Government of Azad Jammu and Kashmir		-	99,904
		<u>217,968,067</u>	<u>42,584,981</u>

22.1	Federal Government	Note	2011 (Rupees in '000)	2010
	Non-food account		147,039,243	53,219,844
	Food account		309,424	337,270
	Zakat fund account		7,803,056	14,646,387
	Railways - ways and means advances	22.6	(39,999,880)	(39,797,658)
	Fertilizer account		-	19,220
	Saudi Arabia special loan account		4,124	4,124
	Pakistan Baitul Mal fund account		6	6
	Pakistan Railways special account		270,157	14,770
	Government deposit account no. XII		5,276	5,276
	Special transfer account		10,592	1,616
	UN reimbursement account		3,740,171	3,731,492
	Fata Zakat Fund Account		3,858	4,366
			<u>119,186,027</u>	<u>32,186,713</u>
22.2	Provincial Government - Punjab			
	Non-food account	22.6	(10,238,641)	(56,792,138)
	Food account		1,223,025	5,486,270
	Zakat fund account		392,923	1,209,844
	District Government account no. IV		34,236,941	46,159,312
			<u>25,614,248</u>	<u>(3,936,712)</u>
	Classified as receivable balance		-	3,936,712
			<u>25,614,248</u>	<u>-</u>
22.3	Provincial Government - Sindh			
	Non-food account		20,119,519	(3,809,634)
	Food account		770,860	291,090
	Zakat fund account		1,559,724	39,602
	District Government account no. IV		11,869,246	8,072,135
			<u>34,319,349</u>	<u>4,593,193</u>
22.4	Provincial Government - Khyber Pakhtunkhwa			
	Non-food account		18,536,151	(2,401,638)
	Food account		796,490	328,070
	Zakat fund account		1,011,039	2,787
	District Government account no. IV		10,138,313	6,907,197
			<u>30,481,993</u>	<u>4,836,416</u>
22.5	Provincial Government - Balochistan			
	Non-food account		7,695,334	(2,636,497)
	Food account		647,727	248,777
	Zakat fund account		23,389	2
	District Government account no. IV		-	3,256,473
			<u>8,366,450</u>	<u>868,755</u>
22.6	These balances carry mark-up at the rate of 13.64% (2010: 12.97%)			

23. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents repurchase agreement borrowings and are subject to markup at the rate of Nil (2010: 9.5%) per annum.

24. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

	Note	2011 (Rupees in '000)	2010
Foreign currency			
Scheduled banks		21,431,523	19,623,589
Held under Cash Reserve Requirement		87,242,637	77,143,232
		<u>108,674,160</u>	<u>96,766,821</u>
Local currency			
Scheduled banks		239,586,781	191,976,774
Financial institutions		1,165,911	822,434
Others		87	153
		<u>240,752,779</u>	<u>192,799,361</u>
		<u><u>349,426,939</u></u>	<u><u>289,566,182</u></u>

25. OTHER DEPOSITS AND ACCOUNTS

Foreign currency			
Foreign central banks		38,686,123	38,431,485
International organisations	25.2	47,808,377	55,512,145
Others		47,343,094	21,996,679
		<u>133,837,594</u>	<u>115,940,309</u>
Local currency			
Special debt repayment	25.3	23,914,674	23,682,875
Government	25.4	21,108,428	11,012,500
Others	25.5	10,301,751	45,501,368
		<u>55,324,853</u>	<u>80,196,743</u>
		<u><u>189,162,447</u></u>	<u><u>196,137,052</u></u>

		2011 (% per annum)	2010
25.1	The interest rate profile of the interest bearing deposits is as follows:		
	Foreign central banks	0.35 to 0.66	0.35 to 0.69
	International organisations	1.13 to 2.38	1.45 to 3.52
	Others	0.03 to 0.89	0.13 to 0.42
25.2	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.		
25.3	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.		
25.4	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.		
25.5	This includes Nil (2010: Rs 29,159 million) standing to the credit of Government of Pakistan in respect of disbursement received from IMF.		

26. PAYABLE TO INTERNATIONAL MONETARY FUND

	Note	2011 (Rupees in '000)	2010
Borrowings under:			
- Fund facilities	26.1 & 26.2	548,413,223	503,662,196
- Other credit schemes	26.3	48,525,323	66,161,720
- Allocation of SDRs		<u>135,825,762</u>	<u>124,946,613</u>
		<u>732,764,308</u>	<u>694,770,529</u>
Current account for administrative charges		32	29
		<u><u>732,764,340</u></u>	<u><u>694,770,558</u></u>

26.1 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 million. The amount was to be disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2010. Upto June 30, 2011, five tranches amounting to SDR 3,984.935 million have been received. The facility is subject to mark up based on the weekly rates determined by the IMF and is payable on each quarter. The repayment of the facility will commence from February 2012 continuing up to May 2015.

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

26.3 Effective from January 2010 interest charges on other credit scheme were waived by IMF till December 2011.

26.4	Interest profile of payable to IMF is as under:	2011	2010
		(% per annum)	
	Fund facilities	1.22 to 1.59	1.22 to 1.37
	Other credit schemes	Nil	0.5

26.4.1 Payable to IMF also include additional surcharge of 2% payable on quarterly basis when the outstanding loan amount exceeds 300 per cent of the quota.

27. OTHER LIABILITIES

OTHER LIABILITIES		2011	2010
	Note	(Rupees in '000)	
Foreign currency			
Accrued interest and discount on deposits		2,961,132	1,785,343
Charges on allocation of Special Drawing Rights of IMF		121,946	51,630
		3,083,078	1,836,973
Local currency			
Overdue mark-up and return	27.1	5,136,650	4,653,024
Remittance clearance account		1,249,583	1,237,145
Exchange loss payable under exchange risk coverage scheme		182,207	221,680
Balance profit payable to the Government of Pakistan		4,810,767	845,024
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	27.2	8,398,129	10,248,329
Others		4,838,290	5,094,094
		29,961,821	27,645,491
		33,044,899	29,482,464

27.1 It represents markup suspended recoverable from Government of Bangladesh (formerly East Pakistan) which is subject to the final settlement between the Governments of Pakistan and Bangladesh.

27.2	Other accruals and provisions	2011	2010
		(Rupees in '000)	
	Agency commission	1,266,969	4,908,686
	Provision for employees' compensated absences	964,522	794,995
	Provision for other doubtful assets	2,950,891	2,870,068
	Other provisions	2,210,094	1,106,640
	Others	1,005,653	567,940
		8,398,129	10,248,329

27.2.1 It includes Rs. 2,464 million (2010: Rs. 2,383 million) relating to net assets recoverable from the Reserve Bank of India, the Government of India and those pertaining to transactions in Bangladesh (former East Pakistan).

27.3	Movement of other provisions	2011	2010
		(Rupees in '000)	
	Opening balance	1,106,640	1,801,999
	Payments during the year	-	(648,493)
	Provision during the year	1,106,326	75
	Reversed during the year	(2,872)	(46,941)
	Closing balance	2,210,094	1,106,640

	Home remittance	Agriculture loan	Specific claims (note 27.3.2)	Others (note 27.3.1)	Total
	----- (Rupees in '000) -----				
Opening balance	260,363	259,126	493,674	93,477	1,106,640
Reversed during the year	-	-	-	(2,872)	(2,872)
Charge during the year	-	-	1,106,326	-	1,106,326
Closing balance	<u>260,363</u>	<u>259,126</u>	<u>1,600,000</u>	<u>90,605</u>	<u>2,210,094</u>

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

27.3.2 This includes provision made against a claim under arbitration.

28. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS	Note	2011 (Rupees in '000)	2010
Unfunded gratuity scheme		1,455	(1,465)
Pension		4,039,153	3,200,467
Benevolent fund scheme		276,300	260,105
Post retirement medical benefits		1,282,186	1,103,641
	43.5.3	5,599,094	4,562,748
Provident fund scheme		216,966	323,725
Employee gratuity fund	28.1	37,235	25,882
		5,853,295	4,912,355

28.1 It represents payable to Employees Contributory Gratuity fund.

29. DEFERRED INCOME	Note	2011 (Rupees in '000)	2010
Opening balance		17,718	193,549
Grants received during the year		-	6,386
Amortisation during the year	40	(17,718)	(182,217)
Closing balance		-	17,718

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

30. SHARE CAPITAL

2011 (Number of shares)	2010		2011 (Rupees in '000)	2010
Authorised share capital				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	100,000	100,000
Issued, subscribed and paid-up capital				
1,000,000	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.

31. RESERVES

31.1 Reserve Fund

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

31.2 Other Funds

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

32. UNREALISED APPRECIATION ON GOLD RESERVES

	Note	2011 (Rupees in '000)	2010
Opening balance		220,183,593	156,772,429
Appreciation on revaluation during the year:			
- held by the Bank	5	47,985,571	62,398,884
- held with the Reserve Bank of India	13	778,455	1,012,280
		48,764,026	63,411,164
		<u>268,947,619</u>	<u>220,183,593</u>

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

33. CONTINGENCIES AND COMMITMENTS

33.1 Contingencies

	2011 (Rupees in '000)	2010
a) Contingent liability in respect of guarantees given on behalf of:		
Federal government	49,273,925	57,158,658
Federal government owned / controlled bodies and authorities	7,754,371	8,070,571
	<u>57,028,296</u>	<u>65,229,229</u>

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

- b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme. The Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. During the previous 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.

	2011 (Rupees in '000)	2010
c) Other claims against the Bank not acknowledged as debts	<u>533,231</u>	<u>986,800</u>
33.2 Commitments		
Forward exchange contracts - sales	<u>221,851,605</u>	<u>260,565,722</u>
Forward exchange contracts - purchases	<u>234,837,376</u>	<u>111,319,588</u>
Futures - sale	<u>3,481,803</u>	<u>70,179</u>
Futures - purchase	<u>7,885,090</u>	<u>69,084</u>

34. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED	2011	2010
	(Rupees in '000)	
Discount income	172,726,351	148,495,682
Other Government securities	90,419	86,577
Loans and advances to Government	14,085,289	14,935,588
Share of profit on finances under profit and loss sharing arrangements	19,611,882	15,054,741
Foreign currency deposits	3,314,271	2,072,884
Foreign currency securities	5,697,858	5,133,035
Others	125,930	146,259
	<u>215,652,000</u>	<u>185,924,766</u>
35. INTEREST / MARK-UP EXPENSE		
Deposits	12,017,880	9,657,413
Others	1,376,004	744,553
	<u>13,393,884</u>	<u>10,401,966</u>
36. COMMISSION INCOME		
Market Treasury Bills	368,547	144,718
Draft / payment orders	784,944	715,593
Prize Bonds and National Saving Certificates	267,295	228,759
Management of public debts	204,873	52,204
Others	332,669	311,478
	<u>1,958,328</u>	<u>1,452,752</u>
37. EXCHANGE GAIN - net		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	53,169,732	9,744,759
- Open market operations (including currency swap arrangements)	-	(45,476)
- Forward covers under Exchange Risk Coverage Scheme	22,203	(4,096)
- Payable to IMF	(44,765,738)	2,280,637
- Special Drawing Rights of IMF	(6,625,640)	(390,496)
- Others	22,000	79
	<u>1,822,557</u>	<u>11,585,407</u>
Exchange risk fee income	104,776	125,509
	<u>1,927,333</u>	<u>11,710,916</u>
38. PROFIT EARNED THROUGH SUBSIDIARIES		
SBP Banking Services Corporation	70,335	63,605
National Institute of Banking and Finance (Guarantee) Limited	92,659	75,967
	<u>162,994</u>	<u>139,572</u>
The above represents the profit of subsidiaries for the year ended June 30, 2011 transferred to the Bank in accordance with the arrangements mentioned in note 43.3.		
39. OTHER OPERATING (LOSS)/INCOME- net	2011	2010
	(Rupees in '000)	
Penalties levied on banks and financial institutions	1,221,990	1,450,696
License / Credit Information Bureau fee recovered	109,418	64,901
Gain/(loss) on sale of investment:		
Local	5,542	2,202
Foreign	1,666,093	(1,737,657)
	<u>1,671,635</u>	<u>(1,735,455)</u>
(Loss) / gain on remeasurement of securities classified as held for trading	(14,590,633)	10,639,847
Others	(11,027)	(30,687)
	<u>(11,598,617)</u>	<u>10,389,302</u>

40. OTHER (CHARGES) / INCOME - NET	2011	2010
	(Rupees in '000)	
Gain /(loss) on disposal of property and equipment	2,960	(5,041)
Liabilities and provisions written back - net	1,218	41,578
Amortisation of deferred income	17,718	182,217
Charges on allocation of Special Drawing Rights of IMF	(540,922)	(278,181)
Others	77,055	124,356
	<u>(441,971)</u>	<u>64,929</u>

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 0.13% (2010: 0.15%) of the total amount of collection and remittances handled by NBP.

43. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	Note	2011	2010
		(Rupees in '000)	
Salaries and other benefits		1,932,166	1,750,635
Retirement benefits and employees' compensated absences		2,112,173	1,833,585
Contribution to SBP Employees' Welfare Trust		-	10,000
Rent and taxes		23,484	74,745
Insurance		14,656	19,991
Electricity, gas and water		37,546	55,233
Depreciation	19.1	890,301	784,609
Amortisation of intangible assets	20	33,593	75,588
Repairs and maintenance		326,568	345,350
Auditors' remuneration	43.4	5,020	3,430
Legal and professional		370,441	361,712
Traveling and recreation expenses		104,989	102,738
Daily expenses		43,794	47,767
Fuel		41,901	35,834
Conveyance		4,537	4,270
Postages, telegram / telex and telephone		149,476	156,902
Training		9,085	34,234
Examination/ testing services		-	6,513
Stationery		11,534	12,876
Books and newspapers		25,886	24,917
Advertisement		3,445	6,728
Uniforms		2,000	1,957
Others		84,291	57,910
		<u>6,226,886</u>	<u>5,807,524</u>
Expenses allocated by:			
SBP Banking Services Corporation	43.1	3,969,298	4,097,096
National Institute of Banking and Finance (Guarantee) Limited		6,123	3,035
		3,975,421	4,100,131
Expenses reimbursed to:			
SBP Banking Services Corporation	43.2	5,339,211	5,007,396
National Institute of Banking and Finance (Guarantee) Limited		126,081	167,506
		5,465,292	5,174,902
		<u>15,667,599</u>	<u>15,082,557</u>
43.1 Expenses allocated by SBP Banking Services Corporation			
Retirement benefits and employees' compensated absences		3,890,155	4,028,095
Depreciation		79,143	69,001
		<u>3,969,298</u>	<u>4,097,096</u>

43.2	Expenses reimbursed to SBP Banking Services Corporation	Note	2011 (Rupees in '000)	2010
	Salaries and other benefits		4,595,936	4,308,823
	Rent and taxes		9,918	9,533
	Insurance		5,093	3,481
	Electricity, gas and water		199,705	179,409
	Repairs and maintenance		16,815	20,706
	Auditors' remuneration	43.4	5,100	4,570
	Legal and professional		6,066	4,838
	Traveling expenses		12,130	8,908
	Daily expenses		21,759	13,909
	Recreation allowance		161,912	167,059
	Fuel		2,644	2,287
	Conveyance		6,862	5,246
	Postage and telephone		15,825	15,734
	Training		31,126	20,695
	Remittance of treasure		38,527	33,917
	Stationery		12,508	10,327
	Books and newspapers		1,368	1,560
	Advertisement		4,225	3,345
	Bank guards		98,258	91,033
	Uniforms		16,707	19,180
	Others		76,727	82,836
			5,339,211	5,007,396

43.3 SBP Banking Services Corporation (the Corporation), a wholly owned subsidiary of the Bank, carries out certain functions and activities principally relating to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly, under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while profit of the Corporation for the year ended June 30, 2011, as mentioned in note 38, has also been transferred to the Bank. Similar treatment is also followed by the other subsidiary, National Institute of Banking and Finance (Guarantee) Limited, under arrangements mutually agreed with the Bank.

43.4 Auditors' remuneration

	2011			2010		
	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total
	----- (Rupees in '000) -----					
State Bank of Pakistan						
Audit fee	2,125	2,125	4,250	1,429	1,429	2,858
Out of pocket expenses	385	385	770	286	286	572
	2,510	2,510	5,020	1,715	1,715	3,430
SBP Banking Services Corporation						
Audit fee	1,725	1,725	3,450	1,571	1,571	3,142
Out of pocket expenses	825	825	1,650	714	714	1,428
	2,550	2,550	5,100	2,285	2,285	4,570
	5,060	5,060	10,120	4,000	4,000	8,000

43.5 Staff retirement benefits

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

- Expected rate of increase in grants and contributions 6.00% (2010: 6.00%) per annum.
- Expected rate of discount 14.00% (2010: 14.0%) per annum.
- Expected rate of increase in salary 12.00% (2010: 12.0%) per annum.
- Expected rate of increase in pension 8.00% (2010: 8.0%) per annum.
- Medical cost increase 9.00% (2010: 9.0%) per annum.
- Personnel turnover 2.60% (2010: 2.0%) per annum.

43.5.2 Present value of the defined benefit obligations

Present values of obligations under the retirement benefit schemes and liabilities recognised there against for the past services of the employees at June 30, 2011 based on actuarial valuation as of that date was as follows: -

		2011		
	Note	Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognized liabilities
------(Rupees in '000)-----				
Gratuity	43.5.5	9,794	(8,339)	1,455
Pension	43.5.5	9,692,032	(5,652,879)	4,039,153
Benevolent	43.5.5	427,280	(150,980)	276,300
Post retirement medical benefits	43.5.5	2,940,018	(1,657,832)	1,282,186
		13,069,124	(7,470,030)	5,599,094

		2010		
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognized liabilities
------(Rupees in '000)-----				
Gratuity	43.5.5	6,888	(8,353)	(1,465)
Pension	43.5.5	8,323,797	(5,123,330)	3,200,467
Benevolent	43.5.5	360,457	(100,352)	260,105
Post retirement medical benefits	43.5.5	2,348,166	(1,244,525)	1,103,641
		11,039,308	(6,476,560)	4,562,748
		11,039,308	(6,476,560)	4,562,748

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

2011					
	Net recognised liabilities at July 1, 2010	Charge for the year (note 43.5.4)	Payments during the year	Employees contribution/ Amount transferred	Net recognised liabilities at June 30, 2011
	------(Rupees in '000)-----				
Gratuity	(1,465)	2,629	291	-	1,455
Pension	3,200,467	1,469,204	(630,518)	-	4,039,153
Benevolent	260,105	59,043	(46,751)	3,903	276,300
Post retirement medical benefits	1,103,641	439,109	(260,564)	-	1,282,186
	4,562,748	1,969,985	(937,542)	3,903	5,599,094
2010					
	Net recognised liabilities at July 1, 2009	Charge for the year (note 43.5.4)	Payments during the year	Employees contribution / amount transferred	Net recognised liabilities at June 30, 2010
	------(Rupees in '000)-----				
Gratuity	(4,009)	2,424	120	-	(1,465)
Pension	2,900,124	1,002,668	(702,325)	-	3,200,467
Benevolent	247,521	58,361	(49,712)	3,935	260,105
Post retirement medical benefits	815,886	457,966	(170,211)	-	1,103,641
	3,959,522	1,521,419	(922,128)	3,935	4,562,748

43.5.4 Amount recognised in the profit and loss account

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

	2011					
	Current service cost	Interest cost	Past service cost	Actuarial loss recognised	Employees contributions	Total
	------(Rupees in '000)-----					
Gratuity	878	985	-	766	-	2,629
Pension	102,721	1,121,195	(61,208)	306,496	-	1,469,204
Benevolent	10,808	47,191	-	4,947	(3,903)	59,043
Post retirement medical benefits	44,463	310,504	-	84,142	-	439,109
	158,870	1,479,875	(61,208)	396,351	(3,903)	1,969,985

	2010				
	Current service cost	Interest cost	Settlement and curtailment	Actuarial loss recognised	Employees contributions
	Total				
	----- (Rupees in '000) -----				
Gratuity	1,380	400	-	644	-
Pension	140,959	778,331	-	83,378	-
Benevolent	8,534	50,921	-	2,841	(3,935)
Post retirement medical benefits	36,392	290,719	-	130,855	-
	<u>187,265</u>	<u>1,120,371</u>	<u>-</u>	<u>217,718</u>	<u>(3,935)</u>
		2011	2010	2009	2008
		----- (Rupees in '000) -----			
					2007

43.5.5 Historical information

Gratuity

Present value of defined benefit obligation	9,794	6,888	3,077	15,805	16,461
Unrecognised actuarial loss	(8,339)	(8,353)	(7,086)	(3,508)	(5,506)
Net recognised liability/(asset) in balance sheet	<u>1,455</u>	<u>(1,465)</u>	<u>(4,009)</u>	<u>12,297</u>	<u>10,955</u>
Experience adjustment arising on plan liabilities losses/(gain)	<u>(753)</u>	<u>1,911</u>	<u>(3,870)</u>	<u>(1,574)</u>	<u>-</u>

Pension

Present value of defined benefit obligation	9,692,032	8,323,797	3,650,528	3,524,735	3,310,692
Unrecognised actuarial loss	(5,652,879)	(5,123,330)	(750,404)	(603,254)	(341,620)
Net recognised liability in balance sheet	<u>4,039,153</u>	<u>3,200,467</u>	<u>2,900,124</u>	<u>2,921,481</u>	<u>2,969,072</u>
Experience adjustment arising on plan liabilities loss/(gain)	<u>(844,953)</u>	<u>4,456,304</u>	<u>201,991</u>	<u>290,103</u>	<u>-</u>

Benevolent Fund

Present value of defined benefit obligation	427,280	360,457	284,458	373,021	362,583
Unrecognised actuarial loss	(150,980)	(100,352)	(36,937)	(135,422)	(119,827)
Net recognised liability in balance sheet	<u>276,300</u>	<u>260,105</u>	<u>247,521</u>	<u>237,599</u>	<u>242,756</u>
Experience adjustment arising on plan liabilities loss/(gain)	<u>(55,575)</u>	<u>66,256</u>	<u>(88,812)</u>	<u>23,583</u>	<u>-</u>

Post Retirement Medical Benefits

Present value of defined benefit obligation	2,940,018	2,348,166	2,124,433	2,228,249	1,724,026
Unrecognised actuarial loss	(1,657,832)	(1,244,525)	(1,308,547)	(1,656,925)	(1,288,813)
Net recognised liability in balance sheet	<u>1,282,186</u>	<u>1,103,641</u>	<u>815,886</u>	<u>571,324</u>	<u>435,213</u>
Experience adjustment arising on plan liabilities losses/(gains)	<u>(497,449)</u>	<u>66,833</u>	<u>(237,916)</u>	<u>448,663</u>	<u>-</u>

43.6 Employees' compensated absences

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 964.522 million (2010 : Rs. 794.99 million). An amount of Rs. 194.255 million (2010: Rs. 261.16 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

	2011	2010
	(Rupees in '000)	
44. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS		
Profit for the year	180,975,738	186,735,838
Adjustments for:		
Depreciation	890,301	784,609
Amortisation of intangible assets	33,593	75,588
Amortisation of deferred income	(17,718)	(182,217)
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	2,112,173	1,833,585
- loans, advances and other assets	(510,848)	(1,239,459)
- other doubtful assets	80,823	74,639
- diminution in value of investments	(57,881)	-
(Gain) / loss on disposal of property, plant and equipment	(2,960)	5,041
Gain on disposal of investments	(5,542)	(2,202)
Dividend income	(11,923,782)	(9,513,278)
	<u>171,573,897</u>	<u>178,572,144</u>

	2011	2010
	(Rupees in '000)	
45. CASH AND CASH EQUIVALENTS		
Local currency	2,379,859	2,490,947
Foreign currency reserves	1,287,949,760	1,093,182,469
Earmarked foreign currency balances	75,464,270	13,171,542
Special Drawing Rights of IMF	102,188,403	107,537,965
	1,467,982,292	1,216,382,923

46. RELATED PARTY TRANSACTIONS

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

46.1 Governments and related entities

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

46.2 Subsidiaries of the Bank

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

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

It is responsible for carrying out certain statutory and administrative functions and activities principally relating to public dealing on behalf of the State Bank of Pakistan.

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

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

46.3 Remuneration to key management personnel

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

	2011	2010
	(Rupees in '000)	
See below for the relevant information		
Short-term employee benefit	109,567	58,197
Post-employment benefit	30,401	25,781
Loans disbursed during the year	55,596	37,256
Loans repaid during the year	16,595	24,439
Director's fees	751	2,035

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

47.1 Credit risk management

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

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

47.2.1

47.2.1	2011						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Local currency (including rupee coins)	-	-	-	2,379,859	-	2,379,859	2,379,859
Foreign currency reserves	1,287,886,687	-	1,287,886,687	253,412	640,175	893,587	1,288,780,274
Earmarked foreign currency balance	-	-	-	75,464,270	-	75,464,270	75,464,270
Special Drawing Rights of International Monetary Fund	102,188,403	-	102,188,403	-	-	-	102,188,403
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	16,392	16,392	16,392
Securities purchased under agreement to resale	63,660,336	-	63,660,336	-	-	-	63,660,336
Current account of the Government of AJK	586,181	-	586,181	-	-	-	586,181
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	104,997	-	104,997	104,997
Investments	1,363,117,299	2,740,000	1,365,857,299	-	21,341,965	21,341,965	1,387,199,264
Loans, advances and bills of exchange	230,166,792	117,988,530	348,155,322	18,535,005	7,710,072	26,245,077	374,400,399
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	827,549	-	827,549	827,549
Assets held with the Reserve Bank of India	-	-	-	478,919	-	478,919	478,919
Balances due from the Governments of India and Bangladesh (former East Pakistan)	5,452,302	-	5,452,302	837	-	837	5,453,139
Other assets	-	-	-	7,860,515	-	7,860,515	7,860,515
	3,053,058,000	120,728,530	3,173,786,530	105,905,363	29,708,604	135,613,967	3,309,400,497
Financial liabilities							
Bank notes in circulation	-	-	-	1,599,988,045	-	1,599,988,045	1,599,988,045
Bills payable	-	-	-	780,155	-	780,155	780,155
Current accounts of the Government	-	-	-	217,968,067	-	217,968,067	217,968,067
Securities sold under an agreement to repurchase	-	-	-	-	-	-	-
Current account with SBP Banking Services Corporation- a subsidiary	-	-	-	6,033,302	-	6,033,302	6,033,302
Deposits of banks and financial institutions	-	-	-	349,426,939	-	349,426,939	349,426,939
Other deposits and accounts	77,960,149	55,877,445	133,837,594	44,312,353	11,012,500	55,324,853	189,162,447
Payable to International Monetary Fund	239,223,362	493,540,978	732,764,340	-	-	-	732,764,340
Other liabilities	-	-	-	33,044,899	-	33,044,899	33,044,899
	317,183,511	549,418,423	866,601,934	2,251,553,760	11,012,500	2,262,566,260	3,129,168,194
On balance sheet gap	2,735,874,489	(428,689,893)	2,307,184,596	(2,145,648,397)	18,696,104	(2,126,952,293)	180,232,303
Forward exchange contracts - sales	-	-	-	(221,851,605)	-	(221,851,605)	(221,851,605)
Forward exchange contracts - purchases	-	-	-	234,837,376	-	234,837,376	234,837,376
Futures - sale	-	-	-	(3,481,803)	-	(3,481,803)	(3,481,803)
Futures - purchase	-	-	-	7,885,090	-	7,885,090	7,885,090
Off balance sheet gap	-	-	-	17,389,058	-	17,389,058	17,389,058
Total yield/Interest Risk Sensitivity Gap	2,735,874,489	(428,689,893)	2,307,184,596	(2,163,037,455)	18,696,104	(2,144,341,351)	162,843,245
Cumulative Yield/Interest Risk Sensitivity Gap	2,735,874,489	2,307,184,596	4,614,369,192	2,451,331,737	2,470,027,841	325,686,490	325,686,490

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

	2010						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Local currency (including rupee coins)	-	-	-	2,490,947	-	2,490,947	2,490,947
Foreign currency reserves	1,093,182,437	586,663	1,093,769,100	243,534	-	243,534	1,094,012,634
Earmarked foreign currency balance	-	-	-	13,171,542	-	13,171,542	13,171,542
Special Drawing Rights of International Monetary Fund	107,537,965	-	107,537,965	-	-	-	107,537,965
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	15,054	15,054	15,054
Securities purchased under agreement to resale	30,845,284	-	30,845,284	-	-	-	30,845,284
Current account of the Government of Punjab	3,936,712	-	3,936,712	-	-	-	3,936,712
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	74,558	-	74,558	74,558
Investments	1,161,638,060	3,036,065	1,164,674,125	-	21,551,102	21,551,102	1,186,225,227
Loans, advances and bills of exchange	206,808,757	121,804,926	328,613,683	59,805,860	4,654,374	64,460,234	393,073,917
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	789,437	-	789,437	789,437
Assets held with the Reserve Bank of India	-	-	-	447,983	-	447,983	447,983
Balances due from the Governments of India and Bangladesh (former East Pakistan)	4,968,624	-	4,968,624	837	-	837	4,969,461
Other assets	-	-	-	5,537,300	-	5,537,300	5,537,300
	2,608,917,839	125,427,654	2,734,345,493	82,561,998	26,220,530	108,782,528	2,843,128,021
Financial liabilities							
Bank notes in circulation	-	-	-	1,377,394,897	-	1,377,394,897	1,377,394,897
Bills payable	-	-	-	589,249	-	589,249	589,249
Current accounts of the Government	-	-	-	42,584,981	-	42,584,981	42,584,981
Securities sold under an agreement to repurchase	23,116,035	-	23,116,035	-	-	-	23,116,035
Current account with SBP Banking Services Corporation- a subsidiary	-	-	-	3,383,274	-	3,383,274	3,383,274
Deposits of banks and financial institutions	-	-	-	289,566,182	-	289,566,182	289,566,182
Other deposits and accounts	30,537,009	85,403,300	115,940,309	69,184,243	11,012,500	80,196,743	196,137,052
Payable to International Monetary Fund	21,775,319	672,995,239	694,770,558	-	-	-	694,770,558
Other liabilities	-	-	-	33,044,899	-	20,541,936	20,541,936
	75,428,363	758,398,539	833,826,902	1,815,747,725	11,012,500	1,814,257,262	2,648,084,164
On balance sheet gap (a)	2,533,489,476	(632,970,885)	1,900,518,591	(1,733,185,727)	15,208,030	(1,705,474,734)	195,043,857
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	2,533,489,476	(632,970,885)	1,900,518,591	(1,583,938,498)	15,208,030	(1,556,227,505)	344,291,086
Cumulative Yield/Interest Risk Sensitivity Gap	2,533,489,476	1,900,518,591	3,801,037,182	2,229,601,647	2,244,809,677	688,582,172	688,582,172

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

47.3 Currency risk management

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

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

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

47.4 Liquidity risk management

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

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

47.5 Portfolio risk management

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

48. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the financial instruments reflected in the unconsolidated financial statements approximates their fair value, except strategic investments as mentioned in note 11.3.1 which are carried at cost less permanent impairment in value, if any.

49. IMPACT OF IAS 39 AND IFRS 7

Although the Bank has not adopted International Accounting Standard IAS-39 "Financial Instruments: Recognition and Measurement" (IAS 39) and International Financial Reporting Standard IFRS-7 "Financial Instruments : Disclosures" (IFRS 7) for the year ended June 30, 2011, however, impacts of these standards are disclosed in Annexure - A to the financial statements.

50. DATE OF AUTHORISATION

These unconsolidated financial statements were authorised for issue on 8th October 2011, by the Central Board of Directors of the Bank.

51. CORRESPONDING FIGURES

Corresponding figures have been reaaranged and reclassified, wherever necessary for the purpose of better presentation and comparison.

FROM	TO	(Rupees in '000)
Foreign currency reserves - Current accounts	Foreign currency reserves - Securities purchased under agreement to resale	333,064,330
Foreign currency reserves - Current accounts	Foreign currency reserves - Deposit accounts	37,216,216
Other assets - Accrued interest / mark-up, discount and return	Other Liabilities - Accrued interest and discount on deposits	145,363
Discount, Interest / Markup - Foreign currency securities	Discount, Interest / Markup - Foreign currency deposits	186,431
Discount, Interest / Markup - Discount income	Interest / mark-up expense - Other	704,205

52. GENERAL

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

Yaseen Anwer
Acting Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

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

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

As at June 30, 2011							
As per Existing Accounting Framework				Under IAS 39			
Note	Issue	Banking	Total	Reclassifications	Remeasurements	Total	
	Department	Department		(Rs. in '000)			
ASSETS							
Local currency	9	2,225,301	154,558	2,379,859	-	-	2,379,859
Foreign currency reserves	6	400,387,512	888,392,762	1,288,780,274	898,595	-	1,289,678,869
Earmarked foreign currency balances	15	-	75,464,270	75,464,270	-	-	75,464,270
Special Drawing Rights of the International Monetary Fund	7	6,869,850	95,318,553	102,188,403	-	-	102,188,403
Securities purchased under resale agreements	10	-	63,660,336	63,660,336	33,568	-	63,693,904
Current account with Government of AJK	22	-	586,181	586,181	-	-	586,181
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		-	104,997	104,997	-	-	104,997
Investments	11	916,804,517	470,394,747	1,387,199,264	41,100	120,458,858	1,507,699,222
Loans, advances and bills of exchange	17	-	374,321,899	374,321,899	30,089,501	(74,240,285)	330,171,115
Reserve tranche with the IMF under quota arrangements	16	-	16,392	16,392	-	-	16,392
Indian notes representing asset receivable from the Reserve Bank of India	8	827,549	-	827,549	(827,549)	-	-
Commercial papers held in Bangladesh	12	78,500	-	78,500	(78,500)	-	-
Assets held with the Reserve Bank of India	13	4,825,442	-	4,825,442	(4,825,442)	-	-
Balances due from Governments of India and Bangladesh	18	-	6,312,679	6,312,679	(6,312,679)	-	-
Gold reserves	5	267,969,374	-	267,969,374	-	-	267,969,374
Property and equipment	19	-	24,446,771	24,446,771	-	-	24,446,771
Intangible assets	20	-	21,495	21,495	-	-	21,495
Other assets	21	-	7,883,698	7,883,698	(31,883,605)	-	(23,999,907)
TOTAL ASSETS		1,599,988,045	2,007,079,338	3,607,067,383	(12,865,011)	46,218,573	3,640,420,945
LIABILITIES AND EQUITY							
LIABILITIES							
Bills payable		-	780,155	780,155	-	-	780,155
Bank notes issued	14	1,599,988,045	-	1,599,988,045	-	-	1,599,988,045
Deposits of banks and financial institutions	24	-	349,426,939	349,426,939	(52)	-	349,426,887
Other deposits and accounts	25	-	189,162,447	189,162,447	233,201	-	189,395,648
Securities sold under repurchase agreements	23	-	-	-	-	-	-
Current accounts of Governments	22	-	217,968,067	217,968,067	-	-	217,968,067
Current account of SBP Banking Services Corporation- a subsidiary		-	6,033,302	6,033,302	-	-	6,033,302
Payable to the International Monetary Fund	26	-	732,764,340	732,764,340	2,022,772	-	734,787,112
Deferred liability - staff retirement benefits	28	-	5,853,295	5,853,295	-	-	5,853,295
Deferred income	29	-	-	-	-	-	-
Other liabilities	27	-	33,044,899	33,044,899	(10,774,408)	-	22,270,491
Total liabilities		1,599,988,045	1,535,033,444	3,135,021,489	(8,518,487)	-	3,126,503,002
EQUITY							
Share capital		-	100,000	100,000	-	-	100,000
Statutory reserves		-	177,019,871	177,019,871	-	(13,000,000)	164,019,871
Unrealised appreciation on gold reserves		-	268,947,619	268,947,619	(4,346,524)	-	264,601,095
Surplus on revaluation of property and equipment		-	25,978,404	25,978,404	-	-	25,978,404
Surplus on revaluation of securities		-	-	-	-	120,458,858	120,458,858
Unappropriated profit		-	-	-	-	(61,240,285)	(61,240,285)
Equity and reserves		-	472,045,894	472,045,894	(4,346,524)	46,218,573	513,917,943
TOTAL LIABILITIES AND EQUITY		1,599,988,045	2,007,079,338	3,607,067,383	(12,865,011)	46,218,573	3,640,420,945

Impact of IAS 39 on Profit and Loss Account items:

		As at June 30, 2011		
Note		Existing Framework	Reclassifications	Under IAS 39
		(Rs. in '000)		
Discount, interest / mark-up and / or return earned	34	215,652,000	-	215,652,000
Less: Interest / mark-up expense	35	(13,393,884)	-	(13,393,884)
		202,258,116		202,258,116
Commission income	36	1,958,328	-	1,958,328
Exchange gain - net	37	1,927,333	(1,927,333)	-
Net foreign exchange gain		-	1,983,987	1,983,987
Net (loss)/gain on financial instruments designated at fair value		-	(12,981,194)	(12,981,194)
Dividend income		11,923,782	-	11,923,782
Other operating income - net	39	(11,598,617)	12,482,569	883,952
Other income - net	40	(441,971)	441,971	-
Total operating income		206,026,971		206,026,971
Less:				
Impairment (charge)/ reversal of:				
- loans, advances and other assets		(510,848)	-	1,689,152
- provision against claims		1,106,326	-	1,106,326
- diminution in value of investments		84,162	-	84,162
- other doubtful assets		80,823	-	80,823
		760,463		2,960,463
Net operating income		205,266,508		203,066,508
Less: Operating expenses				
Bank notes printing charges	41	4,575,741	-	4,575,741
Agency commission	42	4,210,424	-	4,210,424
General, administrative and other expenses	43	15,667,599	-	15,667,599
OPERATING PROFIT		180,812,744		178,612,744
Share of profit from subsidiaries	38	162,994	-	162,994
PROFIT FOR THE YEAR		180,975,738	2,200,000	178,775,738

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

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

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

	Amount Rs. '000
Profit for the Financial Year 2010-11 as per Previous GAAP	180,975,738
Profit for the Financial Year 2010-11 as per IAS 39	178,775,738

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

Un-Appropriated profit for the Financial Year 2010-11 as per Previous GAAP	-
Add: Appropriation held in reserve fund	
- For the year ended June 30, 2007	5,260,128
- For the year ended June 30, 2008	7,739,872
- For the year ended June 30, 2009	-
- For the year ended June 30, 2010	-
	13,000,000
Less: Impairment on loans and advances	(74,240,285)
Un-Appropriated profit for the Financial Year 2010-11 as per IAS 39	(61,240,285)

Yaseen Anwer
Acting Governor

Muhammad Kamran Shehzad
Deputy Governor

Muhammad Haroon Rasheed
Executive Director