

**ERNST & YOUNG FORD RHODES SIDAT
HYDER**
Chartered Accountants
Progressive Plaza
Beaumont Road
P.O.Box 15541
Karachi

KPMG TASEER HADI & CO.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi

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 sheet as at 30 June 2012 and unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows 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 4.2, 4.3, 4.6 and 4.17 respectively, to the unconsolidated financial statements approved for adoption by the Central Board of the Bank 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 audit opinion.

**ERNST & YOUNG FORD RHODES SIDAT
HYDER**
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the Bank as at 30 June 2012 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 4.2, 4.3, 4.6 and 4.17 respectively, to the unconsolidated financial statements approved for adoption by the Central Board of the Bank.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner
Date: October 05, 2012

Mohammad Mahmood Hussain
Audit Engagement Partner

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2012

	Note	2012	2011 (Restated)	2010 (Restated)
----- (Rupees in '000) -----				
ASSETS				
Gold reserves held by the Bank	5	313,077,419	267,969,374	219,942,435
Local currency - coins	6	1,814,196	2,225,301	2,373,520
Foreign currency reserves	7	1,038,341,770	1,288,780,274	1,094,012,634
Earmarked foreign currency balances	8	4,994,808	75,464,270	13,171,542
Special Drawing Rights of the International Monetary Fund	9	91,334,177	102,188,403	107,537,965
		1,449,562,370	1,736,627,622	1,437,038,096
Reserve tranche with the International Monetary Fund				
under quota arrangements	10	17,104	16,392	15,054
Securities purchased under agreement to resale	11	112,898,648	63,660,336	30,845,284
Current accounts of Governments	20.2	12,744,407	586,181	3,936,712
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		151,567	104,997	74,558
Investments	12	1,827,165,865	1,387,199,264	1,185,722,163
Loans, advances, bills of exchange and commercial papers	13	329,074,462	374,400,399	386,165,160
Assets held with the Reserve Bank of India	14	6,311,529	5,652,991	4,805,488
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	6,797,433	6,312,679	5,829,001
Property and equipment	16	23,169,202	24,446,771	17,725,879
Intangible assets	17	30,882	21,495	47,758
Other assets	18	5,810,215	7,883,698	5,682,663
Total assets		3,773,733,684	3,606,912,825	3,077,887,816
LIABILITIES				
Bank notes in circulation	19	1,776,962,388	1,599,833,487	1,377,277,470
Bills payable		587,542	780,155	589,249
Current accounts of the Governments	20	148,815,907	217,968,067	42,584,981
Current account with SBP Banking Services Corporation- a subsidiary		7,453,254	6,033,302	3,383,274
Securities sold under agreement to repurchase	21	12,240,388	-	23,116,035
Deposits of banks and financial institutions	22	396,172,467	349,426,939	289,566,182
Other deposits and accounts	23	152,856,723	189,162,447	196,137,052
Payable to the International Monetary Fund	24	656,185,305	732,764,340	694,770,558
Other liabilities	25	103,802,927	33,108,662	29,659,345
		3,255,076,901	3,129,077,399	2,657,084,146
Deferred liability - staff retirement benefits	26	7,093,070	5,789,532	4,735,474
Deferred income		-	-	17,718
Total liabilities		3,262,169,971	3,134,866,931	2,661,837,338
Net assets		511,563,713	472,045,894	416,050,478
REPRESENTED BY				
Share capital	27	100,000	100,000	100,000
Reserves	28	175,919,871	177,019,871	149,181,864
Unappropriated profit		-	-	27,838,007
		176,019,871	177,119,871	177,119,871
Unrealised appreciation on gold reserves	29	309,565,438	268,947,619	220,183,593
Surplus on revaluation of property and equipment	16.2	25,978,404	25,978,404	18,747,014
Total equity		511,563,713	472,045,894	416,050,478

CONTINGENCIES AND COMMITMENTS

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Pursuant to section 26 (1) of SBP Act, 1956, the assets of the Bank specifically earmarked against the liabilities of the issue department have been detailed in note 19.1 of these financial statements.

The annexed notes from 1 to 48 form an integral part of these unconsolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Muktedir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
Discount, interest / mark-up and / or return earned	31	236,191,296	215,652,000
Less: Interest / mark-up expense	32	(11,338,230)	(13,393,884)
		224,853,066	202,258,116
Commission income	33	1,952,783	1,958,328
Exchange gain - net	34	42,827,638	1,927,333
Dividend income		15,697,821	11,923,782
Profit earned through subsidiaries	35	171,966	162,994
Other operating income / (loss) - net	36	9,033,651	(11,598,617)
Other charges - net	37	(210,179)	(441,971)
		294,326,746	206,189,965
Less: Direct operating expenses			
- Bank notes printing charges	38	5,689,829	4,575,741
- Agency commission	39	5,953,743	4,210,424
- General administrative and other expenses	40	20,159,546	15,667,599
- Provision for / (reversal of provision) against:			
▪ loans, advances and other assets		-	(510,848)
▪ claims	25.2.2	1,885,143	1,106,326
▪ diminution in value of investments	12.3	(59,212)	84,162
▪ other doubtful assets	25.2.1	(102,415)	80,823
		1,723,516	760,463
		33,526,634	25,214,227
PROFIT FOR THE YEAR		260,800,112	180,975,738

The annexed notes from 1 to 48 form an integral part of these unconsolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Muktadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2012

	2012	2011
	(Rupees in '000)	
Profit for the year	260,800,112	180,975,738
Other comprehensive income		
Unrealised appreciation on gold reserves	44,962,441	48,764,026
Surplus on revaluation of property and equipment	-	7,231,390
	44,962,441	55,995,416
Total comprehensive income for the year	305,762,553	236,971,154

The annexed notes from 1 to 48 form an integral part of these unconsolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Muktadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012

	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, 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
Other comprehensive income											
- 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)
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
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	260,800,112	-	-	260,800,112
Other comprehensive income											
- Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	44,962,441	-	44,962,441
	-	-	-	-	-	-	-	260,800,112	44,962,441	-	305,762,553
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Transferred to the Government of Pakistan	-	-	-	-	-	-	-	(261,890,112)	-	-	(261,890,112)
	-	-	-	-	-	-	-	(261,900,112)	-	-	(261,900,112)
Others											
Transferred from reserve fund	-	(1,100,000)	-	-	-	-	-	1,100,000	-	-	-
Revaluation reserve relating to gold reserves held by the Reserve Bank of India transferred to provision for other doubtful assets (Note 25.2.1)	-	-	-	-	-	-	-	-	(4,344,622)	-	(4,344,622)
	-	(1,100,000)	-	-	-	-	-	1,100,000	(4,344,622)	-	(4,344,622)
Balance as at June 30, 2012	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	309,565,438	25,978,404	511,563,713

The annexed notes from 1 to 48 form an integral part of these unconsolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Mukhtar
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED CASH FLOWS STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012

	Note	2012 (Rupees in '000)	2011
Cash flows from operating activities			
Profit for the year after non-cash items	41	249,424,721	171,573,897
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(59,871)	(65,183)
Reserve tranche with the International Monetary Fund under quota arrangements		(712)	(1,338)
Securities purchased under agreement to re-sale		(49,238,312)	(32,815,052)
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		(46,570)	(30,439)
Investments		(440,004,142)	(201,477,907)
Loans, advances and bills of exchange		45,325,937	12,275,610
Assets held with the Reserve Bank of India and balances due from government of India and Bangladesh		(413,988)	(552,726)
Other assets		2,073,482	(2,201,035)
		(442,364,176)	(224,868,070)
		(192,939,455)	(53,294,173)
Increase / (decrease) in liabilities:			
Bank notes issued		177,134,499	222,593,148
Bills payable		(192,613)	190,906
Current accounts of the Government		(81,455,990)	178,692,249
Current account with SBP Banking Services Corporation - a subsidiary		1,419,952	2,650,028
Securities sold under agreement to re-purchase		12,240,388	(23,116,035)
Deposits of banks and financial institutions		46,745,528	59,860,757
Other deposits and accounts		(36,305,724)	(6,974,605)
Payable to the International Monetary Fund		(76,579,035)	37,993,782
Other liabilities		7,832,643	(361,523)
		50,839,648	471,528,707
Net cash (used in) / generated from operating activities		(142,099,807)	418,234,534
Cash flows from investing activities			
Payment of retirement benefits and employees' compensated absences		(1,710,344)	(1,171,233)
Proceeds from disposal of investments		96,753	6,350
Dividend received		15,697,821	11,923,782
Fixed capital expenditure		(230,610)	(438,203)
Proceeds from disposal of property and equipment		28,617	54,134
Net cash generated from investing activities		13,882,237	10,374,830
Cash flows from financing activities			
Surplus profit paid to Federal Government		(204,000,000)	(176,999,995)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(204,010,000)	(177,009,995)
(Decrease) / increase in cash and cash equivalents during the year		(332,227,570)	251,599,369
Cash and cash equivalents at beginning of the year		1,467,982,292	1,216,382,923
Cash and cash equivalents at end of the year	42	1,135,754,722	1,467,982,292

The annexed notes from 1 to 48 form an integral part of these unconsolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Muktedir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

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 in which investments in subsidiaries are accounted for on the basis of direct equity interest rather than on the basis of reported results. 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 Pakistani Rupees, which is the Bank's functional and presentation currency.

2. BASIS OF PRESENTATION

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 4.2, 4.3, 4.6 and 4.17 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 4.2, 4.3, 4.6 and 4.17 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 4.2, 4.3, 4.6 and 4.17 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 40.5.1 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 Financial Statements – Presentation of items of comprehensive income	01 January 2013
IAS 12	Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19	Employee Benefits - (Amendment)	01 January 2013
IAS 32	Offsetting Financial Assets and Financial liabilities - (Amendment)	01 January 2014

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 the amendments to IAS 19 'Employee Benefits' and except for certain new / enhanced disclosure and presentation requirements. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e. the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains and losses on settlements and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to the statement of comprehensive income.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonable possible change in each significant actuarial assumption.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Change in accounting policy

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's financial statements for the year ended 30 June 2011, except for changes mentioned in note 4.1.1 to the financial statement.

4.1.1 Change in accounting policy in respect of practices applied by the Bank in presenting financial statements

Section 26 (1) of the State Bank Act, 1956 states that the issue of bank notes shall be conducted by the Bank in the Issue Department and the assets of the Issue Department shall not be subject to any liability other than the liabilities of the Issue Department. Previously, the Bank presented the assets and liabilities of the Issue and the Banking Departments under separate balance sheets. The Bank changed its accounting policy in this regard and a combined balance sheet of the Issue and Banking Departments is presented. This change is accounted for retrospectively. Accordingly, the balance sheet of the earliest period is presented as if the abovementioned change had always been applied and balances have been restated retrospectively where required. The assets of the Bank specifically earmarked against the liabilities of the Issue Department have been disclosed in note 19.1 of these unconsolidated financial statements.

The change in accounting policy has the following effects on the presentation of these financial statements.

Financial statement line item	2012			
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification	Combined Balance sheet
	------(Rupees in '000)-----			
ASSETS				
Gold reserves held by the Bank	313,077,419	-	-	313,077,419
Local currency - coins	1,814,196	-	-	1,814,196
Local currency	-	160,156	(160,156)	-
Foreign currency reserves	360,180,828	678,160,942	-	1,038,341,770
Earmarked foreign currency balances	-	4,994,808	-	4,994,808
Special Drawing Rights of the International Monetary Fund	7,146,000	84,188,177	-	91,334,177
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,104	-	17,104
Securities purchased under agreement to resale	-	112,898,648	-	112,898,648
Current accounts of Governments	-	12,744,407	-	12,744,407
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	151,567	-	151,567
Investments	1,088,514,072	738,651,793	-	1,827,165,865
Loans, advances and bills of exchange	-	328,995,962	-	328,995,962
Commercial papers held in Bangladesh	78,500	-	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	328,995,962	-	329,074,462
Assets held with the Reserve Bank of India	5,584,810	-	-	5,584,810
Indian notes representing assets receivable from Reserve Bank of India	726,719	-	-	726,719
Assets held with the Reserve Bank of India	6,311,529	-	-	6,311,529
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	6,797,433	-	6,797,433
Property and equipment	-	23,169,202	-	23,169,202
Intangible assets	-	30,882	-	30,882
Other assets	-	5,810,215	-	5,810,215
Total assets	1,777,122,544	1,996,771,296	(160,156)	3,773,733,684
LIABILITIES				
Bank notes in circulation	1,777,122,544	-	(160,156)	1,776,962,388
Bills payable	-	587,542	-	587,542
Current accounts of the Governments	-	148,815,907	-	148,815,907
Current account with SBP Banking Services Corporation- a subsidiary	-	7,453,254	-	7,453,254
Securities sold under agreement to repurchase	-	12,240,388	-	12,240,388
Deposits of banks and financial institutions	-	396,172,467	-	396,172,467
Other deposits and accounts	-	152,856,723	-	152,856,723
Payable to the International Monetary Fund	-	656,185,305	-	656,185,305
Other liabilities	-	103,802,927	-	103,802,927
Deferred liability - staff retirement benefits	-	7,093,070	-	7,093,070
Total liabilities	1,777,122,544	1,485,207,583	(160,156)	3,262,169,971
Net assets	-	511,563,713	-	511,563,713
REPRESENTED BY				
Share capital	-	100,000	-	100,000
Reserves	-	175,919,871	-	175,919,871
Unrealised appreciation on gold reserves	-	309,565,438	-	309,565,438
Surplus on revaluation of property and equipment	-	25,978,404	-	25,978,404
Total equity	-	511,563,713	-	511,563,713

Financial statement line item	2011		
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification Combined Balance sheet (Restated)
	----- (Rupees in '000) -----		
ASSETS			
Gold reserves held by the Bank	267,969,374	-	267,969,374
Local currency - coins	2,225,301	-	2,225,301
Local currency	-	154,558	(154,558)
Foreign currency reserves	400,387,512	888,392,762	1,288,780,274
Earmarked foreign currency balances	-	75,464,270	75,464,270
Special Drawing Rights of the International Monetary Fund	6,869,850	95,318,553	102,188,403
Reserve tranche with the International Monetary Fund under quota arrangements	-	16,392	16,392
Securities purchased under agreement to resale	-	63,660,336	63,660,336
Current accounts of Governments	-	586,181	586,181
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	104,997	104,997
Investments	916,804,517	470,394,747	1,387,199,264
Loans, advances and bills of exchange	-	374,321,899	374,321,899
Commercial papers held in Bangladesh	78,500	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	374,321,899	374,400,399
Assets held with the Reserve Bank of India	4,825,442	-	4,825,442
Indian notes representing assets receivable from Reserve Bank of India	827,549	-	827,549
Assets held with the Reserve Bank of India	5,652,991	-	5,652,991
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	6,312,679	6,312,679
Property and equipment	-	24,446,771	24,446,771
Intangible assets	-	21,495	21,495
Other assets	-	7,883,698	7,883,698
Total assets	1,599,988,045	2,007,079,338	3,606,912,825
LIABILITIES			
Bank notes in circulation	1,599,988,045	-	1,599,833,487
Bills payable	-	780,155	780,155
Current accounts of the Governments	-	217,968,067	217,968,067
Current account with SBP Banking Services Corporation- a subsidiary	-	6,033,302	6,033,302
Deposits of banks and financial institutions	-	349,426,939	349,426,939
Other deposits and accounts	-	189,162,447	189,162,447
Payable to the International Monetary Fund	-	732,764,340	732,764,340
Other liabilities	-	33,108,662	33,108,662
Deferred liability - staff retirement benefits	-	5,789,532	5,789,532
Total liabilities	1,599,988,045	1,535,033,444	3,134,866,931
Net assets	-	472,045,894	472,045,894
REPRESENTED BY			
Share capital	-	100,000	100,000
Reserves	-	177,019,871	177,019,871
Unrealised appreciation on gold reserves	-	268,947,619	268,947,619
Surplus on revaluation of property and equipment	-	25,978,404	25,978,404
Total equity	-	472,045,894	472,045,894

Financial statement line item	2010			Combined Balance sheet (Restated)
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification	
	------(Rupees in '000)-----			
ASSETS				
Gold reserves held by the Bank	219,942,435	-	-	219,942,435
Local currency - coins	2,373,520	-	-	2,373,520
Local currency	-	117,427	(117,427)	-
Foreign currency reserves	472,412,239	621,600,395	-	1,094,012,634
Earmarked foreign currency balances	-	13,171,542	-	13,171,542
Special Drawing Rights of the International Monetary Fund	6,295,600	101,242,365	-	107,537,965
Reserve tranche with the International Monetary Fund under quota arrangements	-	15,054	-	15,054
Securities purchased under agreement to resale	-	30,845,284	-	30,845,284
Current accounts of Governments	-	3,936,712	-	3,936,712
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	74,558	-	74,558
Investments	671,487,115	514,235,048	-	1,185,722,163
Loans, advances and bills of exchange	-	386,086,660	-	386,086,660
Commercial papers held in Bangladesh	78,500	-	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	386,086,660	-	386,165,160
Assets held with the Reserve Bank of India	4,016,051	-	-	4,016,051
Indian notes representing assets receivable from Reserve Bank of India	789,437	-	-	789,437
Assets held with the Reserve Bank of India	4,805,488	-	-	4,805,488
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	5,829,001	-	5,829,001
Property and equipment	-	17,725,879	-	17,725,879
Intangible assets	-	47,758	-	47,758
Other assets	-	5,682,663	-	5,682,663
Total assets	1,377,394,897	1,700,610,346	(117,427)	3,077,887,816
LIABILITIES				
Bank notes in circulation	1,377,394,897	-	(117,427)	1,377,277,470
Bills payable	-	589,249	-	589,249
Current accounts of the Governments	-	42,584,981	-	42,584,981
Current account with SBP Banking Services Corporation- a subsidiary	-	3,383,274	-	3,383,274
Securities sold under agreement to repurchase	-	23,116,035	-	23,116,035
Deposits of banks and financial institutions	-	289,566,182	-	289,566,182
Other deposits and accounts	-	196,137,052	-	196,137,052
Payable to the International Monetary Fund	-	694,770,558	-	694,770,558
Other liabilities	-	29,659,345	-	29,659,345
Deferred liability - staff retirement benefits	-	4,735,474	-	4,735,474
Deferred income	-	17,718	-	17,718
Total liabilities	1,377,394,897	1,284,559,868	(117,427)	2,661,837,338
Net assets	-	416,050,478	-	416,050,478
REPRESENTED BY				
Share capital	-	100,000	-	100,000
Reserves	-	149,181,864	-	149,181,864
Unappropriated profit	-	27,838,007	-	27,838,007
Unrealised appreciation on gold reserves	-	220,183,593	-	220,183,593
Surplus on revaluation of property and equipment	-	18,747,014	-	18,747,014
Total equity	-	416,050,478	-	416,050,478

4.2 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.

4.3 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 amortised 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 less impairment losses, if any, 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.

4.4 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 30.2. The resultant gains or losses from derivatives are included in the profit and loss account.

4.5 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.

4.6 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 taken to the profit and loss account. During the current year, unrealised appreciation on gold reserves held with the Reserve Bank of India till June 30, 2012 has been transferred to "Provision for other doubtful assets."

4.7 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 16.1 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 sale of property and equipment is transferred to un-appropriated profit.

4.8 Intangibles

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

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

4.9 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.

4.10 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.

4.11 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, 2012. 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.

4.12 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.

4.13 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.

4.14 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.

4.15 Taxation

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

4.16 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 4.17, 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 30.2 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.

4.17 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.

4.18 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.

4.19 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.

4.20 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.

4.21 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	2012 (Rupees in '000)	2011
5. GOLD RESERVES HELD BY THE BANK				
Opening balance		2,070,529	267,969,374	219,942,435
Additions during the year		963	145,604	41,368
Appreciation during the year due to revaluation	29		44,962,441	47,985,571
	19.1	<u>2,071,492</u>	<u>313,077,419</u>	<u>267,969,374</u>

6. LOCAL CURRENCY - COINS			2012	2011 (Restated)
				(Rupees in '000)
Bank notes held by the Banking Department			160,156	154,558
Coins held as an asset of the Issue Department	6.1 & 19.1		1,814,196	2,225,301
			<u>1,974,352</u>	<u>2,379,859</u>
Less: bank notes held by the Banking Department	19		<u>(160,156)</u>	<u>(154,558)</u>
			<u>1,814,196</u>	<u>2,225,301</u>

6.1 As mentioned in note 4.2, 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 (also refer Note 19.1).

7. FOREIGN CURRENCY RESERVES	Note	2012	2011
			(Rupees in '000)
Investments	7.1 & 7.2	289,059,247	257,860,663
Deposit accounts	7.3 & 7.4	454,986,528	429,735,892
Current accounts	7.2 & 7.3	96,830,826	56,275,472
Securities purchased under agreement to resale	7.5	197,465,169	544,908,247
		<u>1,038,341,770</u>	<u>1,288,780,274</u>

The above foreign currency reserves are held as follows:

Issue Department	19.1	360,180,828	400,387,512
Banking Department		678,160,942	888,392,762
		<u>1,038,341,770</u>	<u>1,288,780,274</u>

7.1 Investments

Held for trading	7.4	288,836,712	214,625,939
Held to maturity		-	42,981,312
Available for sale	7.2	222,535	253,412
		<u>289,059,247</u>	<u>257,860,663</u>

7.2 These represent assets recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

7.3 The balance in current and deposit accounts carry interest at various rates ranging between 0.05% to 4.85% (2011: 0.02% and 5.00%) per annum.

7.4 These include investments made in international market through reputable Fund Managers. The activities of the Fund Managers are being monitored through a custodian. Market value of these investments is equivalent to USD 2,565.58 million (2011: USD 2,632.34 million).

7.5 These represent Repurchase Agreement lendings and carry mark-up in USD at 0.14% having maturity on July 2, 2012 (2011: 0.0072% and 0.0075% matured on July 1, 2011).

8. EARMARKED FOREIGN CURRENCY BALANCES

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

9. 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, 2012. 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.

	Note	2012	2011
SDRs were held as follows:		(Rupees in '000)	
- By the Issue Department	19.1	7,146,000	6,869,850
- By the Banking Department		84,188,177	95,318,553
		<u>91,334,177</u>	<u>102,188,403</u>

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

Quota allocated by the International Monetary Fund	148,440,350	142,259,472
Liability under quota arrangements	<u>(148,423,246)</u>	<u>(142,243,080)</u>
	<u>17,104</u>	<u>16,392</u>

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents repurchase agreements lendings with various financial institutions and carries markup at 11.67% to 11.77% (2011: 13.27% to 14.00%) and will mature on 06 July 2012 (2011: 02 July 2011).

12. INVESTMENTS

	Note	2012	2011
Loans and receivables originated by the Bank		(Rupees in '000)	
Government securities			
Market Treasury Bills (MTBs)		1,803,121,441	1,363,117,299
Federal Government scrip		2,740,000	2,740,000
	12.1	1,805,861,441	1,365,857,299
Available for sale investments			
Investments in Banks and other financial institutions			
Ordinary shares			
- Listed		15,563,789	15,563,789
- Unlisted		4,919,706	4,957,247
	12.2	20,483,495	20,521,036
Term Finance Certificates		127,082	169,441
Certificates of Deposits		50,558	67,411
		20,661,135	20,757,888
Provision against diminution in value of investments	12.3	(385,971)	(445,183)
		20,275,164	20,312,705
Investments in wholly owned subsidiaries			
SBP Banking Services Corporation		1,000,000	1,000,000
National Institute of Banking and Finance (Guarantee) Limited - NIBAF		29,260	29,260
		1,029,260	1,029,260
		1,827,165,865	1,387,199,264
The above investments are held as follows:			
Issue Department - MTBs	19.1	1,088,514,072	916,804,517
Banking Department		738,651,793	470,394,747
		1,827,165,865	1,387,199,264

12.1 Investments in Government securities

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

	2012	2011
	(% per annum)	
Market Treasury Bills	11.63 to 11.94	13.41 to 13.68
Federal Government scrip	3	3

12.2 Investments in shares of banks and other financial institutions (note 12.2.1)

	2012 % of holding	2011	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Listed					
- National Bank of Pakistan	75.20	75.20	12.2.2	1,100,807	1,100,807
- United Bank Limited	19.49	19.49	12.2.3	5,919,530	5,919,530
- Allied Bank Limited	10.07	10.07	12.2.4	350,638	350,638
- Habib Bank Limited	40.60	40.60	12.2.5	8,192,814	8,192,814
				15,563,789	15,563,789
Unlisted					
- Federal Bank for Cooperatives	75.00	75.00		150,000	150,000
- Equity Participation Fund	-	65.81		-	37,540
				150,000	187,540
Other- investments with holding less than or equal to 50%				4,769,706	4,769,707
				4,919,706	4,957,247
				20,483,495	20,521,036

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

12.2.2 Market value of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2012 amounted to Rs. 60,571.55 million (2011: Rs. 63,766.18 million).

12.2.3 Market value of the Bank's investment in the shares of United Bank Limited at June 30, 2012 amounted to Rs. 18,698.91 million (2011: Rs. 14,769.71 million).

12.2.4 Market value of the Bank's investment in the shares of Allied Bank Limited at June 30, 2012 amounted to Rs. 6,114.07 million (2011: Rs. 5,554.78 million).

12.2.5 Market value of the Bank's investment in the shares of Habib Bank Limited at June 30, 2012 amounted to Rs. 55,540.28 million (2011: Rs. 51,931.98 million).

12.3 Provision against diminution in value of investments	Note	2012 (Rupees in '000)	2011 (Rupees in '000)
Opening balance		445,183	503,064
Add: Provision during the year		-	1,331
Less: Reversal during the year		(59,212)	(59,212)
Closing balance		385,971	445,183

13. LOANS, ADVANCES, BILLS OF EXCHANGE AND COMMERCIAL PAPERS

		2012 (Rupees in '000)	2011 (Restated) (Rupees in '000)
Governments	13.1	36,097,865	56,082,403
Government owned / controlled financial institutions	13.2 & 13.3	113,363,735	116,419,871
Private sector financial institutions	13.4	180,035,597	203,213,017
		293,399,332	319,632,888
Employees		5,975,173	5,083,016
		335,472,370	380,798,307
Provision against doubtful balances	13.5	(6,397,908)	(6,397,908)
		329,074,462	374,400,399
13.1 Loans and advances to the Governments			
Provincial Government - Punjab	13.1.1	25,477,121	37,093,810
Provincial Government - Balochistan	13.1.2	8,183,244	15,988,593
Provincial Government - Khyber Pakhtunkhwa	13.1.3	2,437,500	3,000,000
		36,097,865	56,082,403

During the year, mark-up on above balances due from the Provincial Governments was charged at various rates ranging between 11.71% to 13.65% (2011: 12.22% to 13.64%) per annum.

- 13.1.1** This includes current account receivable balance of the Government of Punjab (GoPb) 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 carries interest at a rate equivalent to quarterly average rate of six months Market Treasury Bills and is repayable in 48 equal installments of Rs. 1,060 million each starting from October 01, 2009. Two installments of January 2012 and February 2012 has been deferred upon request of Government of Punjab. Accordingly the date of recovery of last installment has been revised to November 01, 2013. As at June 30, 2012, the outstanding balance of this loan amounts to Rs. 18,027 million (2011: Rs 28,631 million). This loan is secured by the guarantee of the Federal Government.
- 13.1.2** This represents current account receivable balance of the Government of Balochistan and carries interest at a rate equivalent to quarterly average rate of six months Market Treasury Bills. Under an agreement, the total loan is repayable in 65 monthly installments, which started from July 01, 2009. The loan is secured by the guarantee of the Federal Government.
- 13.1.3** 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 amounting to 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 preceding quarter. As at June 30, 2012, the outstanding balance of this loan amounts to Rs 2,437 million (2011: Rs 3,000 million). The loan is secured by the guarantee of Federal Government.

13.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2012	2011	2012	2011	2012	2011
	(Rupees in '000)					
Agricultural sector (13.2.1)	50,789,594	52,744,249	-	-	50,789,594	52,744,249
Industrial sector (13.2.1 and 13.2.3)	7,573,812	6,469,232	-	-	7,573,812	6,469,232
Export sector (13.2.3 and 13.3)	13,218,944	13,635,043	3,567	3,567	13,222,511	13,638,610
Housing sector (13.2.2)	-	-	11,242,300	11,242,300	11,242,300	11,242,300
Others (13.2.1, 13.2.3 and 13.2.4)	30,535,518	32,325,480	-	-	30,535,518	32,325,480
	102,117,868	105,174,004	11,245,867	11,245,867	113,363,735	116,419,871

- 13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2011: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2011: 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 (2011: 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.
- 13.2.2** This represents loan receivable from House Building Finance Corporation Limited (HBFCCL) against seven credit lines on profit and loss sharing basis. As at June 30, 2012 all of these credit lines are over due amounting to Rs. 11,242 million (2011: five credit lines amounting Rs. 9,689 million). These credit lines are secured by guarantee from Federal Government.
- 13.2.3** Exposure to the industrial and export sector include Rs. 1,054 million and Nil balance (2011: 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 previous year, the Federal Cabinet approved the winding up of the IDBP. During the current year proceedings were initiated for its winding up.
- 13.2.4** Above balances include Rs. 569 million (2011: Rs. 567 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).
- 13.3** These balances include the face value of certain commercial papers amounting to Rs. 78.5 million (2011: 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). These commercial papers are included in assets of issue department.

13.4 Loans and advances to private sector financial institutions

	Scheduled banks		Other financial institutions		Total	
	2012	2011	2012	2011	2012	2011
	----- (Rupees in '000) -----					
Agricultural sector	1,352,495	495,931	157,846	184,152	1,510,341	680,083
Industrial sector	35,816,917	36,527,923	4,651,692	4,462,024	40,468,609	40,989,947
Export sector	138,031,165	161,517,505	-	-	138,031,165	161,517,505
Others	25,482	25,482	-	-	25,482	25,482
	175,226,059	198,566,841	4,809,538	4,646,176	180,035,597	203,213,017

13.5 Provision against doubtful assets

	2012	2011
	(Rupees in '000)	
Opening balance	6,397,908	6,908,757
Reversal during the year	-	(510,849)
Closing balance	6,397,908	6,397,908

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

	Note	2012	2011
		(% per annum)	
Government owned / controlled and private sector financial institutions		1.0 to 12	1.0 to 12
Employees loans		10	10

14. ASSETS HELD WITH THE RESERVE BANK OF INDIA

		2012	2011
		(Rupees in '000)	
Gold reserves			(Restated)
- Opening balance		4,346,524	3,568,068
- Appreciation from revaluation during the year	29	729,303	778,455
		5,075,827	4,346,523
Sterling securities		486,977	453,889
Government of India securities		17,047	19,412
Rupee coins		4,959	5,618
	14.1	5,584,810	4,825,442
Indian notes	14.2	726,719	827,549
	19.1	6,311,529	5,652,991

14.1 These 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.

14.2 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.

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

	Note	2012	2011
		(Rupees in '000)	
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		837	837
		40,453	40,453
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans and advances	15.1	5,937,056	5,452,302
		6,756,980	6,272,226
		6,797,433	6,312,679

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

15.2 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.

16. PROPERTY AND EQUIPMENT	Note	2012 (Rupees in '000)	2011
Operating fixed assets	16.1	22,804,949	24,049,939
Capital work-in-progress	16.3	364,253	396,832
		<u>23,169,202</u>	<u>24,446,771</u>

16.1 Operating fixed assets

2012											
	Cost / revalued amount at July 01, 2011	Additions / (deletions) during the year	Revaluation during the year	Reversal due to revaluation	Cost / revalued amount at June 30, 2012	Accumulated depreciation at July 01, 2011	Depreciation for the year/ (deletions)/ Adjustments	Reversal due to revaluation	Accumulated depreciation at June 30, 2012	Net book value at June 30, 2012	Annual rate of depreciation %
(Rupees in '000)											
Freehold land	3,791,658	-	-	-	3,791,658	-	-	-	-	3,791,658	-
Leasehold land	16,735,802	71,341	-	-	16,807,143	-	589,562	-	589,562	16,217,581	over the remaining term of lease
Buildings on freehold land	1,019,194	21,951	-	-	1,041,145	-	203,807	-	203,807	837,338	over the remaining useful life
Buildings on leasehold land	1,878,950	38,038	-	-	1,916,988	-	368,691	-	368,691	1,548,297	over the remaining term of lease
Furniture and fixtures	106,267	1,556 (9,286)	-	-	98,537	71,492	8,946 (9,225)	-	71,213	27,324	10
Office equipment	607,425	39,267 (18,420)	-	-	628,272	400,237	81,763 (17,385) 25	-	464,640	163,632	20
EDP equipment	1,247,382	21,266 (26,687)	-	-	1,241,961	1,043,105	142,976 (16,796) 40	-	1,169,325	72,636	33.33
Motor vehicles	272,679	33,308 (32,961)	-	-	273,026	94,584	52,531 (20,572)	-	126,543	146,483	20
	<u>25,659,357</u>	<u>226,727 (87,354) -</u>	<u>-</u>	<u>-</u>	<u>25,798,730</u>	<u>1,609,418</u>	<u>1,448,276 (63,978) 65</u>	<u>-</u>	<u>2,993,781</u>	<u>22,804,949</u>	
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 (104)	(794,315)	-	1,878,950	5
Furniture and fixtures	102,679	3,390 - 198	-	-	106,267	61,815	9,479 - 198	-	71,492	34,775	10
Office equipment	474,791	106,198 (2,073) 28,509	-	-	607,425	305,069	68,240 (1,581) 28,509	-	400,237	207,188	20
EDP equipment	1,092,558	212,952 (58,128)	-	-	1,247,382	890,074	174,784 (21,753)	-	1,043,105	204,277	33.33
Motor vehicles	274,902	24,998 (27,221)	-	-	272,679	56,082	51,416 (12,914)	-	94,584	178,095	20
	<u>21,034,512</u>	<u>395,812 (87,422) 28,707</u>	<u>7,231,390</u>	<u>(2,943,642)</u>	<u>25,659,357</u>	<u>3,670,404</u>	<u>890,301 (36,248) 28,603</u>	<u>(2,943,642)</u>	<u>1,609,418</u>	<u>24,049,939</u>	

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

16.2.1 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:-

	2012	2011
	(Rupees in '000)	
Freehold land	39,124	39,124
Leasehold land	87,038	16,469
Buildings on Freehold land	321,842	316,830
Buildings on Leasehold land	541,898	532,381
	<u>989,902</u>	<u>904,804</u>

16.3 Capital work-in-progress

Buildings on freehold land	8,016	31,647
Buildings on leasehold land	309,301	251,466
Office equipment	46,558	107,445
EDP equipment	378	6,274
	<u>364,253</u>	<u>396,832</u>

17. INTANGIBLE ASSETS

		Cost at July 01	Additions during the year	Cost at June 30,	Accumulated amortisation at July 01	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
(Rupees in '000)									
Software	2012	565,048	36,527	601,575	543,553	27,140	570,693	30,882	33.33
Software	2011	557,718	7,330	565,048	509,960	33,593	543,553	21,495	33.33

18. OTHER ASSETS

	Note	2012	2011
		(Rupees in '000)	
Accrued interest / mark-up, discount and return		5,192,088	7,295,110
Other advances, deposits and prepayments		581,502	552,331
Others		36,625	36,257
		<u>5,810,215</u>	<u>7,883,698</u>

19. BANK NOTES IN CIRCULATION

Total bank notes issued	19.1	1,777,122,544	1,599,988,045
Notes held with the Banking Department		(160,156)	(154,558)
Notes in circulation		<u>1,776,962,388</u>	<u>1,599,833,487</u>

19.1 The liability for bank notes issued of the Issue Department is recorded at its face value in the balance sheet. In accordance with section 26 (1) of SBP Act 1956, this liability is supported by the following assets of the Issue Department:

	Note	2012	2011
		(Rupees in '000)	
Gold reserves held by the Bank	5	313,077,419	267,969,374
Foreign currency reserves	7	360,180,828	400,387,512
Special Drawing Rights of the International Monetary Fund	9	7,146,000	6,869,850
Local currency - coins	6	1,814,196	2,225,301
Investments	12	1,088,514,072	916,804,517
Commercial papers held in Bangladesh (former East Pakistan)	13.3	78,500	78,500
Assets held with the Reserve Bank of India	14	6,311,529	5,652,991
		<u>1,777,122,544</u>	<u>1,599,988,045</u>

20. CURRENT ACCOUNTS OF THE GOVERNMENTS

			2012	2011
		Note	(Rupees in '000)	
20.1	Current accounts of Governments - credit balances			
	Federal Government	20.3	95,381,342	119,186,027
	Provincial Governments			
	- Punjab	20.4	16,404,794	25,614,248
	- Sindh	20.5	-	34,319,349
	- Khyber Pakhtunkhwa	20.6	28,601,808	30,481,993
	- Balochistan	20.7	8,427,963	8,366,450
			53,434,565	98,782,040
			148,815,907	217,968,067
20.2	Current accounts of Governments - receivable balances			
	Provincial Government of Sindh	20.5	9,470,579	-
	Gilgit - Baltistan Administration Authority	20.8	600,965	-
	Government of Azad Jammu and Kashmir	20.9	2,672,863	586,181
			12,744,407	586,181
20.3	Federal Government			
	Non-food account		126,141,484	147,039,243
	Food account		313,128	309,424
	Zakat fund account		3,951,667	7,803,056
	Railways - ways and means advances	20.10	(39,938,969)	(39,999,880)
	Saudi Arabia special loan account		4,124	4,124
	Pakistan Baitul Mal fund account		6	6
	Pakistan Railways special account		5,688	270,157
	Government deposit account no. XII		5,276	5,276
	Special transfer account		10,592	10,592
	UN reimbursement account		3,756,810	3,740,171
	Fata Zakat Fund Account		5,021	3,858
	Pakistan Railways - pay & pension account		1,126,077	-
	Pakistan Railways - PSDP account		438	-
			95,381,342	119,186,027
20.4	Provincial Government - Punjab			
	Non-food account		(34,998,448)	(10,238,641)
	Food account		11,485,033	1,223,025
	Zakat fund account		2,373,632	392,923
	District Government account no. IV		37,544,577	34,236,941
			16,404,794	25,614,248
20.5	Provincial Government - Sindh			
	Non-food account		(12,129,639)	20,119,519
	Food account		224,941	770,860
	Zakat fund account		2,434,119	1,559,724
	District Government account no. IV		-	11,869,246
			(9,470,579)	34,319,349
	Classified as receivable balance	20.10	9,470,579	-
			-	34,319,349
20.6	Provincial Government - Khyber Pakhtunkhwa			
	Non-food account		15,426,567	18,536,151
	Food account		1,905,946	796,490
	Zakat fund account		1,168,535	1,011,039
	District Government account no. IV		10,100,760	10,138,313
			28,601,808	30,481,993

20.7	Provincial Government - Balochistan	Note	2012 (Rupees in '000)	2011
	Non-food account		7,843,144	7,695,334
	Food account		227,213	647,727
	Zakat fund account		357,606	23,389
			8,427,963	8,366,450
20.8	Gilgit - Baltistan Administration Authority		(600,965)	-
	Classified as receivable balance	20.10	600,965	-
			-	-
20.9	Government of Azad Jammu & Kashmir		(2,672,863)	(586,181)
	Classified as receivable balance	20.10	2,672,863	586,181
			-	-

20.10 These balances carry mark-up at the rate of 11.94% (2011: 13.64%).

21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents repurchase agreement borrowings and are subject to markup at the rate of 9% (2011: Nil) per annum and will mature on 3rd July 2012.

22. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

	Note	2012 (Rupees in '000)	2011
Foreign currency			
Scheduled banks		23,115,145	21,431,523
Held under Cash Reserve Requirement		104,970,918	87,242,637
		128,086,063	108,674,160
Local currency			
Scheduled banks		266,657,312	239,586,781
Financial institutions		1,366,081	1,165,911
Others		63,011	87
		268,086,404	240,752,779
		396,172,467	349,426,939

23. OTHER DEPOSITS AND ACCOUNTS

Foreign currency			
Foreign central banks		42,548,754	38,686,123
International organisations	23.2	43,074,422	47,808,377
Others		15,113,063	47,343,094
		100,736,239	133,837,594
Local currency			
Special debt repayment	23.3	23,914,674	23,914,674
Government	23.4	19,130,988	21,108,428
Others		9,074,822	10,301,751
		52,120,484	55,324,853
		152,856,723	189,162,447

23.1	The interest rate profile of the interest bearing deposits is as follows:	2012 (% per annum)	2011
	Foreign central banks	0.31 to 0.58	0.35 to 0.66
	International organisations	1.39 to 2.51	1.13 to 2.38
	Others	0 to 1.11	0.03 to 0.89

23.2 This includes two long-term deposits of US\$ 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2012) and June 2012 carrying interest at six months LIBOR plus 100 bps and twelve months LIBOR plus 100 bps respectively both payable semi-annually. These deposits of USD 500 million each have been set off against the rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantees dated March 12, 2012 and June 29, 2012 whereby the MoF has agreed to assume all liabilities and risks arising from SBP's agreement with SAFE China.

Further this also includes a deposit of US\$ 500 million received from SAFE China in June 2008 carrying interest at six months LIBOR plus 100 bps payable semi-annually. The outstanding balance of this deposit is US\$ 200 million as on June 30, 2012 (US\$ 300 million as on June 30, 2011). This deposit is the direct liability of SBP.

23.3 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.

23.4 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.

24. PAYABLE TO INTERNATIONAL MONETARY FUND

	Note	2012 (Rupees in '000)	2011
Borrowings under:			
- Fund facilities	24.1	487,815,186	548,413,223
- Other credit schemes	24.2	27,084,483	48,525,323
- Allocation of SDRs		141,285,603	135,825,762
		<u>656,185,272</u>	<u>732,764,308</u>
Current account for administrative charges		33	32
		<u>656,185,305</u>	<u>732,764,340</u>

24.1 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, 2011. However, upto June 30, 2012, five tranches amounting to SDR 3,984.935 million (2011: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 has commenced from February 2012 and would continue upto May 2015. The outstanding balance as on June 30, 2012 is an amount of SDR 3,397.018 million (2011: SDR 3,984.935 million)

24.2 Effective from January 2011 interest charges on other credit scheme were waived by IMF till December 2012.

	2012 (% per annum)	2011
Interest profile of payable to IMF is as under:		
Fund facilities	1.10 to 1.60	1.22 to 1.59
Other credit schemes	Nil	Nil

24.3.1 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.

25. OTHER LIABILITIES

	Note	2012 (Rupees in '000)	2011
Foreign currency			
Accrued interest and discount on deposits		5,745,245	2,961,132
Charges on allocation of Special Drawing Rights of IMF		30,303	121,946
		<u>5,775,548</u>	<u>3,083,078</u>
Local currency			
Overdue mark-up and return	25.1	5,621,403	5,136,650
Remittance clearance account		1,556,814	1,249,583
Exchange loss payable under exchange risk coverage scheme		228,556	182,207
Balance profit payable to the Government of Pakistan		62,700,879	4,810,767
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
Other accruals and provisions	25.2	21,696,808	8,398,129
Others		3,805,790	4,902,053
		<u>98,027,379</u>	<u>30,025,584</u>
		<u>103,802,927</u>	<u>33,108,662</u>

25.1 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.

[illegible]

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

25.3.2 This includes provision made against a claim under arbitration.

26. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS	Note	2012 (Rupees in '000)	2011
Unfunded gratuity scheme		1,803	1,455
Pension		4,981,930	4,039,153
Benevolent fund scheme		305,672	276,300
Post retirement medical benefits		1,584,799	1,282,186
	40.5.3	<u>6,874,204</u>	<u>5,599,094</u>
Unfunded provident fund scheme		218,866	190,438
		<u>7,093,070</u>	<u>5,789,532</u>

27. SHARE CAPITAL

2012 (Number of shares)	2011		2012 (Rupees in '000)	2011
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.

28. RESERVES**28.1 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.

28.2 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.

29. UNREALISED APPRECIATION ON GOLD RESERVES

	Note	2012 (Rupees in '000)	2011
Opening balance		268,947,619	220,183,593
Revaluation reserve relating to gold reserves held by the Reserve Bank of India transferred to provision for other doubtful assets (Note 25.2.1)		(4,344,622)	-
Appreciation on revaluation during the year:			
- held by the Bank	5	44,962,441	47,985,571
- held with the Reserve Bank of India	14	-	778,455
		44,962,441	48,764,026
		309,565,438	268,947,619

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. During the year, the revaluation reserve relating to gold reserves held by the Reserve Bank of India has been transferred to provision for other doubtful assets.

30. CONTINGENCIES AND COMMITMENTS

30.1 Contingencies	2012 (Rupees in '000)	2011
a) Contingent liability in respect of guarantees given on behalf of:		
Federal government	44,051,938	49,273,925
Federal government owned / controlled bodies and authorities	8,187,802	7,754,371
	52,239,740	57,028,296

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.

	2012 (Rupees in '000)	2011
c) Other claims against the Bank not acknowledged as debts	<u>853,293</u>	<u>533,231</u>
30.2 Commitments		
Forward exchange contracts - sales	<u>412,632,541</u>	<u>221,851,605</u>
Forward exchange contracts - purchases	<u>390,848,354</u>	<u>234,837,376</u>
Futures - sale	<u>15,877,206</u>	<u>3,481,803</u>
Futures - purchase	<u>13,242,061</u>	<u>7,885,090</u>
31. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		
Discount income	199,831,798	172,726,351
Other Government securities	93,497	90,419
Loans and advances to Government	6,875,852	14,085,289
Share of profit on finances under profit and loss sharing arrangements	20,406,243	19,611,882
Foreign currency deposits	4,003,327	3,314,271
Foreign currency securities	4,847,634	5,697,858
Others	132,945	125,930
	<u>236,191,296</u>	<u>215,652,000</u>
32 INTEREST / MARK-UP EXPENSE		
Deposits	10,606,882	12,017,880
Others	731,348	1,376,004
	<u>11,338,230</u>	<u>13,393,884</u>
33. COMMISSION INCOME		
Market Treasury Bills	341,647	368,547
Draft / payment orders	731,424	784,944
Prize Bonds and National Saving Certificates	311,099	267,295
Management of public debts	215,856	204,873
Others	352,757	332,669
	<u>1,952,783</u>	<u>1,958,328</u>
34. EXCHANGE GAIN - net		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	67,584,902	53,169,732
- Open market operations (including currency swap arrangements)	-	-
- Forward covers under Exchange Risk Coverage Scheme	18,689	22,203
- Payable to IMF	(21,969,395)	(44,765,738)
- Special Drawing Rights of IMF	(2,907,061)	(6,625,640)
- Others	-	22,000
	<u>42,727,135</u>	<u>1,822,557</u>
Exchange risk fee income	100,503	104,776
	<u>42,827,638</u>	<u>1,927,333</u>
35. PROFIT EARNED THROUGH SUBSIDIARIES		
SBP Banking Services Corporation	71,123	70,335
National Institute of Banking and Finance (Guarantee) Limited	100,843	92,659
	<u>171,966</u>	<u>162,994</u>

The above represents the profit of subsidiaries for the year ended June 30, 2012 transferred to the Bank in accordance with the arrangements mentioned in note 40.3.

36. OTHER OPERATING INCOME / (LOSS) - net		2012	2011
		(Rupees in '000)	
Penalties levied on banks and financial institutions		1,144,218	1,221,990
License / Credit Information Bureau fee recovered		141,372	109,418
Gain/(loss) on sale of investment:			
Local		-	5,542
Foreign		1,655,898	1,666,093
		1,655,898	1,671,635
(Loss) / gain on remeasurement of securities classified as held for trading		6,097,647	(14,590,633)
Others		(5,484)	(11,027)
		9,033,651	(11,598,617)
37. OTHER CHARGES - NET			
Gain /(loss) on disposal of property and equipment		5,241	2,960
Liabilities and provisions written back - net		4,329	1,218
Amortisation of deferred income		-	17,718
Charges on allocation of Special Drawing Rights of IMF		(326,167)	(540,922)
Others		106,418	77,055
		(210,179)	(441,971)
38. BANK NOTES PRINTING CHARGES			
Bank notes printing charges are paid to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.			
39. AGENCY COMMISSION			
Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.13% (2011: 0.13%) of the total amount of collection and remittances handled by NBP.			
40. GENERAL ADMINISTRATIVE AND OTHER EXPENSES		2012	2011
		(Rupees in '000)	
Salaries and other benefits		2,201,983	1,932,166
Retirement benefits and employees' compensated absences		3,013,882	2,112,173
Rent and taxes		26,369	23,484
Insurance		22,514	14,656
Electricity, gas and water		30,012	37,546
Depreciation	16.1	1,448,276	890,301
Amortisation of intangible assets	17	27,140	33,593
Repairs and maintenance		334,661	326,568
Auditors' remuneration	40.4	6,580	5,020
Legal and professional		422,512	370,441
Traveling and recreation expenses		104,919	104,989
Daily expenses		49,079	43,794
Fuel		45,814	41,901
Conveyance		5,337	4,537
Postages, telegram / telex and telephone		143,205	149,476
Training		2,001	9,085
Stationery		10,812	11,534
Books and newspapers		26,751	25,886
Advertisement		9,827	3,445
Uniforms		2,152	2,000
Others		61,348	84,291
		7,995,174	6,226,886
Expenses allocated by:			
SBP Banking Services Corporation	40.1	5,840,353	3,969,298
National Institute of Banking and Finance (Guarantee) Limited		9,814	6,123
		5,850,167	3,975,421
Expenses reimbursed to:			
SBP Banking Services Corporation	40.2	6,166,746	5,339,211
National Institute of Banking and Finance (Guarantee) Limited		147,459	126,081
		6,314,205	5,465,292
		20,159,546	15,667,599

40.1	Expenses allocated by SBP Banking Services Corporation	Note	2012	2011
			(Rupees in '000)	
	Retirement benefits and employees' compensated absences		5,745,171	3,890,155
	Depreciation		95,182	79,143
			5,840,353	3,969,298
40.2 Expenses reimbursed to SBP Banking Services Corporation				
	Salaries and other benefits		5,325,967	4,595,936
	Rent and taxes		10,607	9,918
	Insurance		5,193	5,093
	Electricity, gas and water		234,385	199,705
	Repairs and maintenance		25,731	16,815
	Auditors' remuneration	40.4	6,300	5,100
	Legal and professional		3,182	6,066
	Traveling expenses		10,471	12,130
	Daily expenses		20,519	21,759
	Recreation allowance		164,169	161,912
	Fuel		3,217	2,644
	Conveyance		13,449	6,862
	Postage and telephone		16,969	15,825
	Training		25,864	31,126
	Remittance of treasure		38,743	38,527
	Stationery		12,078	12,508
	Books and newspapers		1,166	1,368
	Advertisement		8,930	4,225
	Bank guards		106,385	98,258
	Uniforms		22,038	16,707
	Others		111,383	76,727
			6,166,746	5,339,211

40.3 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, 2012, 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.

40.4 Auditors' remuneration

	2012			2011		
	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	2,875	2,875	5,750	2,125	2,125	4,250
Out of pocket expenses	415	415	830	385	385	770
	3,290	3,290	6,580	2,510	2,510	5,020
SBP Banking Services Corporation						
Audit fee	2,275	2,275	4,550	1,725	1,725	3,450
Out of pocket expenses	875	875	1,750	825	825	1,650
	3,150	3,150	6,300	2,550	2,550	5,100
	6,440	6,440	12,880	5,060	5,060	10,120

40.5 Staff retirement benefits

40.5.1 During the year the actuarial valuations of the below 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% (2011: 6.00%) per annum.
- Expected rate of discount 12.50% (2011: 14.0%) per annum.
- Expected rate of increase in salary 11.50% (2011: 12.0%) per annum.
- Expected rate of increase in pension 8.0% (2011: 8.0%) per annum.
- Medical cost increase 8.50% (2011: 9.0%) per annum.
- Personnel turnover 2.5% (2011: 2.0%) per annum.

40.5.2 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, 2012 based on actuarial valuation as of that date was as follows: -

		2012		
	Note	Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognized liabilities
------(Rupees in '000)-----				
Gratuity	40.5.5	12,726	(10,923)	1,803
Pension	40.5.5	11,952,287	(6,970,357)	4,981,930
Benevolent	40.5.5	496,484	(190,812)	305,672
Post retirement medical benefits	40.5.5	3,786,987	(2,202,188)	1,584,799
		16,248,484	(9,374,280)	6,874,204
2011				
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognized liabilities
------(Rupees in '000)-----				
Gratuity	40.5.5	9,794	(8,339)	1,455
Pension	40.5.5	9,692,032	(5,652,879)	4,039,153
Benevolent	40.5.5	427,280	(150,980)	276,300
Post retirement medical benefits	40.5.5	2,940,018	(1,657,832)	1,282,186
		13,069,124	(7,470,030)	5,599,094

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

	2012				
	Net recognised liabilities at July 1, 2011	Charge for the year (note 43.5.4)	Payments during the year	Employees contribution / Amount transferred	Net recognised liabilities at June 30, 2012
------(Rupees in '000)-----					
Gratuity	1,455	4,095	(3,747)	-	1,803
Pension	4,039,153	1,924,051	(981,274)	-	4,981,930
Benevolent	276,300	77,664	(52,278)	3,986	305,672
Post retirement medical benefits	1,282,186	609,085	(306,472)	-	1,584,799
	5,599,094	2,614,895	(1,343,771)	3,986	6,874,204
------(Rupees in '000)-----					
	2011				
	Net recognised liabilities/(asset) 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

40.5.4 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:

	2012				
	Current service cost	Interest cost	Past service cost	Actuarial loss recognised	Employees contributions
------(Rupees in '000)-----					
Gratuity	1,906	1,371	-	818	-
Pension	149,476	1,356,884	(8,908)	426,599	-
Benevolent	12,811	59,818	-	9,021	(3,986)
Post retirement medical benefits	27,016	411,603	46,481	123,985	-
	191,209	1,829,676	37,573	560,423	(3,986)

		2011				
		Current service cost	Interest cost	Settlement and curtailment	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

40.5.5 Historical information	2012	2011	2010	2009	2008
	------(Rupees in '000)-----				
Gratuity					
Present value of defined benefit obligation	12,726	9,794	6,888	3,077	15,805
Unrecognised actuarial loss	(10,923)	(8,339)	(8,353)	(7,086)	(3,508)
Net recognised liability/(asset) in balance sheet	1,803	1,455	(1,465)	(4,009)	12,297
Experience adjustment arising on plan liabilities losses/(gain)	(3,401)	(753)	1,911	(3,870)	(1,574)
Pension					
Present value of defined benefit obligation	11,952,287	9,692,032	8,323,797	3,650,528	3,524,735
Unrecognised actuarial loss	(6,970,357)	(5,652,879)	(5,123,330)	(750,404)	(603,254)
Net recognised liability in balance sheet	4,981,930	4,039,153	3,200,467	2,900,124	2,921,481
Experience adjustment arising on plan liabilities loss/(gain)	(1,735,170)	(844,953)	4,456,304	201,991	290,103
Benevolent Fund					
Present value of defined benefit obligation	496,484	427,280	360,457	284,458	373,021
Unrecognised actuarial loss	(190,812)	(150,980)	(100,352)	(36,937)	(135,422)
Net recognised liability in balance sheet	305,672	276,300	260,105	247,521	237,599
Experience adjustment arising on plan liabilities loss/(gain)	(48,853)	(55,575)	66,256	(88,812)	23,583
Post Retirement Medical Benefits					
Present value of defined benefit obligation	3,786,987	2,940,018	2,348,166	2,124,433	2,228,249
Unrecognised actuarial loss	(2,202,188)	(1,657,832)	(1,244,525)	(1,308,547)	(1,656,925)
Net recognised liability in balance sheet	1,584,799	1,282,186	1,103,641	815,886	571,324
Experience adjustment arising on plan liabilities losses/(gains)	(688,341)	(497,449)	66,833	(237,916)	448,663

40.6 Employees' compensated absences	
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The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 1,296.007 million (2011 : Rs. 964.522 million). An amount of Rs. 372.908 million (2011: Rs. 194.255 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

41. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS	2012	2011
	(Rupees in '000)	
Profit for the year	260,800,112	180,975,738
Adjustments for:		
Depreciation	1,448,276	890,301
Amortisation of intangible assets	27,140	33,593
Amortisation of deferred income	-	(17,718)
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	3,013,882	2,112,173
- loans, advances and other assets	-	(510,848)
- other doubtful assets	(102,415)	80,823
- diminution in value of investments	(59,212)	(57,881)
(Gain) / loss on disposal of property, plant and equipment	(5,241)	(2,960)
Gain on disposal of investments	-	(5,542)
Dividend income	(15,697,821)	(11,923,782)
	249,424,721	171,573,897

	2012	2011
	(Rupees in '000)	
42. CASH AND CASH EQUIVALENTS		
Local currency	1,974,352	2,379,859
Foreign currency reserves	1,037,451,385	1,287,949,760
Earmarked foreign currency balances	4,994,808	75,464,270
Special Drawing Rights of IMF	91,334,177	102,188,403
	1,135,754,722	1,467,982,292

43. 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 Governments, Government of Azad Jammu and Kashmir, Gilgit-Baltistan Administration Authority, government controlled enterprises / entities, subsidiaries and key management personnel of the Bank.

43.1 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.

43.2 Subsidiaries of the Bank

Material transactions with the subsidiaries have already been disclosed in the financial statements in note 35 and 40. The subsidiaries of the Bank and their primary activities are as follows:

43.2.1 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.

43.2.2 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.

43.3 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.

	2012	2011
	(Rupees in '000)	
See below for the relevant information		
Short-term employee benefit	135,393	109,567
Post-employment benefit	40,652	30,401
Loans disbursed during the year	53,585	55,596
Loans repaid during the year	17,492	16,595
Director's fees	1,299	751

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.

44. 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 44.1 to 44.5. 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.

44.1 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.

44.2 INTEREST / MARK-UP RATE RISK

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

44.2.1

	2012					
	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 - coins	-	-	-	1,814,196	-	1,814,196
Foreign currency reserves	1,037,453,327	-	1,037,453,327	222,535	665,908	888,443
Earmarked foreign currency balance	-	-	-	4,994,808	-	4,994,808
Special Drawing Rights of International Monetary Fund	91,334,177	-	91,334,177	-	-	-
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	17,104	17,104
Securities purchased under agreement to resale	112,898,648	-	112,898,648	-	-	-
Current accounts of Governments	12,744,407	-	12,744,407	-	-	-
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	151,567	-	151,567
Investments	1,803,121,441	2,740,000	1,805,861,441	-	21,304,424	21,304,424
Loans, advances, bills of exchange and commercial papers	274,669,777	48,438,043	323,107,820	574,841	5,391,801	5,966,642
Assets held with the Reserve Bank of India	-	-	-	1,235,702	-	1,235,702
Balances due from the Governments of India and Bangladesh (former East Pakistan)	5,937,056	-	5,937,056	860,377	-	860,377
Other assets	-	-	-	5,785,854	-	5,785,854
	3,338,158,833	51,178,043	3,389,336,876	15,639,880	27,379,237	43,019,117
						3,432,355,993
Financial liabilities						
Bank notes issued	-	-	-	1,776,962,388	-	1,776,962,388
Bills payable	-	-	-	587,542	-	587,542
Current accounts of the Government	-	-	-	148,815,907	-	148,815,907
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	7,453,254	-	7,453,254
Securities sold under an agreement to repurchase	12,240,388	-	12,240,388	-	-	-
Deposits of banks and financial institutions	-	-	-	396,172,467	-	396,172,467
Other deposits and accounts	32,465,700	61,456,720	93,922,420	58,934,303	-	58,934,303
Payable to International Monetary Fund	372,242,668	283,942,637	656,185,305	-	-	-
Other liabilities	-	-	-	90,746,159	-	90,746,159
	416,948,756	345,399,357	762,348,113	2,479,672,020	-	2,479,672,020
	2,921,210,077	(294,221,314)	2,626,988,763	(2,464,032,140)	27,379,237	(2,436,652,903)
On balance sheet gap						190,335,860
Forward exchange contracts - sales	-	-	-	-412,632,541	-	-412,632,541
Forward exchange contracts - purchases	-	-	-	390,848,354	-	390,848,354
Futures - sale	-	-	-	-15,877,206	-	-15,877,206
Futures - purchase	-	-	-	13,242,061.00	-	13,242,061.00
Off balance sheet gap	-	-	-	(24,419,332)	-	(24,419,332)
Total yield/Interest Risk Sensitivity Gap	2,921,210,077	(294,221,314)	2,626,988,763	(2,439,612,808)	27,379,237	(2,412,233,571)
Cumulative Yield/Interest Risk Sensitivity Gap	2,921,210,077	2,626,988,763	5,548,198,840	2,814,364,718	2,841,743,955	5,656,108,673

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

	2011 (Restated)					
	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 - coins	-	-	-	2,225,301	-	2,225,301
Foreign currency reserves	1,287,886,687	-	1,287,886,687	253,412	640,175	893,587
Earmarked foreign currency balance	-	-	-	75,464,270	-	75,464,270
Special Drawing Rights of International Monetary Fund	102,188,403	-	102,188,403	-	-	-
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	16,392	16,392
Securities purchased under agreement to resale	63,660,336	-	63,660,336	-	-	-
Current accounts of Governments	586,181	-	586,181	-	-	-
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	104,997	-	104,997
Investments	1,363,117,299	2,740,000	1,365,857,299	-	21,341,965	21,341,965
Loans, advances, bills of exchange and commercial papers	230,166,792	117,988,530	348,155,322	18,535,005	7,710,072	26,245,077
Assets held with the Reserve Bank of India	-	-	-	1,306,468	-	1,306,468
Balances due from the Governments of India and Bangladesh (former East Pakistan)	5,452,302	-	5,452,302	860,377	-	860,377
Other assets	-	-	-	7,860,515	-	7,860,515
	3,053,058,000	120,728,530	3,173,786,530	106,610,345	29,708,604	136,318,949
						3,310,105,479
Financial liabilities						
Bank notes issued	-	-	-	1,599,833,487	-	1,599,833,487
Bills payable	-	-	-	780,155	-	780,155
Current accounts of the Governments	-	-	-	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
Deposits of banks and financial institutions	-	-	-	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
Payable to International Monetary Fund	239,223,362	493,540,978	732,764,340	-	-	-
Other liabilities	-	-	-	25,508,156	-	25,508,156
	317,183,511	549,418,423	866,601,934	2,243,862,459	11,012,500	2,254,874,959
On balance sheet gap (a)	2,735,874,489	(428,689,893)	2,307,184,596	(2,137,252,114)	18,696,104	(2,118,556,010)
Off Balance Sheet Financial Instruments						
Forward exchange contracts - sales	-	-	-	(221,851,605)	-	(221,851,605)
Forward exchange contracts - purchases	-	-	-	234,837,376	-	234,837,376
Futures - sale	-	-	-	(3,481,803)	-	(3,481,803)
Futures - purchase	-	-	-	7,885,090	-	7,885,090
Off balance sheet gap	-	-	-	17,389,058	-	17,389,058
Total yield/Interest Risk Sensitivity Gap	2,735,874,489	(428,689,893)	2,307,184,596	(2,154,641,172)	18,696,104	(2,135,945,068)
Cumulative Yield/Interest Risk Sensitivity Gap	2,735,874,489	2,307,184,596	5,043,059,085	2,459,728,020	2,478,424,124	4,938,152,144

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

44.3 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.

44.4 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.

44.5 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.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the financial instruments reflected in the unconsolidated financial statements approximates their fair value, except strategic investments as mentioned in note 12.2.1 which are carried at cost less permanent impairment in value, if any.

46. DATE OF AUTHORISATION

These unconsolidated financial statements were authorised for issue on October 05, 2012, by the Central Board of Directors of the Bank.

47. CORRESPONDING FIGURES

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

FROM	TO	2011 (Rupees in '000)	2010
Deferred liability-staff retirement benefits	Other liabilities - Others	<u>63,763</u>	<u>176,881</u>
Other accruals and provision - provision for other doubtful assets	Other accruals and provision - other provisions	<u>487,035</u>	<u>487,035</u>
Other accruals and provision - others	Other accruals and provision - other provisions	<u>412,926</u>	<u>412,926</u>

48. GENERAL

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

Yaseen Anwar
Governor

Kazi Abdul Muktadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director