
STATE BANK OF PAKISTAN

ANNUAL PERFORMANCE REVIEW

2011-12

(Volume-II)

Our Vision

To transform SBP into a modern and dynamic central bank, highly professional and efficient, fully equipped to play a meaningful role, on sustainable basis, in the economic and social development of Pakistan.

Our Mission

To promote monetary and financial stability and foster a sound and dynamic financial system, so as to achieve sustained and equitable economic growth and prosperity in Pakistan.

LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi

June 25, 2013

My dear Minister,

As required by Section 40(2) of the State Bank of Pakistan Act, 1956, the Balance Sheet of the Bank as on June 30, 2012 and the Profit and Loss Account for the year 2011-2012 duly signed by me, Deputy Governor, Executive Director, Financial Resource Management (Chief Accounting Officer) and certified by the Bank's Auditors were transmitted to the Government on October 30, 2012.

In continuation thereof, I am pleased to submit the Annual Report of the Central Board of Directors on the working of the Bank for the year ended June 30, 2012.

With warmest regards,

Yours sincerely,

(YASEEN ANWAR)
Governor

Mr. Mohammad Ishaq Dar
Federal Minister for Finance, Revenue,
Planning & Development, Economic Affairs,
Statistics & Privatization
Government of Pakistan
Islamabad

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The Team

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Governor's Message



As the central bank of the country, State Bank of Pakistan (SBP) forms the nucleus of the financial system. The core functions performed by SBP include the maintenance of economic and financial stability, besides ensuring the soundness of the country's financial system. This, being a challenging task, requires SBP to always remain vigilant and endeavor to perform its functions in the best national interests – FY12 was no exception to that. In this regard, noteworthy policy measures undertaken during the year are summarized below:

- The focus of SBP's monetary policy during FY12 was the maintenance of an appropriate balance among the objectives of inflation control, promotion of private investment, stability of financial markets, and the maintenance of the country's foreign exchange reserves. Accordingly, there was a cumulative reduction of 200 basis points, to 12 per cent, by SBP in its policy rate during FY12.
- An important development during FY12 regarding the improvement in the formulation and implementation of monetary policy, took place in the form of amendments in SBP's Act legislated in March 2012. The restriction on government borrowings from the central bank is an important feature of these amendments. The fiscal authority not only has to ensure no further accumulation of the debt owed to SBP (keeping the quarterly flow of borrowings at zero) but also take steps to retire this debt over the course of next seven years. SBP will work with the fiscal authority to ensure that this is achieved as envisaged.
- Based on the significant role of communication in the effectiveness of monetary policy, dedicated efforts were made towards greater dissemination of the monetary policy stance, including regular meetings with market analysts. Moreover, significant progress has been made in developing a web page on monetary policy, which is expected to be placed on SBP's website during FY13.
- With the objective of moving forward on micro research and to facilitate a forward-looking view of monetary policy, SBP has constructed, in collaboration with the Institute of Business Administration, a consumer confidence index (CCI) using telephonic surveys. The survey observations will be published after the completion of the data validation process. It would be worthwhile to mention here that in order to carry out the survey and other surveys for micro research, a state of the art Centre for Survey Research (CSR) has been established at State Bank of Pakistan, Karachi.
- SBP's proactive approach to market regulation and management, facilitated the smooth functioning of the foreign exchange market, and supplemented the capacity building efforts undertaken for market participants. Although the Pak Rupee depreciated by 9.1 percent

against US\$ in the interbank market during FY12, the trend during the year has been gradual. This exchange rate trend reflects the underlying demand and supply conditions in the market.

- Keeping in view the objective of boosting bilateral trade and investment in local currencies, State Bank of Pakistan has developed a framework of executing bilateral currency swap arrangements (CSAs) with regional central banks using the countries' respective local currencies. In this regard, CSAs were signed by SBP with the Central Bank of the Republic of Turkey and People's Bank of China. Both CSAs have now become operational and necessary instructions have been issued by SBP to banks in this regard.
- A joint initiative called the Pakistan Remittance Initiative (PRI) was launched, in April 2009, by State Bank of Pakistan, Ministry of Finance, and Ministry of Overseas Pakistanis, with the following objectives: (a) facilitating and supporting the efficient flow of remittances, and (b) providing investment opportunities in Pakistan for overseas Pakistanis. The establishment of PRI has contributed positively towards enhancing the flow of remittances to Pakistan, which has shown a robust upward trend.
- Financial system oversight is one of the core functions of SBP. It helps reduce the vulnerability of the financial system and prevents crisis. SBP's financial oversight arms (on-site inspection and off-site supervision departments) ensure sound balance sheets for banks, development finance institution, and micro finance banks in the country. The commencement of business by Industrial & Commercial Bank of China in Pakistan during FY12 shows the confidence in the financial sector in Pakistan. Similarly, the grant of permission to open three new microfinance banks reflects SBP's commitment to help reduce poverty in the country.
- Apart from various measures to improve the effectiveness of the payment and settlement system, an important development during FY12 was the management of the Secretariat of SAARC Payment Council (SPC), which was assumed by SBP for a period of two years with effect from 1st March 2012. SPC is a forum of central banks and monetary authorities of SAARC countries, to collectively evolve and build high level strategies and road maps for the development of intra-regional payment systems.
- A number of initiatives were taken during FY12 for broadening access to the financial sector, including small & medium enterprises, housing finance, and infrastructure finance. SBP also continued to facilitate microfinance lending by having in place a supportive policy framework, and also played a proactive role in the development of microfinance through the implementation of government and donor funded programs. Moreover, a number of important measures/steps were taken during FY12 aimed at the promotion and expansion in the coverage of agriculture and rural finance in the country.
- In addition to providing a conducive regulatory environment, SBP and all relevant stakeholders have implemented innovative solutions for the development of microfinance and mobile banking markets. National and international media have recognized the State Bank of Pakistan as one of the global leaders in this innovative field.

I would like to express my gratitude to SBP's Central Board of Directors for their support and cooperation towards discharging my statutory responsibilities. I also extend my appreciation to the staff of SBP for their dedicated efforts to ensure the effective functioning of the State Bank of Pakistan.

Yaseen Anwar
Governor
State Bank of Pakistan.

Governance Structure of the State Bank of Pakistan

The State Bank of Pakistan (SBP) is incorporated under the *State Bank of Pakistan Act, 1956*, which gives the Bank the authority to function as the central bank of the country. The Bank aims at regulating the monetary and credit system of Pakistan and to foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country's productive resources.

Central Board of Directors

State Bank of Pakistan is governed by an independent Board of Directors, which is responsible for the general superintendence and direction of the affairs of the Bank. The Board is chaired by the Governor SBP and comprises of non-executive directors and Secretary Finance to the Federal Government. The Governor SBP is also the Chief Executive Officer of the Bank and manages the affairs of the Bank on behalf of the Central Board. The Bank's governance structure was amended by the SBP (Amendment) Act 2012, promulgated on March 13, 2012 as a result of which the number of non-executive directors has increased from seven to eight. The amended eligibility requirements of the Board members stipulate that the directors should be eminent professionals from the fields of economics, finance, banking and accountancy, as against the previous requirement of representing the areas of agriculture, banking and industry. However, the requirement of provincial representation on the Board continues to be maintained. The amendments further stipulate that those appointed on the Board shall have no conflict of interest with the business of the Bank.

During FY12, Mirza Qamar Beg completed his first term as Director on the Central Board and was re-appointed for a second term of three years on May 26, 2012, whereas Mr. Asad Umar resigned as Director, Central Board on May 3, 2012. In Q2-FY13, Mr. Waqar A. Malik and Mr. Zaffar A. Khan completed their first and second terms respectively as Directors on October 16, 2012. Subsequent to the acceptance of resignation of Mr. Asad Umar by the Federal Government and completion of tenures of the two Directors, there are currently 7 vacant positions on the Board. The delay in appointing members on the Board has serious implications for governance and Board effectiveness and is a breach of SBP (Amendment) Act, 2012.

Twelve meetings of the Central Board were held during FY12. One of the Board meetings was primarily convened to assess the Board's effectiveness, whereas SBP (Amendment) Act 2012 was also discussed in a few Board meetings in the context of the role and responsibilities of the Board. An overview of the key decisions taken in the Board meetings is attached at **Annexure B-1**.

The Governor

The Governor of the State Bank of Pakistan is appointed by the President of Pakistan for a term of three years and may be re-appointed for another such term. The Governor directs and controls the affairs of the Bank on behalf of the Central Board.

Mr. Yaseen Anwar was appointed as Governor SBP with effect from October 19, 2011 for a period of three years. He is the 17th Governor of SBP since the inception of the Bank in 1948. His appointment followed the resignation of his predecessor, Mr. Shahid H. Kardar, after which Mr. Anwar was appointed as Acting Governor by the Federal Government on July 18, 2011 for an interim period of three months. Previously, he was also appointed as Acting Governor, SBP from June 3, 2010 to September 8, 2010. Mr. Anwar has been associated with the Bank as Deputy Governor since March 2007 and during this period; he supervised and managed all the four clusters of the Central Bank i.e.

Banking, Reserve Management, Monetary Policy, Operations, as well as SBP subsidiaries - Banking Services Corporation (SBP BSC) and the National Institute of Banking & Finance (NIBAF).

Corporate Secretary

The Corporate Secretary organizes meetings of the Central Board and its Committees and ensures compliance with statutory and regulatory requirements for effective implementation of the Board's decisions. The Corporate Secretary is also responsible for ensuring effective Corporate Governance standards in the organization, and ensures that the relevant information is available to the Board members, in order to facilitate the informed decision-making. In addition to his/her responsibilities of recording the proceeding of the meetings of the Board and its Committees, he/she also interfaces with the Federal Government on the matters related to Governor/Deputy Governors and Directors of the Board.

The Corporate Secretary was re-instituted as the Secretary to all the Committees of the Central Board on July 9, 2011 in line with the good corporate governance practices, so as to ensure an enhanced level of coordination between the Board and its Committees.

Central Board of Directors¹

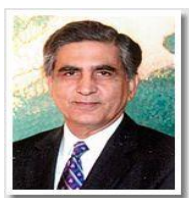


Mr. Yaseen Anwar, Governor/Chairman



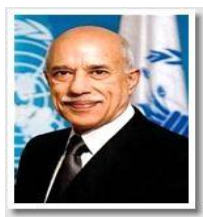
Mr. Abdul Wajid Rana (Member, SBP Board since February 10, 2012)

Mr. Rana is the Federal Secretary Finance, Government of Pakistan.² Prior to this, he held various senior positions such as Federal Secretary Economic Affairs Division, Special Secretary Finance, Economic Minister/Financial Advisor, Embassy of Pakistan, Washington D.C. USA/Canada, and Principal Officer to the Prime Minister of Pakistan.



Mr. Zaffar A. Khan³

Mr. Khan has over 40 years of experience in the corporate sector. He is a former CEO of Engro and the Chairman of PTCL, KSE, and PIA. Currently, he is serving on the Boards of six prominent corporates. In addition, he is teaching at IBA as Adjunct Faculty. Mr. Zaffar Khan is a recipient of Sitara-e-Imtiaz.



Mirza Qamar Beg (Member, SBP Board since May 27, 2009. This is his second term)

Visiting Fellow at Cambridge University, UK and Member of the Board of National School of Public Policy. A public servant of long standing, he has served as Federal Secretary Commerce, Chief Secretary Baluchistan, Ambassador to Italy, and Chairman/CEO of Pakistan Steel. He has also been the President of the World Food Program.



Mr. Waqar A. Malik⁴

A Chartered Accountant by profession, Mr. Waqar A. Malik has over 26 years of experience in the corporate sector. He holds key positions in leading public and private enterprises such as non-executive Director on the Boards of Engro Polymer & Chemicals Limited and IGI Insurance Limited, Director of the Pakistan Business Council and former President of Management Association of Pakistan (MAP) and Overseas Investors Chamber of Commerce & Industry (OICCI).

¹ Board composition is as of June 30, 2012.

² Mr. Abdul Wajid Rana was appointed as Principal Officer, Finance Division, w.e.f. November 5, 2012 and has taken charge of the responsibilities of Secretary, Finance.

³ Completed his tenure as Director, Central Board on October 16, 2012. This was his second term.

⁴ Completed his tenure as Director, Central Board on October 16, 2012. This was his first term.

Committees of the Central Board⁵

Committees of the Central Board extend the oversight function of the Board in certain specialized areas. The details regarding Committees of the Board are summarized as under:

Committee on Audit

The Committee assists the Central Board in reviewing SBP's financial statements, auditing, accounting and related reporting processes, the system of internal controls, governance, business practices and conduct established by the management and the Central Board. The Committee met seven times during the year and has the following members:

Mr. Waqar A. Malik*	Chairman
Mirza Qamar Beg	Member

Committee on Investment

The Committee assists, and recommends to the Board, strategy and policy for investment and management of foreign exchange reserves. The Committee also approves operational guidelines for the investment of reserves and appointment of asset managers, custodians, investment consultants and broad risk tolerance within which the Bank should operate under information to the Board. It also reviews the performance of the reserves managed in-house and externally, and the appropriateness of the approved investment policy, its benchmarks, and guidelines on an annual basis or as warranted by the global market conditions. The Committee has the following composition/structure:

Mr. Yaseen Anwar	Governor SBP/Chairman
Mr. Abdul Wajid Rana	Member/Secretary Finance
Mr. Waqar A. Malik*	Member
Director, Central Board ⁶	Member, Position Vacant

Committee on Human Resources

The Committee assists the Central Board in human resources management and has a strategic/policy formulation role in the HR area. It reviews all the proposals requiring approval of the Central Board on formulation, revision, modification or interpretation of HR policies, and submits its recommendations to the Central Board. The Committee also reviews the terms and conditions of employment of senior level Bank officers including those reporting directly to the Governor. The Committee met eight times during the year and has the following composition:

Mr. Zaffar A. Khan	Chairman ⁷
Mirza Qamar Beg	Member
Mr. Waqar A. Malik*	Member
Executive Director – HR	Member

Advisory Committee on Monetary Policy

The erstwhile Monetary Policy Committee (MPC) was reconstituted as the Advisory Committee on Monetary Policy (ACMP) on July 9, 2011. The composition/structure of the ACMP is as under:

⁵ Committee composition is as of June 30, 2012.

⁶ Position vacant after the resignation of Mr. Asad Umar on May 3, 2012.

⁷ After the completion of tenure of Mr. Zaffar A. Khan as Director, Central Board, Mirza Qamar Beg has been appointed as the Chairman, HR Committee.

*The position is now vacant with the completion of Mr. Waqar A. Malik's term on October 16, 2012.

Mr. Yaseen Anwar	Chairman/Governor SBP
Mirza Qamar Beg	Member
Director Central Board ⁸	Member, Position Vacant
External Expert	Member, Position Vacant
External Expert	Member, Position Vacant
Deputy Governor (Banking)	Kazi Abdul Muktadir
Mr. Riaz Riazuddin	Member/Chief Economic Adviser, SBP
Mr. Asad Qureshi	Member/ ED-FMRM, SBP
Dr. Hamza A. Malik	Member/Director MPD, SBP

Management Structure

The Governor has the authority to conduct the business and manage the affairs of the Bank except in matters mandated specifically for the Central Board. The Governor is supported by Deputy Governors and Executive Directors/Chief Economic Advisers (Organogram is placed at **Annexure-C**).

Deputy Governors

One or more Deputy Governors (DGs) may be appointed by the Federal Government for a term not exceeding five years, to perform duties as assigned by the Central Board. The Deputy Governors are entitled to attend the meetings of the Central Board without voting rights. Prior to 2012, the Governor was assisted by two DGs, each in the area of Operations and Banking.

During FY12, the positions of both DGs became vacant after the appointment of Deputy Governor (Banking) as Governor, SBP on October 19, 2011 and retirement of Mr. Kamran Shehzad, Deputy Governor (Operations) on March 11, 2012. On July 6, 2012, Kazi Abdul Muktadir was appointed as Deputy Governor by the Federal Government for a period of three years. Prior to his appointment as D.G, Mr. Kazi served the Bank as its Executive Director since December, 2002 and was entrusted to oversee Banking Supervision Group since June, 2010. Prior to taking over the Banking Supervision Group, he worked in the capacity of Managing Director NIBAF, from December 2002 onwards. He had also headed several key departments since joining the Bank in 1997.

Corporate Management Team (CMT) and CMT-HoDs forum

The Corporate Management Team (CMT) acts as the principal forum for debates and consultations on critical policy and operational issues. It facilitates decision making and implementation, especially in matters where several departments are involved. The CMT is headed by the Governor and consists of Deputy Governors and other nominated executives including MD SBP-BSC. In addition to the CMT, combined meetings of the CMT and the Heads of Departments (HoDs) provide a wider platform to deliberate issues of wider implications and is generally referred to as the CMT-HoD forum. Depending on the agenda, HoDs of SBP-BSC and Managing Director, NIBAF also participate in the meetings of the CMT-HoD forum.

⁸ Position vacated after the resignation of Mr. Asad Umar as Director, Central Board on May 3, 2012.

Corporate Management Team⁹



Mr. Yaseen Anwar
Governor/Chairman



Kazi Abdul Muktadir
Deputy Governor (Banking)



Mr. Riaz Riazuddin
Chief Economic Adviser (MP)



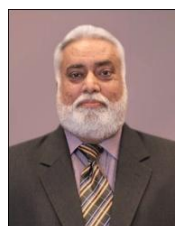
Mr. Aftab Mustafa Khan
Managing Director SBP-BSC



Mr. Asad Qureshi
Executive Director (FMRM)



Mr. Muhammad Ashraf Khan
Executive Director (DFG & BPR)



Mr. Qasim Nawaz
Executive Director (BS)



Mr. Inayat Hussain
Executive Director (O)



Dr. Mushtaq A. Khan
Chief Economic Adviser (PD)



Mr. Muhammad Haroon
Rasheed
Executive Director (FRM)



Ms. Sahar Z. Babar
Corporate Secretary

⁹ CMT Composition is as of December 31, 2012.

Management Committees

In addition to the CMT, the following are the major management committees which assist the Governor in making decisions, and in formulation of various policies:

- Banking Policy Committee
- Monetary Policy Committee (internal)
- Management Committee on Information Technology
- Management Committee on Properties and Equipment¹⁰
- Investment Committee of the Management
- BCP Committee

SBP Subsidiaries

The State Bank of Pakistan Act, 1956, provides for the establishment of subsidiaries for handling the functions of receipt, supply, and exchange of currency notes and related operational functions and for catering to the training needs of its employees. In line with these provisions, two subsidiaries of the Bank exist namely: State Bank of Pakistan-Banking Services Corporation (SBP-BSC), and National Institute of Banking and Finance (NIBAF), both owned by the Bank.

SBP-BSC

Established under the SBP-BSC Ordinance 2001, SBP-BSC is a fully owned subsidiary of SBP and is entrusted to perform tasks such as handling of currency and credit management, facilitating the inter-bank settlement system, and sale/purchase of savings instruments of the government on behalf of CDNS. SBP-BSC also collects revenue and makes payments for and on behalf of the government. It also carries out operational work relating to development finance, management of debt, foreign exchange operations and export refinance. The Board of Directors of SBP-BSC, Chaired by the Governor SBP, comprises of all members of the Central Board of SBP and the Managing Director of SBP-BSC. The Corporate Secretary is also the Secretary to the Board of Directors of SBP-BSC.

NIBAF

National Institute of Banking and Finance (NIBAF) is the training arm of SBP, providing executive development trainings to the new inductees and various levels of SBP employees. The subsidiary also conducts international courses on central and commercial banking in collaboration with the federal government. Furthermore, NIBAF offers training programs to SBP-BSC and other financial institutions.

Strategic Planning at State Bank of Pakistan

The process of Strategic Planning at State Bank of Pakistan was initiated in the early 2000s and culminated in the Strategic Plan 2005-10.

A reassessment of the strategic goals and development of a new Strategic Plan 2011-15 was initiated in February, 2010. As a result of this exercise, five strategic goals were identified by senior management for the next 5-10 years, and documented in the draft Strategic Plan (SP) document. These numbers of goals were later on enhanced to seven, which are given below:

1. Improve the efficiency and effectiveness of monetary policy
2. Develop a financial stability framework (macro-prudential)
3. Improve the soundness/efficiency of the financial system

¹⁰ Before August, 2012, the Committee was known as 'Management Committee on Building Projects'.

4. Strengthen prudential standing of banks
5. Address development needs of the financial system, including broadening access to financial services
6. Strengthening Exchange, Market and Reserve Management
7. Management Strategies for improving Corporate Governance and institutional strengthening of SBP & its subsidiaries

At its meeting held on July 30, 2010 under the Chairmanship of the then Acting Governor, the Board approved the Strategic Plan. The sub-goals of the Strategic Plan have since been translated into action plans at department level and became part of operational and developmental goals of their respective business plans.

Strategic Objectives of SBP

- 1. Maintaining Price Stability with Growth**
- 2. Broadening Access to Financial Sector**
- 3. Ensuring Soundness of Financial Sector**
- 4. Exchange Rate and Reserve Management**
- 5. Payment and Settlement Systems**

1 Maintaining Price Stability with Growth

1.1 Monetary Policy Formulation

Monetary policy of SBP during FY12 remained focused on maintaining an appropriate balance among the objectives of controlling inflation, promoting private investments, keeping financial markets stable, and building foreign exchange reserves of the country. There were, however, trade-offs involved among these competing considerations.

In the first half of FY12, SBP lowered its policy rate by a cumulative 200 basis points (bps) to 12 percent; 50 bps in July 2011 and 150 bps in October 2011. The decision was primarily motivated by a high probability of meeting the 12 percent CPI inflation target for the year and the need to revive the private investment demand in the economy. The initial projections of a moderate external current account deficit and controlled government borrowings from SBP in Q1FY12 also helped in introducing these reductions in the policy rate.

SBP kept the policy rate unchanged in H2FY12. This cautious approach was followed despite expectations of meeting the FY12 inflation target and concerns of declining private investment in the economy. The main reasons were increasing risks to macroeconomic stability due to lack of foreign financial inflows and rising fiscal borrowings from the banking system. Similarly, inflation followed a gradually rising trend and was expected to remain in early double digits in FY13 against the target of 9.5 percent.

In order to promote competition in the banking system, incentivize savings in the economy, and lower the currency in circulation, SBP also encouraged depositors to invest in government securities through Investor's Portfolio Securities (IPS) accounts. Moreover, with effect from 1st May 2012, SBP required all banks to pay a minimum profit rate of 6.0 percent on PKR saving/PLS saving deposits.

A significant development during FY12 that will help in improving the formulation and implementation of monetary policy are amendments in SBP's Act legislated in March 2012. An important feature of these amendments is the restriction on government borrowings from the central bank. The fiscal authority not only has to ensure no further accumulation of their debt owed to the SBP (keeping the quarterly flow of borrowings at zero) but also take steps to retire their borrowings from SBP over the course of next seven years.

1.2 Monetary Policy Department (MPD)

Monetary Policy Department (MPD), one of the core departments of SBP, is responsible for providing the intellectual, analytical, and information support in the formulation, implementation, and dissemination of monetary policy of SBP. In this regard, the department is contributing by drafting monetary policy statements (MPS); compiling monetary policy information compendium; preparing outlooks for inflation, trade and monetary aggregates; and combining these forecasts into macroeconomic framework for preparing consistent projections of key macroeconomic indicators. In addition, pursuing the bank's strategic plan, the department is also conducting various research based studies with the aim to improve the formulation and implementation of monetary policy in Pakistan.

Keeping in view the important role of communication in making monetary policy effective, the department dedicates significant effort for effective dissemination of its monetary policy stance. In

order to provide timely direction to the stakeholders, SBP announces its monetary policy stance six times in a year. The two monetary policy statements, produced in February and August, provide detailed analytical and forward-looking assessment of the economy that sheds light on factors determining the monetary policy stance by SBP. While brief statements are issued in April, June, October and December. The department also participates in various forums, such as interviews and discussions on the electronic media, to explain the monetary policy stance and answer queries of the various stakeholders.

Besides performing these regular assignments, in FY12 the department also organized discussion forums and workshops for financial market analysts and journalists to share knowledge on concepts, procedures, and issues relating to monetary policy implementation in Pakistan. Moreover, the department has made significant progress in developing a webpage on monetary policy that is expected to be placed on the main SBP website in FY13.

In preparing outlook of various macroeconomic indicators, the department uses up to date statistical techniques, keeping in view the suitability of data available for the Pakistan's economy. Moreover, reviewing and improving the forecasting suites and macroeconomic framework is a continuous affair. In the past couple of years, inflation forecasting exercise has been further enhanced by analyzing and forecasting consumer prices at more disaggregate levels, preparing fan charts to measure the degree of uncertainty around inflation projections, and computing impulse responses that capture the impact of unanticipated shocks to the system. Moreover, the suite of external trade has been improved further by incorporating disaggregated trend analysis and determining trade elasticities. Similarly, the macroeconomic framework has evolved quite significantly over the past few years with more improvements still on cards. The scenario analyses that were developed in FY11 have been further strengthened during FY12. In addition, preparing medium-term macroeconomic projection scenarios, which help assess the macroeconomic conditions under various assumptions over a longer period, has been made a regular exercise.

Another important achievement of the department, during FY12, is the completion of Framework Consistent Macroeconometric Model (FCMM). FCMM includes 33 behavioral equations, 59 identities and 197 macroeconomic variables that effectively merge the stochastic and deterministic characteristics of the economic modeling. Behavioral equations explore the stochastic relationships among economic time series while identities of macroeconomic framework capture the deterministic part. FCMM was passed onto the Research department for further refinement and use for simulation and response analysis.

The department has also made significant progress during FY12, in producing initial drafts of various research based studies. These studies mainly include investigating effectiveness of monetary policy transmission mechanism through various channels, documenting existing monetary policy framework, and identifying weakness and constraints of monetary policy in Pakistan.

1.3 Research Department

Research Department (RD) has made significant progress in the development of a theoretical macroeconomic model incorporating the microeconomic features and the informal sector of Pakistan economy. Using the results from the formal and informal sector surveys as well as those decoded from data acquired from secondary sources, e.g. Labor Force Survey by Pakistan Bureau of Statistics, this Department has completed its first dynamic stochastic general equilibrium (DSGE) model. Although the model is in annual setting and deals with an economy as a closed one, it still has been successful in replicating the empirical moments of the Pakistani data including the informal labor and

production sectors. We have, as well, moved forward by converting the very first model to quarterly frequency so that it can provide policy related insights as well as we have been successful in calibration/ estimation of parameters through Bayesian methodology, bringing in more legitimacy to our results.

Moving ahead on micro level research agenda and to facilitate the forward-looking view of monetary policy, Research Department has started constructing , in collaboration with Institute of Business Administration, consumer confidence index (CCI) through telephonic surveys after rigorous research and adopting the scientific approach. Announcement of this survey observations will start after completion of the data validation process. In order to carry out CCI survey and other surveys for micro founded research, this department has set up a state of the art Centre for Survey Research (CSR) at State Bank of Pakistan Karachi. In order to assess the satisfaction level, a banking sentiments survey of the customers of commercial banks in Pakistan was the first study completed by the CSR for the senior management of SBP.

Pakistan Bureau of Statistics regularly provides Annual National Income Accounts (ANIA) for the country, based on UN System of National Accounts. PBS does not disseminate Quarterly National Income Accounts (QNIA) which can provide timelier picture than ANIAs and more comprehensive than provided by the indicators like LSM index & merchandise imports/exports. To meet the QNIA requirements (of the researchers), RD has estimated the quarterly GDP from production as well as expenditures side (both on current prices and on the prices of 1999-2000) and it's various subsectors/components since 1972-73.

Research Department organized a number of seminars and lectures during FY12.

- The 18th Zahid Husain Memorial Lecture was held on December 22, 2011 wherein Professor Abhijit Vinayak Banerjee (the Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology) delivered a lecture on "Micro-Credit and the Financing of Small Businesses". The lecture was presided by the SBP Governor and attended by ex SBP governors, prominent economists, diplomats, bankers, and government officials.
- The 7th SAARCFINANCE Regional Seminar on 'Monetary Policy Framework in the SAARC Region' was organized by SBP at National Institute of Banking & Finance (NIBAF), Islamabad during June 14-16, 2012. Mr. Riaz Riazuddin, Chief Economic Adviser, State Bank of Pakistan and Dr. Athar Maqsood Ahmed, Head, Department of Economics, NUST Business School, Islamabad, were the key Speakers of the event. Mr. Abid Qamar, Additional Director, SBP presented findings of the SAARCFINANCE Study undertaken by SBP on the Seminar theme. The delegates from most of the SAARC member countries presented their country papers in the seminar.
- State Bank of Pakistan organizes seminars on Pakistan & World Economy mainly to get benefit of the ideas and contemporary research work of renowned scholars. Last year, Dr. Basit Zafar, Economist, Federal Reserve Bank of New York, USA, spoke on the research paper titled "The Price is Right: Updating on Inflation Expectations in Randomized Information Experiment".

1.4 Economic Policy Review Department

The key role of the Economic Policy Review Department is to evaluate the performance of different sectors of the economy, provide a comprehensive assessment of prevailing economic situation, and assist in economic policy formulation. The analysis undertaken in the department is disseminated through the flagship publications of SBP i.e. the Annual and Quarterly reports, as well as through

working papers and internal position papers. Over the last year, the department has improved its profile through increased focus on sector-specific research, improved policy input on key macro issues, and enhanced quality of its publications.

1.5 Statistics and Data Warehouse Department (S&DWH)

Statistics and Data Warehouse Department is responsible for collection, compilation and dissemination of statistics on economic, financial and monetary aspects most pertinent to the central banking. The Department is primarily engaged in collecting and compiling data with different periodicities on money and banking, international trade, monetary accounts, balance of payments, international investment position, exchange rates, foreign exchange reserves, foreign investment, private external debt, flow of funds, inflation etc. and data on these variables are disseminated through SBP website and also in the form of publications. The department regularly brings out two monthly, two quarterly, one bi-annual and eight annual publications.

Of late, Statistics & DWH department is expanding its role to serve as focal point for all statistical activities of SBP. Most of the data are collected electronically and processed using specifically designed software for the purpose. The department also coordinates for data warehousing of the bank.

The Statistics & Data Warehouse Department endeavors to provide quality and timely statistics to users on regular basis. A number of steps have been taken in the recent past to bring improvements in the compilation and dissemination procedures and to bring it in line with the international standards (see **Box 1.1**).

Box 1.1: Major Steps taken by the S&DWH Department for Improvements in Data Compilation and Dissemination Procedures

Statistics & Data Warehouse Department has brought many improvements in compilation of data, dissemination procedures, and bringing as per international standards by taking a number of steps in recent time. Some of the achievements in this direction include:

- Implementation of the guidelines of IMF 5th Manual of Balance of Payments Statistics (BPM5) and work on implementation of the 6th edition (BPM6) is in progress.
- Adoption of latest classification systems such as Harmonized coding system (HS) for classification of trade data and International Standard Industrial Classification (ISIC 3.1) for private sector business.
- Acquisition and compilation of data initiated from Non-bank financial institutions.
- Compilation of International Investment Position (IIP) of Pakistan initiated as per international standards
- Compilation of Foreign Direct investment statistics according to the concepts of Ultimate Controlling Parent (UCP).
- Implementation of System of National Accounts 93 (SNA 93) for compilation of Flow of Funds Accounts of Pakistan and implementation of the 2008 SNA is in progress.
- Adoption of the methodology of Manual of Financial & Monetary Statistics 2000 (MFSM 200) for compilation of monetary statistics.
- Seasonal adjustment of important data series likely to be affected by the seasonal effects initiated on regular basis.
- A compendium of historical data series (from 1947) prepared and published in form of a publication “A handbook of statistics on Pak economy”.
- Financial statement analysis initiated for the financial sector of Pakistan.
- Data archives developed on SBP web to facilitate users in undertaking statistical and economic analysis.
- Scope, coverage and timeliness of all important statistics compiled at SBP significantly improved.
- The Coordinated Direct Investment Survey (CDIS) initiated in Pakistan.
- Efficiency of statistics improved through automation under Data Warehousing.
- Implementation of the recommendations made by the ROSC missions of IMF.
- Users are informed about the release of all important categories of statistics in advance through Advance Release Calendar placed on SBP web.

All data are compiled according to the international compilation standards prescribed in the users' manuals such as the IMF's Balance of Payments Manual, 5th edition (BPM5) and Monetary and Financial Statistics Manual 2000 (MFSM) of the IMF. Statistics & DWH department is committed to producing high quality statistics with reliability and timeliness. The department follows General Data Dissemination System (GDDS) of the IMF and also fulfills the requirements of Special Data Dissemination Standard (SDDS).

The department plays active role in improving the statistical systems in Pakistan and has held various users-producers workshops / seminars for having a close coordination and interaction among compilers and users of statistics. Outreach seminars are frequently organized for academia and researchers to create awareness about the available statistics and to identify data gaps on the basis of their feedback.

1.6 Library Services

During FY12, SBP Library continued its mission of catering to the information and research requirements of its patrons through acquiring up-to-date information resources and delivering efficient readers' services. Responding to 482 purchase requisitions, around 2,183 books were acquired during the year, besides subscription of 137 journals and 16 online databases. In order to update the patrons about new acquisitions, publishing of monthly *Fresh Arrivals Bulletin* and *Current Contents Bulletin* on SBP website and Electronic Board remained regular feature of the Library.

While numerous reference queries of the library visitors were answered at the Library's reference desk, information queries of remote users from across the country were entertained through *Online Reference and Document Delivery Service*, under which 2,571 articles/datasets were dispatched to the concerned users. Library's circulation section recorded 229 new members, 26,747 visitors, and 28,787 checked out books, as against previous year's figures of 285; 26,529; and 29,381 respectively.

Highlights of the major developmental tasks undertaken during FY12 are summarized below:

- Bidding process for *Digitization of Library Resources* was completed with the award of contract to M/S National Institutional Facilitation Technologies (Pvt.) Ltd. Objective of this project is to digitize important published documents.
- The 2nd phase of *Library Outreach Program* was accomplished with the successful conduct of orientation workshops at SBP-BSC field offices in Sialkot, Bahawalpur, and Islamabad.
- The indexing scheme for the periodicals was thoroughly revised in order to incorporate new disciplines.
- Library Portal was enriched with *Table of Contents Search* and attractive books cover displays.

2 Broadening Access to Financial Sector

2.1 Infrastructure, Housing & SME Finance Department

2.1.1 SME

SME sector contributes significantly towards employment generation and poverty alleviation. In Pakistan, SME sector contributes 30 percent towards GDP, employs more than 78 percent of non-agricultural workforce, accounts for 35 percent of the value added goods in the manufacturing. Despite its strong potential, SME sector is most vulnerable to economic shocks and, therefore, is considered a more risky sector by banks while taking exposure on it. Banks' lending to SMEs has declined over the past 4 years. Banks credit to the sector reduced to Rs. 248 billion on June 30, 2012 against Rs. 292.5 billion at end of June 2011, showing a decline of 15 percent, YoY basis. With this decline, the SMEs' loan proportion to the total loans of banks has also decreased from 8.2 percent in FY11 to 6.5 percent in FY12. As regards number of SME borrowers, it has decreased from 200,000 to 150,000 during last one year.

This decline in SME financing can be attributed to adverse economic conditions, rising cost of doing business, and energy shortages. Besides, growing SME NPLs, which stood at Rs 96.4 billion or 38.9 percent of total SME advances at end June, 2012, have also led to a more risk-averse posture by banks. Further, banks' increasing investment in government papers and commodity operations' financing are also causing crowding out effect on SME financing.

In order to overcome the challenges faced by SME sector, SBP has taken a number of initiatives during FY12, of which the major ones are as under:

- A Credit Guarantee Scheme (CGS) for Small and Rural Enterprises (SREs) was issued which allows banks to develop portfolio of fresh borrowers who are creditworthy, but cannot fit into the usual credit parameters of banks, especially when collaterals are required.
- SBP is working on Secured Transaction Framework that calls for existence of a modern Secured Transaction Law to allow establishment of Secured Transaction Registry Office in the country to register charge on moveable assets of SME and Agri borrowers to facilitate them in accessing finance from Banks.
- Capacity enhancement programs for banks/DFIs and awareness building programs for banks and SMEs were held.
- SME Cluster Profiling Surveys of 11 important SME clusters were completed in collaboration with IFC and LUMS in 2011-12 for benefit and use by all SME stakeholders especially commercial banks. Besides these 11 SME sub-sector studies, consultants have been hired for cluster surveys of 10 more SME sub-sectors during the FY12.

2.1.2 House Finance Market

Housing finance market in Pakistan is passing through hard times, and efforts are underway to promote the housing finance activities. But still a large part of the population is unable to obtain mortgage finance due to high cost of borrowing and lack of an enabling legal framework, including land titling challenges. At present, 27 commercial banks, House Building Finance Company Limited (HBFCL), and two microfinance banks are catering to the housing finance needs.

After registering a promising growth trend till 2008, the housing finance sector has been showing declining trend afterwards. The gross outstanding reported by banks and DFIs declined by 7.8 percent

to Rs. 57.1 billion as on June 30, 2012. The total number of outstanding borrowers also decreased by 8.7 percent to 87,195 (on YoY basis) in FY12. Moreover, non-performing loans increased to Rs. 19.1 billion, YoY basis; showing a two percent increase over the year.

The overall weighted average interest rate for the year ended June 30, 2012 came to 15.7 percent; a decrease of approximately 9.25 percent, compared to June 30, 2011 (17.3 percent). In addition, the weighted average interest rate reported, as of June 2012, by HBFCL was 16 percent and that reported by banks/DFIs was 15.4 percent. Furthermore, average maturity periods were 11.2 years, at the end of June 2012. Finally, the average LTV ratios for housing finance were reported to be 41.6 percent during the quarter ended June 2012.

The following key initiatives were taken by SBP during FY12 in order to boost the domestic economy:

- SBP is facilitating the establishment of a Mortgage Refinance Company (MRC), to support development of secondary mortgage market. The Government of Pakistan has endorsed this project and has committed 20 percent equity participation. The IFC/World Bank and ADB are also supporting this initiative and are expected to take equity stake in MRC.
- Housing Finance Prudential Regulations have been reviewed by SBP, in consultation with concerned stakeholders and are in process of approval.
- SBP has drafted Housing Finance Guidelines with an objective to help and facilitate the banking industry develop expertise and conduct housing finance business efficiently.
- Training Programs/Workshops have been organized by SBP in different cities for Banks/DFIs on Mortgage Financing and Legal Documentation, Willful Defaults and Foreclosures, etc.
- SBP plans to hold a conference on housing finance in the 3rd quarter of FY13.

2.1.3 Infrastructure Finance Market

There is no denial of the fact that quality infrastructure affects the economic growth potential of a country as well as the ability of an enterprise to engage effectively. Besides, it provides support to economic growth by increasing the productivity of labor and capital, thereby reducing the costs of production as well as raising profitability, production, income and employment. Infrastructure investment and consumption of infrastructure services have significant implications for achievement of sustainable development objectives, as infrastructure services encourage new investment and underpin many aspects of economic and social activity. All the developing countries have multiple institutions with varying degrees of mandate and functions peculiar to their economic needs but the common thread among them is they supply a pipeline of viable projects and means to provide long term fixed-rate financing.

The outstanding amount against infrastructure project finance declined from Rs. 290.8 billion in Jun-11 to Rs. 286.3 billion in Jun-12, recording a decline of about 1.6 percent. Moreover, a sector-wise analysis reveals that the lion's share (63 percent) in total Infrastructure financing went to Power Generation sector, followed by 16.4 percent to Telecom sector and 8.9 percent to power transmission. Additionally, NPLs have increased considerably from Rs. 8.2 billion to Rs. 17.5 billion, recording a rise of over 100 percent YoY basis.

Recognizing the importance of infrastructure for economic development, increase in industrial and export competitiveness, and improvement in industrial climate, SBP has taken the following key measures:

- SBP established Infrastructure Task Force, which identified impediments in the growth of infrastructure sector and came up with key recommendations. These have been shared/ disseminated with the concerned stakeholders.
- SBP has prepared a Concept Paper on establishment of Infrastructure Development Finance Institution (IDFI). The IDFI is expected to perform project development, structuring, financing, implementation and the related services.
- SBP organizes capacity building programs for banks/DFIs, in areas related to Infrastructure Project Finance.

2.1.4 SBP Refinance Facilities

SBP continued its strategy to gradually rationalize mark-up rates of refinance facilities and mitigate market distortions caused by subsidized rates of financing. SBP also continued to facilitate financing of export- oriented projects, both through short term and long term financing with the objective of promoting exports and long term investment in the country. SBP broadened the outreach of its financing facilities by including the dairy sector under Long Term Financing Facility (LTFF). SBP also enhanced the capacity limit of Renewable Power Projects from 10 MW to 20MW for financing under Scheme for Financing Power Plants Using Renewable Energy. However, SBP introduced a system to discourage financing to those exporters whose overdue exports were beyond a specified limit.

2.1.4.1 Export Finance Scheme (EFS): The outstanding position under EFS was Rs. 164.8 billion as of June 30, 2012 showing an overall decrease of Rs. 25.7 billion during the year. Rs. 462.6 billion were disbursed under EFS during FY12, compared to Rs 496.0 billion in the previous year. The highest amount of Rs. 100.3 billion was utilized by the textile sector, within which the larger share (Rs. 30.9 billion) went to readymade garment exporters. Decrease in financing under EFS may be due to imposition of overdue export proceeds condition for availing EFS facility and decrease in cotton prices during 2011.

2.1.4.2 Long Term Financing Facility (LTFF): The outstanding position of financing under LTFF was Rs. 32.74 billion against 321 borrowers at the end of June, 2012. Of which, the textile sector's share was Rs. 19.5 billion (60 percent) against 267 borrowers. The outstanding position under LTF-EOP (defunct) shows repayments of Rs. 6.5 billion during the year, with net outstanding finance of Rs. 9.6 billion as on June 30, 2012.

2.1.4.3 Other Refinance Facilities: SBP has introduced some others financing facilities during FY12 such as:

Financing Facility for Storage of Agricultural Produce was introduced to encourage the private sector to establish Silos, Warehouses and Cold Storages to store agricultural produce. Outstanding refinance provided by SBP under this facility was Rs. 1,957.3 million as of June 30, 2012.

Refinancing Facility for Modernization of SMEs was introduced to encourage the sponsors of SMEs to modernize their mills/units to produce quality/value-added products. Outstanding refinance under this facility as of June 30, 2012 was Rs. 142.9 million.

Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas was introduced for agri. production/working capital finance to Farmers and SMEs in districts affected by floods of 2010 as notified by National Disaster Management Authority (NDMA). Outstanding refinance under this scheme was Rs. 1,895.9 million as of June 30, 2012.

In addition to the above mentioned financing facilities SBP has taken some initiatives for the betterment of trade and industry in FY12. The major initiatives taken for encouragement of Trade and Industry are presented in **Box 2.1**.

Box 2.1: Major Initiatives for Promotion of Trade and Industry

Financing rates under LTFF revised upward vide IH&SMEFD Circular No. 6 of 2011: Under Scheme for Financing Power Plants Using Renewable Energy, SBP had extended the validity of the Scheme extended for two years till June 30, 2014. Moreover, capacity limit of Renewable Power Projects was enhanced from 10 MW to 20MW. Rate of Service Charges also revised under this Scheme vide IH&SMEFD Circular No.7 of 2011.

SBP allowed, vide IH&SMEFD Circular No.8 of 2011, some relaxations in the Export Finance Scheme (EFS) for the benefit of exporters whose export proceeds were overdue. An exporter is eligible to avail financing under EFS Part-I and/or Part-II, if the total amount of overdue export bills at the time of availing the facility is not more than 5 percent of the previous year export performance.

SBP implemented various government subsidy schemes/relief packages during the year: In order to increase exportable goods of dairy sector, SBP included Dairy Sector under the LTFF Scheme.

Furthermore, in order to address the problems of exporters facing delay in meeting export orders due to heavy shortage of power, SBP allowed additional period of two months for meeting shortfall in required performance under Part-II for the monitoring year 2011-12.

2.2 Agriculture Credit & Microfinance Department

2.2.1 Agricultural Finance

The banks surpassed agri. credit disbursement target for the year FY12 set by the Agricultural Credit Advisory Committee (ACAC) in its meeting held in January 2012 chaired by the Governor, SBP. Against the target of Rs.285 billion for the year ending 30th June 2012, the banks have actually disbursed Rs.293.8 billion, which is nearly 11.7 percent higher than disbursement of Rs.263.0 billion in FY11. Achievement of the agri. credit disbursement target was quite difficult in the backdrop of continuous declining trend in the overall private sector credit and high agri. NPLs of major banks due to devastating floods of 2010 and the heavy rains of 2011 in Sindh province. However, the SBP adopted a multipronged strategy and made all out efforts in achieving the target which inter alia include; swift settlement of crop loan insurance claims, close co-ordination with provincial revenue departments to facilitate the One Window Operation in agri. intensive districts for timely completion of revenue formalities, holding of farmers' awareness and financial literacy programs at grass root level, and follow up of targets with the top management of banks and their agri. Heads.

Detailed analysis shows that five large banks disbursed Rs.146.2 billion against their target of Rs.141.0 billion, ZTBL disbursed Rs.66.1 billion against its target of Rs.70.1 billion, PPCBL disbursed Rs.8.5 billion against Rs.7.6 billion and the Domestic Private Banks disbursed Rs.60.9 billion against their target of Rs.54.1 billion. The five MFBs, which have been included in the annual indicative target scheme for the first time in FY12, disbursed agri. loans of Rs.12.1 billion and met their target (see **Table 2.1**).

Table 2.1: Agricultural Credit Targets and Actual Disbursement

billion rupees

Bank	FY12		FY11		FY10		FY09		FY08	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
5 Big Commercial Banks*	141.0	146.3	132.5	140.3	124.0	119.6	119.5	110.7	96.5	94.7
Specialized Banks										
ZTBL	70.1	66.1	81.8	65.4	80.0	79.0	72.0	75.1	60.0	66.9
PPCBL	7.6	8.5	6.9	7.2	6.0	5.7	6.0	5.6	8.0	5.9
14 Domestic Private Banks	54.1	60.9	48.9	50.2	50	43.8	52.5	41.6	35.5	43.9
Microfinance Banks**	12.2	12.1	-	-	-	-	-	-	-	-
Total	285.0	293.8	270.0	263.0	260.0	248.1	250.0	233.0	200.0	211.6

Source: Agricultural Credit & Microfinance Department, State Bank of Pakistan

* Include ABL, HBL, NBP, MCB & UBL

** Five MFBs included since July, 2011

2.2.1.1 SBP's Initiatives for Promotion of Agricultural Credit

For the promotion and expansion in the coverage of agricultural and rural finance in the economy, SBP has taken many measures/steps during the FY12 such as farmers financial literacy & awareness program on agri. financing, launching of pilot project phase IV, one window operation in pilot districts, guidelines for efficient water management financing, Islamic agricultural financing for farm/crop production purposes under Salam, national crop insurance scheme (NCIS), and relief to borrowers of affected areas (for detail see **Box 2.2**).

2.2.2 Microfinance

The FY12 witnessed microfinance sector to attain both the growth as well as profitability. Despite difficult macroeconomic situation and devastating floods in FY12, the sector was able to experience structural improvements such as recapitalization of MFBs, diversification of products, innovative delivery channels, growth in deposits, and expansion in the industry infrastructure.

Ten MFBs have so far been licensed by SBP. Nine of these MFBs are operating nationwide while one is due to commence business province-wide. All these MFBs are privately owned by local and international investors including banks, development agencies, investment funds, mobile network operators, and large domestic MFIs. This diversity of ownership and approaches to microfinance banking depicts investors' confidence in policy environment and viability of microfinance as a profitable business in Pakistan.

Box 2.2: SBP's Initiatives for Promotion of Agricultural Credit

SBP has taken the following measures/key steps during FY12 for the promotion of agri/ rural finance in the country:

Farmers Financial Literacy & Awareness Program on Agri. Financing: Cognizant of the lack of awareness & understanding of farming community about agri. finance products & services offered by banks, SBP in collaboration with commercial/microfinance banks, field offices of SBP-BSC and other key stakeholders launched a country-wide "Farmers Financial Literacy & Awareness Program on Agri. Financing" from April, 2012. In the pilot phase of the Program, 12 one-day training-cum-awareness seminars are being held in agri. intensive districts/ towns across Pakistan. During the first half of 2012, six programs were successfully conducted in tehsils of Bahawalpur, Ghotki, Nowshehra, Sanghar, Kotli (AJK) & Chitral Districts while the remaining programs have been planned to be conducted in the second half of 2012 at prescribed locations & specific dates. Around 150 agri. field functionaries/agri. credit officers have been trained and around 1,000 farmers have been educated under the program, so far.

Launching of Pilot Project Phase IV: Encouraged by the successful completion of PP-III, SBP has launched Pilot Project Phase IV from Rabi season 2011 to deepen the outreach of agri. finance on fast track basis. PP-IV will cover 54 districts for farm and non-farm financing, while 22 districts will be especially targeted for group-based lending to small/ landless farmers. So far up to 30th June, 2012 banks have disbursed Rs. 91.7 billion or 79 percent of the target for farm sector, Rs.23.2 billion or 91 percent of the target for the non-farm sector and Rs.0.64 billion or 96 percent of the target for Group Based lending in the targeted districts. Number of borrowers served is 488,819 or 74 percent of the target for farm sector, 84,358 or 83 percent of the target for non-farm sector and 2,338 groups having total of 17,047 borrowers or 132 percent of the target for Group Based lending. During the period under review, the number of fresh borrowers tapped by banks was 248,695 and 67,508 in the farm and non-farm sectors, respectively.

One Window Operation in Pilot Districts: To address issues of delays in issuance of passbook and timely completion of revenue formalities, One Window Operation was launched in the Pilot districts of Sindh, Punjab, Khyber-Pakhtunkhwa and Balochistan by their respective provincial Boards of Revenue. The Operation has facilitated banks and farming community in timely completion of revenue formalities and access to finance on fast track basis.

Guidelines for Efficient Water Management Financing: Climate changes, scarcity of usable canal water availability, wastage of water and depleting underground water tables are the challenges in the growth of agriculture in the country. Adoption of modern water management techniques by the farmers is necessary to ensure optimal water utilization for soil fertility and better yield. To ensure availability of credit to the farmers for the purchase and maintenance of such systems and techniques, SBP in consultation with stakeholders developed Guidelines for Efficient Water Management Financing, which were issued vide AC&MFD Circular No.2 of 2011. The guidelines are aimed at facilitating banks in developing specific products for the purpose.

Islamic Agricultural Financing for Farm/Crop Production Purposes under Salam: To meet the demand of availability of Sharia compliant agriculture financing for farm and non-farm production activities, SBP in collaboration with stakeholder issued a model product based on 'Salam' vide AC&MFD Circular No. 3, dated 18th October, 2011. The product would cover the Sharia related aspects as well as business cycle and financing requirements of farm/ crop production activities. The product is supported by practical examples and process flow of the Salam transaction.

National Crop Insurance Scheme (NCIS): SBP played key role in development of framework for National Crop Insurance Scheme (NCIS) by the Task Force formed by the President of Pakistan. The NCIS would facilitate the non-borrower farmers in mitigating their risks of losses in case of natural calamities. This will also save huge amount of money to the national exchequer, incurred by the government in such cases. The successful implementation of the NCIS would require extensive involvement of MoF, MINFA, revenue departments and insurance companies.

Agri. Commodity Physical Trade & Marketing: To develop infrastructure of agri. commodity physical trade & marketing, SBP Task Force has developed a framework for warehousing, grading & testing, collateral management, post harvest financing, warehouse receipt system, etc. in collaboration with stakeholders. The implementation of the project has been shifted to Pakistan Mercantile Exchange (PMEX) and a Collateral Management Company is being formed under PMEX for the purpose.

Relief to Borrowers of Affected Areas: To provide relief to the borrowers of flood/ rain affected areas identified by the National Disaster Management Authority (NDMA), banks were encouraged to reschedule/restructure loans to such borrowers where the possibility of recovery exists.

The microfinance sector experienced growth of 18 percent in loan portfolio, up by Rs.4.9 billion from Rs.27.4 billion in June 30, 2011. The number of active borrowers also increased to 2.22 million as against 2.03 million at the beginning of FY12. On the liability side, the aggregate deposits of MFBs were Rs.16.6 billion, growing up by 49 percent with total number of depositors exceeding 1.5 million as of June 30, 2012. The overall performance of the sector remained positive in spite of various challenges including heavy floods/rains that adversely affected different parts of the country, especially Sindh, for the second consecutive year. The loan portfolio growth is attributable to the recent microfinance sector strategy to diversify portfolio in different economic and geographic segments. The NPLs of microfinance banks came down to 3.5 percent at the close of FY12 as against 3.74 percent in the preceding year.

To support market development, SBP has established a Consultative Group on Branchless Banking. Moreover, SBP has also started publishing “Branchless Banking Newsletter”, on a quarterly basis, to disseminate domestic and international developments in the area. Central banks of other countries are also keen to learn from the successful experiences of the SBP. Recently, SBP has arranged exposure visits for the delegations of Central Banks of Tajikistan, Nepal and Ethiopia in the area of mobile financial services.

SBP continued to facilitate development of microfinance sector by having in place a supportive policy framework. Regulatory framework for microfinance sector earned global recognition, consecutively in 2010 & 2011 as Pakistan was ranked at top by the ‘Economist Intelligence Unit (EIU)’ of the Economist magazine. **Box 2.3** presents some of the important developments and initiatives taken by the SBP during FY12.

Box 2.3: SBP’s Initiatives/Developments for Promotion of Microfinance

SBP introduced ‘microenterprise loan category’ to promote enterprise lending and improve asset creation in the country. Under this category, MFBs will be able to lend upto Rs.500,000/- to eligible microenterprises. Further, Tameer MFB was allowed to undertake microenterprise lending.

MFB Licenses were granted to:

- 1) Waseela Microfinance Bank in September 2011 to operate nation-wide. The MFB is fully sponsored by the largest mobile network operator in the country, Mobilink GSM.
- 2) Advans Microfinance Bank in June 2012. The MFB is sponsored by Advans SA & FMO, Netherlands. Advans shall initially operate as a province-wide MFB.

Network MFB was acquired by Auriga Group in FY12. The new sponsors intend to expand operations of the MFB at national level. Their key focus is on agriculture and allied activities.

Acquisition of Rozgar MFB is in the final stages by the Pakistan Telecommunication Company Limited (PTCL). Similarly, FINCA is in advance stage of negotiation with the existing sponsors of Kashf microfinance bank to acquire a major shareholding of the MFB.

Microfinance-exclusive Credit Information Bureau (CIB): To improve risk management in the microfinance sector and reduce over indebtedness of poor clients, State Bank of Pakistan, Pakistan Microfinance Network, and Pakistan Poverty Alleviation Fund rolled out national Microfinance-exclusive Credit Information Bureau (CIB) in June, 2012.

2.2.2.1 Programs Initiatives

SBP is playing a proactive role in the development of microfinance sector through implementation of government and donor funded programs. These programs are managed with the objective to enhance provision of financial services to the unbanked segment, especially the poor and women through sustainable models. A number of donor/government funded initiatives were implemented during FY12.

- Financial Inclusion Program (FIP): To promote financial inclusion in the country, SBP has in place a comprehensive Financial Inclusion Program (FIP). This program is being implemented with the financial assistance of GBP 50 million grants from the UK Department for International Development (DFID), and aims to promote inclusive growth through improving income and livelihoods opportunities for poor and marginalized groups in Pakistan. FIP interventions have achieved a number of milestones during FY12. These include:
 - Institutional Strengthening Fund (ISF), a £10 million facility, was launched by SBP with the objective to provide grants for institutional strengthening of the microfinance sector. Under ISF, so far Rs.631.89 million has been approved for 13 microfinance providers including top and middle tier MFBs and MFIs as well as Pakistan Microfinance Network. The grants cover 20 projects addressing institutional strengthening needs of the grantee institutions for capacity building/ HR training, IT development, business plan/ strategic reviews, market research, branchless banking, corporate governance, credit ratings, remittances, and treasury functions etc. The investments made in institutional strengthening would ultimately lead to enhance the MF portfolio both in terms of sustainability and scalability.
 - Microfinance Credit Guarantee Facility (MCGF), a £10 million facility, was launched by SBP in December 2008 under FIP to cover partial risks against the loans extended to microfinance providers by the commercial banks. MCGF has been showing continuous growth since its launch to meet the funding needs of the microfinance providers and maximize the outreach in microfinance sector. So far, fifteen guarantees with total exposure of Rs.1,273 million have been issued for mobilizing Rs.4,075 million. Going forward, the facility is expected to raise commercial debt from non-bank sources/ stock markets, diversifying sources of commercial capital for microfinance providers.
 - Credit Guarantee Scheme (CGS), worth £10 million, was launched in March 2010 to facilitate credit to small and rural businesses for greater outreach. The scheme was launched after an assessment of commercial banks' risk appetite and demand for the facility. The objective of the scheme is to improve availability of credit by enhancing credit rating of small and rural borrowers through guarantees for greater outreach to the poor and rural segments.
 - Under CGS for small & rural enterprises, credit exposure limits of Rs.4.83 billion (with 40 percent SBP risk coverage of Rs.1.932 billion) were allocated to 12 banks for 2012 in line with the available seed money and requests of the banks. Subsequent to the allocation of the limits, the banks sanctioned loans of Rs.3,022 million (SBP risk coverage of Rs.1,231.45 million) to 4,371 borrowers under the scheme, representing a utilization of 64 percent of SBP risk coverage limit for 2012.
 - Financial Innovation Challenge Fund (FICF), a £10 million facility, was launched by SBP in May 2011 with the aims to foster innovations and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. The fund will hold specialized challenge rounds focusing on innovations that market wishes to undertake to alter the scope and reach of financial services. The first round of the Fund which was held on Government to Person (G2P) Payments has now been successfully completed by deciding to award Rs.505 million to six applicant institutions. As a way forward on FICF, it has now been decided that the 2nd FICF round would be held on rural financial services including agricultural finance and broad-based financial

services projects using telecommunication infrastructure to promote micro payment for people who are not part of financial services.

- Financial Literacy program (FLP): SBP launched Pakistan's first-ever Nationwide Financial Literacy Programme (NFLP), on 20th January 2012, in order to assist financial inclusion and poverty alleviation efforts to facilitate economic growth and stability across the country. The NFLP was launched with the support and collaboration of ADB, PBA, PPAF and Bearing Point (Consultant).

The dissemination of the pilot program which was started in March 2012 has now been completed successfully. The pilot program has actually targeted 47, 800 beneficiaries through class room training sessions, street theater and mass media. The program focused on disseminating basic education about financial concepts, products and services to masses focusing on budgeting, savings, investments, banking products and services, debt management and consumer right and responsibilities, etc. As a way forward, the program will further be scaled up, based on the evaluation of the pilot project, to reach out to more than 500,000 poor and low income beneficiaries.

- Farmers Financial Literacy & Awareness Programs on Agricultural Financing: Under Improving Access to Financial Services Fund (IAFSF), SBP has launched “Farmer Financial Literacy & Awareness Program on Agricultural Financing” worth Rs.1.8 million.
- Grass-root level Training Program for Credit/Loan Officers of Microfinance Banks/ Microfinance Institutions (MFIs) under the IAFSF: A grant of up to Rs.15 million has been approved for a series of training programs which will be conducted in different cities of the country, targeting about 1,000 loan and field officers across Pakistan. The program aims to provide capacity building support to the industry. The training programs will develop understanding within the industry through mutual sharing of knowledge and ideas besides setting stage for much-needed capacity building of microfinance industry in Pakistan.
- SME Finance Grass Root Cluster Training Program: SBP, as part of its capacity building initiative for the commercial banks in the area of SME Finance, introduced an SME Finance Grass Root Cluster Training Program for the credit officers of banks to equip them with the latest tools and technology being used in SME finance across the globe. First phase of the program has been completed covering seven cities. About 200 credit officers from commercial banks have been trained in the SME finance area at SME hubs across the country. The second phase of the program has also been launched and four training programs have been held so far in different cities where more than 130 credit officers from different commercial banks have been trained. The major areas covered included risk mitigation tools like credit scoring, program-based lending schemes, effective marketing strategies for SME Finance, and utilizing the area of social profiling in SME Finance, etc.

3 Ensuring Soundness of Financial Sector

3.1 Banking Supervision Group

3.1.1 Banking Inspection (On-Site) Department

On-Site Inspections: In order to achieve one of the main objectives of BID - to strive for soundness and stability of the financial system and to safeguard the interest of the stakeholders through proactive inspections - the department conducts on-site inspections of various banks as per approved inspection plan. During FY12, the department carried out on-site inspections of 26 banks, including 3 limited scope inspections and IS inspection of 6 banks. Various significant observations especially relating to classification, corporate governance, etc. were highlighted for timely enforcement actions by other relevant departments of SBP.

Preparation of Write off Reports: Besides conducting on-site inspections, BID also prepares statutory reports on write-off of loans, mark-up and other dues, or financial relief provided by the banking companies, in which established banking practices or authorized procedures have been departed from with a view to causing wrongful loss to the bank. Due to great emphasis placed by the Supreme Court of Pakistan on write offs/waivers allowed by the banks, BID prepared 34 write off reports of various banks during the year. In addition to regular write off reports prepared under Section 25-AA of The Banking Companies Ordinance, 1962, forty four (44) write off cases of Rs. 500 million & above were forwarded to BID by the Banking Policy & Regulations Department for review, 41 write off cases have been reviewed so far.

Other Special Investigations: BID also carries out special investigations on requests and complaints received from internal and external stakeholders. In this respect, BID conducted special inspections for verification of crop loan insurance premium claims (CLIP) of various banks, forwarded by Agriculture Credit & Microfinance Department (ACMFD) under the Scheme approved by the Ministry of Finance, Government of Pakistan. The reports on CLIP for the two half year periods from Jan. to June 2011 and July to Dec. 2011 were prepared and submitted to ACMFD. Further, BID also conducted the targeted inspections for verification of the TT reimbursement charges with respect to Pakistan Remittance Initiative, forwarded by SBP BSC. In addition, various special inspections at the request of other departments were carried out and complaints received from different quarters were examined.

Developmental Projects: BID initiated three developmental projects during the period. All the projects, viz. (i) Review of adopted internal control framework in banks (ii) Development of On-site Inspection Methodology and necessary checklists to enhance soundness and efficiency of alternative delivery channels and (iii) Development of On-site Inspection Methodology and necessary checklists to enhance soundness and efficiency of derivatives and alternate Product Policy framework have been completed. The first two projects have been approved and circulated to BID officials for compliance while third was submitted for approval to the competent authority.

Capacity Building: In order to build and enhance the skills of officers, trainings had been arranged in different areas, including Risk Management, Operational Risk, Asset Quality, Basel-III Challenges, Basel II Implementation and Time Management. Further, some of the BID officials also received domestic as well as foreign trainings in the relevant areas.

3.1.2 DFIs & Exchange Companies Inspection (On-Site) Department

Under the SBP restructuring exercise carried out in 2010-2011, DFIs & Exchange Companies Inspection (Onsite) Department (DECID) was established in April 2011 primarily to streamline and to strengthen the inspection process of specialized financial institutions, which includes Development Finance Institutions (DFIs), Microfinance Banks (MFBs) and Exchange Companies (ECs). In order to achieve this very objective, the department successfully conducted focused but risk-based inspections of these specialized institutions during its first year of operation, which finally resulted in the identification of new core issues/problems of these institutions. Further, much focused and more frequent inspections of all these specialized financial institutions also helped in improving Internal Controls, Risk Management and Corporate Governance Practices in these institutions. Besides, department has also focused on the capacity building of officers of the department by providing local and international trainings on supervision, microfinance, management, risk management, etc.

Performance of Inspection Plan FY12

As per plan first inspection plan of the department for FY12, the department completed 61 inspections of ECs, DFIs, and MFBs. In March 2012, the department took initiative to make inspections of ECs more effective and changed its traditional methodology. Under new approach, surprise inspections of few ECs were conducted without prior intimation to them. However, the overall time frame given in Inspection Plan 2011-12 for inspection of ECs has been meticulously followed, despite change of methodology. Several illegal business activities and serious regulatory breeches were identified while adopting revised inspection methodology. Besides, the department conducted four specialized IS inspections which included at least one inspection of each class of financial institutions i.e. DFIs, MFBs and ECs. During this period, some other assignments and projects were also completed by the department such as:

- Various special inspections of institutions were completed which related to complaints, branchless banking, branch licensing, pre-commencement operations, special investigations.
- Statutory report under section 25-AA of Banking Companies Ordinance (BCO), 1962 was prepared regarding write-off of loans, mark-up and other dues, or financial relief provided by DFIs.
- Suggestions and recommendations were provided to other departments of SBP on various policy issues and rules & regulations.

Initiatives

With a view to strengthen the ECs towards capacity building, documentation of all business transactions and development of corporate culture, the department planned a series of awareness programs for the Directors/CEOs/Senior Managers of the ECs in major cities of Pakistan (Karachi, Lahore and Rawalpindi). More than 150 directors and CEOs of ECs of both A and B categories, representing 52 companies, participated in these programs including the Chairman and President of Exchange Companies Association of Pakistan (ECAP). These workshops were aimed at creating awareness on the regulatory requirements, particularly on corporate governance, internal controls, Management Information Systems (MIS), and KYC/AML etc. and provide them guidance for the improvement. Moreover, the workshops will also serve as capacity building of exchange companies and contribute towards strengthening of oversight role of the board and senior management while conducting business operations more professionally.

3.1.3 Off-Site Supervision & Enforcement Department

Developments on Supervision Front: The promotion of financial stability is one of the core objectives of SBP. Off-Site Supervision & Enforcement Department (OSSED) of the SBP is playing an important role to achieve this objective, through an efficient supervisory framework. Besides

assessing the financial soundness and health of individual financial institutions under the CAELS framework, OSED follows-up on on-site inspection findings & observations on the performance of individual financial institutions in order to ensure compliance with the regulatory, policy and statutory rules and instructions. The SBP has also been striving to further streamline and improve the supervisory mechanism to keep at bay the various risks facing the financial system. The major developments during the period under review include the following:

Framework for Monitoring Liquidity Risk Profile of Banks/ DFIs: Among various risks, liquidity risk holds paramount importance as its manifestation usually has the potential of triggering chain events, which can seriously undermine the financial health of banks, not only at individual level but at systemic level also. Although a bank itself is responsible for sound management of its liquidity risk, one of the fundamental principles for the management and supervision of liquidity risk issued by Basel Committee on Banking Supervision requires that supervisors should assess the adequacy of both bank's liquidity risk management framework as well as its liquidity position and should take prompt action if a bank is deficient in either area, so as to protect depositors and limit the damage to financial system. The SBP realized the need that an effective mechanism for monitoring the liquidity position of banks should remain in place at all times and should be capable enough to identify the liquidity risk profile of the supervised entities and should be proactive enough to forecast/ simulate the future positions so that corrective actions can be timely initiated.

The new liquidity risk monitoring framework project envisages using weekly data to use a set of indicators to assess buildup of liquidity stress, assist in identifying weak institutions and help take measure to forestall/ contain adverse liquidity fall outs. The project has incorporated certain indicators into weekly liquidity returns which were generally believed to be of utility in forming an opinion on the liquidity position of the bank. However, lessons from the liquidity crisis experienced in 2008 provided an opportunity in observing the actual behavior of the market during a stress period and resultant interaction of various liquidity indicators. The analysis of the data collected during that period revealed that certain broad generalization can be made about the vulnerability of an institution to liquidity risk. In addition to this book data, certain market indicators (analyzed only on macro level) having capacity to serve as early signs of building up of a liquidity stress were also identified. However, relying on only this data, a base line case can be made that can help in identifying the potential vulnerable institutions and also probable timing of the on setting of the stress; fulfilling in substantial way the objective of the project.

Refinement of the project entails capturing of institution-wise data as well so as to gauge the market behavior towards its riskier constituents and to know whether it emit certain signals that can be interpreted as early warning signs and thereby help form a view on the market alertness to shield it in case it goes contagion. Therefore, OSED believes it is a work in progress and further refinements can be made once the data is procured and analyzed.

3.2 Banking Policy and Regulation Group

3.2.1 Banking Policy & Regulations Department (BPRD)

Banking Policy & Regulations Department (BPRD) is one of the key departments of SBP, with the prime responsibility to achieve the regulatory objectives of SBP through improvements in existing regulations and through formulation of new rules/regulations. BPRD is carrying out some of the major functions performed by a central bank, like licensing of banks and their branches, mergers/acquisitions of banks/DFIs, corporate governance, banking laws & regulations, etc.

The department continuously reviews the legal and regulatory framework and formulates policies in light of the recent developments, the needs identified through ongoing surveillance system and by keeping an active dialogue with banks and other stakeholders. The key developments carried out by BPRD over the financial year are summarized below:

Entry of New Banks/Microfinance Banks: In August 2011, Industrial & Commercial Bank of China (ICBC) was allowed to commence its business operation in Pakistan with a network of two branches at Karachi and Islamabad. The commencement of business by ICBC - a top tier global bank - portrayed a positive message to the international community regarding the economic and financial outlook of Pakistan. In addition, new Microfinance Banking Licenses were issued to Waseela Microfinance Bank, Apna Microfinance Bank and Advans Microfinance Bank. A number of other international players, including top tier Turkish and Chinese Banks have also shown keen interest in our banking industry which is expected to materialize in the near future.

Opening of New Bank Branches: During FY12, the Banks/MFBs were allowed to open 657 new branches¹ which includes 464 conventional banking branches, 151 Islamic banking branches & 42 microfinance branches; as a result of which, the total number of bank branches in the country crossed 11,000 marks.

Overseas Expansion of Pakistani Banks: Presently, 8 Pakistani banks are operating in 36 countries of the world in different modes (i.e. branches, representative offices and subsidiaries/joint ventures). During FY12, SBP allowed Pakistani banks to further expand their overseas operations in Tanzania, Qatar, Tajikistan, Sri Lanka, Abu-Dhabi, Bahrain, Turkey and Hong Kong.

Branchless Banking Developments: To enhance the scope of the branchless banking (BB) and to use it as a tool of financial inclusion, SBP signed a Memorandum of Understanding (MoU) with Pakistan Telecommunication Authority (PTA). The objective of the MoU is to develop a technological and regulatory framework through consultative process, to strengthen the Mobile Banking in Pakistan. Further, the MoU is meant to develop a cohesive regulatory framework, in consultation with all the stakeholders and to assist each other in achieving the common objective of providing the low cost interoperable mobile financial services.

Facilitation in Various Government Initiatives: SBP has been facilitating Government of Pakistan (GoP) in its various initiatives, like financial assistance to flood affected persons through Watan Cards/Pakistan Cards, financial assistance to poor women through Benazir Cards and opening of various special accounts under Prime Minister's/Chief Minister's Special funds for relief of affectees. During FY12, SBP facilitated GoP in disbursement of relief funds to flood affected persons of Sindh Province through Pakistan Cards. In addition, SBP coordinated and facilitated Benazir Income Support Program (BISP), NADRA and the concerned banks in the process of disbursement of BISP funds to the beneficiaries through smart cards.

Corporate Governance: The State Bank of Pakistan has been involved in promoting a healthy corporate governance regime in the country over the years. SBP actively participated in the formulation of the new Code of Corporate Governance that has been issued by the Securities and Exchange Commission of Pakistan. SBP also played an important role in drafting the Corporate Governance regulations for public sector enterprises. Further, the definition of 'Executive Director' was amended to bring it in conformity with international best practices. Moreover, a new and

¹ Branches also include sub-branches and permanent booths.

enhanced Fit and Proper Test criteria for sponsors, strategic investors, members of Board of Directors, Chief Executive Officer (CEO) and key executives of banks/DFIs is in advanced stages of finalization.

Mergers & Acquisitions: During the year under review, there were one merger and one acquisition transactions involving commercial banks (i.e. acquisition of Mybank and its subsequent merger with Summit Bank) whereas two acquisitions transaction involving microfinance banks (viz. Network Microfinance and Khushhali Bank) were carried out and the new managements have taken-over control in these banks. Further, a change of control in one of the microfinance bank is in the process of completion whereas, a foreign fund has been granted in-principle approval to acquire management control in another microfinance bank.

Anti Money Laundering: In order to protect Banks/DFIs from risks, arising out of money laundering and terrorist financing activities, SBP advised them not to provide banking services to proscribed entities and persons or to those who are associated with such entities and persons, whether under the proscribed name or with a different name. Moreover, banks/DFIs were advised to conduct enhanced due diligence while establishing relationship with non-governmental organizations (NGOs)/not-for-profit organizations (NPOs) and Charities, to ensure that these accounts are used for legitimate purposes. The individuals who are authorized to operate these accounts and members of their governing body should also be subject to comprehensive Customer Due Diligence (CDD). In case of advertisements through newspapers or any other medium, especially when bank account number is mentioned for donations, Banks/DFIs will ensure that the title of the account is the same as that of the entity soliciting donations. Further, personal accounts shall not be allowed to be used for charity purposes/collection of donations. Besides, banks/DFIs were advised to implement transaction monitoring software by 30th June, 2012 and implement online AML trainings and tests systems for banks' front-end staff under a comprehensive plan with clear timelines.

Other Initiates: In order to facilitate customers to do more banking transactions, enhance banking coverage and documentation of economy, SBP advised the banks to stop recovery of service charges on deposit/withdrawal of cash at counters. In addition, to ensure that depositors of the banks are paid a reasonable profit on their savings; banks were advised to pay a minimum profit rate of 6 per cent p.a. on all Pak Rupee saving deposits. Moreover, in order to facilitate Federal Board of Revenue (FBR) for collection of Taxes, banks were directed to open dedicated branches for extended hours for collection of Taxes.

3.2.2 Banking Surveillance

Consolidated Supervision: Consolidated supervision of banks is an integral component of any effective banking supervision framework. The Basel Committee on Banking Supervision recommends that bank supervisor should supervise banks on consolidated basis. SBP has embarked on a well-planned program, focusing to build a sound and robust consolidated supervision framework for the financial sector, particularly banking industry, taking into account the recommendations of Basel Core Principles of Effective Banking Supervision. These measures will help to mitigate contagion risks arising from affiliates and other related party transactions. Moreover, these initiatives will improve competitiveness and performance of Pakistani banks in the international financial market.

During FY12, Banking Surveillance Department carried out a development project for establishing framework for consolidated supervision of banks and financial conglomerates. For this purpose, a set of regulatory returns have been developed in consultation with SBP-SECP's Joint Task Force for Managing the Risk Posed by Conglomeration in Financial Sector. Moreover, analysis framework for

banking groups was formulated which primarily aims to: a) identify the structure and major activities of banking groups and b) delineate the monitoring mechanism for banking groups. Going forward, banking groups will be monitored along this framework. Since effective consolidated supervision requires adequate powers for bank regulator and ownership and corporate structures of banking and financial groups have significant bearing on their stability, certain amendments in the banking law were also proposed during FY12. These proposals are currently in consultation process with external stakeholders.

Prudential Regulations for Classification and Provisioning for Assets – Enhanced Benefit of Forced Sale Value: keeping in view the growth in lending portfolio and healthy performance of the banking sector, SBP gradually withdrew the benefit of forced sale value (FSV) of collateral. In the year 2007, FSV benefit on provisioning was completely withdrawn. The very aim of withdrawal was to address the risk of any adverse shocks to the asset prices of the loan collateral to create buffers in good times and to use this cushion in bad economic and business conditions.

With the change in economic scenario, persistent energy shortages along with law and order concerns, which affected the repayment capacity of the borrowers and overall performance of the banking system, SBP rationalized provisioning requirements over last few years and enhanced the benefit on Forced Sale Value (FSV) of collaterals held against NPLs. Thus, the buffers created in good times facilitated in stabilizing the financial position and capital adequacy of banks, particularly that of the small and medium sized banks.

Stress Testing – Guidelines and Other Developments: Stress testing is an important risk management tool that is used by banks as part of their internal risk management process. Recognizing its importance, SBP issued a set of guidelines on stress testing in the year 2005. The scope of those guidelines was limited to simple sensitivity analysis and the designed stress tests were largely rudimentary. Realizing the growing complexity of banking business and the need for a more sophisticated stress testing framework, SBP issued revised guidelines on stress testing during May 2012. The revised guidelines aimed at strengthening the stress testing framework at banks, refining the methodology to carry out stress tests, providing guidance on the advanced approaches to stress testing including scenario analysis and reverse stress tests. The revised guidelines also covered, separately, the guidance for operational risk stress tests and stress tests for Islamic banks to be designed as per their unique risk profile.

Strengthening of Capital and Implementation of Basel Accord: Consequent to changes in the international capital regulatory regime and to further strengthen SBP's instructions pertaining to capital adequacy, Quantitative Impact Assessment was carried out to assess the impact of newly proposed regime on capital adequacy of banks. The assessment indicates that apart from few banks, all other banks will be able to meet the capital requirements prescribed under Basel III. Keeping in view the results of assessment, SBP drafted revised instructions on capital and disseminated them among stakeholders for their input and comments. The draft instructions are mainly enhancements to the existing SBP Basel II instructions on the definition of Capital and related deductions while concepts like Leverage Ratio, Loss Absorption Clause and Capital Conservation Buffers are being introduced for the first time. Moreover, SBP plans to initiate discussions with the stakeholders in the coming years on other aspects of Basel III, like enhancing risk coverage on Counterparty Credit Risk, enhanced Disclosure Requirements, introduction of Countercyclical Capital Buffers, additional capital requirements for Systemically Important Financial Institutions and introduction of Liquidity Coverage and Net Stable Funding Ratios.

The review of first Internal Capital Adequacy Assessment Process (ICAAP) Document (1st component under Pillar 2 of Basel II), submitted by the Banks/ DFIs, manifested a great deal of diversity in terms of scope as well as coverage. To ensure consistency and uniformity, SBP has devised a format, prescribing minimum set of information for various components of ICAAP. This would not only help SBP in carrying out its responsibility under Supervisory Review and Evaluation Process (2nd component under Pillar 2 of Basel II) effectively but would also enhance the comparability of respective ICAAPs across different banks having similar business lines and risk profiles. The draft of ICAAP template was prepared in the light of global best practices and tailoring the same in line with the specific requirement of Pakistan banking industry. ICAAP reporting template will be issued shortly.

3.2.3 Islamic Banking

Islamic Banking

SBP is actively engaged in promotion and development of a robust and competitive Islamic banking industry in the country through its promotional and regulatory initiatives. The key measures and steps taken for the purpose during FY12 included the following:

Awareness and Capacity Building Programs:

The misperception about Islamic banking in the public, largely due to no or limited awareness, has been one of the key impediments in growth and development of the industry to its real potential. While SBP and the industry have been organizing awareness programs for business community, academia etc., there has been limited use of technology, particularly the electronic media to create the mass awareness. Therefore, considering the need and importance of the mass awareness, a mass media campaign has been designed in consultation with the industry. The basic theme of the campaign is promotion of Islamic finance for existing and the potential users and clearing common apprehensions, confusions etc. about Islamic banking and finance. It is expected that such industry-wide effort for creating the awareness would translate into demand creation and the growth of industry.

The dearth of qualified and suitably-trained human resources has also been among the main challenges faced by the rapidly-growing Islamic financial sector. Considering its critical importance, capacity building has been a vital component of our strategy for future development of the industry. The capacity building strategy includes active collaboration with reputed national and international institutions and targeted seminars & lectures by renowned scholars for the senior management, whereas training programs and workshops for lower and middle management are also being conducted. Through its training subsidiary, SBP organized five programs during FY12, including two Field Training Programs in Lahore, Hyderabad and Multan in which more than two hundred lower and middle management officers of the industry were trained. It also collaborated and partnered with Islamic Research and Training Institute (IRTI) for bringing home the international experts to extend exposure to local industry and organized two international programs, focusing on both theoretical and practical issues of Islamic finance.

Global Participation:

SBP continued its support during the year for international efforts and initiatives to improve the legal, regulatory, supervisory and risk management infrastructure of the industry. Besides actively participating in different working committees/groups of Islamic Financial Services Board (IFSB), International Islamic Financial Market (IIFM), the senior management including the Governor has been attending the Council and Board meetings to demonstrate our commitment with the objectives and mandate of these institutions. In this regard, as part of working groups and technical committees

of IFSB, SBP has provided input on the development of Islamic Finance prudential standards on Liquidity Management and Stress Management issued by IFSB.

Regulations for Islamic Banking Industry:

Islamic Banking Department of SBP has been issuing specific regulations for further strengthening the Shariah compliance mechanism at Islamic Banking Institutions (IBIs). On this front, two set of regulations have been issued during FY12 regarding “Invoice of Murabaha Transactions” and “Accounting Treatment of Credit Murabaha”.

Further, a detailed profit distribution and pool management framework has been developed in consultation with the industry, to bring standardization and improve transparency and disclosures in profit computation, distribution policies and practices of Islamic banks. The framework is likely to minimize confusions and misperceptions in the public about profit distribution practices of Islamic banks and, thus, would be instrumental in improving their reputes.

Expansion of SBP Shariah Board Members:

Given the expansion of Islamic banking industry, Central Board of Directors has allowed expansion of the existing Shariah board. Shariah compliance being of utmost importance, the Islamic Banking Department created an additional position of Shariah Scholar in the Board. Various leading economists and scholars are also invited to attend meetings on special invitations to benefit from their input.

Survey Based Study on “Knowledge, Attitude and Practices of Islamic Finance in Pakistan”:

In order to have a better understanding of dynamics of the industry, a survey-based study on “Knowledge, Attitude and Practices of Islamic Finance in Pakistan” was launched during the year. The study aims to quantify the demand of Islamic banking in the country and will measure the impact of demand-supply mismatch on the incidence of financial inclusion by collecting data from three categories; lenders, depositors (both Islamic and Conventional banks) and those who remain unbanked.

The results of this research will help in demystifying the paradox surrounding the industry, of being demand or supply driven, and in estimating the effect of religious beliefs on financial exclusion. The findings of this study are expected to benefit SBP, not only in the policy formulation but also be of interest to both incumbent as well as potential entrants to the market.

3.2.4 Consumer Protection

During the last decade, market for financial services and products has grown significantly and provided benefits to retail consumers. However, with the introduction of more sophisticated and complex consumer financing products/services, coupled with the lack of understanding, have exposed vulnerable consumers to unfair and deceptive sales practices. Consequently, this has led to the increasing number of disputes between the consumers/borrowers and their banks. In this backdrop, State Bank of Pakistan (SBP) role as an integrated dispute resolution authority to redress the grievances of financial consumers in a fair, transparent and prompt manner has increased manifolds. Keeping the importance of financial consumer protection in view, a dedicated Consumer Protection Department (CPD) is functioning since 2008. Its primary role has been to ensure that the banks should put in place an adequate consumer protection framework, introduce efficient delivery channels and adopt more customer centric practices. Thus, over the years, role of CPD has emerged as an Integrated Dispute Resolution Centre for redressal of grievances. Over the years, CPD has provided relief to thousands of aggrieved consumers/borrowers through inexpensive mediation as an alternate to the

courts. Besides, being an Appellant authority against the decisions of Banking Mohtasib Pakistan (BMP), CPD is also acting as “quasi judicial forum”. SBP has also been directed by the superior courts (High as well as Supreme Courts) to dispose of certain writ petitions/suits/cases through Speaking Orders. The judicial system’s confidence in SBP’s complaint resolution process is an indicator that how well SBP is performing in the area of financial consumer protection as a regulator.

SBP considers a comprehensive consumer protection framework necessary to ensure that the consumers should have adequate access to information to bargain with financial service providers. Consumer education is integral to empower the consumers to be better positioned to take the responsibility for their own well-being and assume a more important role in exerting the market discipline on banks to drive greater efficiency, competition and innovation. Consequently, the banks need to evolve efficient consumer policies that must be based on financial education and transparent information disclosures which will have a positive impact on prices, quality of service and choice of products. These aspects are central to foster the confidence of consumers and help them make informed financial decisions and select the products best suited to their needs. Therefore, SBP is striving to harmonize the role of regulation, competition and financial education to achieve the objectives of consumer protection and financial sector stability.

Keeping in view the importance of consumer awareness and education, CPD had initiated massive campaign during FY12. As per roadmap developed for the purpose, CPD arranged the consumer awareness & education seminars in Higher Education Commission recognized universities/management institutes all over Pakistan, to enhance the level of understanding on consumer protection framework at grass roots level. Besides, consumer awareness and education related seminars were also arranged for the members of Chamber of Commerce & Industries, Consumers/Traders Associations, Trade Bodies and NGOs etc. with the collaboration of State Bank of Pakistan, Banking Services Corporations (SBPBSC) field offices across Pakistan. Further training sessions were also conducted in SBPBSC Offices located in Hyderabad, Sukkur, Bahawalpur, Multan, Lahore, Gujranwala, Sialkot, Faisalabad, Rawalpindi/Islamabad and Muzaffarabad for the banks. The very purpose of arranging these sessions were to discuss the most recurring nature consumer disputes/complaints and to make aware of the banks regarding consumer protection related instruction/guidelines for the effective complaint redressal mechanism.

Under the consumer education and awareness initiatives, CPD also arranged publishing of advertisement in English and Urdu language newspapers for the benefit of financial consumers and general public at large across Pakistan. The print media campaign exclusively focused on the emerging nature issues related to;

- handling of bank cheques,
- identity theft frauds,
- pension payment through direct credit to bank account, and
- unclaimed deposits

In addition to the above mentioned measures, CPD also took a number of policy initiatives in FY12 (see **Box 3.1**).

During FY12, a total of 9,038 complaints were received and handled by CPD. The complaints data for the year revealed that almost 80 percent of the total complaints remained concentrated among the big eight banks having wide network of ATMs & branches, large customer base and relatively significant consumer finance portfolios. Further, CPD received 68 appeals against the decisions of BMP. Out of

these Appeals, 12 were disposed of being time barred. In 27 appeals (40 percent of total Appeals filed), the findings/decisions of BMP were endorsed and orders were upheld. Only in 2 cases, the decisions of BMP were set aside while in one case, BMP order was partially modified. However, in 11 cases, parties to the Appeal amicably settled their disputes by tendering letter of satisfaction before the issuance of Speaking Orders. The superior courts (High/Supreme Courts) also referred 15 writ petitions / suits / cases which fall within the supervisory jurisdiction of SBP and all were resolved up to the satisfaction of the parties.

Box 3.1: SBP Initiatives for the Consumer Protection

Consumer Protection Department took a number of policy initiatives during FY12, which include the following:

Streamlining the Procedure for Refund of Unclaimed Deposits: In order to facilitate the legal heirs of deceased unclaimed account holder/beneficiary of instrument in obtaining petty amount claims, without going into cumbersome process of obtaining succession certificates. All banks were allowed to submit unclaimed refund claims cases of the deceased account holders/ beneficiaries of instrument of Rs. 100,000 without obtaining the succession certificate, if they have satisfied themselves about the genuineness of the legal heirs and after observing all the stipulated requirements.

Sale of Third Party Products by Banks

Over the past few years, banks in Pakistan have ventured into the sale of Bancassurance and other third party products. While this initiative has been viewed as a positive development, complaints of mis-selling from the general public indicate that the focus of the banks has largely remained on pitching the sales and due attention was not given to the control and monitoring mechanism in relation to the distribution of third party products. To safeguard the interest of depositors/general public and prevent banks from incurring operational and reputational risks, the banks offering third party products were advised to comply with the standards as stipulated in CPD Circular No. 02 of June 29, 2012.

CPD is also striving to immaculate a crystal clear Consumer Protection framework for the banking sector, redressal hierarchy being the most important component of it. CPD is aiming to foster the collaboration efforts with the industry major stakeholders to proactively and efficiently induce a consumer protection regime across the industry.

4 Exchange Rate and Reserve Management

4.1 Debt Market

In accordance with the broad objective of improving the liquidity in the debt & capital markets, State Bank of Pakistan continued its efforts to develop the Marketable Government Securities debt market in Pakistan with special focus on broadening the investor base. In this regard, SBP has taken many initiatives for the development of debt market in Pakistan (see **Box 4.1**).

Box 4.1: SBP Initiatives to Expand the Government Securities Debt Market in Pakistan

To expand the investors' base and establish the Marketable Government Securities debt market, SBP has taken the following initiatives during FY12:

1) Marketing Campaign of GoP Securities: SBP launched a marketing campaign, in consultation with Ministry of Finance, to create awareness about government securities among the retail/small investors. Campaign was comprised of the following:

- Advertisements were published in leading newspapers of the country which explained the salient features of government securities and operational details for investment therein.
- To further augment the impact of media advertisement, State Bank of Pakistan published the investor guides for all government securities i.e. Market Treasury Bills, Pakistan Investment Bonds and GOP Ijara Sukuk. The guides are available in the main branches of Primary dealers, offices of Chamber of Commerce, offices of foreign missions abroad and SBP website. These investor guides provide complete information to the investors about features, investment procedure and benefits of investing in government securities. The Investor Guide also provides guidelines for non-resident investors on how to invest in GoP Securities.

2) Strengthening the Primary Dealer System: Under this initiative, rules governing PD system have been revised whereby PD's role and obligations towards development of government securities market have been further strengthened. Now, each PD is required to:

- Provide the complete information regarding process, methodologies, charges and forms required for investment in government securities, on their official websites.
- Keep the service charges related to IPS account activities, at reasonable level.
- Display prices of government securities in their branches.
- Quote two-way prices on Electronic Bond Trading Platform (EBND) and generate at least 50 percent of its trading volume with other PDs on this platform.

These steps will ensure that investors can invest in government securities without incurring high transaction costs. Investors will also have complete and updated information which is necessary for informed decision making about investment in government securities.

To encourage and incentivize the PDs to distribute government securities to retail investors, they will be paid commission @ 10 paise per Rs. 100 for accepted non-competitive bids of Individuals/Employee, Provident & Pension Funds/Corporate except Asset Management Companies, Mutual Funds, Insurance, Modaraba and leasing companies.

These initiatives would further increase the share of non-bank investors in government securities. So far, SBP efforts have produced encouraging results as the non-bank holding of government securities have increased from 797.0 billion as of June 30, 2011 to 1,016.1 billion as of March 31, 2013.

Cash Reserve Requirements (CRR) and Statutory Liquidity Requirements (SLR)

In order to reduce wastages of reserves and to give more flexibility to banks in their liquidity management, the process of maintaining required reserves was rationalized the process of maintenance of Cash Reserve Requirement (CRR) was rationalized by extending the reserve maintenance period from one week to two weeks and reducing the daily CRR from 4 % to 3%.

Under the revised process, banks have been advised to maintain CRR, during the period starting from Friday and ending on Thursday of subsequent week, by taking into account the Time and Demand

Liabilities as of close of business on Friday i.e. first day of reserve maintenance period. This process has improved liquidity management of banks by providing more time to adjust their reserves thus reducing the excess reserves held by the banks and less access to SBP standing repo/reverse repo facility. For consistency purpose, similar practice has also been introduced in SLR maintenance process.

Authorized Derivative Dealers (ADD)

ADD status was given to Faysal Bank Limited during the year after detailed scrutiny of their systems, controls and capability to work as an ADD. Bank of Tokyo Mitsubishi UFJ has been given status of “Non-Market Maker Financial Institution” (NMI). However, its activities are restricted to FX Options only. With the appointment of FBL, now there are six banks in Pakistan which are working as ADD.

Currency Swap Arrangements (CSA)

State Bank of Pakistan has developed a framework of executing bilateral currency swap arrangements with the regional central banks in the respective local currencies with the objective of boosting bilateral trade and investment in local currencies.

As a result, a bilateral CSA was concluded on November 1, 2011 between State Bank of Pakistan (SBP) and Central Bank of the Republic of Turkey (CBRT) in Pakistan Rupee / Turkish Lira, with size amounting to US\$ 1 billion in equivalent local currencies. Similarly, a landmark CSA was signed between SBP and the People’s Bank of China on December 23, 2011 amounting to Chinese Yuan (CNY) 10 billion and PKR 140 billion. Tenor of both the agreements is 3 years.

The objective of the currency swap is mainly to promote bilateral trade between the two countries in the respective local currencies. Since the CSA is a bilateral financial transaction, all terms & conditions apply equally to both countries and the pricing is based on the standard market benchmarks which are widely acceptable in the respective domestic markets.

Both the CSAs have now been implemented and SBP has issued necessary instructions to banks for its implementation after due consultations with various stakeholders and completion of operational formalities with the respective central banks.

Currency Swap Agreement between the two Central Banks gives a positive signal to the market on the availability of liquidity of other country’s currency in the onshore market. The arrangement will augment the pool of liquidity available to finance bilateral trade between the two countries, supplementing the already available sources of liquidity. By virtue of this arrangement, SBP will have the ability to draw on the swap line and provide TRY or CNY to banks in Pakistan. Banks will on-lend this liquidity to importers/ exporters involved in trade denominated in TRY or CNY. At maturity, the importer/exporter will repay the foreign currency to the lending bank, which in turn will repay to the respective central bank.

GOP Ijara Sukuk

In December 2011, Government of Pakistan launched GOP Ijara Sukuk in accordance with provisions of the GoP Ijara Sukuk Rules, 2008 in which underlying asset was M-2 Motorway for sale, purchase and lease through Pakistan Domestic Sukuk Company Limited (PDSCL). The maximum value of the asset under the said program of the Ijara Sukuk was PKR 234.6 billion, out of which GOP issued Ijara Sukuk worth PKR 233.8 billion in five auctions held from December, 2011 to September, 2012. In March, 2013, Government of Pakistan launched another series of GOP Ijara Sukuk in which M-1

Motorway was identified as an underlying asset. The maximum value of the asset was PKR 43.2 billion against which Sukuk worth PKR 43.02 billion were issued by the GOP in the auction held on March 26, 2013.

Since the start of issuance of GoP Ijara Sukuk in September 2008, Sukuk worth Rs. 501.44 billion have been issued so far. As of March 31, 2013, the outstanding amount of GoP Ijara Sukuk is. PKR 459.2 billion, out of which Sukuk worth PKR 374 billion are held by Islamic Banks/Branches which is 54 percent of their DTL.

Exchange Rate

SBP's proactive approach to market regulation and management facilitated smooth functioning of the foreign exchange market and capacity building amongst the market participants. Considering the market conditions and trade volumes, SBP in its annual review during FY 12 increased the overall Foreign Exchange Exposure Limit (FEEL) of the market by 12.8 percent, enabling the market to better manage larger flows without having any undue market impact. In April 2013, the maximum cap on FEEL of an Authorized Dealer has been further increased from PKR 2,500 million to PKR 3,500 million and overall FEEL of market has been increased by 9.7 percent.

Instructions on forward cover facility against import and foreign private loans have been further strengthened. As per new instructions, maturity of forward contracts against import should coincide with the maturity of the underlying Letter of Credit (LC). In cases where the import LC has a tenor of more than 12-months, the tenor of the forward cover facility would be 12-months on rollover basis or the remaining tenor of the LC whichever less is. Minimum tenor of forward cover against loans shall be twelve months or remaining maturity of the underlying loan, whichever is lower.

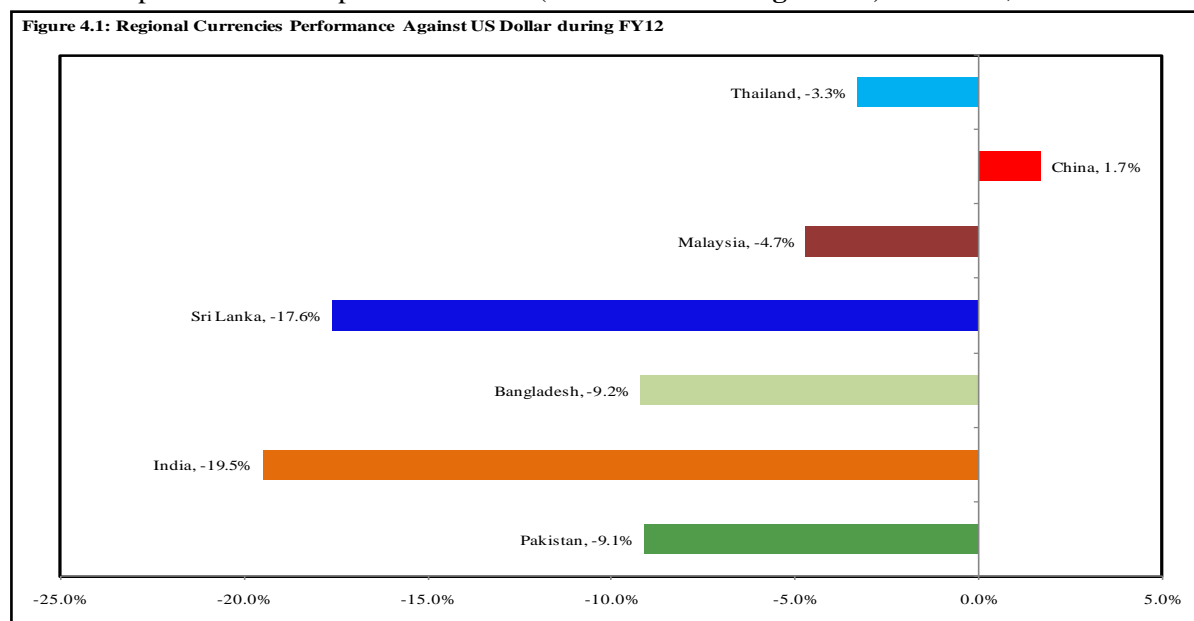
Table 4.1: Pak Rupee per US Dollar Interbank Trends

	High	Low	Close	Average	Volatility C/C ²
FY10	85.58	81.40	85.51	83.89	3.02
FY11	86.50	83.93	85.97	85.56	2.40
FY12	94.69	85.79	94.55	89.27	2.48

² Reuters: Average close-to-close daily volatility (in percent)

PKR exhibited depreciation of 9.1 percent against US\$ in interbank market during FY12 compared to nominal depreciation of 0.5 percent in FY11 (see **Table 4.1 & Figure 4.1**). However, the trend in

Figure 4.1: Regional Currencies Performance Against US Dollar during FY12



decline of PKR value during the year has been gradual. This exchange rate trend reflects the prevailing demand and supply conditions in the market as current account balance decreased from a nominal surplus in FY 11 to a deficit of US\$4.7 billion during FY12. Most of the regional currencies remained under pressure and witnessed weakening trend. Emerging market economies were adversely affected due to bleak outlook of exports and investments as a result of concerns about economic growth prospects of the developed nations. Depreciation of several currencies vis-à-vis US Dollar remained more pronounced than that of Pak Rupee.

Foreign Exchange Reserve Management

As current account as well as overall balance of payment witnessed significant decline compared to their FY11 levels, foreign exchange reserves of the country also witnessed a declining trend in FY12 (see **Table 4.2**). Foreign exchange reserves stood at US\$15.3 billion level at the end of FY12 compared to FY11 figure of US\$18.2, showing a decrease of around US\$3.0 billion during FY12. However, due to proactive management of SBP, the decline in the reserves during the year has been gradual that helped avoid any undue negative impact on the market sentiment.

4.2 Foreign Exchange Reserve Management **Global Economic Overview**

FY12 was another eventful year for the global economy. The downgrade of United States sovereign paper by Standard and Poor's, escalation of Euro zone debt crises as well as rising political tensions in the Gulf remained dominant themes and kept market participants in a state of risk aversion. The Euro zone sovereign debt crises gathered momentum by further engulfing Italy and Spain - two of the core countries forming the EMU. Oil prices also began an upward journey on account of rising political tensions in the Gulf region. Markets became optimistic for a brief period in the second half amidst some encouraging economic releases coming from the United States, however, the improvements proved short lived and unable to overcome the hindrances facing developed economies for the past two years. While many expected emerging economies to anchor global growth, their own trade dynamics deteriorated - through dwindling demand from developed economies - reducing the value added to global output. Central banks, globally, maintained their accommodative stance and quantitative easing programs, resulting in another year of near zero interest rates.

Performance of Reserves

In light of the global economic conditions, the balance of payments weakened further in FY12 as compared to the previous year. The trade deficit remained high as imports reached US\$ 40 billion on account of higher international crude and commodity prices, and exports remained lackluster under US\$ 25 billion due to reduced demand from developed economies. While the record remittances of US\$13.2 billion partially mitigated the side effects of running the high trade deficit, the current account balance widened significantly. Consequently, forex reserves were utilized to offset the balance of payment account deficits as well as for making IMF loan repayments during the year. At the end of FY12, the country's forex reserves stood equal to 19.8 weeks of imports coverage compared with 26.5 weeks of imports at the end of FY11.

Table 4.2: Month-wise Foreign Exchange Reserves
(in million US\$)

Month end	SBP	Banks	Total
Jul-11	14,775.7	3,519.1	18,294.8
Aug-11	14,603.1	3,462.9	18,066.0
Sep-11	13,651.0	3,680.3	17,331.3
Oct-11	13,322.3	3,743.9	17,066.2
Nov-11	12,911.1	3,817.1	16,728.2
Dec-11	12,875.2	4,150.9	17,026.1
Jan-12	12,471.2	4,372.1	16,843.3
Feb-12	11,961.4	4,449.7	16,411.1
Mar-12	11,834.7	4,715.9	16,550.6
Apr-12	12,040.5	4,446.0	16,486.5
May-12	11,264.7	4,310.5	15,575.2
Jun-12	10,803.3	4,485.3	15,288.6

Reserve Strategy Outlook

The foreign exchange reserves of the country are allocated to achieve optimal returns given mandated investment parameters and risk exposures. The reserve management team continues to deploy assets strategically, taking into consideration; changing global economic conditions, size of reserves, and flow of funds to and from the economy. In accordance with its mandate, the reserve management team at State Bank of Pakistan focused on minimizing market and credit risk exposures emanating from European sovereign debt crisis. Going forward, any adjustments to the reserve management strategy and subsequent update of asset allocation will continue to be guided by the broad investment parameters of security, liquidity and optimal returns, formulated by the Central Board of SBP.

4.3 Changes in Foreign Exchange Regime during FY12

In order to streamline the trade loan under FE-25 Scheme, the Authorized Dealers (banks) have been allowed to open foreign currency accounts and extend trade loans under FE-25 Scheme in US Dollar (USD), Pound Sterling (GBP), Euro (EUR), Japanese Yen (JPY), Canadian Dollar (CAD), UAE Dirham (AED), Saudi Riyal (SAR), Chinese Yuan (CNY), Swiss Franc (CHF) and Turkish Lira (TRY). Further, the interbank placements and interbank SWAPs or any other source of foreign currency liquidity that is permitted under SBP Rules / Regulations can be used to extend trade loans in the above foreign currencies. However, currency of the trade loan should be the same as that of the underlying LC/ Firm Trade Contract.

The Authorized Dealers (banks) have been advised to ensure that the forward cover facility provided by them against imports is being availed for genuine import transaction and that the importers do not hedge more than the underlying exposure. The maturity of forward contracts against import should coincide with the maturity of underlying Letter of Credit (L/C). All forward contracts against which the underlying L/Cs are cancelled are required to be closed out on maturity at prevailing exchange rates and differential is settled between the importer and the bank. Similarly, they have also been advised to ensure that the forward cover facility provided by them against Foreign Private Loans is being availed for genuine transactions and that the customers do not hedge more than the underlying exposure. The minimum tenor of forward cover against such loans shall be twelve months or remaining maturity of the underlying foreign private loan, whichever is lower. Forward cover already provided to customers prior to the effective date of this circular shall remain effective till their maturity.

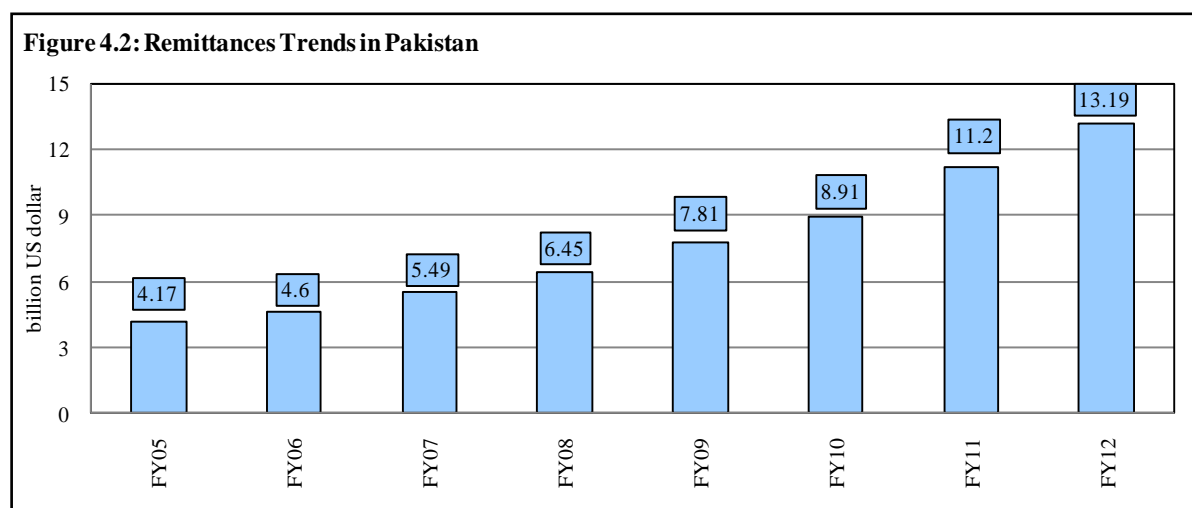
4.4 Exchange Companies (EC)

In order to address the compliance of the regulatory & legal requirements of Anti-Money Laundering (AML)/Countering Financing of Terrorism(CFT) regime, Exchange Companies were advised for reporting of Suspicious Transaction Reports (STRs)/Currency Transaction Reports (CTRs) to Financial Monitoring Unit (FMU) under AML Act, 2010. Revised policy for renewal of licenses of Exchange Companies was introduced which was purely based upon compliance status of the Exchange Companies.

With a view to preserve the integrity and safety of the financial system, guidelines for combating money laundering and terrorist financing were issued. In terms of the guidelines, EC were advised regarding documentation of transactions, Know Your Customer (KYC) & Customer Due Diligence (CDD), beneficial ownership, record keeping, Compliance of Legal and Regulatory Framework etc. They were further advised to review and submit their policy for combating money laundering and terrorist financing each year, duly approved by Board of Directors.

4.5 Pakistan Remittance Initiative (PRI)

In order to provide an ownership structure in Pakistan for remittance facilitation, State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance launched a joint initiative, called Pakistan Remittance Initiative (PRI), in April 2009. This initiative has been taken to achieve the objectives of: (a) facilitating and supporting efficient flow of remittances and (b) to provide investment opportunities in Pakistan for overseas Pakistanis. The establishment of PRI has contributed positively in enhancing the flow of remittances to Pakistan, which has noticeable upward trend (see **Figure 4.2**).



PRI has formulated a comprehensive strategy aimed at greater commitment of financial sector towards remittance services and resultant inculcation of remittance culture, transparency of remittance market with adequate consumer protection, efficiency of payment system infrastructure, and incentives for the remitters, beneficiaries and overseas entities.

Through a consultative process, the number of financial institutions involved in remittance services has increased significantly. The realization of business cases in remittances by additional financial institutions has not only facilitated the larger strata of remittance beneficiaries but also resulted in creating a competitive environment.

PRI is encouraging financial institutions in Pakistan to enhance their outreach worldwide through new remittance- specific related arrangements. Around 400 new arrangements have been finalized by banks in Pakistan with their overseas correspondents since the inception of PRI.

PRI is encouraging banks to issue PRI co-branded Pardes Cards (a PRI generic name for remittance cards) offering beneficiary with the ease of withdrawing their funds 24x7 from any ATM across the country or use the same at POS terminals. The cards can only be fed through home remittances from abroad and used locally. Once the card is issued to a beneficiary after due process, remittance received from abroad is automatically transferred to the card. These cards shall not only bring wide array of people under mainstream of banking, but also help to reduce the COC payments. Two of the large size banks, namely UBL and HBL, have already launched their respective Pardes Cards while others are in pipeline.

Reliable and efficient payment systems are vital to facilitate delivery of home remittances securely and efficiently and State Bank of Pakistan has already taken number of steps to develop related Payment Systems Architecture of the country such as:

- Utilization of PRISM (RTGS) to transfer and settle inter-bank Home Remittance transactions. This has enabled banks to transfer inter-bank transactions into beneficiaries' accounts on the same day.
- Apart from RTGS, through ATM Switch, instant A/C credit facility is also available for beneficiaries through Inter Bank Fund Transfer (IBFT). This has reduced turnaround time considerably.

Keeping in view the rising trend in Home Remittances and the importance of same for the economy, SBP has allowed banks to open dedicated Home Remittance payment centers. Payments can be made to beneficiaries via cash, demand drafts and pay orders. In addition, such Home Remittance Payment Centers would also be allowed to perform the functions of Sales & Service Centers.

A call centre has been established by PRI to provide a reliable and immediate contact point (24 hours, 7 days a week). All overseas Pakistanis and their families back home can inquire about the remittance services of banks and lodge their complaints with the call centre (0092-21-111-222-774). There are toll free numbers for overseas Pakistanis residing in 12 countries/ regions of the world. Further, PRI has its own website <http://www.pri.gov.pk> for related purposes.

With a view to encourage overseas Pakistanis and others to use banking channels for home remittances, and to protect the remitters / beneficiaries from any losses that they may incur due to unwarranted delays in receipts of funds in the beneficiaries' accounts, a mechanism has been put in place whereby in case the amount of remittance is not credited/ paid to the beneficiary as per stipulated instruction, the beneficiary shall be entitled to a return of sixty five (65) paisa per thousand rupees per day from the concerned bank for the number of days credit/payment on account of remittance was delayed.

PRI have organized various training programs related to different facets of remittances services, ranging from strategic framework for remittance services to policy level initiatives. PRI also awarded appreciation certificates to top performer branch managers of banks, in recognition of their services for the national cause. Governor, SBP distributed the awards amongst banks' officials in different areas relating to home remittances, including remittances services at branch level both in Pakistan and overseas, processing at centralized Home Remittance Cells and IT support for swift remittance delivery. Forty-five officials from a number of banks also received individual performance awards for facilitating remittances into Pakistan.

4.6 Risk Management and Compliance

As a part of Foreign Exchange Reserve Management, Risk Management and Compliance Department (RMCD) acts as the middle-office and performs the critical functions of risk management through timely identification, assessment and quantification of credit, market, and operational risks. During the year, RMCD continued its drive to bring its functions and operations in-line with the best international practices. Some of the major developmental work was:

- RMCD strengthened its risk assessment framework through introducing real time early warning system for timely identification of key market and credit risk factors that may pose financial risks to the reserve management activities. Due to volatility in the financial markets and to meet the diversification needs of the reserve management program, RMCD reviewed

its existing risk management policies and aligned them with the changing dynamics of the financial markets and associated risks.

- In order to proactively manage operational risks, RMCD took several initiatives to streamline operations of reserve management function in coordination with relevant stakeholders (TOD and IMID) and ISTD. Some of the key tasks that were completed during the year included the following:
 - Consolidation of refined Risk factor related data.
 - Harmonization of internal and external data sources of in-house and outsourced portfolios to address issues related to data validation and authenticity.
 - Deployment of automated real time alerts to ensure compliance of RMCD guidelines and policy limits.

4.7 Treasury Operations

During the year under review, the treasury operations (back-office) witnessed significant technological improvements, better internal controls and enhanced capacity building that jointly played pivotal role in boosting the operational efficiency of the department and making it more aligned with international best practices. In this regard following initiatives were successfully completed:

- Automation of Reserve Security Accounting Entries in Globus and Oracle in banking books.
- Development of SWIFT messages relating to international payments area through Globus system and integration with SWIFT system.
- Centralization and rationalization of Bank-wide outsourced corporate services including technological platforms and hiring of external experts.
- Acquisition and custody of all the agreements related to reserve management functions for better control.
- Streamlining of operational activities by complete revamping of functions and administrative hierarchy of the department.
- Capacity building in the area of reserve management, particularly for providing operations support for new treasury products including currency swap agreements and in-house arrangements for purchase of CNY bonds and treasury bills.

5 Payment and Settlement Systems

5.1 Overview

Payment System is a way of transferring value between different parties in the economy and determining partly economic costs. The purpose of an efficient, secure and reliable payment system is to reduce the cost, safeguard financial stability and to promote economic activities in an economy. Its design and impact on economic growth is considered to be optimal if it is well-organized to allow the quick and effective value transfers while imposing a minimum of additional costs and risks. Therefore, the small and large value payment mechanisms and securities settlement systems are vital and essential tools for the effective implementation of monetary policy as well as maintaining the integrity of financial system.

Effective measures were taken during FY12 to keep the progress going on the major projects. During the year, instructions were issued to the industry to keep up with the international developments and also to improve local systems that are more likely to raise disputes for various Alternative Delivery Channels (ADCs). In the light of previous circulars on the management of ATMs in the country, SBP has issued instructions to the industry on Ramzan/ Eid occasions and decided to continue surprise inspections throughout the country to ascertain the compliance level and putting heavy penalties under the relevant laws. In order to further improve the operations of Pakistan cards, issued to the flood affectees, SBP has advised all those banks that have their ATMs machines installed in affected areas to ensure that their ATMs are operational and that cash is replenished in a timely manner, with no service charges on cash withdrawal transactions. Various approvals were also given to banks on a variety of products containing diversified functionalities to facilitate customers saving time on every transaction performed and can use their money in a risk-free environment.

As per Government of Pakistan's notification for the observance of five days working week, SBP also issued instructions on the management and uptime of ATMs on weekends as well as revising cut-off timings for the settlement in PRISM (RTGS) system. With a view to provide greater flexibility and to enhance payment transfer facilities through PRISM system, SBP has also decided to allow multiple credit transfers (using MT 102) for 3rd party transfers to facilitate non-critical payments of Rs.100,000 and above. This is in addition to further facilitate customers' time critical payments of Rs. one million and above and can be used for processing the bulk payments (i.e. salaries and remittances etc). On remittances front, SBP has decided to charge a flat fee of Rs. 1000/- per transaction for each fund transfer instruction in lieu of a uniform rate of 0.07 percent previously levied on such transactions.

An important development during FY12 was that SBP assumed responsibilities of managing the Secretariat of SAARC Payment Council (SPC), housed at Payment Systems Department, for a period of two years with effect from 1st March 2012. SPC is a forum of central banks and monetary authorities of SAARC countries to collectively evolve to develop high level strategies and road maps for the development of intra-regional payment systems.

Another big mile has taken by SBP to bring banks account codes in standardize format to increase the efficiency in processing of payments for domestic as well as cross border transactions. International Bank Account Number (IBAN) international standard (ISO 13616-1:2007), for identifying bank accounts across borders, has been implemented in Pakistan in consultation with Pakistan Banks Association (PBA). The initiative will eliminate delays in the credit transfers and enable the payment/

clearing systems to electronically validate account number without manual intervention. Relevant guidelines were also issued to the industry, containing details of how IBAN can be generated along with its validation processes and phase-wise implementation plans for the industry.

5.2 Large Value Payment System (Real Time Gross Settlement System - RTGS)

RTGS is a system where both processing and the final settlement of fund transfer instructions take place in real time. Banks execute funds transfer through remote terminals provided at their premises by SBP. There are various types of transactions settled through PRISM system which include government securities (PIBs/ MTBs), interbank fund transfer, multilateral net settlement batches and customer transfers. Currently, PRISM has 43 participants, consisting of 35 commercial banks, 7 DFIs and one microfinance bank.

Table 5.1: Different Types of Transactions

volume in numbers; values in billion rupees

Transaction Types	FY11		FY12		Change volume (percent)	Change value (percent)
	Volume	Value	Volume	Value		
Government securities (Interbank)	57,007	38,119	66,622	64,559	17	69
Fund transfer (interbank & customer transfer)	221,485	31,021	260,898	35,118	18	13
NIFT	50,208	12,728	47,430	12,854	-6	1
Total	328,700	81,868	374,950	112,532	14	37

Table 5.1 shows that the total number of payments settled through PRISM during FY12, showed an increase of 14 percent in volume and 37 percent in value as recorded last year. A break-up of the total showed that the number of government securities transactions increased from 57,007 to 66,622 transactions in FY12, thereby showing an increase of 17 percent. The value of such securities settled through PRISM system also increased by 69 percent to Rs. 64.5 billion.

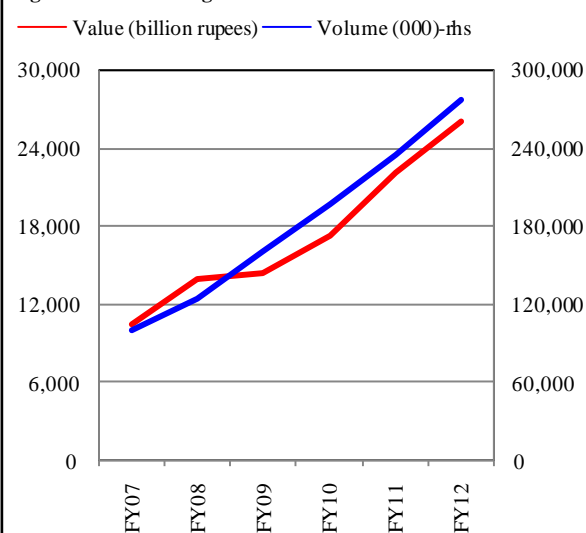
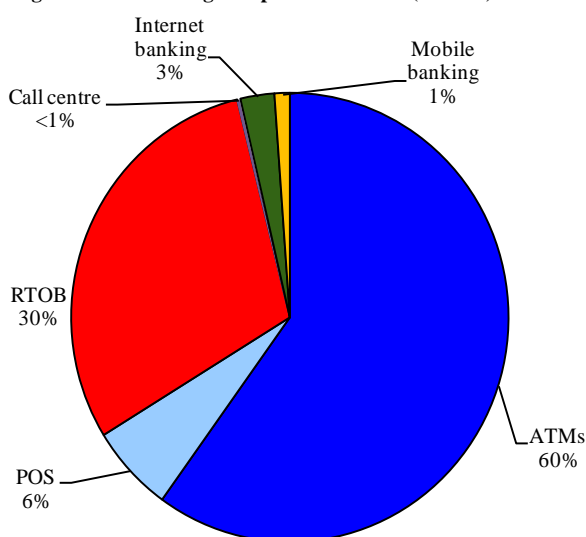
The interbank fund transfer and customer transfers through PRISM also registered a growth of 18 percent in volume and 13 percent in value as compared to the last year. The multilateral net settlement batches sent by NIFT also recorded an increase of 1 percent in the value of transactions. However, the decrease in the number of NIFT transaction may be attributed to the introduction of a five day week.

5.3 Retail Payment Systems

The scope of retail payment systems in Pakistan is becoming wider as more and more electronic instruments are added in the e-commerce stream which helps developing the core banking solutions even stronger. Previous products and various developments in the market such as the introduction of pre-paid cards are making customers more vigilant towards their financials and converting the unbanked population into under-banked and fully banked. There was increase witnessed in the numbers of ADCs as well as transactions performing through such channels during FY12. Bank and other financial institutions, in the presence of attached risks, are adopting various ways to minimize risks, in order to capture and sustain a healthy competition in the market.

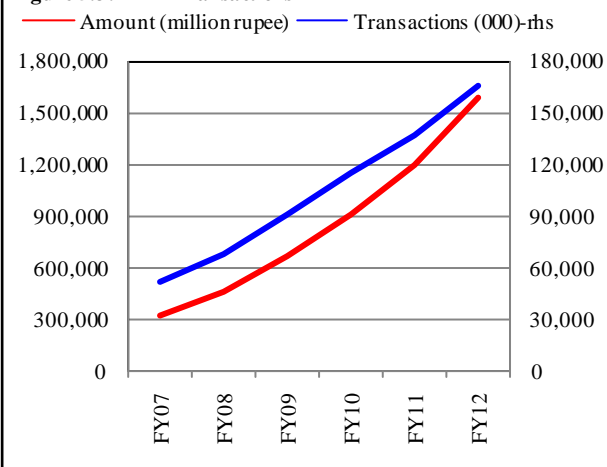
5.4 Electronic Banking and its composition

Electronic banking (e-banking) has made considerable impact on our financial industry in the last 10 years. It is getting increasingly popular as the volume and value of transactions have shown a significant growth trend. The volume and value of e-banking transactions in the country showed growth of 18 percent each compared to growth of 20 percent and 28 percent respectively during last year (see **Figure-5.1**). The percentage composition of e-banking in terms of volume remained almost same during FY12 as in the last year (see **Figure 5.2**).

Figure 5.1: E-Banking Transactions**Figure 5.2: E-Banking Composition in FY12 (volume)**

5.4.1 Automated Teller Machine (ATMs)

ATM is an innovative service delivery channel that offers diversified financial services like cash withdrawal, funds transfers, cash deposits, payment of utility bills, cheque book requests and other financial enquiries. Payments through this mode still possess the highest in overall e-banking transactions, showing an increase of 21 percent in numbers and 33 percent in value during FY12, as compared with the increases of 19 percent and 32 percent respectively recorded last year. The average value per ATM transaction recorded during the year was Rs. 9,559, as compared to Rs. 8,695 last year (see **Figure 5.3**). During FY12, 545 new ATMs were added by banks to their network, bringing the tally to 5,745 total machines all over the country.

Figure 5.3: ATM Transactions

5.4.2 Real Time Online Branches

The network of real time online branches in the country expanded to 9,291 during the year, showing a growth of 25 percent compared to 11 percent last year. The share of online branches in the total branch network also increased from 78 percent to 93 percent.

5.4.3 Point of Sale (POS)

The number of POS terminals decreased by 6 percent to 34,879 during FY12, as compared to a decline of 28 percent in last year. The reason of this decline was due to the stringent credit card issuance policies of banks coupled with their strategic decisions to decline investments in POS terminals.

In terms of volume, POS transactions in the country showed an increase of 22.1 percent to 17.4 million, as compared to 8.8 percent in the last year. In terms of value, with an increase of 15.4 percent, the amount of transactions reached to Rs. 80.1 billion as compared to the decrease of 7.9 percent last year.

5.4.4 Internet Banking

Internet banking includes payments such as utility bills and mobile top-ups etc. and electronic fund transfers. During the current fiscal year, banks reported 6.9 million transactions, involving an amount of Rs.365 billion. This showed an increase of 56 percent in volume and 75 percent in value terms, as compared to the increases of 50 percent and 48 percent respectively during last year.

5.4.5 Mobile Banking

The scope of mobile banking in the country is improving as more banks are joining hand to hand in providing quality and secure services through this mode of payment. The volume of transactions was recorded at 3.1 million during the year, compared to 3.3 million last year. In terms of value, it reached 12.2 billion as compared to Rs. 7.7 billion reported in the last year.

5.4.6 Real Time Online Banking

Banks in Pakistan are offering RTOB channel for conducting various C2C, C2B and B2B transactions online. During FY12, the overall volume of RTOB transactions increased by 11.6 percent as compared to an increase of 22.8 percent last year. In terms of value, the amount increased by 16.1 percent as compared to a growth of 27.5 percent recorded last year.

5.4.7 Number of Plastic (Debit/Credit) Cards

The total numbers of plastic cards in the country reached to 17.95 million i.e. 28 percent increase compared to 33 percent last year. However, debit card sustained the major contributor, with a share of 89 percent in the total number of cards.

5.5 Conclusion

According to the figures of FY12, the future of e-banking in the country is bright as the transactional growth in all electronic banking channels witnessed expansion in the last five years that reflects the increasing use of e-banking services in the payment system infrastructure. This is an encouraging development as e-banking facilities provide a viable solution for expanding the outreach of financial services to remote areas as well as nurturing the unbanked population. As banks are continuously improving their technological systems, new electronic products are maturing to push the financial institutions to strengthen their systems and, at the same time, creating synergetic environment for both the customers as well as financial institutions.

Management Strategy of SBP

6. Human Resource Developments

7. Information Technology Developments

6 Human Resource Developments

6.1 Overview

The year under review witnessed significant developments in the HR function at SBP. Major areas of improvement and activity include:

- Performance Measurement and Improvement System (PMIS)
- Compensation & Benefits Management
- Employee Relations (CBA Affairs)
- Training and Development

6.2 HR Profile

During the year, a slight decline was observed in the working strength of SBP due to early retirements and increase in the number of resignations tendered mostly by OG-2 and OG-3 officers. Grade-wise comparison of headcount for FY11 and FY12 is given in **Table 6.1**. Employee turnover rate in FY12 is 4.3 percent. The trend is mainly due to the voluntary separations in respect of early retirement and resignations. The representation of women in the Bank remained the same as last year i.e. 10 percent.

Table 6.1 SBP Human Resources Profile and Reason

Grade	FY11	FY12	Reason	No. of Employees
Governor/DG	3	2	Involuntary	-60
OG-8	12	11	Compulsorily retired	-2
OG-7	27	27	Contract expired	-7
OG-6	45	43	Contract terminated	-1
OG-5	96	91	Dismissed	-2
OG-4	216	211	Expired	-2
OG-3	392	371	Retirement	-10
OG-2	326	324	Permanently transferred to BSC	-36
OG-1	146	144	Voluntary	-41
Support staff	147	144	Early retirement	-17
Contractual employees	70	27	Resigned	-24
			Appointments	16
Total	1480	1395	Total	-85

6.3 Performance Measurement and Improvement System (PMIS)

Improvements were brought about in PMIS in order to improve robustness and rigor of the system in view of the management's philosophy. The concerted efforts were made in the shape of conduction of 39 refresher workshops for appraisees and appraisers, meetings with Executive Directors and system based modifications to increase ownership, develop understanding and facilitation on PMIS and reinforce the role and responsibilities of appraisees, appraiser and reviewers. 9.93 percent rigor achieved for FY12 vs. FY11. Other substantial developments were:

- Implementation of revised Bell Curve quota
- Justifications on extreme ratings
- Focus on numerical ratings/score rather than on Alpha ratings

- Performance based Exit policy (PIP), identification of non-performers
- Development of Compendium of Circulars on PMIS
- Bell Curve on PAs (OG-1 to OG4)
- Distribution of AMI in the month of July, 2012
- Significant level of submission of PMS forms
- Orientation sessions for OG-1 officers on PMIS & Career Development.

6.4 Compensation & Benefits Management

State Bank of Pakistan (SBP) has been striving to promote performance culture by rewarding performance through differentiated annual merit increases and aligning compensation and benefits of officers with the market. Further, it is also the stated policy of SBP that the salary scales under New Compensation & Benefits Structure (NC&BS) will be reviewed every two years according to the market salary survey data and, if deemed necessary, changes in the salary scales and in the formula adopted for the salary fixation in the new scales will be recommended to the Central Board for approval.

Table 6.2: Bell Curve Distribution and AMI Rates for FY12

AMI and quota in percent

Performance category	OG-1 and above		Unionized staff	
	AMI	Quota	AMI	Quota
A (on earning basis only genuine cases)	17	10	9.5	15
B+	13	20	8.5	25
B	10	50	7.5	50
C	6	10	5	
D (on earning basis only genuine cases)	0	10	0	10

In the same vein, SBP conducted the compensation and benefits survey 2011 on the concept of Total Remuneration (TR) by an external consultant, to determine the current market positioning of SBP officers' remuneration in the approved comparator group. Based on the outcome of the compensation and benefits survey, a salary adjustment for OG-1 and above officers was approved w.e.f. 1st July, 2011 with the aim to gradually achieve market positioning at the targeted percentiles (see **Table 6.2**).

In order to reduce the future liability of the Bank and to facilitate ex-employees, the eligible employees who seek early retirement have been given the option of encashment of post retirement medical facility or continue to avail the existing medical facility after retirement as admissible under the rules.

6.5 Employee Relations (CBA Affairs)

Consequent upon successful negotiations on the Charter of Demands of CBA and Management, an Agreement was signed with CBA for the period of two years. Based on the negotiations, an across the board salary increase @ 16.5 percent was allowed to regular Clerical/Non-Clerical staff w.e.f. 1st July, 2011. Besides the salary increase, certain benefits like cash award on improvement of qualification, Marriage and Funeral Grant, Overtime and Conveyance Allowance, Reimbursement of Educational Expenses, Daily Allowance, leave were also revised. Further, the entitlement/rates of uniform have also been revised.

6.6 Training and Development

Training and Development Function remained focused towards enhancing employees' knowledge and skills mix by offering them up-to-the-mark training opportunities within Pakistan and abroad. Besides, some employees were also allowed for higher studies under the (new) Higher Studies policy (2011).

To scientifically gauge training needs of the organization, bank-wide PMS-based Training Need Assessment (TNA) was exercised as done annually. In the light of this exercise, many training arrangements were made during FY12 (see **Table 6.3**).

Table: 6.3. Participation Domestic/Foreign Training

(participants and courses in number)

<u>In-house/ Domestic Training</u>		
Category	Participants	Courses
NIBAF	336	18
Institutional	59	28
Total	395	46
<u>Foreign Training</u>		
Institutes	Participants	
International Monetary Fund (IMF)	51	
European Central Bank	2	
Asian Development Bank (ADB)	1	
Islamic Development Bank (IDB)	2	
Boulder Institute of Microfinance	1	
AUSTRAC	8	
APRACA	1	
Others	25	
Total	91	

In an effort to network and to impart knowledge on the functioning of the central bank, various visit programs were arranged for the students, government dignitaries and Nepal Rastra Bank. Internship Program was also conducted, where students of HEC recognized universities benefited (see **Table 6.4**).

6.7 Recruitment

As part of strategic direction of the Bank to meet resourcing needs at entry-level positions, a batch of 11 Officers was recruited under State Bank Officials' Training Scheme, whereas 3 employees were appointed on contract and 22 employment contracts were renewed during FY12.

Table 6.4: SBP Awareness/Visits and Internship Programs

Particulars/category	No of Participants
Government officials	187
College /University students	194
International delegations *	12
Summer internship program (six weeks duration)	195
*=A delegation of 12 employees from Nepal Rastra Bank under SAARCFINANCE	

7 Information Technology Developments

7.1 Overview

The major areas that were focused during FY12 were Banking Operations, Finance, Human Resources and MIS, Real Time Gross Settlement and Credit Information Bureau. The technological services were provided not only to State Bank of Pakistan but to the financial institutions across the industry. During the year, several upgrade and enhancement projects were implemented to maintain and improve overall security and efficiency of IT services and business operations. A notable success was the transition of Disaster Recovery (DR) infrastructure from temporary arrangement to a purpose-built international standard data center that is built in the premises of SBP-BSC Hyderabad Office.

In the backdrop of global credit crunch, ISTD strengthened the banking surveillance efforts of SBP by enhancing the electronic Credit Information Bureau to enlarge the scope of the system. Another achievement was the automation of data collection related to Exit Control List that enabled the concerned agencies to use the data in a better and consolidated way. ISTD maintained SBP at international standards by upgrading its SWIFT infrastructure. Similarly, Directory Services - one of the foundations of IT Infrastructure - was upgraded to the latest technology.

Another important milestone achieved this year was the automation of Real-Time Gross Settlement (RTGS) System related support mechanism that centralized the process of technical and Business support to 44 RTGS member financial institutions. This year, ISTD augmented its role in the Project to Improve Financial Reporting and Auditing (PIFRA) and developed a solution to collect and disseminate the data regarding the payments & receipts on the basis of Accounts, i.e. Foreign /Domestic and other categories that added to the governmental efforts to add transparency to financial system of the country.

7.2 Globus Banking and Currency Solutions

FY12 was the seventh successive year of seamless annual closing of accounts at SBP and BSC through the Globus Banking application and Oracle ERP. In the outgoing financial year, various functionalities were added to the Globus system. Some of the developments in this area include: automation of Issue Department Statement of Affairs and development of Thin sheet (Consolidated Govt. Balances) for Finance Department, Addition of new Prize Bonds of Rs 25,000 denomination which was launched by BSC HOK in Dec 2011, Payment of 3rd prize of Rs.750/- denomination National Prize Bonds by all SBP BSC Offices at Cash side through one window operation and provision of bonded note facility to all other commercial banks.

7.3 Oracle ERP & Data Warehouse

ERP team took up various enhancements in the Oracle ERP system including enhancement of interface of direct payments to SBP vendors that resolved the cheque issuance delays issues, while implementation of system controls on budgetary expenses resulted in an assurance of due prudence, automation of BSC HOK Engineering store was also completed in order to streamline Engineering storekeeping errands while another system was brought in place for system generated tag numbers for BSC HOK and offices' Fixed Assets.

An interface was also developed for revaluation of all SBP buildings across Pakistan. A General Ledger was implemented for SBP Employees Welfare Trust. ERP team also completed the new time-sensitive enhancements in PMS as per the amendments in the policy.

On the Data Warehouse front, functionalities like Housing Finance Quarterly Reports, to collect and disseminate the data regarding the housing finance disbursement, recovery, outstanding and write-off by banks and by sector, were performed during FY12. Denomination wise Currency Balances System was developed for online collection of monthly bank level stock position of denomination wise banknotes/coins from scheduled /microfinance banks. Further, enhancements were completed in External Debt: Foreign Private Loans, External Debt: Foreign Public Loans, Weekly RCoA Migration to DAP4, and Quarterly RCoA Migration to DAP4.

7.4 Infrastructure

To secure the data on portable computers, strengthening of policies and security controls on Laptop computers used by officers in SBP- BID and SBP BSC – IAD were implemented.

As per ISTD's continuous improvement strategy, the data communication and network security setup has been continuously strengthened by constant monitoring and optimizing of the links and devices using the latest tools, placement of structured service level agreements and distribution of resources across the three data centers over the corporate network for optimal performance.

Active Directory Services, the foundation layer for SBP's Windows Systems infrastructure, was upgraded to the latest technology resulting in efficiency enhancement and strengthening of security controls. Additional Blade servers were procured and installed to improve the reliability of services hosted in ISTD

Software security patch management systems, that is used for managing entire population of computers on Bank's network was upgraded, hence expanding the scope of security updates to third party non Microsoft software on the computers.

SBP Subsidiaries

- 8. SBP Banking Services Corporation (SBP-BSC)**
- 9. National Institute of Banking & Finance (NIBAF)**

8 SBP Banking Services Corporation (SBP-BSC)

The Banking Services Corporation (BSC) - subsidiary of the State Bank of Pakistan (SBP) - continued its pursuits during FY12 towards providing good quality and prompt services to the federal, provincial and district governments, banking industry including SBP as well as the common man. For making its service standards more efficient, BSC undertook a number of new initiatives, aimed at improving the quality of services, and further enhancing the transparency. The management of the Corporation also continued to strengthen its role as an extended arm of the Development Finance Group (DFG) of SBP, in disseminating various initiatives of the Group across Pakistan, aimed at enhancing the financial inclusion in a predominantly unbanked economy. In addition, steps were taken to reinforce policies through programming of standard operating procedures, mainly based on IT based applications in the business areas of, government account, currency management, payments system, and foreign exchange operations

From the perspective of a common man, the availability of clean and durable bank notes is the cornerstone of any central bank services. Pakistan is a cash-oriented economy, as evident from the increase in Currency in Circulation (CIC) which stood at Rs. 1,777 billion, as on 30th June 2012 as against Rs. 1,600 billion as on 30th June, 2011 showing an increase of 11 percent (see **Figures 8.1 and 8.2**). In a society having more reliance on printed bank notes in payment of their obligations, as also for other day to day needs, managing availability of bank notes and coins across the country becomes more complex. A considerable increase in currency in circulation in the recent past has mandated Currency Management Department (CMD) of BSC to manage stocks of fresh and re-issuable notes held at field offices more aggressively, primarily due to less than adequate availability of remittance arrangements for currency movement in the bulk. Notwithstanding the operational difficulties, CMD has managed availability of bank notes and coins across Pakistan, in order to meet its commitment and resolve to provide the good quality bank notes. In a payment system, relying more on physical exchange of bank notes for settling payment transactions, the replacement of soiled bank notes and availability of good quality bank notes across Pakistan warrants both institutional commitment as well as operational innovation. CMD has been doing the needful towards this in a two pronged strategy; firstly through its operational commitment to pursue round-the-year Clean Note Policy (CNP) of the SBP and, secondly, through availability of the fresh notes on special occasions like Eid ul Fitr. It has also made it conditional on the banks to use the good quality notes for the ATM operations. Further, under CNP program, the banks were advised to devise strong internal control mechanism to check the compliance of instructions issued by CMD from time to time and submit the

Figure 8.1: Currency in Circulation (value)

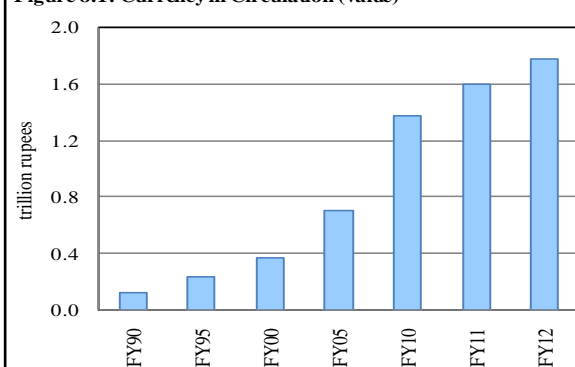
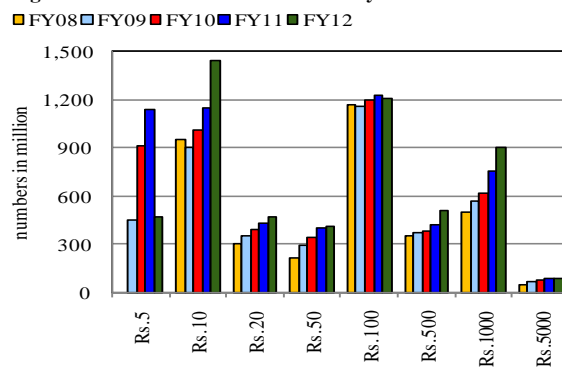


Figure 8.2: Denomination-wise Currency in Circulation



compliance certificate on 15th January of every year to the Director, CMD. The aim has been to implement the policy with stakeholders' cooperation and ownership. Further, category-wise database of all commercial banks, showing their performance to implement SBP clean note policy, has been developed to assist the CMD in taking the corrective action by aligning more resources to banks having relatively poor performance in this regard. It may be noted that, on an overall basis, fresh cash equivalent to Rs.443 billion was disbursed during FY12, as against Rs.380 billion disbursed in FY11, to banks and various other institutional and non-institutional stakeholders.

During the year FY12, SBP BSC remained focused on the consolidation of government receipts and payments. The procedure of checking debtor balances and limits as well as to charge mark-up on the overdraft balances was vigilantly followed and daily reporting mechanism was established under PIFRA arrangements. The resource mobilization for the government, in terms of tax receipts, was further automated with the active participation and cooperation of Federal Board of Revenue (FBR) through extension of CAP II Project at all field offices of SBP BSC, except Muzaffarabad. To achieve this automation, Corporation's Accounts Department heavily relied on the use of 'Information Technology' in order to augment the Central Bank's role as a banker to its stakeholders from amongst the federal, provincial and district governments. The progressive increase in the number of transactions relating to these stakeholders dealt by all field offices of SBP BSC, approximating to 6.4 million during FY12, as compared to 5.8 million last year, clearly endorsed the same. It may be added here that the tax revenue (Federal Board of Revenue collections) collected by SBP BSC offices and the network of NBP branches on behalf of the government and credited during the year under review stood at around Rs.1,970 billion as compared to Rs 1,618 billion in FY11, showing an increase of 22 percent. The payments made under refunds allowed by the concerned offices of the FBR grew from Rs. 76.6 billion in FY11 to Rs. 118.6 billion in the year under review. The collection, disbursement, consolidation and reporting of Zakat account also remained one of the main responsibility/ core function of BSC's Accounts Department. Total collection of Zakat stood at Rs.3.9 billion during FY12 as compared to Rs.3.6 billion collected last year. Moreover, after constitutional amendments passed under 18th Amendment Bill, where Zakat has been classified as a provincial revenue source, SBP BSC has facilitated Ministry of Religious Affairs with Zakat collection statistics available in terms of area of its collection.

On account of managing the banking business of the government, SBP BSC remains engaged with the operational work relating to the National Prize Bonds Scheme and National Saving Certificate Scheme of Central Directorate of National Savings (CDNS). Sale and encashment of prize bonds of various denominations of prize bonds and payment of prize money were the areas where SBP BSC deploy all resources to administer the scheme efficiently. During FY12, total sale of Rs. 162.2 billion was handled as compared to the value business of Rs. 138.9 billion in FY11. Likewise, the encashment volume recorded at Rs. 105.9 billion during FY12, while in FY11, it was just total Rs. 97.8 billion. This transactional increase was also reported on prize money payments. The field offices of SBP BSC settled 1,312,798 cases of prize money payments as compared to 1,185,706 during FY11. While administering the regular prize bond scheme, SBP BSC also facilitated the CDNS in re-launching of Rs. 25,000 denomination of prize bond in February 2012 and sale business was handled across the 16 field offices of SBP BSC.

Moving forward, SBP BSC also managed the other schemes of CDNS, notably the sale, encashment and profit payments of Special Saving Certificates (SSC), Defence Saving Certificates (DSC). During the year under review, 21,498 cases valuing Rs. 29.4 billion in respect of sale of SSC and 8,844 cases of valuing Rs. 5.7 billion of DSC were handled, showing increase of 17% and 9% in amount for SSC and DSC respectively. Further, in order to mitigate all operational risks, SBP BSC strongly adhered

to automated transactions and system-based procedures and introduced new applications to initiate enquiry procedures and mechanism for owner personal details and disposal of undelivered payment orders in respect of SSC and DSC.

Further, while focusing on the core business issues, SBP BSC remain aligned with the emerging developments in the areas of payment and settlement system, particularly to ensure that better clearing services are provided to the stake holders notably the commercial banks and the public through agreements with National Institutional Facilitation Technologies (NIFT). Arrangements were made to provide overnight clearing, same day/high value clearing, intercity clearing, and Country-wide local US Dollar clearing. Due to such arrangements during FY12, the monthly average value and volume of total transactions including RTGS, Depox and NIFT were Rs.9,377.7 billion and 31,246 respectively, which showed an increase of 14.1 percent in volume and 37.5 percent in the value compared to previous year. While managing the payment side, more attention was paid to strengthen the net work between field offices, banks branches to settle their large value transactions affecting their accounts at SBP. On account of such operating mechanism much improvements have been observed in terms of managing the availability of intra-day repo and temporary liquidity shortfall in the accounts of commercial banks.

The Foreign Exchange Operations Department (FEOD) and Foreign Exchange Adjudication Department (FEAD) in the SBP BSC undertake the responsibility for implementation of foreign exchange manual, as illustrated through implementation of the Foreign Exchange Regulation Act (FERA) 1947, besides other functions as delegated by the Exchange Policy Department of SBP. Besides managing the commercial, private and government remittances and processing the cases related to specific subsidies as allowed by the federal government and the relevant ministries to specific exporters' categories like textile exporters, the FEOD is also responsible for ensuring realization of the export proceeds. As a sequel to the follow-up with the delinquent exporters who have failed to realize the export proceeds under stipulated time period, FEOD was successful in realizing around US \$ 776.3 million in CY11 as against US \$ 573.6 million in CY10. For the purpose of realization of proceeds, the FEOD issued 18,054 show cause notices to the delinquent exporters during FY12. In addition to it, the department also filed 2,855 complaints in FY12 against exporters for referral to foreign exchange adjudication courts under Section 23B of FERA 1947, as against 2,107 filed in FY11. It also facilitates the DFG of SBP in monitoring the performance of the exporters having availed the funding under Export Finance Scheme of SBP. The FEOD also undertook the responsibility of managing the R&D subsidy to the textile sector. In this regard, a total of 78,385 cases were paid in full, amounting to Rs.5.6 billion. During FY12, online Foreign Exchange Accounting Information System (FEAIS) was implemented. Consequently, various MIS have been developed in the area of remittances and foreign exchange allocation record of Govt. and semi Govt. departments maintained at FEOD. FEAD, through its 9 Courts in the country, has managed the repatriation of US \$43 million in stuck up export proceeds during FY12 as compared to US \$37.50 million in FY11, showing a growth of 15 per cent in current year.

The Development Finance Support Department (DFSD) continued with its efforts to help DFG in increasing the financial inclusion radius, by organizing promotional and awareness exercises for the stakeholders in the financial sector. Apart from organizing about 6 fairs and banking sector exhibition in unbanked districts all over Pakistan, field offices of BSC also undertook site visits to gauge the level of commercial banks commitment to the One Window Operation (OWO) initiative under the Agricultural Financing Pilot Project-IV (PP IV). These activities were aimed at changing the traditional perceptions of the banking sector players towards nontraditional avenues in banking, especially the unbanked sectors of society and economy. The set of activity included 6 Melas/ Fairs

and Exhibitions in different parts of the country, arranged with the support of commercial banks, local chambers, traders associations and farming/ business communities of the respective areas. The active participation was made in 17 similar programs organized by other stakeholders in their respective regions during the period under review which indicates the growing interest of the stakeholders and participants in the initiatives undertaken by the Access to Finance Units (AFUs). Apart from that, 86 seminars-cum-workshops were organized in FY12, out of which 66 were organized by the various field offices of SBP BSC that were aimed at involving the stakeholders. The DFSD also strived to create linkages between the government policymakers as well as the academia, to minimize the traditional disconnect between the two important stakeholders. The SBP BSC's representatives played their due role as moderators in the focus group meetings, imparting training and better planning of their activities and future goals through Business Plans formulation. The department also organized 52 capacity building programs for its fellow stakeholder, and banks employees to facilitate the goal of overall financial inclusion.

The Export Refinance facility (under the umbrella of the Infrastructure, Housing & SME Finance Department (IH&SMEFD) of SBP) is managed by the Export Finance Schemes (EFS) division of the DFSD. During FY12, a total of 107,096 transactions relating to grant, repayment, remuneration (share of profit), fine and refund were executed by the BSC offices under EFS (Part I & II) and Islamic Export Refinance Scheme (IERS), as compared to 146,278 transactions executed during FY11. Similarly, 17,937 transactions relating to grant, repayment, remuneration (share of profit) was executed under Long Term Financing Facility (LTFF) as against 14,794 transactions during the corresponding year. Moreover, a total of 7,995 cases, amounting Rs.439.2 million, were processed under Export Finance Mark up Rate Facility during FY12, as against 8,942 cases amounting Rs. 1,243.8 million during FY11. Development Finance Division (DFD) of BSC offices also conducted on-site verification of 15,804 export finance cases at 221 branches of commercial banks across the country during FY12, to assess the compliance with the provisions of SBP EFS & IERS Schemes (Part I&II) both by the banks and the exporters. As a result, fine amounting to Rs.10.8 million was recovered from banks/ exporters for violation of SBP instructions detected during the process. Thirty six (36) consolidated (Bank-wise) on-site verification reports were prepared and forwarded to IH&SMEFD, SBP during FY12.

In collaboration with the UK Department for International Development (DFID), SBP launched two credit guarantee schemes, namely "Microfinance Credit Guarantee Facility" (MCGF) in December, 2008 and "Credit Guarantee Scheme (CGS) for small and rural enterprises" on March 19, 2010, with a view to share credit risk with the banks for provision of funds to these priority sectors. DFSD handled all the operational aspects of the guarantees issued under these MCGF schemes. So far, 17 guarantees for a sanctioned amount of Rs. 4,225 million has been issued under MCGF, while 4,400 borrowers of commercial banks have been provided guarantee cover for a sanctioned amount of Rs.3,052.9 million.

Seeking a risk minimized work environment has been the prime goal of the SBP BSC, since its operational commitments have direct bearing on the working of the Central Bank. The Internal Audit Department (IAD) has always focused on being a value-adding arm in smooth functioning of SBP BSC, by keeping an oversight and vigilance on effectiveness of internal controls, risk management, and governance processes. Dynamic working of Audit Committee has enhanced functional independence of IAD and led to revision of its TORs and governance structure of IAD in conformance to best practices. Further, establishment of Review & Enforcement Division (RED) led to enhancing of filtering and priority rationalization of audit observations and has contributed significantly in improving the overall quality of audit reports. It also ensures to align the audit work

with audit plans and to monitor compliance of audit observations. During FY12, using a risk-based audit plan eight (08) departments at SBP BSC Head Office Karachi and sixteen field offices of the Corporation were audited, that raised 166 and 863 audit observations, respectively. In addition, Internal Audit Hubs performed 105 audit engagements and after revision in its target scope, it mainly focused upon high risk areas requiring frequent assurance. The integration of IT and financial audits this year assisted in providing a substantial review of the process of strengthening risk minimization practices. Emphasizing over capacity building of workforce, a vigorous training plan has been formulated after carrying out internal Training Need Assessment (TNA) of IAD. Further, in-house trainings and trainings through collaborative framework with two field offices served immediate training needs through a cost-extinguished delivery channel. Looking forward, IAD is working in a framework for assigning the audit and compliance ratings to field offices and departments, along with compiling and preserving audit documentation and working papers.

During the year under review, Personnel Management Department (PMD) took a number of initiatives to enhance the institutional capacity and achieve the objectives. The Performance Management System (PMS) was further strengthened by arranging orientation sessions for stakeholders to create greater ownership. For capacity building of the organization, a smart recruitment plan was introduced which would help in the induction of talented human resources through an efficient mechanism. The guiding principle for future recruitments is to replace the out-going staff through the more qualified, technologically proficient and cost effective resources. Similarly, the Professional Development Incentive Program (PDIP) was introduced for upgrading the skill base of employees. In furtherance of the organizational objective, the deputation policy for OG-1 and above employees was announced, so as to provide career enhancement and opportunities for diversification of skills.

In the context of salary revision, after conducting a salary survey from external consultants, the Bank's compensation & benefit structure was aligned with the market. The underlying objective is to inculcate the performance centric culture, attraction and retention of talent, rationalization of retirement benefits & provision of opportunities of career growth for high performers. For further improvement in the policies related to benefits at the time of retirement, the policy related to medical facility option on early retirement was revised. During the period, the Charter of Demand from Collective Bargaining Agent (CBA) was also successfully negotiated which aimed at maintaining healthy industrial relations in the organization. Further, National Industrial Relation Commission (NIRC) was also facilitated in the holding of referendum for election of CBA in a peaceful and transparent manner.

During FY12, training objectives remained mainly focused on the steps that can sustain the capacity building initiatives in SBP-BSC in consultation with the concerned stakeholders. Accordingly, regular function-specific and soft skills trainings were conducted for departments/ field offices. In addition, special programs were arranged by Training & Development Department (T&DD) to develop the job-specific strategic/ leadership skills and functional needs in specialized areas which include:-

- Skills Development and Middle Management Training Programs for newly-promoted officers.
- Leadership Development Program, in collaboration with Institute of Business Administration, Karachi.
- Industrial Relations Programs were also designed and delivered for higher management to strengthen the union and management ties as well as to increase the effectiveness of this communication channel.

- Specialized Trainings at various local and foreign institutes, including National Institute of Procurement (NIP), Federal Judicial Academy and Office of the Superintendent of Financial Institutions (OSFI), and Bank of Canada.

In line with the management commitment to provide the developmental opportunities at all levels to its employees, the 1st Batch of In-House Trainers was selected through a highly transparent & rigorous selection process, with the objective to develop and maintain a pool of subject matter experts in all areas. The Corporation also remained committed to its social responsibility initiative by conducting 6-Week Summer and Winter Internship Programs for talented students from accredited institutions across the country.

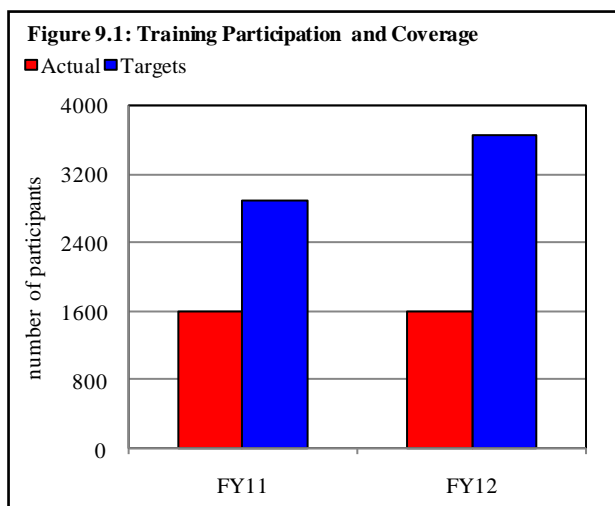
9 National Institute of Banking and Finance (NIBAF)

9.1 Overview

Being the training arm of State Bank of Pakistan (SBP), National Institute of Banking & Finance (NIBAF) renders an important role towards developing the human capital of SBP, its subsidiaries and other financial institutions, both local as well as regional. In view of the changing role under the new charter, NIBAF made renewed efforts and initiatives how best to broaden & diversify not only its training base but seeking accreditation. During FY12, NIBAF inked strategic partnership with Institute of Business Administration (IBA) Karachi, University of Agriculture Faisalabad and Pakistan Microfinance Network. Further, in order to strengthen the intellectual infrastructure, subject specialists were inducted at NIBAF in the field of economics/econometrics, management and agriculture/rural finance during the period under review, so as to gear up further the scale of training & development interventions and also embark on developing, designing training programs, preparing of case studies, besides laying the foundation for applied research at the Institute which would focus on financial sector deepening, financial inclusion and rural finance etc.

During FY12, NIBAF delivered 144.6 weeks of training encompasses pre induction skills up gradation, apart from specialized programs to its valuable stakeholders in different areas, with wide range of participation consisting of 3652 local and foreign participants (see **Figure 9.1**).

As part of the renewed initiatives to upgrade skill-sets and managerial capacities of SBP Officers, a number of new programs were launched, including communications skills and leadership development program that were held under collaborative arrangements with IBA. Moreover, 52.2 weeks training were delivered to BSC including Middle Level Management Program (MMTP), Skills Development Program (SDP), Train the Trainer (TTT) and Industrial Relations for senior officers.



While further leveraging on its role to be the institute of choice for developing countries, NIBAF excelled during FY12 by organizing a record number of International training programs and events which also helped in further expanding horizon & outreach of NIBAF programs across different regions of the world with far reaching effects. These included Central Banking, Commercial Banking, General Banking, Islamic Banking, English Language beside IT & Business Administration which are organized under the Pakistan Technical Assistance Program (PTAP) of the Government of Pakistan, TOT on Islamic Banking in Collaboration with IRTI, customized/need based program on Leadership Development and Banking for Afghanistan international Bank wherein about 60 participants and delegates representing more than 22 countries actively participated.

Meanwhile, as part of its charter, NIBAF continued to extend support to the financial sector by holding different programs and events including on project financing for the senior management of

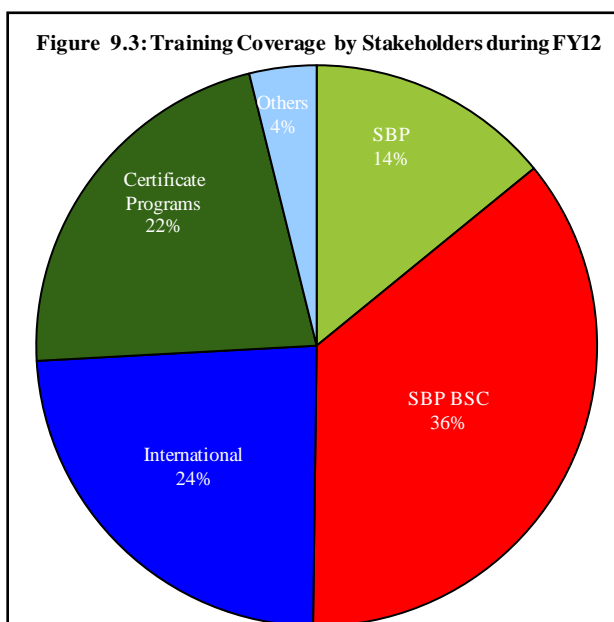
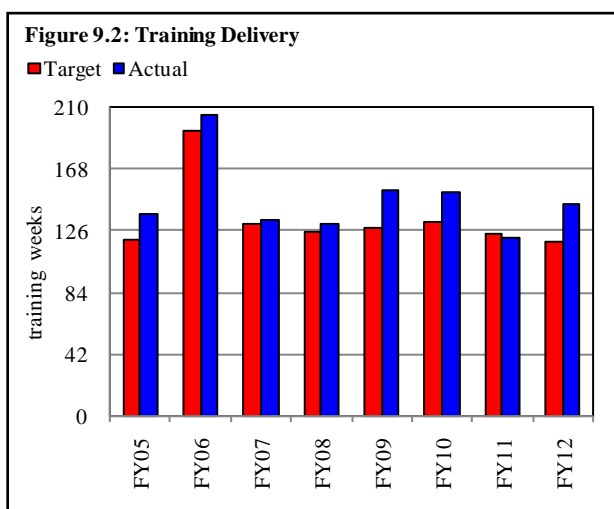
Pak-China Investment Company which were very well received and acknowledged for usefulness as well as organizational aspects.

In addition, for improvement of institute's ambiance that should be conducive & supportive for learning and development, efforts were made during FY12 to upgrade the physical infrastructure at NIBAF, thereby modernizing the training tools, recreation facilities and accommodation, etc.

9.2 Business Plan for FY12

During FY12, a total of 118.4 weeks of training were planned to meet the training needs of SBP, SBP BSC as well as for the regional institutions, whereas NIBAF delivered 144.6 training weeks thus increasing by 19.7 percent over the preceding year (see **Figure 9.2**). NIBAF has delivered different training programs to different stakeholders.

During FY12, NIBAF's training contribution was of 144.6 weeks to various stakeholders, including the percentage share of SBP training at 14 percent (20.4 weeks) and the percentage share of SBP BSC at 36 percent (52.2 weeks) (see **Figure 9.3**). Due to the high-quality programs conducted at NIBAF and confidence shown by the Government of Pakistan through its PTAP initiative, there was exceptional increase in the share of International training programs that reached to 24 percent (34.6 weeks) of total training delivered by NIBAF. A total of 92 participants from 22 countries attended international trainings. It is pertinent to note that during FY12 NIBAF has delivered four new international training programs offered to Central Asian Republics (CARs). The contribution of certificate training course stood at 22 percent (31.8 weeks) of the total training delivered at NIBAF during FY12. The percentage share of training programs for other financial institutions delivered at NIBAF remained at 4 percent (5.6 weeks).



9.3 Training Delivery at NIBAF during FY12

9.3.1 State Bank of Pakistan

For FY12, a total of 20.4 weeks of training (Pre Induction and skill up-gradation) was delivered against a target of 20 weeks of skill up-gradation training. A total of 13.4 weeks training of skill up-gradation was delivered where 200 officers, OG-2 to OG-5, participated from almost all departments of SBP. The Program's duration remained for 2-day of each training program, except the training

program on Applied Econometrics comprising of 2 week. In addition to skill up-gradation training, 7 weeks of Pre-Induction Training (SBOTS-17), delivered up to 30th June 2012, makes the overall training delivery for SBP to 20.4 weeks. In order to upgrade skill-sets and managerial capacities of SBP Officers, aimed at improving the operational effectiveness, a number of new programs were launched during FY12, including communications skills and leadership development program that were held under collaborative arrangements with IBA Karachi.

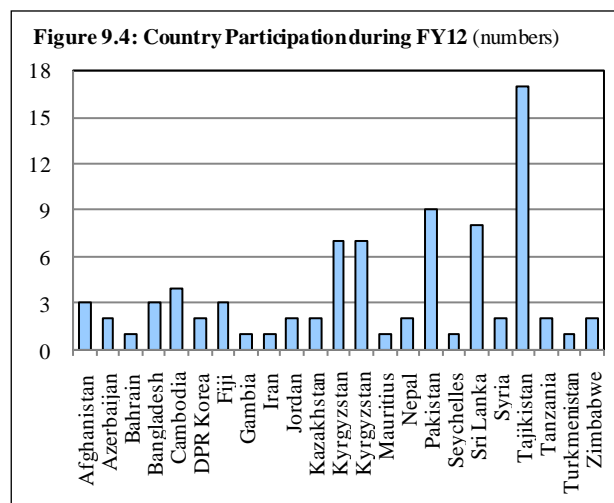
9.3.2 SBP BSC (Bank)

SBP BSC was the largest stakeholder during FY12, with 36 percent (52.2 weeks) share in total trainings delivered at NIBAF as compared to 47.2 weeks during FY11. Out of 52.2 weeks, 36.6 weeks were of function specific trainings, 12.8 weeks of soft skills/management and 2.8 weeks of logistic support provided. Campus-wise break-up shows that 32 weeks' training was delivered at NIBAF Islamabad whereas 20.2 weeks' training was delivered at its Campus in Karachi. NIBAF arranged 124 training program for SBP BSC during the period under review; out of which 71 were held at NIBAF Islamabad while 53 were delivered at NIBAF Karachi campus; with the participation of 2,222 officers.

9.3.3 International Training Programs under PTAP

International training programs are conducted at NIBAF under the joint aegis of SBP and Economic Affairs Division (EAD), Government of Pakistan, as part of Pakistan Technical Assistance Program (PTAP). NIBAF has a prominent reputation of offering international conferences, seminars, workshops and academic programs on regular basis. These programs became an excellent opportunity for central and commercial bankers of various countries to enhance their knowledge as well as skill levels.

During FY12, there was a marked increase in the share of International training programs that reached to 23 percent (34 weeks) of total training delivered by NIBAF. This year, 22 countries were represented by their respective participants at NIBAF trainings (see **Figure 9.4**). During FY12, four new international training programs for Central Asian Republics (CARs) under PTAP were delivered at NIBAF, besides regular international courses including 43rd International Central Banking Course, 42nd International Commercial Banking Course, and Leadership Development Program for Afghanistan International Bank. All the international programs have been successfully delivered at NIBAF and well appreciated by the participating countries.



9.3.4 Training Program for Afghanistan

Under institutional arrangements with Afghanistan International Bank (AIB), NIBAF delivered a training program during FY12 that was exclusively designed & developed for AIB. It is a self-financed long-duration program of 13 weeks, which was successfully brought about during April – July 2012, with the participation of 16 officers from AIB. The program aimed to inculcate and sharpen the leadership qualities of the participants and enable them to perform their duties with a clear perception of banking and leadership. With this focus in the backdrop, 11 modules of the training

were geared towards the combination of theoretical and applied knowledge in the area of communication skills, leadership development, accounting, banking, etc. During their training, trainees visited commercial banks, NIFT and SBP to see the operations.

9.4 Certification Courses

9.4.1 Islamic Banking Certificate Program

NIBAF arranged three regular Islamic Banking Certificate courses during FY12, comprising 3.6 week each, with a total of 101 participants. In addition NIBAF offered two Fundamental of Islamic Banking Course of one week each in which a total of 91 participants participated. These certificate courses were arranged in order to develop capacity building of the banks to develop and conduct Islamic banking business, ensuring Shariah compliance best practices, procedure with commitment and professionalism. Furthermore, as part of the understanding, NIBAF continued to support INCEIF-The Global University in Islamic Finance, Malaysia in conducting Chartered Islamic Financial Professional (CIFP), Part I and Part II examinations that were held simultaneously at NIBAF Islamabad and Karachi. During FY12, NIBAF arranged 14 (5.7 weeks) such examinations at NIBAF Islamabad & Karachi.

9.4.2 Microfinance Grass Root Level Training Program

NIBAF continued to conduct Microfinance Grass root training programs in FY12, being held under auspices of SBP, to cope with the capacity building requirements thereby expanding horizon and scope of financial services & outreach as the prime objective. A total 12 iterations of the program were offered that held successfully at Multan, Faisalabad, Hyderabad, Peshawar, Lahore, Islamabad, Gujranwala, Quetta Bahawalpur and Abbottabad wherein 272 trainees benefitted from participation. The program mainly aimed at developing retail capacity of Loan/Credit officers of MFBs/MFIs beside commercial banks. Moreover, best trainers/practitioners were engaged across the MF sector who conducted trainings in highly effective and participative manner. An impact assessment study, carried out by Pakistan Microfinance Network, observed that the program was effective with viable impact of training on participants.

9.4.3 SME Finance Grass Root Cluster Training Program

During FY12, 1.6 weeks of three workshops regarding SME Finance Grass Root Cluster Training Program were delivered at Sialkot, Sukkur and Islamabad. Credit/Loan officers of commercial banks aimed at expanding the horizon and scope of SME finance in the country as one of the objectives.

9.4.4 Outsourced Training Programs & Activities

Under the outsourced training category, NIBAF continued to provide its facilities to valued clients for conducting their in-house trainings. In this regard, 56 weeks of programs for 2,586 participants were conducted for different stakeholders.

9.4.5 New Initiatives: Accreditation & Strategic Partnership

As part of a new strategic direction, NIBAF actively attained collaborations during FY12, with accredited institutions of Pakistan, with a view to offer joint programs. In this regard, three types of Memorandum of Understandings were signed by NIBAF with Institute of Business Administration (IBA), Agricultural University of Faisalabad and Pakistan Microfinance Network (PMN). Further MOUs are in pipeline which hopefully will strengthen the network of NIBAF with other local as well as international institutions.

9.4.6 Leadership Development Program

During FY12, NIBAF and IBA designed under collaborative arrangements a 4 day program to discover and develop the Leadership Potential of the participants. The program was offered to Banks and Financial Institutions with the aim to develop leaders to take on future organization challenges. A total of 16 senior managers from various banks and financial institutions attended the program, out of which 11 were from SBP/BSC. A unique aspect of the program was the 360 degree survey administration to help gather perception about the leadership style of an individual. The program was taught by the senior leadership faculty from IBA along with a prominent trainer from USA. The program was a pilot run and was offered to understand the dynamics of leadership in the banking sector. Generally, the program was well-received by the participants.

9.4.7 Written and Verbal Communication Skills Programs with IBA, Karachi-New Initiatives

NIBAF designed and developed a comprehensive communication skills programs, in collaboration with IBA. To test the design and content, two pilot programs in Karachi were conducted to assess the feasibility of organization-wide launch, in which a total of 40 participants participated. A rigorous evaluation of the pilots was conducted at the end of these programs. Based on this evaluation, many changes were incorporated in the program design before it was roll-out at the enterprise level. A total of 5 programs were conducted for SBP in Karachi, while 2 exclusive offering for BSC officials were conducted in Lahore and Islamabad. A total of 176 participants participated in the programs.

9.4.8 Regulatory Framework and Project Financing for Pak-China Investment Company

A new 5 day program was designed & delivered during FY12 for Pak-China Investment Company at NIBAF. A total of eleven senior managers from Pak-China participated, including the expatriate Chinese Staff. The aim of the program was to build the overall understanding of the staff to improve their project financing decision, given the current regulatory regime related to project financing. Further iterations of the same program is expected to be offered in FY13.

9.4.9 International Conference on Islamic Business

NIBAF arranged an international Conference, in collaboration with Riphah International University, on “Managing Shariah Conforming Businesses: Prospects, Practice and Personnel” with a participation of about 350 local and 15 foreign delegates. Renowned scholars from the Islamic Banking as well as business side attended the conference.

9.4.10 SAARCFINANCE Seminar on “Monetary Policy Framework in the SAARC Region”

An important activity at NIBAF has been the organization of Seminar by SBP, under aegis of SAARCFINANCE - the Network of SAARC Central Bank Governors and Finance Secretaries. In this regard, SAARCFINANCE Seminar on “Monetary Policy Framework in the SAARC Region” was held at NIBAF, Islamabad during 14-16 June 2012. The objective of the Seminar was “exchange of information and sharing of experiences on the subject, thereby leading to the knowledge enhancement and capacity building of the participants”.

Finances of SBP and its Subsidiaries

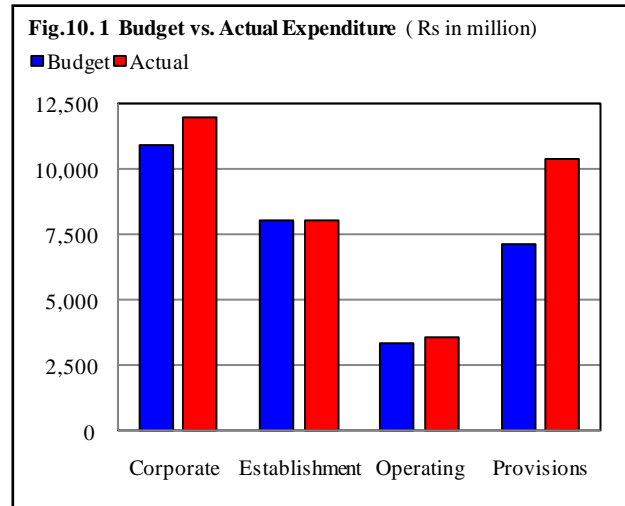
- 10. Annual Budget Review FY12**
- 11. Annual Financial Performance Review FY12**
- 12. Financial Statement of SBP & its Subsidiaries**
- 13. Financial Statements of SBP**
- 14. Financial Statements of SBP-BSC (Bank)**
- 15. Financial Statements of NIBAF**
- 16. Statement of Impact of IAS-39 on SBP Financial Statements FY12**

10 Annual Budget Review FY12

10.1 Overview

Total expenditures of State Bank of Pakistan (SBP) and its subsidiaries are classified into three broad categories, namely corporate expenses, establishment expenses, and operating expenses. A brief comparison of actual versus budgeted expenditures of the SBP and its subsidiaries is given in **Figure 10.1** and **Table 10.1**.

The relative size of each of these heads in total expenditures is shown in **Table 10.2**. The total consolidated expenditure of SBP and its subsidiaries amounted to Rs 33,897 million against budget of Rs 29,476 million; thus showing negative variance of Rs 4,421 million, i.e. 15 percent.



10.2 Corporate Expenses

Corporate expenses of the Bank comprise three components, namely agency commission to National Bank of Pakistan (NBP), currency notes printing charges, and charges on allocation of Special Drawing Rights (SDRs) of IMF. Head-wise analysis of corporate expenses is given as under:

Table 10.1: SBP Annual Review for FY12

(Rs in millions)

S.N.	Head	Consolidated				Description	Budget	Actual
		Budget	Actual	Variance	Variance percent-age			
1	Corporate	10,943	11,970	-1,026	-9.4	Corporate	37	35
2	Establishment	8,037	8,016	21	0.3	Establishment	27	24
3	Operating	3,337	3,530	-193	-5.8	Operating	11	10
4	Provisions	7,159	10,381	-3,222	-45	Provisions	25	31
Grand Total		29,476	33,897	-4,421	-15	Total	100	100

Table 10.2: Breakup of Revenue Expenditure during FY12

- **Agency Commission Charges.** Agency commission charges are paid to National Bank of Pakistan on account of government transactions and remittances on behalf of SBP as per agency agreement. Agency commission exhibits a negative variance of Rs 1,351 million, i.e. 29 percent, due to higher volume of government receipts & disbursement transactions through NBP.
- **Currency notes printing charges.** Under spending of Rs 0.4 million, i.e. 0.01 percent, has been witnessed in the note printing charges, attributable mainly to the price variances.

- **Charges on Allocation of SDRs.** The charges on allocation of SDRs resulted in the positive variance of Rs 324 million, i.e. 50 percent, mainly due to decrease in the average rate of charges partially offset by increase in the exchange rate of SDRs.

10.3 Establishment Expenses

Establishment expenses include employees' salaries, medical, benefits and training expenditures. The establishment expenditures showed the positive variance of Rs 21 million, i.e. only 0.3 percent.

10.4 Operating Expenses

Operating expenses include rent, rates and taxes, legal and professional charges, stationery and publications, communication, traveling expenditure, repair and maintenance, depreciation, etc., including NIBAF. On overall basis, operating expenses have shown the negative variance of Rs 193 million, i.e. 5.8 percent, owing primarily to the higher depreciation expenses after revaluation of fixed assets, fund managers' expenses etc.

10.5 Provisions

Provisions include allocations for staff retirement benefits, agriculture bonafide losses and other miscellaneous expenses. Actual provisions recorded against budgetary allocation have shown the negative variance of Rs 3,222 million, i.e. 45 percent, reflecting the impact of actuarial valuation of retirement benefits and provisions for various claims.

11 Annual Financial Performance Review FY12

11.1 Overview

For the financial year ended June 30, 2012, net profit of the State Bank of Pakistan stood at Rs 260,800 million, showing 44 percent increase compared to the profit of Rs 180,976 million in the preceding year. The increase is mainly attributable to the higher discount income, exchange gains on foreign currency exposures, and gains on revaluation of FCY investment (held for trading). **Table 11.1** gives a comparative summary of Bank's annual profit and loss account for FY12 and FY11.

Table 11.1: Summary Statement of Profit and Loss

(million rupees)

Description	FY12	FY11
Income		
Discount / interest /markup and/or return earned	236,277	215,741
Less: Interest/mark-up expense	11,338	13,394
Net discount / interest /markup and/or return income	224,939	202,347
Commission income	1,953	1,958
Exchange gain – net	42,828	1,927
Dividend Income	15,698	11,924
Other operating income/(loss) – net	9,033	(11,598)
Gross income	294,451	206,558
Other (loss) - net	(124)	(368)
Total income	294,327	206,190
Expenditure		
Bank notes printing charges	5,690	4,576
Agency commission	5,954	4,210
General administrative and other expenses	20,160	15,668
Provisions	1,723	760
Total expenditure- net of reversal of provisions	33,527	25,214
Profit for the year	260,800	180,976

11.2 Income

11.2.1 Net Discount/Interest/Markup and/or Return Income

The Bank earns discount income on its holdings of Market Treasury Bills (MTBs), whereas interest/markup and return is derived on the foreign and domestic financial assets held by the Bank. The gross income under the head increased by Rs. 20,536 million, posting an increase of 10 percent compared to the last year. The increase is attributable to the rise in quantum of lending as given in the **Table 11.2** and **Table 11.3**.

Table 11.2: Interest/Discount/Return Income on Foreign and Domestic Assets

(million rupees)

Description	FY12	FY11
Interest/discount income on domestic assets	227,426	206,729
Interest/discount income on foreign assets	8,851	9,012
Total	236,277	215,741

Interest/markup expenses are incurred on borrowings from International Monetary Fund, deposits of international organizations and foreign central banks. Expenditure under the head decreased by 15 percent as compared to previous year due to decline in interest rate and fall in payable to IMF.

11.2.2 Commission Income

The Bank drives commission income from management of instruments of public debt, market treasury bills, prize bonds, national saving schemes and government securities as well as issuance of drafts and payment orders. The commission income decreased by nominal amount during FY12 and stood at Rs 1,953 million, compared to Rs 1,958 million during the previous financial year.

11.2.3 Exchange Gain–Net

The net exchange gain / (loss) arise on Bank's foreign currency assets and liabilities. The exchange gain mainly arises due to depreciation of PKR vis-à-vis foreign currencies, particularly USD and SDR. Specifically, the foreign currency assets of the Bank are mainly denominated in USD whereas the net foreign currency liability exposure is denominated in SDRs (see **Table 11.4**). Accordingly, the depreciation of PKR vis-à-vis USD results in exchange gain to Bank and vice versa, while the depreciation of PKR vis-à-vis SDR results in exchange loss and vice versa.

The net exchange gains amounted to Rs 42,828 million as against the income of Rs 1,927 million during the previous financial year. The increase was mainly due to decrease in exchange loss on payable to IMF to Rs. 24,876 million during the current year, from Rs. 51,392 million exchange loss in previous year. In addition, the increase in exchange gain stood at Rs 67,585 million as compared to previous year of Rs. 53,170 million on foreign currency placements, deposits and other assets (see **Table 11.5**).

11.2.4 Dividend Income

The State Bank holds the equity investments in banks and financial institutions. The break-up of Bank's listed and unlisted equity investments, as on 30th June 2012, are given in **Table 11.6**. The dividend income of the Bank increased by Rs 3,774 million during the current financial year, which is 32 percent higher than the income in the previous financial year.

Table 11.3: Lending to Government, Banks and Financial Institutions
(million rupees)

Description	FY12	FY11
Government securities	1,806,976	1,366,951
Overdraft /loans to Governments	48,842	56,668
Banks and financial institutions	293,399	319,633
Total	2,149,217	1,743,252
Yield on Treasury Bills	11.63 percent to 13.76 percent	13.41percent to 13.68 percent

Table 11.4: Foreign Currency Reserves
(million rupees)

Description	FY12	FY11
Investments	289,059	257,861
Deposit accounts	454,987	429,736
Current accounts	96,831	56,275
Securities purchased under agreement to resale	197,465	544,908
Special drawing rights with IMF	91,334	102,188
Total	1,129,676	1,390,968

Table 11.5 Breakup of the Exchange Account
(million rupee)

Description	FY12	FY11
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	67,585	53,170
Open market operations (including currency swap arrangements)	-	-
Forward covers under Exchange Risk Coverage	119	149
Payable to the International Monetary Fund (IMF) and SDRs	(24,876)	(51,392)
Total	42,828	1,927

Table 11.6: Investments in Shares of Banks and Financial Institutions
(million rupee)

Description	FY12	FY11
Listed	15,564	15,564
Unlisted	150	188
Other investments with holding less than or equal to 50 percent	4,770	4,770
Total	20,484	20,522

11.2.5 Other Operating Income-Net

Main components of Bank's other operating income include gain on sale of investments and securities, penalties levied on banks and financial institutions, license / Credit Information Bureau fee recovered, gain / (loss) on revaluation of securities classified as held for trading, etc. During the year under review, the income of Rs 9,033 million was recorded under this head against the loss of Rs 11,598 million in the previous financial year.

11.2.6 Other (Charges)/Income-Net

The charges under the head decreased to Rs 124 million during the year, as against the charges of Rs 368 million in the previous year. The substantial decrease of charges was mainly due to lower charges on allocation of SDRs of IMF. Further, an increase of income in other items and gain on disposal of property & equipment etc. was also recorded, which was partially offset by decrease in income on account of amortization of deferred income as compared to previous financial year.

11.3 Expenditure

The total expenditure (including provisions against impaired assets net of reversals) amounted to Rs. 33,527 million as against expenditure of Rs 25,214 million during corresponding year, showing a rise of 33 percent. An analysis of main elements of Bank's expenditure is given as under:

11.3.1 Bank Notes Printing Charges

During FY12, expense under the head increased by 24 percent and stood at Rs 5,690 million, compared to the expense of Rs 4,576 million during the previous year.

11.3.2 Agency Commission

Agency commission is paid to the National Bank of Pakistan (NBP) under an agency agreement on account of handling government transactions and remittances on behalf of SBP. The expenditure on agency commission amounted to Rs 5,954 million as against expenditure of Rs 4,210 million, posting an increase of 41 percent over the previous year.

11.3.3 General Administrative and Other Expenses

The expenses under the head, inter alia, include employees' salaries and other benefits, retirement benefits and employees' compensated absences, and other expenses, mainly including depreciation, electricity & water charges, repairs and maintenance, legal and professional charges, travelling, postage and telephone charges, etc. A summary of the general administrative and other expenses of the Bank is presented in **Table 11.7**.

Table 11.7: General Administrative and Other Expenses
(million rupee)

Description	FY12	FY11
Salaries and other benefits	7,595	6,587
Retirement benefits and employees' compensated absences	8,759	6,002
Other Expenses	3,806	3,079
Total	20,160	15,668

11.3.4 Provisions

During the financial year, the net provisions created against doubtful assets and claims amounted to Rs. 1,723 million as compared to the net provision of Rs. 760 million during the previous financial year.

11.4 Distributable Profit

A summary of the distributable profits of the Bank is presented in **Table 11.8**.

Table 11.8: Distribution of Profit
(million rupee)

Description	FY12	FY11
Net profit for the year	260,800	180,976
Transferred from the Reserve Fund	-	-
Total distributable profit	260,800	180,976
Breakup of above:		
Dividend	10	10
Transfer to Reserve Fund	-	-
Surplus profit transferable to the Federal Government	260,790	180,966
Total	260,790	180,976

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries, SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited (together "the Group"), which comprise of consolidated balance sheet as at 30 June 2012 and consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Group 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 consolidated 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
CONSOLIDATED 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
Investments	12	1,827,251,187	1,387,263,881	1,185,769,479
Loans, advances, bills of exchange and commercial papers	13	340,046,025	385,191,976	396,826,685
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	23,450,893	24,722,358	17,977,317
Intangible assets	17	30,882	21,495	47,758
Other assets	18	6,024,442	8,073,692	5,843,255
Total assets		3,785,134,920	3,618,129,603	3,088,934,129
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
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	153,534,625	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	107,523,858	36,670,597	32,678,317
		3,252,022,480	3,126,606,032	2,656,719,844
Deferred liability - staff retirement benefits	26	21,457,079	19,393,880	16,062,292
Capital grant rural finance resource centre		-	59,430	59,430
Endowment fund		67,281	-	-
Deferred income		-	-	17,718
Total liabilities		3,273,546,840	3,146,059,342	2,672,859,284
Net assets		511,588,080	472,070,261	416,074,845
REPRESENTED BY				
Share capital	27	100,000	100,000	100,000
Reserves	28	175,944,238	177,044,238	149,206,231
Unappropriated profit		-	-	27,838,007
		176,044,238	177,144,238	177,144,238
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		511,588,080	472,070,261	416,074,845

CONTINGENCIES AND COMMITMENTS 30

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 47 form an integral part of these consolidated financial statements.

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

	Note	2012	2011
		(Rupees in '000)	
Discount, interest / mark-up and / or return earned	31	236,276,844	215,741,094
Less: Interest / mark-up expense	32	<u>11,338,230</u>	<u>13,393,884</u>
		224,938,614	202,347,210
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
Other operating income / (loss) - net	35	9,033,651	(11,598,617)
Other charges - net	36	<u>(123,761)</u>	<u>(368,071)</u>
		294,326,746	206,189,965
Less: Direct operating expenses			
- Bank notes printing charges	37	5,689,829	4,575,741
- Agency commission	38	5,953,743	4,210,424
- General administrative and other expenses	39	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	25.2.1.1	(102,415)	80,823
		<u>1,723,516</u>	<u>760,463</u>
		33,526,634	25,214,227
PROFIT FOR THE YEAR		<u><u>260,800,112</u></u>	<u><u>180,975,738</u></u>

The annexed notes from 1 to 47 form an integral part of these consolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Muktedir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED 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 47 form an integral part of these consolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Muktadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

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

	Share capital	Reserves						Unappropriated profit / (loss)	Unrealised appreciation on gold reserves	Surplus on revaluation of property and equipment	Total
		Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund				
	----- (Rupees in '000) -----										
Balance as at June 30, 2010	100,000	137,906,231	2,600,000	1,600,000	1,500,000	900,000	4,700,000	27,838,007	220,183,593	18,747,014	416,074,845
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)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(180,965,738)	-	-	(180,965,738)
	-	-	-	-	-	-	-	(180,975,738)	-	-	(180,975,738)
Others											
Transferred to reserve fund	-	27,838,007	-	-	-	-	-	(27,838,007)	-	-	-
Balance as at June 30, 2011	100,000	165,744,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	268,947,619	25,978,404	472,070,261
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)
Balance profit 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	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	309,565,438	25,978,404	511,588,080

The annexed notes from 1 to 47 form an integral part of these consolidated financial statements.

STATE BANK OF PAKISTAN
CONSOLIDATED CASH FLOW 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	40	255,268,546	175,546,493
(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)
Investments		(440,024,845)	(201,495,208)
Loans, advances and bills of exchange		45,145,951	12,145,558
Assets held with the Reserve Bank of India and balances due from government of India and Bangladesh		(413,988)	(552,726)
Other assets		2,049,250	(2,230,437)
		(442,542,527)	(225,014,386)
		(187,273,981)	(49,467,893)
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
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		(35,627,822)	(6,974,605)
Payable to the International Monetary Fund		(76,579,035)	37,993,782
Other liabilities		7,999,489	181,440
		50,264,444	469,421,642
Net cash (used in) / generated from operating activities		(137,009,537)	419,953,750
Cash flows from investing activities			
Payment of retirement benefits and employees' compensated absences		(6,695,854)	(2,783,859)
Proceeds from disposal of investments		96,751	6,350
Dividend received		15,697,821	11,923,782
Fixed capital expenditure		(335,749)	(574,643)
Proceeds from disposal of property and equipment		28,998	83,984
Net cash generated from investing activities		8,791,967	8,655,614
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	41	1,135,754,722	1,467,982,292

The annexed notes from 1 to 47 form an integral part of these consolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Muktaadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

STATE BANK OF PAKISTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

1. STATUS AND NATURE OF OPERATIONS

1.1 The Group comprises of:

1.1.1 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.

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

a) **SBP Banking Services Corporation - wholly owned subsidiary:**

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

b) **National Institute of Banking and Finance (Guarantee) Limited - wholly owned subsidiary:**

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

- 1.2** The head office of the Bank is situated at I. I. Chundrigar Road, Karachi, in the province of Sindh, Pakistan.
- 1.3** The consolidated financial statements are presented in Pakistani Rupees, which is the Group's functional and presentation currency.

2. BASIS OF PREPERATION

The consolidated 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.

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

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

All material inter group balances and transactions have been eliminated.

3. BASIS OF MEASUREMENT

- 3.1** These consolidated financial statements have been prepared under the historical cost convention, except that gold reserves, foreign currency reserves, special drawing rights of IMF, certain investments and certain property and equipment, as referred to in their respective notes have been included at revalued amounts.

3.2 *Use of estimates and judgments*

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

3.2.2 *Impairment of available for-sale investments*

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

3.2.3 *Held-to-maturity investments*

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

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 39.2 to the consolidated 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 Group expects that the adoption of the above revisions and interpretations of the standards will not have any material impact on the Group'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. 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 (Restated)
	------(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
Investments	1,088,514,072	738,737,115	-	1,827,251,187
Loans, advances and bills of exchange	-	339,967,525	-	339,967,525
Commercial papers held in Bangladesh	78,500	-	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	339,967,525	-	340,046,025
Assets held with the Reserve Bank of India	5,584,810	-	-	4,016,051
Indian notes representing assets receivable from Reserve Bank of India	726,719	-	-	789,437
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	-	23,450,893	-	23,450,893
Intangible assets	-	30,882	-	30,882
Other assets	-	6,024,442	-	6,024,442
Total assets	1,777,122,544	2,008,172,532	(160,156)	3,785,134,920
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
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	-	153,534,625	-	153,534,625
Payable to the International Monetary Fund	-	656,185,305	-	656,185,305
Other liabilities	-	107,523,858	-	107,523,858
Deferred liability - staff retirement benefits	-	21,457,079	-	21,457,079
Endowment fund	-	67,281	-	67,281
Total liabilities	1,777,122,544	1,496,584,452	(160,156)	3,273,546,840
Net assets	-	511,588,080	-	511,588,080
REPRESENTED BY				
Share capital	-	100,000	-	100,000
Reserves	-	175,944,238	-	175,944,238
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	-	511,588,080	-	511,588,080

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
Investments	916,804,517	470,459,364	-	1,387,263,881
Loans, advances and bills of exchange	-	385,113,476	-	385,113,476
Commercial papers held in Bangladesh	78,500	-	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	385,113,476	-	385,191,976
Assets held with the Reserve Bank of India	4,825,442	-	-	4,016,051
Indian notes representing assets receivable from Reserve Bank of India	827,549	-	-	789,437
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	-	24,722,358	-	24,722,358
Intangible assets	-	21,495	-	21,495
Other assets	-	8,073,692	-	8,073,692
Total assets	1,599,988,045	2,018,296,116	(154,558)	3,618,129,603
LIABILITIES				
Bank notes in circulation	1,599,988,045	-	(154,558)	1,599,833,487
Bills payable	-	780,155	-	780,155
Current accounts of the Governments	-	217,968,067	-	217,968,067
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	-	36,670,597	-	36,670,597
Deferred liability - staff retirement benefits	-	19,393,880	-	19,393,880
Capital grant rural finance resource centre	-	59,430	-	59,430
Total liabilities	1,599,988,045	1,546,225,855	(154,558)	3,146,059,342
Net assets	-	472,070,261	-	472,070,261
REPRESENTED BY				
Share capital	-	100,000	-	100,000
Reserves	-	177,044,238	-	177,044,238
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	-	472,070,261	-	472,070,261

Financial statement line item	2010			
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification	Combined Balance sheet (Restated)
	------(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
Investments	671,487,115	514,282,364	-	1,185,769,479
Loans, advances and bills of exchange	-	396,748,185	-	396,748,185
Commercial papers held in Bangladesh	78,500	-	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	396,748,185	-	396,826,685
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	-	17,977,317	-	17,977,317
Intangible assets	-	47,758	-	47,758
Other assets	-	5,843,255	-	5,843,255
Total assets	1,377,394,897	1,711,656,659	(117,427)	3,088,934,129
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
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	-	32,678,317	-	32,678,317
Deferred liability - staff retirement benefits	-	16,062,292	-	16,062,292
Capital grant rural finance resource centre	-	59,430	-	59,430
Deferred income	-	17,718	-	17,718
Total liabilities	1,377,394,897	1,295,581,814	(117,427)	2,672,859,284
Net assets	-	416,074,845	-	416,074,845
REPRESENTED BY				
Share capital	-	100,000	-	100,000
Reserves	-	149,206,231	-	149,206,231
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	-	416,074,845	-	416,074,845

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

Held for trading

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

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

Held to maturity

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

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

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

Loans and receivables

These are financial assets created by the Bank by providing money directly to a debtor. Subsequent to initial recognition, these assets are carried at amortised cost 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 Group uses derivative financial instruments which include forwards, futures and foreign currency swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 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 credited 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 consolidated financial statements. The useful life of assets is reviewed and adjusted if appropriated, at each balance sheet date.

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

Increase in carrying amount arising on revaluation of land and buildings are credited to revaluation surplus on revaluation of property and equipment. Decreases that offset previous increases of the same assets are charged against surplus on revaluation of property and equipment in equity, all other decreases are charged to profit and loss account. The surplus on revaluation realised on 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 Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. The recoverable amount is estimated as the present value of estimated future cash flows discounted at the assets original interest rate. An impairment loss is recognised in profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets. Balances considered bad and irrecoverable are written off from the books of account. Provisions against impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income / expense in the profit and loss account.

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

4.10 Compensated absences

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

4.11 Staff retirement benefits

The Bank and the Corporation operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. The Bank provided an option to employees covered under old scheme to join Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from June 1, 2007. Under this scheme contribution is made both by the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Bank service after June 1, 2007 are covered under the new scheme.
- b) 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.
 - an 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 Group to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 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 Group's right to receive dividend is established.
- gains / losses on disposal of securities are recognised in profit and loss account at trade date.
- all other revenues are recognised on time proportion basis.
- training and education fee is recognised on completion of relevant courses.
- hostel income is recognised on performing services.

4.14 Finances under profit and loss sharing arrangements

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

4.15 Taxation

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

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

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 Group for recording of these transactions and balances is as follows:

- the Government's contribution for quota with the IMF is recorded by the Group as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.
- exchange gains or losses arising on revaluation of borrowings from the IMF are recognised in the profit and loss account.
- the cumulative allocation of Special Drawing Rights (SDRs) by the IMF is recorded as a liability to non resident and is translated at closing exchange rate for SDRs prevailing at the balance sheet date. Exchange differences on translation of SDRs is recognised in profit and loss account.
- 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 Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

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

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

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

4.21 Stationary and other consumables

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

4.22 Accounts receivables and other receivables

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

4.23 Trade and other payables

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

4.23 Offsetting

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

	Note	Net content in troy ounces	2012 (Rupees in '000)	2011 (Restated) (Rupees in '000)
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			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		<u>1,814,196</u>	<u>2,225,301</u>
			1,974,352	2,379,859
Less: bank notes held by the Banking Department	19.1		<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 (Rupees in '000)	2011
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		<u>197,465,169</u>	<u>544,908,247</u>
			<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			<u>678,160,942</u>	<u>888,392,762</u>
			<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		<u>222,535</u>	<u>253,412</u>
			<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 with the Group to meet foreign currency commitments of the Group.				

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	(148,423,246)	(142,243,080)
	<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
		(Rupees in '000)	
Loans and receivables originated by the Bank			
Government securities			
Market Treasury Bills (MTBs)		1,803,844,625	1,363,815,487
Federal Government scrip		2,740,000	2,740,000
	12.1	<u>1,806,584,625</u>	<u>1,366,555,487</u>
Available for sale investments			
Investments in Banks and other financial institutions			
Ordinary shares			
- Listed		15,563,789	15,563,789
- Unlisted		4,919,707	4,957,247
	12.2	<u>20,483,496</u>	<u>20,521,036</u>
Term Finance Certificates		127,082	169,441
Certificates of Deposits		50,558	67,410
		<u>20,661,136</u>	<u>20,757,887</u>
Provision against diminution in value of investments	12.3	(385,971)	(445,183)
		<u>20,275,165</u>	<u>20,312,704</u>
Investment held to Maturity - Pakistan Investment Bonds		391,397	395,690
		<u>1,827,251,187</u>	<u>1,387,263,881</u>
The above investments are held as follows:			
Issue Department - MTBs	19.1	1,088,514,072	916,804,517
Banking Department		738,737,115	470,459,364
		<u>1,827,251,187</u>	<u>1,387,263,881</u>

12.1 Investments in Government securities

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

	2012 (% per annum)	2011
- 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
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 Group does not exercise significant influence or control over these entities except for any regulatory purposes or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates, or joint ventures.

12.2.2 Market value of the Group'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 Group'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 Group'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 Group'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

	2012 (Rupees in '000)	2011
Opening balance	445,183	503,064
Provision during the year	-	1,331
Reversal during the year	(59,212)	(59,212)
Closing balance	385,971	445,183

13. LOANS, ADVANCES, BILLS OF EXCHANGE AND COMMERCIAL PAPERS	Note	2012	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		16,958,746	15,874,593
		346,455,943	391,589,884
Provision against doubtful balances	13.5	(6,409,918)	(6,397,908)
		340,046,025	385,191,976

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). These loans 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 & 13.2.3)	7,573,812	6,469,232	-	-	7,573,812	6,469,232
Export sector (13.2.3)	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 & 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 Taraqati 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 (HBFCL) 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 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
	<u>175,226,059</u>	<u>198,566,841</u>	<u>4,809,538</u>	<u>4,646,176</u>	<u>180,035,597</u>	<u>203,213,017</u>

13.5 Provision against doubtful assets

	2012	2011
	(Rupees in '000)	
Opening balance	6,397,908	6,908,757
Charge / (reversal) during the year	12,010	(510,849)
Closing balance	<u>6,409,918</u>	<u>6,397,908</u>

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 (Restated)
		(Rupees in '000)	
Gold reserves			
- 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 representing assets receivable from the Reserve Bank of India	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)		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 Government of Bangladesh (former East Pakistan) and Government of India.

16. PROPERTY AND EQUIPMENT		Note	2012	2011
			(Rupees in '000)	
Operating fixed assets	16.1		23,086,639	24,325,308
Capital work-in-progress	16.3		364,254	397,050
			23,450,893	24,722,358

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	212,396	7,005 (9,331)	-	-	210,070	125,759	18,093 (9,303)	-	134,549	75,521	10
Office equipment	1,082,985	99,815 (18,208)	-	-	1,164,592	732,987	136,068 (18,051) 25	-	851,029	313,563	20
EDP equipment	1,531,207	21,733 (707)	-	-	1,552,233	1,290,780	166,976 (559) 40	-	1,457,237	94,996	33.33
Motor vehicles	358,138	72,200 (42,835)	-	-	387,503	135,496	70,075 (25,753)	-	179,818	207,685	20
	26,610,330	332,083 (71,081) -	-	-	26,871,332	2,285,022	1,553,272 (53,666) 65	-	3,784,693	23,086,639	
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	205,761	8,177 (1,740) 198	-	-	212,396	108,840	18,180 (1,459) 198	-	125,759	86,637	10
Office equipment	903,447	170,879 (19,850) 28,509	-	-	1,082,985	606,947	114,981 (17,450) 28,509	-	732,987	349,998	20
EDP equipment	1,337,452	271,130 (77,375)	-	-	1,531,207	1,120,605	189,517 (19,342)	-	1,290,780	240,427	33.33
Motor vehicles	356,009	33,792 (31,663)	-	-	358,138	83,167	66,507 (14,178)	-	135,496	222,642	20
	21,892,251	532,252 (130,628) 28,707	7,231,390	(2,943,642)	26,610,330	4,276,923	975,567 (52,429) 28,603	(2,943,642)	2,285,022	24,325,308	

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 (Rupees in '000)	2011
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	46,559	107,663
EDP equipment	378	6,274
	<u>364,254</u>	<u>397,050</u>

17. INTANGIBLE ASSETS

		Cost at July 01, 2011	Additions during the year	Cost at June 30, 2012	Accumulated amortisation at July 01, 2011	Amortisation for the year	Accumulated amortisation at June 30, 2012	Net book value at June 30, 2012	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 (Rupees in '000)	2011
Accrued interest / mark-up, discount and return		5,229,111	7,322,050
Stationery and stamps on hand		117,963	102,818
Other advances, deposits and prepayments		607,323	597,318
Others		70,045	51,506
		<u>6,024,442</u>	<u>8,073,692</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 (Rupees in '000)	2011
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
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			
	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

			2012 (Rupees in '000)	2011
20.8	Gilgit - Baltistan Administration Authority		(600,965)	-
	Classified as receivable balance	20.10	<u>600,965</u>	<u>-</u>
			<u>-</u>	<u>-</u>
20.9	Government of Azad Jammu & Kashmir		(2,672,863)	(586,181)
	Classified as receivable balance	20.10	<u>2,672,863</u>	<u>586,181</u>
			<u>-</u>	<u>-</u>

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		<u>104,970,918</u>	<u>87,242,637</u>
		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
		<u>268,086,404</u>	<u>240,752,779</u>
		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		<u>15,113,063</u>	<u>47,343,094</u>
		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		<u>9,752,724</u>	<u>10,301,751</u>
		52,798,386	55,324,853
		<u>153,534,625</u>	<u>189,162,447</u>

		2012 (% per annum)	2011
23.1	The interest rate profile of the interest bearing deposits is as follows:		
	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
		656,185,272	732,764,308
Current account for administrative charges		33	32
		656,185,305	732,764,340

- 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
		5,775,548	3,083,078
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	25,282,606	11,298,668
Others		3,940,923	5,563,449
		101,748,310	33,587,519
		107,523,858	36,670,597

- 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.

	Note	2012 (Rupees in '000)	2011
Other accruals and provisions			
Agency commission		6,350,191	1,266,969
Provision for employees' compensated absences		4,881,805	3,851,673
Provision for other doubtful assets	25.2.1	7,435,365	2,463,856
Other provisions	25.2.2	4,981,171	3,110,055
Others		1,634,074	606,115
		25,282,606	11,298,668

25.2.1	Provision for other doubtful assets	2012 (Rupees in '000)	2011
	Provision against asset receivable from Govt. of India & Reserve Bank of India		
	- Issue department	6,536,007	1,563,994
	- Banking department	40,483	40,487
		6,576,490	1,604,481
	Provision against asset receivable from Govt. of Bangladesh		
	- Issue department	78,500	78,500
	- Banking department	780,375	780,875
		858,875	859,375
		7,435,365	2,463,856
25.2.1.1	Movement of provisions for other doubtful assets		
	Opening balance	2,463,856	2,383,033
	Addition during the year	5,073,924	80,823
	Reversal of provision	(102,415)	-
	Closing balance	7,435,365	2,463,856
25.2.2	Movement of other provisions		
	Opening balance	3,110,055	2,006,601
	Reversed during the year	(14,027)	(2,872)
	Charge during the year	1,885,143	1,106,326
	Closing balance	4,981,171	3,110,055

	Home remittance	Agriculture loan	Specific claims (note 25.3.2)	Others (note 25.3.1)	Total
	----- (Rupees in '000) -----				
Opening balance	260,363	259,126	1,600,000	990,566	3,110,055
Charge during the year	-	-	-	1,885,143	1,885,143
Reversed during the year	-	(14,027)	-	-	(14,027)
Closing balance	260,363	245,099	1,600,000	2,875,709	4,981,171

25.3.1 This represents provision made in respect of various potential liabilities of the Bank

25.3.2 This represents provision made against a claim under arbitration.

26. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS

	Note	2012 (Rupees in '000)	2011
Unfunded gratuity scheme		9,527	2,323
Pension		14,633,691	13,366,161
Benevolent fund scheme		1,476,652	1,281,855
Post retirement medical benefits		4,051,038	3,550,209
	39.2.2	20,170,908	18,200,548
Unfunded provident fund scheme		1,286,171	1,193,332
		21,457,079	19,393,880

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

	2012 (Rupees in '000)	2011
30.1 Contingencies		
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 Group not acknowledged as debts	853,293	533,231
30.2 Commitments		
Forward exchange contracts - sales	412,632,541	221,851,605
Forward exchange contracts - purchases	390,848,354	234,837,376
Futures - sale	15,877,206	3,481,803
Futures - purchase	13,242,061	7,885,090

31. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED	2012	2011
	(Rupees in '000)	
Discount income	199,916,615	172,813,031
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	5,697,859
Others	133,676	128,343
	236,276,844	215,741,094
32. INTEREST / MARK-UP EXPENSE		
Deposits	10,606,882	12,017,880
Others	731,348	1,376,004
	11,338,230	13,393,884
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
	1,952,783	1,958,328
34. EXCHANGE GAIN - NET		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	67,584,902	53,169,732
- 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
	42,727,135	1,822,557
Exchange risk fee income	100,503	104,776
	42,827,638	1,927,333
35. OTHER OPERATING INCOME / (LOSS) - NET		
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)
36. OTHER CHARGES - NET		
Gain /(loss) on disposal of property and equipment	11,583	5,785
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	186,494	148,130
	(123,761)	(368,071)

37. BANK NOTES PRINTING CHARGES

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

38. 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.

39. GENERAL ADMINISTRATIVE AND OTHER EXPENSES

	Note	2012 (Rupees in '000)	2011
Salaries and other benefits		7,595,370	6,586,941
Retirement benefits and employees' compensated absences		8,759,053	6,002,328
Rent and taxes		37,697	34,068
Insurance		29,053	20,358
Electricity, gas and water		286,131	253,148
Depreciation	16.1	1,553,272	975,567
Amortisation of intangible assets	17	27,140	33,593
Repairs and maintenance		370,075	354,313
Auditors' remuneration	39.1	13,030	10,270
Legal and professional		425,754	376,573
Traveling and recreation expenses		285,834	283,872
Daily expenses		69,598	65,553
Fuel		50,757	45,662
Conveyance		18,786	11,399
Postages, telegram / telex and telephone		161,349	166,379
Training		42,461	49,756
Examination/ testing services		-	-
Stationery		25,710	26,411
Remittance of treasure		38,803	38,535
Books and newspapers		28,013	27,472
Advertisement		18,756	7,670
Uniforms		24,190	18,707
Others		298,714	279,024
		<u>20,159,546</u>	<u>15,667,599</u>

39.1 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
	<u>3,290</u>	<u>3,290</u>	<u>6,580</u>	<u>2,510</u>	<u>2,510</u>	<u>5,020</u>
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
	<u>3,150</u>	<u>3,150</u>	<u>6,300</u>	<u>2,550</u>	<u>2,550</u>	<u>5,100</u>
NIBAF						
Audit fee	-	-	150	-	-	150
	<u>6,440</u>	<u>6,440</u>	<u>13,030</u>	<u>5,060</u>	<u>5,060</u>	<u>10,270</u>

39.2 Staff retirement benefits

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

- Expected rate of increase in grants and contributions 6.00% (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: 12.00%) per annum.
- Expected rate of increase in pension 8.00% (2011: 8.00%) per annum.
- Medical cost increase 8.50% (2011: 9.00%) per annum.
- Personnel turnover 2.5% (2011: 2.0%) per annum.

39.2.2 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	39.2.3	36,286	(26,759)	9,527
Pension	39.2.3	33,929,015	(19,295,324)	14,633,691
Benevolent	39.2.3	2,115,859	(639,207)	1,476,652
Post retirement medical benefits	39.2.3	8,270,382	(4,219,344)	4,051,038
		<u>44,351,542</u>	<u>(24,180,634)</u>	<u>20,170,908</u>
		2011		
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognized liabilities
------(Rupees in '000)-----				
Gratuity	39.2.3	29,955	(27,632)	2,323
Pension	39.2.3	27,250,150	(13,883,989)	13,366,161
Benevolent	39.2.3	1,794,679	(512,824)	1,281,855
Post retirement medical benefits	39.2.3	6,469,642	(2,919,433)	3,550,209
		<u>35,544,426</u>	<u>(17,343,878)</u>	<u>18,200,548</u>

39.2.3 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 39.2.4)	Payments during the year	Employees contribution/ Amount transferred
------(Rupees in '000)-----				
Gratuity	2,323	11,985	(4,781)	-
Pension	13,366,161	5,558,614	(4,291,084)	-
Benevolent	1,281,855	358,608	(167,797)	3,986
Post retirement medical benefits	3,550,209	1,419,093	(918,264)	-
	18,200,548	7,348,300	(5,381,926)	3,986
				20,170,908

	2011				
	Net recognised liabilities at July 1, 2011	Charge for the year (note 39.2.4)	Payments during the year	Employees contribution / amount transferred	Net recognised liabilities at June 30, 2011
	------(Rupees in '000)-----				
Gratuity	14,624	10,486	(22,787)	-	2,323
Pension	10,921,297	3,967,294	(1,522,430)	-	13,366,161
Benevolent	1,125,978	303,526	(151,552)	3,903	1,281,855
Post retirement medical benefits	2,853,973	1,082,505	(386,269)	-	3,550,209
	14,915,872	5,363,811	(2,083,038)	3,903	18,200,548

39.2.4 Amount recognised in the profit and loss account

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

	2012				
	Current service cost	Interest cost	Past service cost	Actuarial loss recognised	Employees contributions
	------(Rupees in '000)-----				
Gratuity	2,654	4,193	-	5,138	-
Pension	687,476	3,815,021	(19,022)	1,075,139	-
Benevolent	79,811	251,252	-	31,531	(3,986)
Post retirement medical benefits	131,028	905,750	167,466	214,849	-
	900,969	4,976,216	148,444	1,326,657	(3,986)

	2011				
	Current service cost	Interest cost	Settlement and curtailment	Actuarial loss recognised	Employees contributions
	------(Rupees in '000)-----				
Gratuity	2,018	4,423	-	4,045	-
Pension	525,569	3,049,812	-376,291	768,204	-
Benevolent	71,463	210,189	-	25,777	(3,903)
Post retirement medical benefits	118,452	767,067	-	196,986	-
	717,502	4,031,491	(376,291)	995,012	(3,903)

39.2.5 Historical information

	2012	2011	2011	2009	2008
	------(Rupees in '000)-----				
Gratuity					
Present value of defined benefit obligation	36,286	29,955	42,982	41,116	58,871
Unrecognised actuarial loss	(26,759)	(27,632)	(28,358)	(12,754)	(8,753)
Net recognised liability / (asset) in balance sheet	9,527	2,323	14,624	28,362	50,118
 Experience adjustment arising on plan liabilities losses	 (2,539)	 1,814	 18,137	 36,241	 6,632

	2012	2011	2011	2009	2008
	------(Rupees in '000)-----				
Pension					
Present value of defined benefit obligation	33,929,015	27,250,150	22,545,593	12,602,432	10,204,547
Unrecognised actuarial loss	(19,295,324)	(13,883,989)	(11,624,296)	(3,115,838)	(1,484,779)
Net recognised liability in balance sheet	14,633,691	13,366,161	10,921,297	9,486,594	8,719,768
Experience adjustment arising on plan liabilities loss / (gain)	6,467,454	2,524,620	8,854,662	177,053	1,273,741
Benevolent Fund					
Present value of defined benefit obligation	2,115,859	1,794,679	1,577,127	1,200,605	1,134,346
Unrecognised actuarial loss	(639,207)	(512,824)	(451,149)	(183,232)	(186,759)
Net recognised liability in balance sheet	1,476,652	1,281,855	1,125,978	1,017,373	947,587
Experience adjustment arising on plan liabilities loss / (gain)	60,208	(23,698)	287,013	11,280	99,338
Post Retirement Medical Benefits					
Present value of defined benefit obligation	8,270,382	6,469,642	5,672,184	4,915,413	4,543,730
Unrecognised actuarial loss	(4,219,344)	(2,919,433)	(2,818,211)	(2,813,019)	(3,090,273)
Net recognised liability in balance sheet	4,051,038	3,550,209	2,853,973	2,102,394	1,453,457
Experience adjustment arising on plan liabilities losses / (gains)	1,514,760	(696,690)	272,817	428,486	1,132,465

39.6 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 4,881.805 million (2011 : Rs. 3,851.673 million). An amount of Rs. 1,613.430 million (2011: Rs. 738.404 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

40. 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	1,553,272	975,567
Amortisation of intangible assets	27,140	33,593
Amortisation of deferred income	-	(17,718)
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	8,759,053	6,002,328
- 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	(11,583)	(5,785)
Gain on disposal of investments	-	(5,542)
Dividend income	(15,697,821)	(11,923,782)
	255,268,546	175,546,493

41. 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

42. RELATED PARTY TRANSACTIONS

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

42.1 Governments and related entities

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

42.2 Remuneration to key management personnel

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

	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.

43. RISK MANAGEMENT POLICIES

The Group is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 43.1 to 43.5. The Group has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

43.1 Credit risk management

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

43.2 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 Group has adopted appropriate policies to minimise its exposure to this risk.

43.2.1

	2012						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Local currency - coins	-	-	-	1,814,196	-	1,814,196	1,814,196
Foreign currency reserves	1,037,453,327	-	1,037,453,327	222,535	665,908	888,443	1,038,341,770
Earmarked foreign currency balance	-	-	-	4,994,808	-	4,994,808	4,994,808
Special Drawing Rights of International Monetary Fund	91,334,177	-	91,334,177	-	-	-	91,334,177
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	17,104	17,104	17,104
Securities purchased under agreement to resale	112,898,648	-	112,898,648	-	-	-	112,898,648
Current account of the Government of AJK	12,744,407	-	12,744,407	-	-	-	12,744,407
Investments	1,803,844,625	3,131,397	1,806,976,022	-	20,275,165	20,275,165	1,827,251,187
Loans, advances, bills of exchange and commercial paper	274,669,777	48,438,043	323,107,820	574,841	16,375,374	16,950,215	340,058,035
Assets held with the Reserve Bank of India	-	-	-	1,235,702	-	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	6,797,433
Other assets	-	-	-	5,785,855	-	5,785,855	5,785,855
	3,338,882,017	51,569,440	3,390,451,457	15,488,314	37,333,551	52,821,865	3,443,273,322
Financial liabilities							
Bank notes in circulation	-	-	-	1,776,962,388	-	1,776,962,388	1,776,962,388
Bills payable	-	-	-	587,542	-	587,542	587,542
Current accounts of the Government	-	-	-	148,815,907	-	148,815,907	148,815,907
Securities sold under agreement to repurchase	12,240,388	-	12,240,388	-	-	-	12,240,388
Deposits of banks and financial institutions	-	-	-	396,172,467	-	396,172,467	396,172,467
Other deposits and accounts	56,102,900	37,819,520	93,922,420	58,937,735	-	58,937,735	152,860,155
Payable to International Monetary Fund	372,242,668	283,942,637	656,185,305	-	-	-	656,185,305
Other liabilities	-	-	-	94,467,090	-	94,467,090	94,467,090
	440,585,956	321,762,157	762,348,113	2,475,943,129	-	2,475,943,129	3,238,291,242
On balance sheet gap	2,898,296,061	(270,192,717)	2,628,103,344	(2,460,454,815)	37,333,551	(2,423,121,264)	204,982,080
Forward exchange contracts - sales	-	-	-	(412,632,541)	-	(412,632,541)	(412,632,541)
Forward exchange contracts - purchases	-	-	-	390,848,354	-	390,848,354	390,848,354
Futures - sale	-	-	-	(15,877,206)	-	(15,877,206)	(15,877,206)
Futures - purchase	-	-	-	13,242,061	-	13,242,061.00	13,242,061.00
Off balance sheet gap	-	-	-	(24,419,332)	-	(24,419,332)	(24,419,332)
Total yield/Interest Risk Sensitivity Gap	2,898,296,061	(270,192,717)	2,628,103,344	(2,436,035,483)	37,333,551	(2,398,701,932)	229,401,412
Cumulative Yield/Interest Risk Sensitivity Gap	2,898,296,061	2,628,103,344	5,256,206,688	2,820,171,205	2,857,504,756	458,802,824	458,802,824

43.2.2

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

	2011 (Restated)						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
(Rupees in '000)							
Financial assets							
Local currency - coins	-	-	-	2,225,301	-	2,225,301	2,225,301
Foreign currency reserves	1,287,886,687	-	1,287,886,687	253,412	640,175	893,587	1,288,780,274
Earmarked foreign currency balance	-	-	-	75,464,270	-	75,464,270	75,464,270
Special Drawing Rights of International Monetary Fund	102,188,403	-	102,188,403	-	-	-	102,188,403
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	16,392	16,392	16,392
Securities purchased under agreement to resale	63,660,336	-	63,660,336	-	-	-	63,660,336
Current account of the Government of AJK	586,181	-	586,181	-	-	-	586,181
Investments	1,363,815,489	3,135,688	1,366,951,177	-	20,312,704	20,312,704	1,387,263,881
Loans, advances and bills of exchange	230,185,188	118,111,936	348,297,124	19,847,415	17,047,437	36,894,852	385,191,976
Assets held with the Reserve Bank of India	-	-	-	1,306,468	-	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	6,312,679
Other assets	-	-	-	7,898,433	-	7,898,433	7,898,433
	3,053,774,586	121,247,624	3,175,022,210	107,855,676	38,016,708	145,872,384	3,320,894,594
Financial liabilities							
Bank notes in circulation	-	-	-	1,599,833,487	-	1,599,833,487	1,599,833,487
Bills payable	-	-	-	780,155	-	780,155	780,155
Current accounts of the Government	-	-	-	217,968,067	-	217,968,067	217,968,067
Deposits of banks and financial institutions	-	-	-	349,426,939	-	349,426,939	349,426,939
Other deposits and accounts	77,960,149	55,877,445	133,837,594	44,312,353	11,012,500	55,324,853	189,162,447
Payable to International Monetary Fund	243,306,491	489,457,849	732,764,340	-	-	-	732,764,340
Other liabilities	-	-	-	29,070,091	-	29,070,091	29,070,091
	321,266,640	545,335,294	866,601,934	2,241,391,092	11,012,500	2,252,403,592	3,119,005,526
On balance sheet gap	2,732,507,946	(424,087,670)	2,308,420,276	(2,133,535,416)	27,004,208	(2,106,531,208)	201,889,068
Off Balance Sheet Financial Instruments							
Forward exchange contracts - sales	-	-	-	(221,851,605)	-	(221,851,605)	(221,851,605)
Forward exchange contracts - purchases	-	-	-	234,837,376	-	234,837,376	234,837,376
Futures - sale	-	-	-	(3,481,803)	-	(3,481,803)	(3,481,803)
Futures - purchase	-	-	-	7,885,090	-	7,885,090	7,885,090
Off balance sheet gap	-	-	-	17,389,058	-	17,389,058	17,389,058
Total yield/Interest Risk Sensitivity Gap	2,732,507,946	(424,087,670)	2,308,420,276	(2,150,924,474)	27,004,208	(2,123,920,266)	184,500,010
Cumulative Yield/Interest Risk Sensitivity Gap	2,732,507,946	2,308,420,276	4,616,840,552	2,465,916,078	2,492,920,286	369,000,020	369,000,020

43.3 Currency risk management

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

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

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

43.4 Liquidity risk management

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

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

43.5 Portfolio risk management

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

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

45. DATE OF AUTHORISATION

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

46. 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>

47. 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

**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 Muktedir
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			Combined Balance sheet (Restated)
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification	
	----- (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	(154,558)	3,606,912,825
LIABILITIES				
Bank notes in circulation	1,599,988,045	-	(154,558)	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	(154,558)	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			
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification	Combined Balance sheet (Restated)
	------(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		<u>1,814,196</u>	<u>2,225,301</u>
			1,974,352	2,379,859
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		<u>678,160,942</u>	<u>888,392,762</u>
		<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 (Rupees in '000)	2011
SDRs were held as follows:			
- 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 (Rupees in '000)	2011
Loans and receivables originated by the Bank			
Government securities			
Market Treasury Bills (MTBs)		1,803,121,441	1,363,117,299
Federal Government scrip		<u>2,740,000</u>	<u>2,740,000</u>
	12.1	<u>1,805,861,441</u>	<u>1,365,857,299</u>
Available for sale investments			
Investments in Banks and other financial institutions			
Ordinary shares			
- Listed		15,563,789	15,563,789
- Unlisted		<u>4,919,706</u>	<u>4,957,247</u>
	12.2	<u>20,483,495</u>	<u>20,521,036</u>
Term Finance Certificates		127,082	169,441
Certificates of Deposits		<u>50,558</u>	<u>67,411</u>
		<u>20,661,135</u>	<u>20,757,888</u>
Provision against diminution in value of investments	12.3	<u>(385,971)</u>	<u>(445,183)</u>
		<u>20,275,164</u>	<u>20,312,705</u>
Investments in wholly owned subsidiaries			
SBP Banking Services Corporation		1,000,000	1,000,000
National Institute of Banking and Finance (Guarantee) Limited - NIBAF		<u>29,260</u>	<u>29,260</u>
		<u>1,029,260</u>	<u>1,029,260</u>
		<u>1,827,165,865</u>	<u>1,387,199,264</u>
The above investments are held as follows:			
Issue Department - MTBs	19.1	1,088,514,072	916,804,517
Banking Department		<u>738,651,793</u>	<u>470,394,747</u>
		<u>1,827,165,865</u>	<u>1,387,199,264</u>

12.1 Investments in Government securities

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

	2012 (% per annum)	2011
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.

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.

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	Note	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 (Rupees in '000)	2011
	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	5,548,198,830	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

**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 financial statements of SBP Banking Services Corporation ("the Corporation") which comprise the balance sheet as at 30 June 2012, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flow 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 Corporation is responsible for the preparation and fair presentation of these financial statements in accordance with the International Accounting Standards 1 to 38 and Accounting Policy for investments as stated in note 4.1 to the financial statements approved for adoption by the Board of Directors of the Corporation and for such internal controls as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 Corporation'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.

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

KPMG TASEER HADI & CO.
Chartered Accountants

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

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as of 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 Policy for investments as stated in note 4.1 to the financial statements approved for adoption by the Board of Directors of the Corporation.

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

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2012

	<i>Note</i>	<i>2012</i>	<i>2011</i>
		<i>(Rupees in '000)</i>	
ASSETS			
Balance in current account with State Bank of Pakistan		7,453,254	6,033,302
Investments	5	900,397	904,688
Employee loans and advances	6	10,971,563	10,779,336
Property and equipment	7	244,704	247,535
Medical and stationery consumables	8	117,128	100,947
Accrued interest / mark-up and return		37,023	26,939
Advances, deposits and prepayments	9	28,018	48,468
Total assets		19,752,087	18,141,215
LIABILITIES			
Deferred liabilities - staff retirement benefits	10	14,364,009	13,604,347
Deposits and other liabilities	11	4,388,078	3,536,868
Total liabilities		18,752,087	17,141,215
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	12	1,000,000	1,000,000
Commitments	13		

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2012

	<i>Note</i>	<i>2012</i> <i>(Rupees in '000)</i>	<i>2011</i>
Discount and interest earned	14	68,405	67,510
Net operating expenses	15	12,007,098	9,308,509
Reimbursable from the State Bank of Pakistan		(6,166,745)	(5,339,211)
Allocated to the State Bank of Pakistan		(5,840,353)	(3,969,298)
Operating profit		68,405	67,510
Gain on disposal of property and equipment		2,718	2,825
Profit transferred to the State Bank of Pakistan		71,123	70,335

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

**SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2012**

	<i>2012</i>	<i>2011</i>
	<i>(Rupees in '000)</i>	
Profit for the year	71,123	70,335
Other comprehensive income	-	-
Total comprehensive income for the year	<u>71,123</u>	<u>70,335</u>

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012

	<i>Share capital</i>	<i>Unappropriated profit</i>	<i>Total</i>
	-----	(Rupees in '000)	-----
Balance as at June 30, 2010	1,000,000	-	1,000,000
Total comprehensive income for the year			
Profit for the year	-	70,335	70,335
Other comprehensive income	-	-	-
	-	70,335	70,335
Transaction with owner			
Profit transferred to the State Bank of Pakistan	-	(70,335)	(70,335)
Balance as at June 30, 2011	1,000,000	-	1,000,000
Total comprehensive income for the year			
Profit for the year	-	71,123	71,123
Other comprehensive income	-	-	-
	-	71,123	71,123
Transaction with owner			
Profit transferred to the State Bank of Pakistan	-	(71,123)	(71,123)
Balance as at June 30, 2012	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2012

	<i>Note</i>	2012	2011
		<i>(Rupees in '000)</i>	
Cash flows from operating activities			
Loss after adjustment of non-cash items	16	(321,370)	(1,363,220)
Expenses reimbursable by the State Bank of Pakistan		6,166,745	5,339,211
Profit transferred to the State Bank of Pakistan		(71,123)	(70,335)
Retirement benefits and employees' compensated absences paid		(4,286,862)	(1,254,305)
Discount income received		67,674	65,097
		1,555,064	2,716,448
Decrease / (increase) in assets			
Employee loans and advances		(192,227)	(131,070)
Medical and stationery consumables		(16,181)	(5,094)
Accrued interest / mark-up and return		(10,084)	(3,952)
Advances and prepayments		20,450	(23,343)
Increase in liabilities			
Other liabilities		152,563	188,996
Net cash generated from operating activities		1,509,585	2,741,985
Cash flows from investing activities			
Capital expenditure		(97,177)	(100,148)
Proceeds from disposal of property and equipment		7,544	8,191
Net cash used in investing activities		(89,633)	(91,957)
Net increase in cash and cash equivalents		1,419,952	2,650,028
Cash and cash equivalents at beginning of the year		6,033,302	3,383,274
Cash and cash equivalents at end of the year		7,453,254	6,033,302

The annexed notes 1 to 19 form an integral part of these financial statements.

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

**SBP BANKING SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. STATUS AND NATURE OF OPERATIONS

1.1

SBP Banking Services Corporation (the Corporation) was constituted under the SBP Banking Services Corporation Ordinance, 2001 (the Ordinance) as a wholly owned subsidiary of the State Bank of Pakistan (SBP) and commenced its operations with effect from January 2, 2002. The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance mainly including:

- disbursing of loans and advances to the Government, banks, financial institutions and local authorities and facilitating in inter-bank settlement system;
- collecting revenue and making payments for and on behalf of and maintaining accounts of the Government, local bodies, authorities, companies, banks and other financial institutions;
- receipt, supply and exchange of bank notes and coins;
- dealing in prize bonds and other savings instruments of the Government; and
- operational work relating to management of debt and foreign exchange.

Any assets, liabilities, income and expenditure directly relating to the above activities are accounted for in the books of SBP while the cost incurred by the Corporation in carrying out the above activities are either reimbursed from or allocated to SBP and are accounted for as deduction from the expenditure while net profit / loss, if any, of the Corporation is transferred to / recovered from SBP.

1.2 The financial statements are presented in Pak Rupees which is the Corporation's functional and presentation currency.

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the International Accounting Standards IAS 1 to 38 and the policy for investments as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation. Where the requirements of policies adopted by the Board of Directors of the Corporation differ from the requirements of International Accounting Standards adopted by the Board of Directors of the Corporation, the requirements of policies adopted by the Board of Directors of the Corporation take precedence.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention except for certain staff retirement benefits which are stated at present value.

3.2 Use of estimates and judgments

The preparation of financial statements in conformity with International Accounting Standards IAS 1 to 38 and policy for investment as stated in note 4.1 approved for adoption by the Board of Directors of the Corporation, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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 the judgments about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

In the process of applying the Corporation's accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

3.2.1 Held-to-maturity investments

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

3.2.2 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.

3.2.3 Retirement Benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 15.1 to the financial statements.

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 / improvement:

<i>Standards / improvements</i>	<i>Effective date (accounting periods beginning on or after)</i>
IAS 1 - Presentation of items of other comprehensive income (Amendments)	01 July 2012
IAS 12 - Income Tax (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 Corporation expects that the adoption of the above revisions and interpretations of the standards will not have any material impact on the Corporation'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 Investments - Held to maturity

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

All such investments acquired by the Corporation are initially measured at cost being the fair value of the consideration given. Transaction cost, if any, is included in the initial measurement of investments. Subsequent to initial measurement, these securities are stated at amortized cost less accumulated impairment, if any. Premiums and discounts are accounted for using effective interest rate method.

4.2 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses while capital work-in-progress is stated at cost.

Depreciation on property and equipment is charged to profit and loss account applying the straight-line method at the rates specified in note 7.1 to the financial statements, whereby the cost of an asset is written off over its estimated useful life. The asset's useful life is reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation on additions is charged to the profit and loss account from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are 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 property and equipment are recognised in the profit and loss account.

4.3 Medical and stationery consumables

These are valued at lower of weighted average cost and net realisable value. Net realisable value represents estimated selling prices in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

4.4 Provisions

Provisions are recognised when the Corporation 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.

4.5 Staff retirement benefits

The Corporation operates the following staff retirement benefits for employees transferred from SBP (transferred employees) and other employees:

a)

an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme; The Corporation provided an option to employees covered under old scheme to join the funded Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from July 1, 2010. 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 Corporation service after July 1, 2010 are covered under the new scheme

b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have 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) the following other staff retirement benefit schemes:

- an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;

a funded Employees Gratuity Fund (EGF) was introduced by the Corporation effective from July 1, 2010 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 July 1, 2010.
- an un-funded contributory 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 Corporation 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 to staff on completion of prescribed qualifying period of service.

4.6 Compensated absences

The Corporation makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates using Projected Unit Credit Method.

4.7 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.

4.8 Taxation

The income of the Corporation is exempt from Tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001.

4.9 Cash and cash equivalents

Cash comprises of cash on hand and balance in current account with the State Bank of Pakistan. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

4.10 Financial instruments

Financial assets and liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instruments and derecognised when the Corporation loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is 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.

Financial instruments carried on the balance sheet include the balance in the current account with the State Bank of Pakistan, investments, loans and advances, accrued interest / mark-up and return, and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

4.11 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Corporation 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.

4.12 Impairment

The carrying amount of the assets is 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 and the impairment losses are recognised in the profit and loss account.

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised in the profit and loss account.

5. INVESTMENTS

		2012	2011
	Note		(Rupees in '000)
Held to maturity			
Market Treasury Bills	5.1	509,000	508,998
Pakistan Investment Bonds	5.2	391,397	395,690
		<u>900,397</u>	<u>904,688</u>

- 5.1 Market Treasury Bills carry mark-up at the rate of 11.93 to 13.36 percent per annum (2011: 12.79 to 13.88 percent per annum) and are due to mature by December 2012.
- 5.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6 percent per annum (2011: 8.0 to 9.6 percent per annum) and are due to mature by 2016.

6. EMPLOYEE LOANS AND ADVANCES

	Note	2012 (Rupees in '000)	2011
Considered good		10,971,563	10,779,336
Considered doubtful		12,010	12,241
	6.1	10,983,573	10,791,577
Provision against doubtful loans		(12,010)	(12,241)
		<u>10,971,563</u>	<u>10,779,336</u>

- 6.1 Represents loans given to the permanent employees of the Corporation, recoverable in equal monthly installments till the retirement of an employee, except that the personal loan is repayable in twenty four equal monthly installments. These include loans amounting to Rs. 127.657 million (2011: Rs. 141.803 million) that carry mark up at 10% per annum (2011: 10% per annum). Maximum maturity of the loans is upto year 2049 (2011: year 2049).

These loans have been given in respect of:-

- Housing loan - Secured against equitable mortgage of the property.
- Motor vehicle loan - Secured against hypothecation of the vehicle.
- Computer and personal loan, given on personal guarantee of two employees of the Corporation.

	Note	2012 (Rupees in '000)	2011
Operating fixed assets	7.1	244,704	247,317
Capital work-in-progress		-	218
		<u>244,704</u>	<u>247,535</u>

7.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2012							Annual rate of depreciation %
	Cost			Accumulated Depreciation			Net book value as at June 30, 2012	
	As at July 01, 2011	Additions/ (deletions)/ transfers*	As at June 30, 2012	As at July 01, 2011	Charge for the year / (deletions)/ transfers*	As at June 30, 2012		
----- (Rupees in '000) -----								
Furniture and fixtures	107,905	5,374	113,312	63,160	7,930	71,090	42,222	10
		33 *			0 *			
Office equipmer	763,161	59,639 (5,049)	823,012	633,651	52,262 (4,913)	685,246	137,766	20
		5,261 *			4,246 *			
EDP equipment	308,230	467 (380)	330,836	273,022	20,700 (380)	308,126	22,710	33.33
		22,519 *			14,784 *			
Motor vehicles	82,889	23,132 (9,077)	98,468	45,035	14,290 (4,387)	56,462	42,006	20
		1,524 *			1,524 *			
	<u>1,262,185</u>	<u>88,612 (14,506)</u>	<u>1,365,628</u>	<u>1,014,868</u>	<u>95,182 (9,680)</u>	<u>1,120,924</u>	<u>244,704</u>	
		<u>29,337 *</u>			<u>20,554 *</u>			

	2011							
	Cost			Accumulated Depreciation			Net book value as at June 30, 2011	Annual rate of depreciation %
	As at July 01, 2010	Additions/ (deletions)/ transfers*	As at June 30, 2011	As at July 01, 2010	Charge for the year / (deletions)/ transfers*	As at June 30, 2011		
----- (Rupees in '000) -----								
Furniture and fixtures	105,903	2,848 (846)	107,905	56,147	7,613 (600)	63,160	44,745	10
Office equipment	722,683	57,956 (17,478)	763,161	603,313	45,914 (15,576)	633,651	129,510	20
EDP equipment	274,021	- (19,247) 53,456 *	308,230	258,995	12,744 (18,857) 20,140 *	273,022	35,208	33.33
Motor vehicles	81,303	6,028 (4,442)	82,889	33,777	12,872 (1,614)	45,035	37,854	20
	1,183,910	66,832 (42,013) 53,456 *	1,262,185	952,232	79,143 (36,647) 20,140 *	1,014,868	247,317	

2012 2011
(Rupees in '000)

Note

8. MEDICAL AND STATIONERY CONSUMABLES

Medical and stationery consumables	118,276	102,095
Provision against obsolete items	(1,148)	(1,148)
	117,128	100,947

9. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances, deposits and prepayments	22,687	43,295
Others	5,331	5,173
	28,018	48,468

10. DEFERRED LIABILITIES - STAFF RETIREMENT BENEFITS

Gratuity	7,724	868
Pension	9,651,761	9,327,008
Benevolent fund scheme	1,170,980	1,005,555
Post retirement medical benefits	2,466,239	2,268,023
	15.3	
	13,296,704	12,601,454
Provident fund scheme	1,067,305	1,002,893
	14,364,009	13,604,347

11. DEPOSITS AND OTHER LIABILITIES

Provision for employees' compensated absences	15.6	3,585,798	2,887,151
Deposits		677,902	228,746
Others		124,378	420,971
		4,388,078	3,536,868

12. SHARE CAPITAL

2012	2011		
1,000	1,000	Authorised share capital	
		Ordinary shares of Rs 1,000,000 each	1,000,000 1,000,000
1,000	1,000	Issued, subscribed and paid-up capital	
		Fully paid-up ordinary shares of Rs 1,000,000 each issued for cash	1,000,000 1,000,000

13. COMMITMENTS

2012 **2011**
Note **(Rupees in '000)**

Capital Commitments	45,272	79,157
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This represents amounts committed by the Corporation to purchase assets from successful bidders.

14. DISCOUNT AND INTEREST EARNED

Discount income on Government securities	67,674	65,097
Interest on staff loans	731	2,413
	68,405	67,510

15. NET OPERATING EXPENSES

Reimbursable from the State Bank of Pakistan

Salaries, wages 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
Repair and maintenance	25,730	16,815
Auditors' remuneration	15.7 6,300	5,100
Legal and professional	3,182	6,066
Travelling	10,471	12,130
Daily expenses	20,519	21,759
Passages/ rest and recreational allowance	164,169	161,912
Fuel	3,217	2,644
Conveyance	13,449	6,862
Postages 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
	6,166,745	5,339,211

Allocated to the State Bank of Pakistan

Retirement benefits and employees' compensated absences	5,745,171	3,890,155
Depreciation	7.1 95,182	79,143
	5,840,353	3,969,298
	12,007,098	9,308,509

15.1 As mentioned in note 4.5, the Corporation operates the following staff retirement benefit schemes:

- an un-funded gratuity scheme for all employees other than the employees who opted for the new general provident contributory fund scheme or transferred employees who joined the SBP after 1975 and are entitled only to pension scheme benefits; also a funded Employees Gratuity (EGF) introduced by Corporation effective from July 1, 2010 for all employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
- an un-funded pension scheme;
- an un-funded contributory benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

During the year the Corporation carried out actuarial valuation for all the above schemes using Projected Unit Credit Method. Following significant assumptions have been used for the valuations of these schemes as at June 30, 2012:

	2012	2011
	% per annum	
Expected rate of increase in salary level	11.5	12
Expected rate of discount	12.5	14
Medical cost trend	8.5	9
Pension indexation rate	8	8
Inflation in contribution and grants	6	6

15.2 The following are the fair values of the obligations under the schemes and liabilities recognised there against for the past services of the employees at the latest valuation dates:

		2012			
		Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Unrecognized negative past service cost	Provision made in respect of retirement benefits
Note		----- (Rupees in '000) -----			
Gratuity	15.5	23,560	(15,836)	-	7,724
Pension	15.5	21,976,728	(12,324,967)	-	9,651,761
Benevolent fund scheme	15.5	1,619,375	(448,395)	-	1,170,980
Post retirement medical benefits	15.5	4,483,395	(2,017,156)	-	2,466,239
		<u>28,103,058</u>	<u>(14,806,354)</u>	<u>-</u>	<u>13,296,704</u>

		2011			
		Present value of the defined benefit obligation	Unrecognised actuarial gain / (loss)	Unrecognized negative past service cost	Provision made in respect of retirement benefits
		----- (Rupees in '000) -----			
Gratuity	15.5	20,161	(19,293)	-	868
Pension	15.5	17,558,118	(8,241,224)	10,114	9,327,008
Benevolent fund scheme	15.5	1,367,399	(361,844)	-	1,005,555
Post retirement medical benefits	15.5	3,529,624	(1,261,601)	-	2,268,023
		<u>22,475,302</u>	<u>(9,883,962)</u>	<u>10,114</u>	<u>12,601,454</u>

15.3 The following is the movement of the net recognised liability in respect of the defined benefit schemes mentioned

		2012			
		Recognised liability as at June 30, 2011	Charge for the year	Payments during the year	Employee Contributions
		----- (Rupees in '000) -----			
Gratuity		868	7,890	(1,034)	-
Pension		9,327,008	3,634,563	(3,309,810)	-
Benevolent fund scheme		1,005,555	280,944	(115,519)	-
Post retirement medical benefits		2,268,023	810,008	(611,792)	-
		<u>12,601,454</u>	<u>4,733,405</u>	<u>(4,038,155)</u>	<u>-</u>
					<u>13,296,704</u>

	2011				
	Recognised liability as at June 30, 2010	Charge for the year	Payments during the year	Employee Contributions	Recognised liability as at June 30, 2011
	------(Rupees in '000)-----				
Gratuity	16,089	7,857	(23,078)	-	868
Pension	7,720,830	2,498,091	(891,913)	-	9,327,008
Benevolent fund scheme	865,873	244,483	(104,801)	-	1,005,555
Post retirement medical benefits	1,750,332	643,396	(125,705)	-	2,268,023
	<u>10,353,124</u>	<u>3,393,827</u>	<u>(1,145,497)</u>	<u>-</u>	<u>12,601,454</u>

15.4 The following amounts have been charged to the profit and loss account in respect of the above benefits:

	2012					
	Current service cost	Actuarial (gain)/loss	Interest cost	Past Service Cost	Employee Contributions	Total
	------(Rupees in '000)-----					
Gratuity	748	4,320	2,822	-	-	7,890
Pension	538,000	648,541	2,458,137	(10,115)	-	3,634,563
Benevolent fund scheme	67,000	22,510	191,434	-	-	280,944
Post retirement medical benefits	104,012	90,864	494,147	120,985	-	810,008
	<u>709,760</u>	<u>766,235</u>	<u>3,146,540</u>	<u>110,870</u>	<u>-</u>	<u>4,733,405</u>

	2011					
	Current service cost	Actuarial (gain)/loss	Interest cost	Past Service Cost	Employee Contributions	Total
	------(Rupees in '000)-----					
Gratuity	1,140	3,279	3,438	-	-	7,857
Pension	422,848	461,708	1,928,618	(315,083)	-	2,498,091
Benevolent fund scheme	60,655	20,830	162,998	-	-	244,483
Post retirement medical benefits	73,989	112,844	456,563	-	-	643,396
	<u>558,632</u>	<u>598,661</u>	<u>2,551,617</u>	<u>(315,083)</u>	<u>-</u>	<u>3,393,827</u>

15.5 Historical Information

	2012	2011	2010	2009	2008
	------(Rupees in '000)-----				
Gratuity					
Present Value of Defined Benefit Obligation	23,560	20,161	36,094	38,039	43,066
Unrecognised actuarial (losses) / gains	(15,836)	(19,293)	(20,005)	(5,668)	(5,245)
Liability in balance sheet	<u>7,724</u>	<u>868</u>	<u>16,089</u>	<u>32,371</u>	<u>37,821</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>862</u>	<u>2,567</u>	<u>16,226</u>	<u>3,046</u>	<u>5,058</u>
Pension					
Present Value of Defined Benefit Obligation	21,976,728	17,558,118	14,221,796	8,951,904	6,679,812
Unrecognised actuarial (losses) / gains	(12,324,967)	(8,241,224)	(6,500,966)	(2,365,434)	(881,525)
Unrecognized negative past service cost		10,114			
Liability in balance sheet	<u>9,651,761</u>	<u>9,327,008</u>	<u>7,720,830</u>	<u>6,586,470</u>	<u>5,798,287</u>
Experience adjustment arising on plan liabilities losses / (gains)	<u>4,732,284</u>	<u>3,369,573</u>	<u>4,398,358</u>	<u>1,572,062</u>	<u>983,638</u>
Benevolent fund scheme					
Present Value of Defined Benefit Obligation	1,619,375	1,367,399	1,216,670	916,147	761,325
Unrecognised actuarial gains / (losses)	(448,395)	(361,844)	(350,797)	(146,295)	(51,337)
Liability in balance sheet	<u>1,170,980</u>	<u>1,005,555</u>	<u>865,873</u>	<u>769,852</u>	<u>709,988</u>
Experience adjustment arising on plan liabilities losses / (gains)	<u>109,061</u>	<u>31,877</u>	<u>220,757</u>	<u>100,092</u>	<u>75,755</u>
Post retirement medical benefits					
Present Value of Defined Benefit Obligation	4,483,395	3,529,624	3,324,018	2,790,980	2,315,481
Unrecognised actuarial gains / (losses)	(2,017,156)	(1,261,601)	(1,573,686)	(1,504,472)	(1,433,348)
Liability in balance sheet	<u>2,466,239</u>	<u>2,268,023</u>	<u>1,750,332</u>	<u>1,286,508</u>	<u>882,133</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>846,419</u>	<u>(199,241)</u>	<u>205,984</u>	<u>190,570</u>	<u>683,802</u>

15.6 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2012 using the Projected Unit Credit Method.

	2012			2011		
	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total
15.7 Auditors' remuneration	----- (Rupees in '000) -----					
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
	<u>3,150</u>	<u>3,150</u>	<u>6,300</u>	<u>2,550</u>	<u>2,550</u>	<u>5,100</u>

16. LOSS AFTER ADJUSTMENT OF NON-CASH ITEMS

	2012	2011
	(Rupees in '000)	
Profit for the year	71,123	70,335
Expenses reimbursed by the State Bank of Pakistan	(6,166,745)	(5,339,211)
Expenses allocated to the State Bank of Pakistan	(5,840,353)	(3,969,298)
	<u>(11,935,975)</u>	<u>(9,238,174)</u>
Adjustments for:		
Provision for retirement benefits and employees' compensated absences	5,745,171	3,890,155
Expenses allocated to the State Bank of Pakistan	5,840,353	3,969,298
Discount on Government securities	(67,674)	(65,097)
Depreciation	95,182	79,143
Amortization of premium	4,291	4,280
Gain on disposal of property and equipments	(2,718)	(2,825)
	<u>11,614,605</u>	<u>7,874,954</u>
	<u>(321,370)</u>	<u>(1,363,220)</u>

17. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest/ mark-up rate and credit risks. The policies and procedures for managing these risks are outlined in notes 17.1 to 17.4. The Corporation 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.

17.1 Interest / mark-up rate risk management

Interest / mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. The Corporation has adopted appropriate policies to minimise its exposure to this risk. The Corporation's management, the Central Board and the investment committee has set appropriate duration limits and a separate department deals with the monitoring of the Corporation's interest/ mark-up rate risk exposure based on these limits.

	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	Total
	----- (Rupees in '000) -----					
Financial assets						
Balance in current account with the State Bank of Pakistan	-	-	-	7,453,254	-	7,453,254
Investments	509,000	391,397	900,397	-	-	900,397
Employee loans and advances	20,706	106,951	127,657	1,337,763	9,518,153	10,983,573
Accrued interest / mark-up and return	-	-	-	37,023	-	37,023
	<u>529,706</u>	<u>498,348</u>	<u>1,028,054</u>	<u>8,828,040</u>	<u>9,518,153</u>	<u>19,374,247</u>
Financial liabilities						
Other liabilities	-	-	-	798,848	-	798,848
	<u>-</u>	<u>-</u>	<u>-</u>	<u>798,848</u>	<u>-</u>	<u>798,848</u>
On balance sheet gap	<u>529,706</u>	<u>498,348</u>	<u>1,028,054</u>	<u>8,029,192</u>	<u>9,518,153</u>	<u>18,575,399</u>

	2011						
	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	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							
Balance in current account with the State Bank of Pakistan	-	-	-	6,033,302	-	6,033,302	6,033,302
Investments	508,998	395,690	904,688	-	-	-	904,688
Employee loans and advances	18,397	123,406	141,803	1,312,410	9,337,364	10,649,774	10,791,577
Accrued interest / mark-up and return	-	-	-	26,939	-	26,939	26,939
	527,395	519,096	1,046,491	7,372,651	9,337,364	16,710,015	17,756,506
Financial liabilities							
Other liabilities	-	-	-	420,971	-	420,971	420,971
	-	-	-	420,971	-	420,971	420,971
On balance sheet gap	527,395	519,096	1,046,491	6,951,680	9,337,364	16,289,044	17,335,535

17.2 The interest / mark-up for the financial assets and liabilities are mentioned in their respective notes to the financial statements.

17.3 Credit risk

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. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. The remaining balances are recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

17.4 Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk.

17.5 Fair value of financial assets and liabilities

The fair value of all financial assets and financial liabilities is estimated to approximate their carrying values at the balance sheet date.

18. DATE OF AUTHORISATION FOR ISSUE

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

19. FIGURES

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

Aftab Mustafa Khan
Managing Director

Muhammad Habib Khan
Director Accounts

AUDITORS' REPORT TO THE MEMBERS OF NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED

We have audited the annexed balance sheet of NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED (the Institute) as at June 30, 2012 and the related income and expenditure account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Institute's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a. in our opinion, proper books of account have been kept by the Institute as required by the Companies Ordinance, 1984;
- b. in our opinion:
 - i. the balance sheet and income and expenditure account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii. the expenditure incurred during the year was for the purpose of the Institute's business; and
 - iii. the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Institute;

- c. in our opinion the balance sheet, income and expenditure account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984 in the manner so required, and respectively give a true and fair view of the state of the Institute's affairs as at June 30, 2012 and of the deficit, its cash flows and changes in equity for the year then ended; and

- d. in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Chartered Accountants

Engagement Partner:

Mushtaq Ali Hirani

Karachi

Dated: April 09, 2013

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
BALANCE SHEET
AS AT JUNE 30, 2012

	Note	2012 Rupees	2011 Rupees
NON CURRENT ASSETS			
Property plant and equipment	5	36,988,450	28,051,105
Long term deposits		953,497	401,400
CURRENT ASSETS			
Stock of stationery and consumables		834,908	722,446
Receivable against training programs	6	30,923,631	10,195,763
Advances, prepayments and other receivables	7	2,181,737	1,291,258
Short term investments	8	214,183,904	189,191,527
Cash in hand		160,860	60,000
		248,285,040	201,460,994
		<u>286,226,987</u>	<u>229,913,499</u>
SHAREHOLDERS' EQUITY			
Authorized share capital (20,000,000 Ordinary shares of Rs.10 each)		<u>200,000,000</u>	<u>200,000,000</u>
Issued, subscribed and paid up capital	9	29,260,840	29,260,840
Accumulated surplus		<u>24,367,267</u>	<u>24,367,267</u>
		53,628,107	53,628,107
Endowment Fund		67,280,645	-
Capital grant		-	59,429,900
	10	<u>67,280,645</u>	<u>59,429,900</u>
		120,908,752	113,058,007
CURRENT LIABILITIES			
Creditors, accrued expenses and other payables	11	13,751,725	11,858,619
Due to associated undertaking	12	151,566,510	104,996,873
		165,318,235	116,855,492
		<u>286,226,987</u>	<u>229,913,499</u>
COMMITMENTS			
	13		

The annexed notes 1 to 23 form an integral part of these financial statements.

MANAGING DIRECTOR

DIRECTOR

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2012**

	Note	2012 Rupees	2011 Rupees
INCOME			
Hostel and training halls	14	35,246,716	34,579,902
Training and education fee	15	44,072,329	35,865,712
Other income	16	21,523,615	22,213,094
		<u>100,842,660</u>	<u>92,658,708</u>
EXPENDITURE			
Operating, administrative and general expenses	17	<u>(157,273,420)</u>	<u>(130,897,190)</u>
Operating deficit for the year		(56,430,760)	(38,238,482)
Provision for taxation	18	<u>-</u>	<u>(1,306,420)</u>
Deficit for the year		(56,430,760)	(39,544,902)
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive deficit for the year		<u><u>(56,430,760)</u></u>	<u><u>(39,544,902)</u></u>

The annexed notes 1 to 23 form an integral part of these financial statements.

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2012

	2012 Rupees	2011 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating deficit for the year	(56,430,760)	(38,238,482)
Adjustments for non cash items:		
Income from investments	(17,141,632)	(21,583,925)
Depreciation	9,814,396	6,122,719
Gain on disposal	(3,624,730)	(410,375)
Provision for doubtful debts	956,990	1,553,150
Assets disposed off	-	39,897
	(9,994,976)	(14,278,534)
Operating deficit before working capital changes	(66,425,736)	(52,517,016)
Changes in working capital		
(Increase) / decrease in current assets:		
Stock of stationery and consumables	(112,462)	169,804
Receivable against training programs	(21,684,858)	2,193,149
Advances, prepayments and other receivables	(890,479)	(981,703)
	(22,687,799)	1,381,250
Increase / (decrease) in current liabilities:		
Creditors, accrued expenses and other payables	2,021,106	(1,662,142)
Due to associated undertaking	103,000,397	63,975,982
Advance against training program	-	(2,556,200)
	105,021,503	59,757,640
Net changes in working capital	82,333,704	61,138,890
Income tax paid	(128,000)	(457,873)
Net cash generated from operating activities	15,779,968	8,164,001
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(16,743,204)	(8,664,442)
Assets transferred from the Parent Entity	(2,008,607)	-
Proceeds from the disposal of property, plant and equipment	3,624,800	410,375
Long term security deposits	(552,097)	-
Net cash used in investing activities	(15,679,108)	(8,254,067)
Net increase in cash and cash equivalents	100,860	(90,066)
Cash and cash equivalents at beginning of the year	60,000	150,066
Cash and cash equivalents at end of the year	160,860	60,000

The annexed notes 1 to 23 form an integral part of these financial statements.

MANAGING DIRECTOR

DIRECTOR

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2012**

	Share Capital	Accumulated Surplus	Total
	Rupees	Rupees	Rupees
Balance at July 01, 2010	29,260,770	24,367,267	53,628,037
Total comprehensive deficit for the year	-	(39,544,902)	(39,544,902)
Deficit allocated to State Bank of Pakistan (the Parent entity)	-	39,544,902	39,544,902
Balance at June 30, 2011	29,260,770	24,367,267	53,628,037
Total comprehensive deficit for the year	-	(56,430,760)	(56,430,760)
Deficit allocated to State Bank of Pakistan (the Parent entity)	-	56,430,760	56,430,760
Balance at June 30, 2012	29,260,770	24,367,267	53,628,037

The annexed notes 1 to 23 form an integral part of these financial statements.

MANAGING DIRECTOR

DIRECTOR

**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. STATUS AND NATURE OF BUSINESS

- 1.1** National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated under the Companies Ordinance, 1984 on March 21, 1993 in Pakistan, as a Private Company Limited by Guarantee having share capital. The Institute is engaged in providing education and training in the field of banking, finance and allied areas. State Bank of Pakistan is the Parent entity of the Institute ("the Parent entity").
- 1.2** These financial statements are presented in Pakistan Rupee which is the Institute's functional and presentation currency.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan, differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Standards, amendments and interpretations which became effective during the year

- a) The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Institute's accounting period beginning on or after July 1, 2011:**

The following standards, amendments and interpretations to approved accounting standards have been published and are mandatory for the Institute's accounting period beginning on or after July 1, 2011:

- IFRS 7, 'Financial Instruments: Disclosures' (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Institute's financial statements, other than certain additional disclosures.
- IFRS 7, 'Financial instruments: Disclosures' (effective July 1, 2011). This amendment aims to promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment does not have any impact on the Institute's financial statements during the current year.
- IAS 1, 'Presentation of financial statements' (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any impact on the Institute's financial statements as currently no items are being reported in other comprehensive income.
- IAS 24 (revised), 'Related party disclosures', issued in November 2009. It superseded IAS 24, 'Related Party Disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The revised standard does not have any significant impact on the Institute's financial statements.

There are other amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after July 1, 2011 but are considered not to be relevant or do not have any significant effect on the Institute's operations and therefore have not been detailed in these financial statements.

b) Other standards and amendments to published standards that are not yet effective and have not been early adopted by the Institute

The following standards, amendments to published standards and interpretation are not effective (although available for early adoption) for the accounting period beginning on or after July 1, 2012 and have not been early adopted by the Institute:

- IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment will not have any effect on the Institute's financial statements as presently no items are reported in 'other comprehensive income'.
- IAS 32, 'Financial instruments: Presentation', (effective January 1, 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The management of the Institute is in the process of assessing the impact of this amendment on the Institute's financial statements.
- IFRS 9, 'Financial instruments' (effective for periods beginning on or after January 1, 2013). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.
- IFRS 13, 'Fair Value Measurement' (effective for periods beginning on or after January 1, 2012). This standard applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard defines fair value on the basis of an 'exit price' notion and uses 'a fair value hierarchy', which results in a market-based, rather than entity-specific measurement.

There are no other standards, amendments and interpretations that are not yet effective that would be expected to

2.3 Basis of measurement

These financial statements have been prepared on the historical cost basis.

2.4 Significant accounting estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. 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 estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

(a) Property, plant and equipment

The Institute reviews the residual values and useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding affect on depreciation charge and impairment.

(b) Impairment

The Institute's assessment relating to impairment of assets is discussed in notes 3.2.

(c) Provision for slow moving stocks and other receivables

The Institute assesses the amount of provision for slow moving stocks on the basis of their actual pattern of usage. Provision is determined for those stocks, which are not used for considerable period of time. Provision for other receivables is determined by using judgment based on past business practices, probability of recovery and lapsed time period of due balance.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Property, plant and equipment

These are stated at cost less accumulated depreciation and provision for impairment, if any. Depreciation on additions is charged from the month the asset is available for use and on disposal up to the month preceding the month of disposal. Depreciation for the year is calculated using the straight line method at rates given in note 5 to the financial statements and included in the income and expenditure account. Maintenance and normal repairs are charged to income as and when incurred. Major extensions, renewals and improvements are capitalized. Gains and losses on disposal of property, plant and equipment are taken to the income and expenditure account currently.

3.2 Impairment

The carrying amounts of the Institute's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of assets is estimated and impairment losses are recognized as expense in the income and expenditure account.

3.3 Deferred grants

Grants related to specific assets are set up as deferred grants and recognized as income on a systematic basis over the useful life of the related assets.

3.4 Stocks

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

3.5 Accounts receivables and other receivables

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

3.6 Investment held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Institute has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method.

3.7 Trade and other payables

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

3.8 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks in current and deposit accounts.

3.9 Financial instruments

Financial assets and liabilities are recognized when the Institute becomes a party to contractual provisions of the instrument. These are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or amortized cost as the case may be.

The Institute de-recognizes a financial assets or a portion of financial asset when, and only when, the Institute loses control of the contractual right that comprise the financial asset or portion of financial asset. While a financial liability or part of financial liability is de-recognized from the balance sheet when, and only when, it is extinguished i.e., when the obligation specified in the contract is discharged, cancelled or expired.

3.10 Offsetting financial assets and liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Institute has a legal enforceable right to set-off the recognized amounts and intends either to settle on net basis or to realize the asset and settle the liability simultaneously.

3.11 Provisions

A provision is recognized in the balance sheet when the Institute has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the can be made of the amount of obligation.

3.12 Revenue recognition

- (i) Training, education and hostel services are charged on accrual basis except for State Bank Officers Training Courses (SBOTs) which are provided free of cost, to trainees sent by the State Bank of Pakistan.
- (ii) Interest on bank accounts and on investment is accounted for on a time proportion basis using the applicable rate of interest.

3.13 Training costs

Training, education and hostel services are provided free of cost to pre-induction trainees (SBOTs) sent by State Bank of Pakistan. Stipend to these trainees are also paid by the Institute.

3.14 Taxation

Income of the Institute is exempted from income tax as per Clause 92 of Part-1 of Second Schedule to the Income Tax Ordinance, 2001.

3.15 Endowment fund

The Institute has established an Endowment fund effective from July 1, 2011 for development and running the operations of Rural Finance Resource Centre from the grant received from State Bank of Pakistan (SBP). The terms of references / rules and regulations of the Endowment fund are being formulated.

3.16 Retirement benefits

All the employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and is not charged to the Institute.

4. FINANCIAL RISK MANAGEMENT

The Institute has exposure to the following risks from its use of financial instruments:

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk.

This note presents information about the Institute's exposure to each of the above risks, the Institute's objectives, policies and processes for measuring and managing risks, and the Institute's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Institute's risk management framework. The Board has delegated the responsibility for developing and monitoring the Institute's risk management policies to its management. The management reports regularly to the Board of Directors on its activities. The Institute's risk management policies are established to identify and analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The management monitors compliance with the Institute's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

(a) Credit risk

Credit risk is the risk of financial loss to the Institute if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Institute's receivables against training programs and investment securities.

(i) Receivable against training programs

The Institute's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Since the majority of the customers are either commercial banks and government owned entities including the Parent entity and its subsidiary, the Institute is less likely to be exposed to the credit risk. The Institute also provides trainings to other central banks which are conducted in coordination with Government of Pakistan and has no history of significant default risk.

(ii) Investments

The Institute limits its exposure to credit risk by only investing in Government Treasury Bills. This investment is in Subsidiary General Ledger Account (SGLA) maintained by the State Bank of Pakistan-Banking Services Corporation, Karachi. The Institute's management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations as they fall due. The Institute believes that it is not exposed to any significant level of liquidity risk.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Institute's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

The Institute is not exposed to currency risk

(ii) Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Institute is not exposed to Interest rate risk.

(iii) Other market price risk

The primary goal of the Institute's investment strategy is to maximize investment returns on surplus funds. The Institute adopts a policy of ensuring minimize its price risk by investing in fixed rate investments like Government Treasury Bills.

5. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Electronic data processing equipment	Office equipment	Vehicles	Total
	----- Rupees -----				
Cost					
Balance as at 01 July 2010	17,399,900	9,189,340	33,954,387	12,905,504	73,449,131
Additions during the year	1,939,101	-	6,725,341	-	8,664,442
Transfer in during the year	-	4,721,540	-	2,765,600	7,487,140
Disposals during the year	(894,170)	-	(298,842)	-	(1,193,012)
Balance as at 30 June 2011	18,444,831	13,910,880	40,380,886	15,671,104	88,407,701
Balance as at 01 July 2011	18,444,831	13,910,880	40,380,886	15,671,104	88,407,701
Additions during the year	75,000	-	909,240	15,758,964	16,743,204
Transfer in during the year	-	3,841,238	-	-	3,841,238
Disposals during the year	(78,239)	-	-	(2,319,504)	(2,397,743)
Balance as at 30 June 2012	18,441,592	17,752,118	41,290,126	29,110,564	106,594,400
Allowance for depreciation					
Balance as on 01 July 2010	10,807,787	6,032,599	30,646,681	6,420,487	53,907,554
Depreciation charge for the year	1,087,688	1,989,006	827,305	2,218,720	6,122,719
Transfer in during the year	-	1,128,505	-	350,933	1,479,438
Disposals during the year	(858,843)	-	(294,272)	-	(1,153,115)
Balance as at 30 June 2011	11,036,632	9,150,110	31,179,714	8,990,140	60,356,596
Balance as on 01 July 2011	11,036,632	9,150,110	31,179,714	8,990,140	60,356,596
Depreciation charge for the year	1,216,972	3,300,119	2,043,184	3,254,121	9,814,396
Transfer in during the year	-	1,832,631	-	-	1,832,631
Disposals during the year	(78,209)	-	-	(2,319,464)	(2,397,673)
Balance as at 30 June 2012	12,175,395	14,282,860	33,222,898	9,924,797	69,605,950
Carrying amounts - 2012	6,266,197	3,469,258	8,067,228	19,185,767	36,988,450
Carrying amounts - 2011	7,408,199	4,760,770	9,201,172	6,680,964	28,051,105
Rates of depreciation	10%	33.33%	20%	20 - 25%	

5.1 Land and buildings in use of the Institute is owned by State Bank of Pakistan. No rent for its use has been charged by State Bank of Pakistan to

5.2 The depreciation charge for the year has been allocated to administrative and general expenses - (Refer note 17).

	Note	2012 Rupees	2011 Rupees
6. RECEIVABLE AGAINST TRAINING PROGRAMS UNSECURED			
Associated undertaking			
SBP Banking Services Corporation		6,432,598	1,632,333
State Bank of Pakistan		7,617,216	4,148,652
		14,049,814	5,780,985
Others			
Considered good		16,873,817	4,414,778
Considered doubtful		2,510,140	1,553,150
		19,383,957	5,967,928
Provision for doubtful receivables		(2,510,140)	(1,553,150)
		16,873,817	4,414,778
		30,923,631	10,195,763
7. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advances to staff - unsecured, considered good		251,460	501,450
Prepayments		1,341,078	789,808
Advance to suppliers		589,199	-
		2,181,737	1,291,258
8. SHORT TERM INVESTMENTS			
Investment held to maturity			
Government Treasury Bills			
Cost	8.1	204,808,043	180,195,634
Accrued profits		9,375,861	8,995,893
		214,183,904	189,191,527
8.1	These investments are for a period of less than 12 months and are shown at amortized cost using effective rate of interest which ranges from 11.8693% to 13.8693% per annum (2011: 11.4389% to 13.8693% per annum).		
8.2	This includes investments made on behalf of Endowment fund but has not been specifically earmarked. Allocation of income earned is based on the proportion of assets invested on the date the Endowment fund was established.		
	Note	2012 Rupees	2011 Rupees
9. ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
Issued, subscribed and paid-up capital			
2,926,084 ordinary shares of Rs.10 each issued for cash	9.1	29,260,840	29,260,840
9.1	State Bank of Pakistan hold 2,926,083 (2011: 2,926,083) ordinary shares and Governor of State Bank of Pakistan holds 1 (2011: 1) share of the Institute as at the balance sheet date.		

	Note	2012 Rupees	2011 Rupees
10. ENDOWMENT FUND / CAPITAL GRANT			
Endowment fund			
Opening balance		-	-
Transferred from capital grant		59,429,900	-
Interest income on investments		7,850,745	-
Closing balance		<u>67,280,645</u>	<u>-</u>
Capital grant			
Opening balance		59,429,900	59,429,900
Transferred to endowment fund		<u>(59,429,900)</u>	<u>-</u>
Closing balance		<u>-</u>	<u>59,429,900</u>

This represented capital grant amounting to US dollar one million received by the Institute in January 2005 from State Bank of Pakistan - SBP for establishment of Rural Finance Resource Centre. The grant disbursed by SBP out of the proceeds of loan given to the Government of Pakistan (GoP) by Asian Development Bank vide loan agreement No. 1987-PAK dated 23 December 2002. During the year, the Institute has established an Endowment fund effective from July 1, 2011 for development and running the operations of Rural Finance Resource Centre and accordingly, the amount of Capital grant has been transferred to Endowment fund.

	Note	2012 Rupees	2011 Rupees
11. CREDITORS, ACCRUED EXPENSES AND OTHER PAYABLES			
Creditors		2,761,030	7,365,476
Traveling and training cost payable		376,500	110,000
Accrued expenses		5,067,510	3,994,880
Retention money/deposits		<u>5,546,685</u>	<u>388,263</u>
		<u>13,751,725</u>	<u>11,858,619</u>

12. DUE TO ASSOCIATED UNDERTAKING

State Bank of Pakistan	<u>151,566,510</u>	<u>104,996,873</u>
Opening balance	104,996,873	74,558,091
Received during the year	103,000,397	69,983,684
Deficit allocated	<u>(56,430,760)</u>	<u>(39,544,902)</u>
Closing balance	<u>151,566,510</u>	<u>104,996,873</u>

This represents the current account of the Institute with the State Bank of Pakistan ("Parent entity") to manage the financial affairs of the Institute.

13. COMMITMENTS

Commitments in respect of capital expenditure contracted for but not as yet incurred are amounting to Rs. 6.1 million (2011: Rs. Nil).

	Note	2012 Rupees	2011 Rupees
14. HOSTEL AND TRAINING HALLS INCOME			
Rental income		23,922,800	22,103,350
Service charges		2,016,868	1,973,722
Food and beverages		9,307,048	10,502,830
		<u>35,246,716</u>	<u>34,579,902</u>
15. TRAINING AND EDUCATION FEE			
International courses		19,100,179	14,119,298
Domestic courses		16,950,475	12,971,414
Islamic banking courses		8,021,675	8,775,000
		<u>44,072,329</u>	<u>35,865,712</u>
16. OTHER INCOME			
Interest on investments		17,141,632	21,583,925
Gain on disposal on vehicles and furniture and fixtures		3,624,730	410,375
Miscellaneous income		757,253	218,794
		<u>21,523,615</u>	<u>22,213,094</u>
17. OPERATING, ADMINISTRATIVE AND GENERAL EXPENSES			
Salaries, wages and other benefits		66,327,406	56,469,888
Training costs		14,596,035	9,545,569
Repairs and maintenance		9,683,925	10,929,870
Lodging, catering and allied services		15,871,900	14,391,112
Traveling and conveyance		6,275,527	4,840,527
Printing and stationery		2,819,590	2,369,432
Medical		1,093,296	2,370,074
Electricity, gas and water		21,734,051	15,896,370
Telephone and fax		964,197	927,659
Vehicles running and maintenance		1,725,612	1,117,148
General consumables		448,505	639,995
Security charges		1,348,675	1,185,600
Insurance		1,345,255	608,842
Newspapers, books and periodicals		96,480	217,136
Postage and courier		210,670	151,115
Entertainment		487,633	410,052
Auditors' remuneration		150,000	150,000
Rent, rates and taxes		721,000	665,000
Assets written off	5	-	39,897
Legal and professional		60,510	66,305
Depreciation	5.2	9,814,396	6,122,719
Provision for doubtful receivables		956,990	1,553,150
Other		541,767	229,730
		<u>157,273,420</u>	<u>130,897,190</u>

	Note	2012 Rupees	2011 Rupees
18. TAXATION			
Current		-	926,587
Prior		-	379,833
		<u>-</u>	<u>1,306,420</u>

The income of the Institute is exempt from tax under Income Tax Ordinance 2001. During the year the Institute has obtained an exemption certificate from taxation authorities in order to avoid application of section 113 of the said Ordinance.

19. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

19.1 Credit risk

Exposure to credit risk

The carrying amount of following financial assets represents the maximum credit exposure.

	2012 Rupees	2011 Rupees
Deposit	953,497	401,400
Receivable against training programs	30,923,631	10,195,763
Advances, short term deposits and other receivables	840,659	501,450
Short term investments	214,183,904	189,191,527
	<u>246,901,691</u>	<u>200,290,140</u>

The receivable against training programs includes Rs. 14 million (2011: Rs. 5.8 million) due from the Parent entity and its subsidiary which are not significantly exposed to credit risk.

	2012 Rupees	2011 Rupees
19.2 Impairment losses		

(a) The maximum exposure to credit risk for receivable against training programs at the balance sheet date by

Domestic	22,549,206	10,195,763
Other regions	8,374,425	-
	<u>30,923,631</u>	<u>10,195,763</u>

(b) The aging of receivable against training programs at the balance sheet date was:

	2012		2011	
	----- Rupees -----			
	Gross	Provision	Gross	Provision
Not past due	3,092,359	-	-	-
Past due 0-30 days	6,941,006	-	1,794,440	-
Past due 31-90 days	6,048,529	-	1,697,375	-
Past due 90-180 days	186,180	-	66,000	-
Past due 180-365 days	552,870	-	33,700	-
More than one year	2,568,013	2,510,140	2,381,383	1,553,150
	<u>19,388,957</u>	<u>2,510,140</u>	<u>5,972,898</u>	<u>1,553,150</u>

Based on historical record, the Institute believes that no additional impairment allowance is necessary in respect of receivable against training programs past due more than one year.

19.3 Liquidity risk

The following analysis shows the Institute's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Carrying amount Rupees	Total Rupees	Contractual cash flows-----			
			6 months or less Rupees	6 to 12 months Rupees	1 to 5 years Rupees	More than 5 years Rupees
30 June 2012						
Trade and other payables	13,751,725	13,751,725	8,205,040	5,546,685	-	-
Due to associated undertaking	151,566,510	151,566,510	75,783,255	75,783,255	-	-
	<u>165,318,235</u>	<u>165,318,235</u>	<u>83,988,295</u>	<u>81,329,940</u>	<u>-</u>	<u>-</u>
30 June 2011						
Trade and other payables	11,858,619	11,858,619	11,858,619	-	-	-
Due to associated undertaking	104,996,873	104,996,873	52,498,437	52,498,437	-	-
	<u>116,855,492</u>	<u>116,855,492</u>	<u>64,357,056</u>	<u>52,498,437</u>	<u>-</u>	<u>-</u>

19.4 Market risk

The Institute is not exposed to any significant level of market risk.

19.5 Fair value of financial assets and liabilities

- (a) Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction other than in a forced or liquidation sale.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

(b) *Fair value estimation*

The Institute has adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This amendment requires fair value measurement disclosures using following three level fair value hierarchy that reflects the significance of the inputs used in measuring fair value of financial instruments

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Institute does not have investment in any of the above categories.

20. CAPITAL MANAGEMENT

The Institute's objective when managing capital, is to safeguard the Institute's ability to continue as a going concern and maintain a strong capital base to support the sustained development of its business activities. There were no changes to Institute's approach to capital management during the year and the Institute is not subject to externally imposed capital requirements. Further, the parent's support is available to continue its operations.

21. TRANSACTIONS WITH RELATED PARTIES

The Institute is a wholly owned subsidiary of State Bank of Pakistan ("Parent entity"); therefore all subsidiaries and associated undertakings of State Bank of Pakistan are the related parties of the Institute. Other related parties comprise of directors and key management personnel and entities over which the directors are able to exercise significant influence.

All transactions are entered into by the State Bank of Pakistan on behalf of the Institute. Transactions with other related parties, if any, are not disclosed as the management is of the opinion that it is impracticable to disclose such transactions due to the nature of the Institute's operations.

Balances with related parties including remuneration and benefits to key management personnel and Chief Executive Officer under the terms of their employment are as follows:

	2012 Rupees	2011 Rupees
Parent Entity - State Bank of Pakistan		
Balances at the year end		
Short term investments	214,183,904	189,191,527
Receivable against training programs	7,617,216	4,148,652
Due to the Parent entity	151,566,510	104,996,873
Transactions during the year		
Investments purchased / matured and re-invested	204,808,043	176,503,840
Value of assets transferred at net book value	2,008,607	6,007,702
Allocation of deficit	56,430,760	39,544,902
Associated undertaking - SBP - Banking Services Corporation		
Balances at the year end		
Receivable against training programs	6,432,598	1,632,333
Transactions during the year		
Revenue charged to SBP Banking Services Corporation	16,157,095	57,034,134
Receipts from SBP Banking Services Corporation	11,356,830	60,753,132
Remuneration to Chief Executive Officer and Key Management Personnel		
Transactions during the year		
Salaries, wages and other benefits to:		
- Chief executive officer	11,134,103	8,884,793
- Key management personnel	24,125,610	24,172,154
- No. of persons	10	14

All the employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and is not charged to the Institute.

22. GENERAL

Figures have been rounded off to the nearest rupee.

23. DATE OF APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on April 09, 2013 by the board of directors.

MANAGING DIRECTOR

DIRECTOR

16 Statement of Impact of IAS-39 on SBP Financial Statements FY12

STATE BANK OF PAKISTAN STATEMENT OF IMPACT OF IAS 39 ON CONSOLIDATED FINANCIAL POSITION AS AT JUNE 30, 2012

Note	Under existing framework	Impact of application of IAS -39		After application of IAS-39
		Reclassifications	Remeasurements	
		(Rs. in '000)		
ASSETS				
Gold reserves held by the Bank	313,077,419	-	-	313,077,419
Local currency - coins	1,814,196	-	-	1,814,196
Foreign currency reserves	1,038,341,770	527,207	-	1,038,868,977
Earmarked foreign currency balances	4,994,808	-	-	4,994,808
Special Drawing Rights of the International Monetary Fund (IMF)	91,334,177	-	-	91,334,177
Reserve tranche with the IMF under quota arrangements	17,104	-	-	17,104
Securities purchased under agreements to resale	112,898,648	-	-	112,898,648
Current accounts of Governments	12,744,407	350,073	-	13,094,480
Investments	3 1,827,251,187	41,100	125,361,020	1,952,653,307
Loans, advances, bills of exchange and commercial papers	4 340,046,025	2,525,730	(75,793,585)	266,778,170
Assets held with the Reserve Bank of India	5 6,311,529	(6,311,529)	-	-
Balances due from Governments of India and Bangladesh (Former East Pakistan)	6 6,797,433	(6,797,433)	-	-
Property and equipment	23,450,893	-	-	23,450,893
Intangible assets	30,882	-	-	30,882
Other assets	3 & 4 6,024,442	(4,170,337)	-	1,854,105
Total assets	3,785,134,920	(13,835,189)	49,567,435	3,820,867,166
LIABILITIES				
Bank notes in circulation	1,776,962,388	-	-	1,776,962,388
Bills payable	587,542	-	-	587,542
Current accounts of the Governments	148,815,907	-	-	148,815,907
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	153,534,625	270,679	-	153,805,304
Payable to the International Monetary Fund	656,185,305	1,394,116	-	657,579,421
Other liabilities	7 107,523,858	(15,499,984)	-	92,023,874
Deferred liability - staff retirement benefits	21,457,079	-	-	21,457,079
Endowment fund	67,281	-	-	67,281
Total liabilities	3,273,546,840	(13,835,189)	-	3,259,711,651
NET ASSETS	511,588,080	-	49,567,435	561,155,515
REPRESENTED BY				
Share capital	100,000	-	-	100,000
Reserves	4.2 175,944,238	-	(13,000,000)	162,944,238
Unappropriated profit	4.2 -	-	(62,793,585)	(62,793,585)
Unrealised appreciation on gold reserves	309,565,438	-	-	309,565,438
Surplus on revaluation of property and equipment	25,978,404	-	-	25,978,404
Surplus on revaluation of securities - AFS	3 -	-	125,361,020	125,361,020
TOTAL EQUITY	511,588,080	-	49,567,435	561,155,515

The annexed notes from 1 to 9 form an integral part of these statements.

Yaseen Anwar
Governor

Kazi Abdul Muktadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

"This statement gives impact of IAS 39 on the Consolidated financial statements for the FY12 of the Bank. This statement was also examined by the Bank's auditors, M/s Ernst & Young Ford Rhodes Sidat Hyder and M/s KPMG Taseer Hadi & Co., and an exclusive opinion, for the use of the Bank, Federal Government and Multilateral Financial Organizations has been rendered by them and is available in Bank's record."

STATE BANK OF PAKISTAN
STATEMENT OF IMPACT OF IAS 39 ON CONSOLIDATED FINANCIAL PERFORMANCE
FOR THE YEAR ENDED JUNE 30, 2012

	Under existing Framework	Impact of application of IAS -39		After application of IAS-39
		Reclassifications	Remeasurements	
		(Rs. in '000)		
Discount, interest / mark-up and / or return earned	236,276,844	-	-	236,276,844
Less: Interest / mark-up expense	(11,338,230)	-	-	(11,338,230)
	224,938,614	-	-	224,938,614
Commission income	1,952,783	-	-	1,952,783
Exchange gain - net	42,827,638	(42,827,638)	-	-
Net foreign exchange gain	-	42,838,099	-	42,838,099
Net (loss)/gain on financial instruments at fair value through profit and loss account	-	7,743,084	-	7,743,084
Dividend income	15,697,821	-	-	15,697,821
Other operating income - net	9,033,651	(7,753,545)	-	1,280,106
Other charges net	(123,761)	-	-	(123,761)
Total operating income	294,326,746	-	-	294,326,746
Less: Direct operating expenses				
Bank notes printing charges	5,689,829	-	-	5,689,829
Agency commission	5,953,743	-	-	5,953,743
General, administrative and other expenses	20,159,546	-	-	20,159,546
Provision for / (reversal of provision) against:				-
- loans, advances and other assets	-	-	1,553,300	1,553,300
- claims	1,885,143	-	-	1,885,143
- diminution in value of investments	(59,212)	-	-	(59,212)
- other doubtful assets	(102,415)	-	-	(102,415)
	1,723,516	-	-	3,276,816
	-	-	-	-
PROFIT FOR THE YEAR	260,800,112	-	1,553,300	259,246,812

The annexed notes from 1 to 9 form an integral part of these statements.

Yaseen Anwar
Governor

Kazi Abdul Muktadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

“This statement gives impact of IAS 39 on the Consolidated financial statements for the FY12 of the Bank. This statement was also examined by the Bank’s auditors, M/s Ernst & Young Ford Rhodes Sidat Hyder and M/s KPMG Taseer Hadi & Co., and an exclusive opinion, for the use of the Bank, Federal Government and Multilateral Financial Organizations has been rendered by them and is available in Bank’s record.”

STATE BANK OF PAKISTAN
NOTES TO THE STATEMENTS OF IMPACT OF IAS 39 ON CONSOLIDATED
FINANCIAL POSITION AND CONSOLIDATED FINANCIAL PERFORMANCE
FOR THE YEAR ENDED JUNE 30, 2012

1. BASIS OF PREPARATION

Statements of Impact of IAS 39: Financial Instruments: Recognition and Measurement (IAS 39) on the consolidated financial position and the consolidated financial performance (the Statements) of State Bank of Pakistan (the Bank) and its wholly owned subsidiaries SBP Banking Services Corporation (the Corporation) and National Institute of Banking and Finance (Guarantee) Limited (the Institute) have been prepared to analyse the impact of the application of IAS 39 on carrying values of asset, liabilities, equity and reserves of the Group as at 30 June 2012 and profit and loss of the Group for the year then ended as reported in consolidated financial statements. The figures in consolidated financial statements are reported in accordance with accounting framework adopted by the Central Board of the Bank i.e. IAS-1 to IAS-38 and policies for bank notes and coins, investments, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in notes 4.2, 4.3, 4.6 and 4.17 respectively to the consolidated financial statements. Separate audit opinion is issued on consolidated financial statements of the Group for the year ended 30 June 2012. These Statements are not complete financial statements and incorporate only the adjustments to analyse the impact of the application of IAS 39 on the financial position and performance of the Group and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended June 30, 2012.

2. USE OF ESTIMATES AND JUDGEMENTS

The preparation of these statements to appropriately reflect the impact of the application of IAS 39 requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of the application of IAS 39. Estimates and judgments are continually evaluated and are based on historical events.

3. INVESTMENTS

3.1 Remeasurement

	2012		
	Cost	Fair Value	Surplus on revaluation
Available for sale investments			
Investments in Shares of Banks and other financial institutions	-----	(Rs. in '000)	-----
- Listed			
National Bank of Pakistan	1,100,807	60,571,550	59,470,743
United Bank Limited	5,919,530	18,698,911	12,779,381
Allied Bank Limited	350,638	6,114,070	5,763,432
Habib Bank Limited	8,192,814	55,540,278	47,347,464
	<u>15,563,789</u>	<u>140,924,809</u>	<u>125,361,020</u>

This represents the remeasurement to fair value of the Group's strategic investments in listed shares at their quoted prices as at June 30, 2012. The remeasurement is the difference between the historical cost at which these investments are carried in the audited consolidated financial statements and fair values, as determined from the rates quoted at the Karachi Stock Exchange (KSE), of these shares amounting to Rs. 125,361 million (2011: Rs. 120,459 million). The resulting unrealised gain on remeasurement is taken to equity.

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

4.1 Reclassification

This includes reclassification of accrued interest amounting to Rs. 3,027 million on loans to Governments, Government owned / controlled financial institutions, private sector financial institutions and employees from "Other Assets - accrued interest / mark-up, discount and return" to bring these loan at amortised cost.

The reclassification also includes provision for impairment of loans and advances to financial institutions in Bangladesh (former East Pakistan). Provision for these loans amounting to Rs. 501.749 million (2011: Rs. 565.218 million) is included in Other Liabilities - Provision for other doubtful assets in the audited consolidated financial statements.

4.2 Remeasurement

This represents provision for impairment on loans given by the Bank to the agriculture, industrial , export and housing sectors amounting to Rs. 75,794 million (2011: Rs. 74,240 million). Consequent effect of these provisions include charge in profit and loss account amounting to Rs. 75,794 million (2011: Rs. 74,240 million) uptill 30 June 2012 and reversal of appropriation from unappropriated profit to reserve fund amounting to Rs. 13,000 million (2011: Rs. 13,000 million).

5. ASSETS HELD WITH THE RESERVE BANK OF INDIA

This reclassification represents netting of Assets Held with Reserve Bank of India (RBI) amounting to Rs. 6,311 million (2011: Rs. 1,308 million) with related provision for impairment which is included in Other Liabilities - Provision for doubtful assets in the consolidated financial statements. The realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

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

This reclassification represents netting of Balances due from Governments of India and Bangladesh amounting to Rs. 6,797 million (2011: Rs. 6,313 million) with related provision for impairment which is included in Provision for doubtful assets, Overdue markup and return and Others reported under Other liabilities in the consolidated financial statements. The realisability of these assets is subject to final settlement between the Governments of Pakistan, India and Bangladesh.

7. OTHER LIABILITIES

The reclassification mainly represents the provision for impairment and suspended markup against the assets held with Reserve Bank of India, balances due from the Governments of India and Bangladesh and loans and advances to financial institutions in Bangladesh amounting to Rs. 13,835 million (2011: Rs. 8,518 million) which have been reclassified to their respective accounts (Refer Notes 4 and 5).

8. DATE OF AUTHORISATION

These statements were authorised for issue on December 14, 2012 by the Central Board of the Bank.

9. GENERAL

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

Yaseen Anwar
Governor

Kazi Abdul Muktadir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

Annexure

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A Chronology of Policy Announcements

A-1 Banking Policy & Regulation Group

Date of Announcement	Circular/Circular Letter No	Policy Decision		
Oct 21, 2011	BSD Circular No. 1	Amendments in Prudential Regulations– Classification and Provisioning for Assets The instructions on provisioning against classified assets were revised to enhance the benefit of Forced Sale Value (FSV) of eligible collaterals / securities held by banks/DFIs against Non Performing Loans (NPLs) from the date of classification for calculating provisioning requirement with effect from 30-09-2011 as under:		
		<table><tr><th>Category of Asset</th><th>Benefit of FSV allowed from the date of classification</th></tr></table>	Category of Asset	Benefit of FSV allowed from the date of classification
		Category of Asset	Benefit of FSV allowed from the date of classification	
		a. Prudential Regulation R-8 for Corporate/Commercial Banking and Prudential Regulation R-11 for SME Financing:		
		Mortgaged residential, commercial, and industrial properties (land & building only)	<ul style="list-style-type: none">• 75% for first year• 60% for second year• 45% for third year• 30% for fourth year, and• 20% for fifth year	
		Plant & Machinery under charge	<ul style="list-style-type: none">• 30% for first year• 20% for second year, and• 10% for third year	
		Pledged stock	<ul style="list-style-type: none">• 40% for three years	
		b. Prudential Regulations R-22 for Consumer Financing:		
		Mortgaged residential property	<ul style="list-style-type: none">• 75% for first and second year• 50% for third and fourth year, and• 30% for fifth year	
		i). Further the condition that full-scope valuation shall not be more than one year old at the time of classification was also waived.		
Accordingly, the following Prudential Regulations were amended : a. R-8 (Para 4) and Annexure IV and V of Prudential Regulations for Corporate and				

		<p>Commercial Banking;</p> <p>b. R-11 (Para 4) and Annexure III and IV of the Prudential Regulations for SME Financing; and</p> <p>c. R-22 of the Prudential Regulations for Consumer Financing (Housing Finance).</p> <p>While allowing Banks/DFIs to avail the benefit of FSV for provisioning, they were barred from using profit arising from FSV benefit for the payment of cash or stock dividend.</p>
May 11, 2012	BSD Circular No. 1	<p>Guidelines on Stress Testing</p> <p>State Bank, in pursuance of its goal to further strengthen the risk management capacity of banks and DFIs, has revised the existing Guidelines on Stress Testing in conformity with international standards and improved capacity of banks/DFIs to perform such analysis. The revised guidelines among other things delineates the mandatory set of stress tests for credit, market and liquidity risk factors using sensitivity analysis, and provides guidance on optional stress tests for operational risk, Islamic banking, and advanced approaches, including scenario analysis, and reverse stress tests. All banks and DFIs are required to submit the results of the stress tests to State Bank of Pakistan on quarterly basis, starting from quarter ending June 30, 2012.</p>
Aug 29, 2011	BPRD Circular Letter No. 20	<p>Opening of Accounts on the basis of NADRA Receipt/Token in case of Expired CNICs</p> <p>In order to facilitate the general public, it was decided to allow opening of accounts on the basis of attested copies of NADRA receipt/token and expired CNIC subject to compliance with all other requirements of account opening under Prudential Regulation M-1.</p>
Oct 19, 2011	BPRD Circular No. 12	<p>Service charges on account of handling/sorting of cash deposit or withdrawal at counters of Bank Branches</p> <p>In order to facilitate the customers it was decided that the banks shall not recover any charges on account of cash handling/sorting at the time of acceptance of cash at the counters from their depositors. Further, the banks will neither refuse such services nor recover service charges, on any other pretext.</p>

Jan 6, 2012	BPRD Circular Letter No. 1	Prudential Regulations M-1 to M-5 Banks/ DFIs were advised not to provide any banking service to proscribed entities and persons or to those who are associated with such entities and persons, whether under the proscribed name or with a different name. Banks/DFIs should monitor their relationships on a continuous basis.
Mar 12, 2012	BPRD Circular Letter No. 4	Prudential Regulations M-1 to M-5 Banks/DFIs were advised to conduct enhanced due diligence while establishing relationship with NGOs, NPOs (Non-for-Profit Organization) and Charities to ensure that these accounts are used for legitimate purposes and the transactions are commensurate with the stated objectives and purposes. The salient feature were as under: <ul style="list-style-type: none"> • Accounts should be opened in the name of relevant NGO/NPO • The individuals who are authorized to operate these accounts and members of their governing body should also be subject to comprehensive Customer Due Diligence (CDD). • In case of advertisements through newspapers etc, especially when bank account number is mentioned for donations, banks/DFIs will ensure that the title of the account is the same as that of the entity soliciting donations. • In case of any difference, immediate caution should be marked on such accounts and the matter should be considered for filing Suspicious Transaction Report (STR). • Personal accounts shall not be allowed to be used for charity purposes/collection of donations.
Mar 21, 2012	BPRD Circular Letter No. 06	Prudential Regulations G-1 for Corporate/Commercial Banking The definition of Executive Director was amended to mean “a paid employee or executive in the concerned Bank/DFI who is also a member of the Board of Directors.”

Apr 13, 2012	BPRD Circular No. 01	Minimum Rate of Return on Saving Deposits It was decided that the minimum profit rate would be 6.0% p.a. on all Pak Rupee saving deposits with effect from May 01, 2012 instead of 5% conveyed earlier vide BPRD Circular No. 7 dated May 30, 2008.
May 14, 2012	BPRD Circular Letter No. 9	Regulation R-7 of the Prudential Regulations for Corporate/Commercial Banking With an aim to provide flexibility to the banks/DFIs, following changes were made with respect to paragraph 2 of Regulation R-7 of the PR for Corporate/Commercial Banking: <ul style="list-style-type: none"> Existing limit of US\$ 250,000, for issuance of unsecured guarantees by the banks/DFIs in Pakistan against the back to back/counter-guarantees of the banks situated in foreign countries not meeting the prescribed rating of at least 'A', was enhanced to US\$ 500,000 if tenor of such guarantees is up to one year. It was decided that for the back to back/counter-guarantee issuing banks situated in foreign countries, National Scale Rating of at least 'A' or equivalent shall also be acceptable provided the guarantee issuing bank in Pakistan is comfortable with it.
Jun 20, 2012	BPRD Circular Letter No. 12	Prudential Regulations for Consumer Financing It was decided to allow higher clean limits on account of credit cards for prime customers of the banks/DFIs upto Rs. 5,000,000 (aggregate from all banks/DFIs) subject to the condition that the aggregate clean limit assigned to one prime customer on account of personal loan should not exceed Rs. 2,000,000. However, aggregate exposure on prime customers should not exceed 20% of the total exposure of the respective portfolio i.e. 80% exposure on account of credit cards and personal loans (separately) should comply with the limits prescribed for regular customers.
Dec 29, 2011 Feb 24, Mar 28, May 30 and Jun 26, 2012	BPRD Circular Letters No. 27, of 2011 & No. 3, 7, 10, 14 of	Opening of Branches/Offices For Facilitation of Tax Collection In order to facilitate Federal Board of Revenue (FBR) for collection of Taxes banks were directed to open

	2012	dedicated branches for extended hours for collection of Taxes.
Jul 8, 2012	IBD Circular No.1 of 2011	<p>Collection of Utility Bills After Due Date by Islamic Banking Institutions (IBIs)</p> <p>The instructions to facilitate the payment of utility bills are in line with the suo moto order No. 4 of 2006 issued by the honourable Supreme Court. However, it has been observed that some Islamic Banking Institutions (IBIs) refuse to accept payment of bills after the due date as the late payment includes a penalty which in their opinion is Riba and thus cannot be collected by them.</p> <p>The matter was discussed with the Shariah Advisors of all IBIs at the Shariah Advisors' Forum as well as the SBP Shariah Board. The Shariah Scholars opined that keeping in view the larger public interest and convenience, the IBIs can collect /accept utility bills after the due date with 'Karahiat' (كراهيات) (displeasure).</p> <p>IBIs are therefore advised to strictly comply with SBP's prevalent instructions on collection of utility bills within and after the due date at their branches.</p>
Feb 06, 2012	IBD Circular No.1 of 2012	<p>Invoice of Murabaha Transactions</p> <p>Considering the practical difficulties of IBIs in obtaining invoices in Murabaha transactions particularly in areas like purchase of phutti, raw hides, milk, sugarcane etc. the instructions on obtaining invoices was reviewed and amended:</p> <ol style="list-style-type: none"> 1. The invoice issued by the supplier shall be in the name of Bank- Account Client e.g. "1st Islamic Bank – ABC Company". In case where obtaining invoice in the name of IBI is not possible, the invoice in the name of client may also be acceptable, subject to specific approval of the Shariah Advisor, for all such transactions. 2. In transaction where obtaining formal invoice either in the name of bank or the client is not possible, then the document or combination of documents like Truck Receipts, Delivery Note, Goods Received Notes, Physical Inspection Report, Kachi Parchi, Inward Gate Pass etc having particulars (i.e. names of buyer & seller, date of purchase/delivery, description of goods, quantity and purchase amount etc.) may be accepted in lieu of invoice with the approval of

		<p>Shariah Advisor.</p> <ol style="list-style-type: none"> 3. The Shariah Advisor while approving any transactions as mentioned in Para (i), (ii) above, shall document the reasons/industry norms etc. due to which obtaining invoice and/or making payment directly to the supplier is not possible. He shall also review and approve the process flows etc to be adopted by the client/IBI to execute such transactions. The Shariah Advisors shall also, either themselves or through suitably trained staff of the IBIs, make onsite verifications of such transactions on sample basis. 4. The payment for Murabaha transactions shall either be made directly to supplier or credited in an escrow account by the IBIs. However, in cases where direct payment to supplier is not possible due to genuine reasons, the payment to the supplier may be made through the agent subject to explicitly recording the reasons and approval of process flow etc of all such transactions by the Shariah Advisor.
May 29, 2012	IBD Circular No. 02 of 2012	<p>Accounting Treatment of Credit Murabaha</p> <p>In order to bring standardization in recording and reporting of credit Murabaha transactions, the following instructions are being issued which are in line with the spirit of IFAS-1:</p> <ol style="list-style-type: none"> i) The cases wherein IBI purchases the goods on supplier's credit and sells the same on credit under Murabaha, the transaction shall be booked as on-balance sheet item by appropriately recording 'Payable to 'supplier' and 'Receivable from customers against Murabaha' for the said credit purchase and credit sale respectively. ii) The CRR/SLR and capital adequacy requirements on the said liability and financing respectively shall be applicable as per prevailing SBP instructions, issued from time to time. iii) Profit on the said transaction will be recognized as per the provisions of IFAS-1.

A-2 Development Finance Group

Date of Announcement	Circular No.	Policy decision
Oct 12, 2011	AC&MFD Circular No. 02	<p>Guidelines for Efficient Water Management Financing</p> <p>Climate changes, scarcity of usable canal water availability, wastage of water and depleting underground water tables are the challenges in the growth of agriculture in the country. Adoption of modern water management techniques by the farmers is necessary to ensure optimal water utilization for soil fertility and better yield.</p> <p>To ensure availability of credit to the farmers for the purchase and maintenance of such systems and techniques, SBP in consultation with stakeholders developed guidelines for efficient water management financing. The guidelines are aimed at facilitating banks in developing specific products for the purpose.</p> <p>Banks may adopt the guidelines in the present form or with some adjustments to suit their organizational & operational needs and market characteristics, subject to compliance with SBP's regulations for agriculture financing.</p>
Oct 18, 2011	AC&MFD Circular No. 03	<p>Islamic Agricultural Financing for Farm/Crop Production Purposes under Salam</p> <p>While reviewing the implementation status of SBP guidelines on Islamic financing for agriculture issued vide ACD Circular No. 1 dated 3rd February, 2009, it has been observed that difficulties are being faced by IBIs in development of specific products for farm and non-farm sector activities.</p> <p>Therefore, to further facilitate IBIs and to improve the access of agricultural Islamic financing to the farming community, model product based on 'Salam' was developed in consultation with stakeholders. The product has covered the Sharia related aspects as well as business cycle and financing requirements</p>

		<p>of farm/ crop production activities. The product is supported by practical examples and process flow of the Salam transaction. IBIs may adopt the model product in the present form or with some adjustments to suit their organizational & operational needs and market characteristics, subject to compliance with SBP regulations and approval from their Shariah Advisor.</p> <p>Further, IBIs are advised to ensure that their relevant staff possesses the requisite knowledge and expertise about the product. They should also launch awareness campaigns through electronics & print media, seminars, workshops, etc to ensure that their clients/ farmers are fully educated about the product and familiar with the requirements like documentation, loan limit, process flow/ procedure, etc.</p>
Mar 16, 2012	AC&MFD Circular No. 02	<p>Prudential Regulations for Microfinance Banks Revision in PR-10 & PR-11</p> <p>With a view to improve access to finance for microenterprises, it was decided to amend Prudential Regulations No. 10 & 11 to allow MFBs to lend to microenterprises any amount upto Rs. 500,000/- subject to the following conditions:</p> <ol style="list-style-type: none"> For the purpose of these regulations, the term ‘microenterprise’ shall mean projects or businesses in trading/manufacturing/services/agriculture sectors that lead to livelihood improvement and income generation. Moreover, these projects/businesses are undertaken by micro-entrepreneurs who are either self-employed or employ few individuals not exceeding 10 (excluding seasonal labor). MFBs shall restrict their exposure under microenterprise lending at maximum 40% of their gross loan portfolio. The aggregate exposure of a borrower who is eligible to avail both general and micro-enterprise loan shall not

		<p>exceed Rs. 500,000/-</p> <p>MFBs shall apply to Director-AC&MFD for seeking approval of SBP before undertaking 'microenterprise' lending. SBP shall grant approval based on satisfactory assessment of the Capital position and readiness level of the applicant MFB.</p> <p>In addition to the above, MFBs shall henceforth obtain CIB reports for all types of credit facilities on mandatory basis.</p> <p>MFBs shall ensure meticulous compliance of the above instructions and non-compliance shall be dealt with in accordance with the provisions of the Microfinance Institutions Ordinance, 2001.</p>
Jun 21, 2012	AC&MFD Circular No. 03	<p>Microfinance Credit Guarantee Facility (MCGF)</p> <p>Reference to MFD Circular No. 01 of 2010 dated April 01, 2010 and other instructions issued from time to time on the subject.</p> <p>With a view to further ease the funding constraints of the microfinance sector, SBP has henceforth decided to allow the microfinance providers to mobilize funding from non-bank sources / capital market in addition to Banks and DFIs under MCGF.</p> <p>All Banks/DFIs/MFPs are advised to finalize their funding deals under MCGF and submit their cases to SBP BSC for issuance of subject Guarantee as per procedure envisaged in the guidelines attached herewith.</p>
Jul 01, 2011	IH&SMEFD Circular No. 06	<p>Rationalization of Rate under Long Term Financing Facility (LTFF) for Plant & Machinery</p> <p>SBP continued its strategy to rationalize mark-up rate of LTFF and mitigate market distortions caused by subsidized rate of financing. Therefore, effective from July 01, 2011 vide IH&SMEFD Circular No. 6 of 2011, SBP increased tenor wise rates of service charges by 1.5 % for Participating Financial</p>

		Institutions (PFIs)												
Jul 01, 2011	IH&SMEFD Circular No. 07	<p>Scheme for Financing Power Plants Using Renewable Energy-Re-fixation of Rates of Service Charges</p> <p>It was decided through IH&SMEFD Circular No. 7 of 2011, that effective July 01, 2010 the rates of service charges for banks/DFIs and rates for end users under the captioned Scheme shall be as under:</p> <table><tr><th>Tenor</th><th>Rate of Refinance</th><th>Banks’/ DFIs’ Spread</th><th>End User’s Rate</th></tr><tr><td>Up-to 5 years</td><td>10.10%</td><td>2.50%</td><td>12.60%</td></tr><tr><td>Over 5 years and upto 10 years</td><td>9.70%</td><td>3.00%</td><td>12.70%</td></tr></table>	Tenor	Rate of Refinance	Banks’/ DFIs’ Spread	End User’s Rate	Up-to 5 years	10.10%	2.50%	12.60%	Over 5 years and upto 10 years	9.70%	3.00%	12.70%
Tenor	Rate of Refinance	Banks’/ DFIs’ Spread	End User’s Rate											
Up-to 5 years	10.10%	2.50%	12.60%											
Over 5 years and upto 10 years	9.70%	3.00%	12.70%											
Jul 23, 2011	IH&SMEFD Circular No. 08	<p>SBP Allows Relaxations in EFS to Facilitate Exporters</p> <p>The State Bank of Pakistan (SBP) has allowed some relaxations in the Export Finance Scheme (EFS) for the benefit of exporters whose export proceeds are overdue. An exporter shall be eligible to avail financing under EFS Part-I and/or Part-II, if the total amount of overdue export bills at the time of availing the facility is not more than 5% of the previous year’s export performance, announced vide IH & SMEFD Circular No. 08 of July 23, 2011.</p> <p>In case the overdue export position of an exporter is greater than 5% of the previous year’s exports, the exporter will not be entitled to avail the EFS facility till such time that the overdue position is reduced to the 5% benchmark level. These instructions have been issued in order to streamline the procedure for availing finance under EFS by exporters who have overdue export proceeds and are effective from October 01, 2011.</p>												
Jul 25, 2011	IH&SMEFD Circular Letter	Fiscal Relief to Rehabilitate the Economic												

	No. 14	<p>Life in Khyber Pakhtunkhwa, FATA and PATA –Payment of Mark-up Rate Subsidy on Business Loans for the Period from 01-01-2011 to 30-06-2011</p> <p>On release of budgetary allocation by the Ministry of Finance on account of Mark Up Rate subsidy against outstanding loans of the borrowers of Textile sector and Other Eligible Sectors of Khyber Pakhtunkhwa, Federal and Provincial Administered Tribal Areas, SBP vide IH&SMEFD Circular Letters No. 14 dated July 25, 2011 advised Banks/DFIs to release 3rd installment of the subsidy under the Scheme for the period from 01-01-2011 to 30-06-2011. Accordingly, banks/DFIs/MFBs were advised to submit claims in favor of Textile Sector and Other Eligible Sectors on the prescribed form to SBP; BSC; Office up to August 31, 2011 keeping in view the terms & conditions of the Scheme</p>
Aug 03, 2011	IH&SMEFD Circular No. 09	<p>Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas-Debt Swap</p> <p>With a view to improve access to finance for SMEs and Farmers in the flood affected areas at cheaper rate SBP, vide IH&SMEFD Circular No.9 dated August 03, 2011 has decided to allow debt-swap facility to banks/DFIs against banks' short term outstanding loans of Rice Millers & Grain Traders disbursed from own sources since November 02, 2010 i.e. after issuance of SBP's above refinance Scheme. The debt-swap facility of refinance was valid up to September 15, 2011</p>
Nov 03, 2011	IH&SMEFD Circular Letter No. 15	<p>State Bank of Pakistan Streamlines Verification of Documents Under Export Finance Scheme.</p> <p>SBP vide IH& SMEFD Circular Letter No.15 of November 03, 2011 have issued revised procedure in order to streamline the monitoring process of on-site verification of relevant documents on the basis of which transfer of limit and performance is allowed from the SBP BSC office or bank to another SBP BSC office or banks.</p>
Dec 14, 2011	IH&SMEFD Circular Letter	Fiscal Relief to Rehabilitate the Economic

	No. 16	<p>Life in Khyber Pakhtunkhwa, FATA and PATA – Payment of Mark-up Rate Subsidy on Business Loans.</p> <p>To implement Prime Minister’s Fiscal Relief Package to rehabilitate the economic life in Khyber Pakhtunkhwa, FATA and PATA, State Bank of Pakistan announced release of 4th installment of mark-up rate subsidy on business loans vide IH&SMEFD Circular Letter No.16 of 2011.</p>
Jan 18, 2012	IH&SMEFD Circular Letter No. 01	<p>Scheme for Financing Power Plants Using Renewable Energy - Enhancement of Scope</p> <p>The State Bank of Pakistan has enhanced the scope of financing facility for establishment of new power projects using renewable energy with a view to promoting the use of renewable energy and meeting the growing electricity demand of the country. Therefore, banks /DFIs vide IH&SMEFD Circular Letter No.01 of January 18, 2012 has been advised to consider financing requests of the sponsors for setting up Power Projects up-to a maximum capacity of 20 MW in cases where only Biomass/Biogas is used as renewable energy source.</p> <p>Earlier under the Scheme, the financing facility was allowed for establishment of new Power Projects Using Renewable Energy with a capacity of up-to 10 MW.</p>
Feb 28, 2012	IH&SMEFD Circular Letter No. 02	<p>SBP Allows Banks to Write-off Outstanding Loans of Three More Districts Under Prime Minister’s Fiscal Relief Package</p> <p>The State Bank of Pakistan (SBP) has allowed banks/ development finance institutions (DFIs)/ microfinance banks (MFBs) to write-off the total outstanding loans as of December 31, 2009 of the borrowers of Lower Dir, Upper Dir, and Shangla Districts under the Prime Minister’s Fiscal Relief Package to Rehabilitate the Economic Life in Khyber Pakhtunkhwa, FATA and PATA vide IH&SMEFD Circular Letter No. 02 dated February 28, 2012.</p> <p>Banks, DFIs and MFBs shall bear the cost of</p>

		such write offs to the extent of amount held into provision against Non Performing Loans (NPLs) and interest in suspense account, while the rest of the cost will be paid by the Government of Pakistan. Banks/DFIs /MFBs may submit claims to the office of SBP-BSC (Bank), Peshawar on prescribed format duly audited and authenticated by their Internal Audit up-to April 10, 2012.
Mar 16, 2012	IH&SMEFD Circular Letter No. 04	<p>SBP Allows Financing to Dairy Sector Under LTFF</p> <p>The State Bank of Pakistan (SBP) vide IH&SMEFD Circular Letter No. 04 of March 16, 2012 has allowed banks/ Development Finance Institutions (DFIs) to provide financing to dairy sector under the Long Term Financing Facility (LTFF) for Plant & Machinery.</p> <p>Therefore, banks/DFIs can also provide financing facilities for new imported and locally manufactured plant, machinery & equipment to be used by the Export Oriented Projects for storage, chilling, processing and packaging of dairy products including machinery used in the conversion / preservation of milk into powdered form, keeping in view the terms and conditions of the subject facility.</p>
Jun 06, 2012	IH&SMEFD Circular Letter No. 05	<p>SBP Prescribes Standard Application Format for Refund of Fine Under the Export Finance Scheme</p> <p>With a view to bring more clarity and simplify the procedure of submission of refund of fine cases, SBP has prescribed a Standard Application Format for Refund of Fine under the Export Finance Scheme vides IH&SMEFD Circular Letter No.5 of June 06, 2012. This will not only save time required for examining refund cases but also reduce load of documents being submitted by banks to State Bank of Pakistan.</p>
Jun 06, 2012	IH&SMEFD Circular Letter No. 06	<p>SBP Extends Validity Period of Scheme for Financing Power Plants Using Renewable Energy</p> <p>SBP vide IH&SMEFD Circular Letter No.6 of</p>

		<p>June 06, 2012, has extended the validity period of Scheme for Financing Power Plants Using Renewable Energy for a further period of two years i.e. up to 30th June, 2014. Its validity was due to expire on 30th June, 2012. Now the financing facilities under this Scheme will be available for Letter of Credits (LCs) established for import / purchase of new plant, machinery & equipment up-to June 30, 2014.</p>
Jun 22, 2012	IH&SMEFD Circular Letter No. 09	<p>Payment of Claims of 2nd Installment of Export Finance Mark-Up Rate Facility For the Period from 01-03-2010 to 31-08-2010</p> <p>On budgetary allocation for FY 2011-12 by Ministry of Textile Industry, SBP announced to release Export Finance Mark up Rate Facility to the extent of 23% of total claims against the cases, which have been found in order and where 55% reimbursement has already been made to the banks under said Scheme. Banks were advised to pass this additional reimbursement to the concerned exporters immediately as the budgetary allocations for 2011-12 will expire on 30-06-2012.</p>
Jun 29, 2012	IH&SMEFD Circular No. 02	<p>SBP Allows Additional Two Months to Exporters for Matching Performance Requirement Under EFS</p> <p>SBP allowed an additional two months for the exporters having shortfall in required performance under Part-II of the Export Finance Scheme for the monitoring year of 2011-12. This decision has been taken to address exporters' problems of delay in meeting the export orders due to heavy shortage of power. This relaxation is only for the purpose of allowing extended period (i.e. till August 31, 2012) for matching performance requirement and exporters who will avail this facility would not be entitled to avail benefit of incentives-based rebate of mark up.</p>
Mar 01, 2012	IH&SMEFD Circular Letter No. 03	<p>SBP launched a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010, which allows banks to develop a portfolio of fresh borrowers who are creditworthy, but cannot fit into the usual credit parameters of banks, especially when collaterals are required. Based on the feedback</p>

		<p>of banks and target borrowers during the first year of implementation of the facility, the Scheme was reviewed and the revised Scheme was issued in February 2011. Under the revised Scheme, SBP shares 40% of credit losses of lending banks on their loans to Small and Rural Enterprises. Only fresh and collateral deficient borrowers are entertained under the Scheme. The position of utilization of limits expiring on December 2011 is highly encouraging and more than 50% of the allocated limits have been utilized by banks.</p> <p>As per the circular, the maximum tenor for loans to Small Enterprises has been extended from 3 years to 5 years.</p>
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A-3 Financial Market/Reserve Management Group

Date of announcement	Circular No.	Policy Decision
Dec 21, 2011	FE-06	<p>Forward Cover Facility against Imports:</p> <p>In order to streamline the instructions on the forward cover facility provided by Authorized Dealers against imports, the Authorized Dealers have been advised to ensure abinitio that the facility is being availed for genuine import transaction and that the importers do not hedge more than the underlying exposure. Further, maturity of forward contracts against import should coincide with the maturity of underlying Letter of Credit (L/C). In cases where the import L/C has a tenor of more than 12-months, the tenor of the forward cover facility would be 12-months on rollover basis or the remaining tenor of the L/C whichever is less; subject to the condition that the tenor of the forward cover should not be for less than one month. If the terms of the L/C are amended to extend its tenor in accordance with the related regulations, the importers can rollover the forward cover on the original maturity date of the forward contract coinciding with new maturity of the underlying L/C, subject to the condition that the forward cover is not less than one month.</p> <p>All forward contracts against which the underlying L/Cs are cancelled are required to be closed out on maturity at prevailing exchange rates and differential is settled between the importer and the bank. However, all such cases, where underlying L/Cs were cancelled will be submitted to SBP (Domestic Markets and Monetary Management Department)</p>

		on the date of cancellation of L/Cs with full details as per prescribed format, and justification for further action by SBP as deemed appropriate in terms of regulations under the FER Act, 1947.
Dec 21, 2011	FE-07	<p>Forward Cover Facility against Foreign Private Loans:</p> <p>In order to streamline the instructions on the forward cover facility provided by Authorized Dealers against Foreign Private Loans, the Authorized Dealers have been advised to ensure abinitio that the facility is being availed for genuine transactions and that the customers do not hedge more than the underlying exposure. Further, it has been decided that minimum tenor of forward cover against such loans shall be twelve months or remaining maturity of the underlying foreign private loan, whichever is lower. In either case no forward cover facility will be provided for a period of less than one month. In cases where the underlying foreign loans have a tenor of more than 12-months, the tenor of the forward cover facility would be 12-months on rollover basis or the remaining tenor of the loan, whichever is less; subject to the condition that the tenor of the forward cover should not be for less than one month.</p> <p>Forward cover already provided to customers prior to the effective date of this circular shall remain effective till their maturity. Any rollover of the said contract shall however be in accordance with revised instructions contained herewith.</p>

A-4 Operations Group

Date of Announcement	Circular No.	Policy Decision
Jul 29, 2011	PSD Circular Letter No. 02/ 2011	<p>Settlement Timings during Ramazan ul Mubarak</p> <p>SBP has communicated cut-off timings for settlement in PRISM System during Ramazan-ul-Mubarak with an advice to all RTGS participants to ensure that the execution of their transactions in PRISM System should be within the specified timing as per the scheduled given in the circular.</p> <p>Further, after the holy month of Ramzan-ul-Mubarak, the above timings will automatically be reverted to pre Ramzan-ul-Mubarak timings.</p>
Aug 15, 2011	PSD Circular Letter No. 03/ 2011	<p>Monitoring of ATM Cash and Downtime during Ramazan ul Mubarak/ Eid Holidays</p> <p>SBP in the light of previous circulars on the management of</p>

		<p>ATMs on special occasion advised all banks to meticulously comply with all previous instructions failing which heavy penalties under the relevant laws would be imposed on defaulting banks.</p> <p>SBP has also decided to depute special inspection teams to carry out surprise inspections of the ATMs installed at various cities/towns throughout the country to ascertain the compliance level of all banks.</p>
Oct 07, 2011	PSD Circular Letter No. 04/ 2011	<p>Operations of ATMs in Flood Affected Districts of Sindh</p> <p>Due to a large number of flood affectees holding Pakistan cards, SBP advised all those banks having ATMs in the affected districts of Sindh to make special arrangements to ensure that their ATMs are operational and cash is replenished in a timely manner and that no service charges may be recovered on the use of these Cards.</p>
Oct 14, 2011	PSD Circular Letter No. 05/ 2011	<p>Cut-off Timings for Settlement in PRISM System</p> <p>Consequent upon declaration of five days working week and revised banking hours, SBP has advised all direct participants of RTGS the cut-off timings for settlement in PRISM System.</p>
Oct 14, 2011	PSD Circular Letter No. 06/ 2011	<p>Management of ATMs on Weekends</p> <p>As per Government of Pakistan notification to observe five days working week, SBP has issued its revised banking and working hours vide BP&RD circular No.11 dated 14th October, 2011 in terms of which Saturdays and Sundays would be observed as holidays by banks & DFIs.</p> <p>Further, in order to ensure that customers and specially the business community continues to avail uninterrupted access to the services provided through ATMs including cash withdrawal facilities during the weekends, banks were advised to ensure that their ATMs remain operational throughout and special arrangements are made by way of deployment of dedicated staff to monitor cash replenishment requirements and to resolve other problems on real-time basis.</p>
Apr 04, 2012	PSD Circular Letter No. 01/ 2012	<p>Settlement of 3rd Party Fund Transfers Through PRISM System</p> <p>In order to further enhance the payment transfer facilities through PRISM System, SBP has decided to allow multiple credit transfers (using MT 102) for 3rd party transfers to facilitate non-critical payments of PKR 100,000 and above. This is in addition to further facilitate customers' time critical payments of Rs. 1 million and above and can be used for processing bulk payments i.e. salaries and remittances etc.</p>

		All PRISM Direct Participants were also advised to ensure compliance with the Customer Transfer Guidelines, Payment Systems and Electronic Fund Transfers Act 2007, PRISM Operating Rules, 2009 and all other applicable SBP rules and regulations including those related to KYC and AML/CFT.
Apr 10, 2012	PSD Circular No. 01/ 2012	<p>SBP Remittance Facility to Bank</p> <p>Refer to the Finance Department Circular No. 04 of 2007 of 18th December, SBP has decided to charge a flat fee of Rs. 1,000/- per transaction for each fund transfer instruction in lieu of a uniform rate of 0.07% previously levied on such transactions.</p>
May 15, 2012	PSD Circular No. 02/ 2012	<p>IBAN Implementation Guidelines</p> <p>In order to bring about account code standardization and efficiency in processing of payments for domestic as well as cross border transactions, SBP has decided to implement International Bank Account Number (IBAN) standard in Pakistan that is an international standard (ISO 13616-1:2007) for identifying bank accounts across borders.</p> <p>The initiative will eliminate the delays in credit transfers and enable the payment/ clearing systems to electronically validate account number without manual intervention. Relevant guidelines were also issued to the industry containing details of how IBAN can be generated along with its validation processes and phase wise implantation plans for the industry.</p>
Sep 21, 2011	FD-02/2011	<p>Demonetization of Rs. 500 Old Design Banknote</p> <p>In order to report, deposit and exchange of demonetized Rs 500 old design banknote by commercial/microfinance banks have been advised to issue necessary instructions to their respective branches to ensure meticulous compliance of the following time-lines for the exchange of Rs. 500 old design banknotes by the general public and to surrender these notes to SBP BSC (Bank)/ NBP Chest/Sub-Chest branches within the stipulated deadline given below:</p> <p>A. Collection of Rs 500 Old Design Banknotes</p> <p>(i) Branches of Banks/MFBs should display posters/banners on the acceptance of Rs. 500 old design banknotes (bigger size), at public counters and other visible places in and outside their branches.</p> <p>(ii) Branches of Banks/MFBs will collect the Rs. 500 old design banknotes until close of banking hours on 30th</p>

		<p>September, 2011.</p> <p>B. Reporting/Deposit/Surrender of Rs. 500 Old Design Banknote Balances on 30th September, 2011</p> <p>(i) In the first phase, branches of Banks/MFBs, in cooperation with SBP BSC field offices or NBP Chest/Sub-Chest branches, should ensure that they surrender their existing stock of Rs. 500 old design banknotes by 26th September, 2011 to the nearest SBP BSC Field Office or NBP Chest/Sub-Chest branch.</p> <p>(ii) In the second phase, branches of Banks/MFBs will surrender the remaining stock of Rs. 500 old design banknotes to their nearest SBP BSC field office or NBP Chest/ Sub-Chest branch by 8.00 p.m. on 30th September, 2011.</p> <p>(iii) The State Bank of Pakistan/SBP BSC (Bank) will neither exchange nor be liable to pay any value of such banknote to any person or a bank after the deadline fixed above. From October 1, 2011 the old design Rs. 500 will cease to be legal tender.</p> <p>(iv) SBP BSC field office/NBP Chest/Sub-Chest branch shall credit the value of the surrendered banknotes to the account of the bank/MFB maintained with them.</p>
Nov 11, 2011	CMD / 737 / 7/(Dem-500) /2011	<p>Exchange of Demonetized Rs. 500 Old Design Banknote</p> <p>In order to exchange Rs 500 (old design banknote) by the public all commercial/microfinance banks have been advised to widely publicize the extension of date for the exchange of Rs. 500 old design banknotes in line with their respective advertisement policy for the awareness and facilitation of general public, and issue necessary instruction to all their branches for implementation of the following instructions in letter and spirit:</p> <p>2. It was also communicated that the Federal Government has extended the last date for exchange of Rs. 500 old design banknote to 30th September, 2012 vide Gazette Notification No. 2(1)IF-IV/2010 dated 4th November, 2011.</p> <p>3. This directive only allows the exchange of the Rs. 500 old design banknote from banks and SBP BSC field offices to facilitate the general public in possession of such notes, however, the said banknote stands demonetized, and, hence, shall not be used as legal tender. Accordingly, with immediate</p>

		<p>effect, banks are advised to:</p> <p>a). Exchange the Rs. 500 old design banknotes with banknotes/coins of all denominations until the last working day of September, 2012.</p> <p>b). Surrender all such Rs. 500 old design banknotes to SBP BSC field offices for exchange or credit of exchange value in their respective bank account up to the last working day of September, 2012.</p>
Dec 22, 2011	CMD/784/7(Dem)/2011	<p>Exchange of Demonetized Rs. 5 Banknote</p> <p>In order to exchange the demonetized Rs 5 banknote by the public/banks all commercial/microfinance banks have been advised to widely publicize the extension of date for exchange only (up to 31st December, 2012) and demonetization of Rs. 5 banknote from 1st January 2012, in line with their respective advertisement policies for the awareness and facilitation of general public, and issue necessary instruction to all their branches for implementation of the following instructions in letter and spirit.</p> <p>2. Please be advised that the Federal Government has extended the last date for exchange of the Rs. 5 banknote to 31st December, 2012 vide Gazette Notification No. 3(8)IF-IV/2009, dated 15th December, 2011.</p> <p>3. This directive allows only the exchange of Rs. 5 banknote from banks and SBP-BSC field offices to facilitate general public in possession of such notes; however, the said banknote will stand demonetized, and shall not be a legal tender from 1st January, 2012. Accordingly, banks are advised to:</p> <p>a. Exchange the existing Rs. 5 banknote with banknotes/coins of all denominations until 31st December, 2012.</p> <p>b. Surrender all such Rs. 5 banknotes to SBP Banking Services Corporation field offices for exchange or credit of exchange value in their respective bank accounts up to 31st December, 2012.</p>
Jan 12, 2012	CMD/31/7/2012	<p>Cash Management Monthly Position</p> <p>In order to identify trends of currency in circulation held by commercial banks and to strengthen cash management system maintenance of stock/inventory practices and demonetization of banknotes all Commercial/Microfinance banks has been advised to submit the following data and nominate two</p>

		<p>officials to be trend in the SBP's automated system (data warehouse application/portal) latest by 19th January, 2012:</p> <p>The denomination-wise data of old and new design banknotes via SBP's automated system (data warehouse application/portal) as per enclosed template on monthly basis starting from February 2012. The statement of 29th February 2012 should be submitted by 5th March, 2012. Thereafter the monthly statement should be submitted by the 5th day of each month.</p> <p>Training of bank's staff to input data via the automated system (data warehouse application/portal) will be conducted by Statistics and Data Warehouse Department on 23rd and 24th January 2012 in the Computer Lab of LRCSBP as per attached schedule.</p>
Feb 28, 2012	CMD/12/ Misc/2012	<p>Cash Management Monthly Position – ATM Cash.</p> <p>In order to submit the denomination-wise data of banknotes by the banks all Commercial/Microfinance banks has been advised to note that:</p> <p>Currency stock position will also include cash ion ATMs at the time of closing of branches on the last working day of the month.</p>
Mar 14, 2012	CMD/115/7(D em)-2011	<p>Exchange of Demonetized Rs.5 Banknote and Rs 500 Old Design Banknote</p> <p>While observing that some commercial banks are issuing Rs 5 and Rs 500 (old design) banknotes to public despite their demonetization and clear instructions to surrender the demonetized banknotes to the nearest/ linked field offices of SBP BSC all Commercial/Microfinance Banks have been advised to desist from issuing above banknotes to the general public and educate their customers / general public to surrender these banknotes to banks and SBP BSC Offices as the:</p> <p>Directives issued by SBP vide circular letters dated Nov-11-2011 and Dec-22-2011 only allow extension of date for the exchange date of demonetized Rs 500 (old design) and Rs 5 banknotes as they stand demonetized and are not legal tender since October 1, 2011 and January 1, 2012.</p> <p>For any clarification in this regard banks may contact Mr. Abdul Hamid, Junior Joint Director, CMD SBP BSC Head Office, Karachi at telephone number 021-32455463</p>

<p>Jun 26, 2012</p>	<p>CSD / 288 / 7-2012</p>	<p>Schedule for Exchange of Demonetized Rs. 500 Old Design Banknote</p> <p>In consideration of the fact that 30th September, 2012 is a Sunday, the Federal Government, vide Gazette Notification No. 2(1)IF-IV/2010 dated June 11, 2012, has facilitated the public to exchange the demonetized Rs 500 (old design) banknote until October 01, 2012 all commercial/microfinance banks has been advised to issue the necessary instructions to their respective branches to ensure meticulous compliance of the time lines for the exchange of these banknotes by the general public, displaying posters/banners for awareness of public and reporting/surrendering to SBP BSC field offices within the following revised schedule and stipulated deadline:</p> <p>A. Collection of Demonetized Rs 500 Old Design Banknotes</p> <p>(i) Branches of banks/ NBP Chests/Sub-Chests, in cooperation with SBP BSC field offices, should ensure that they surrender their existing stock of Rs. 500 old design banknotes (collected until September 14, 2012) by September 26, 2012 to the nearest SBP BSC field office.</p> <p>(ii) Branches of banks/NBP Chests/Sub-Chests will collect the demonetized Rs. 500 old design banknotes until close of banking hours on October 01, 2012.</p> <p>B. Reporting of Rs. 500 Old Design Banknotes</p> <p>(i) Branches of banks/NBP Chests/Sub-Chests will report the collected balances of the demonetized Rs 500 old design banknotes to their regional head office which will acknowledge receipt thereof immediately before close of business on October 01, 2012.</p> <p>(ii) The regional head office of the banks/NBP Chest/Sub-Chests will report the branch-wise balances to the nearest SBP BSC field offices and send endorsed copies thereof to their concerned head office through fax/email by 1.30 p.m. on October 02, 2012.</p> <p>(iii) The Head Office of concerned bank will forward consolidated balances along with list of branch- wise position to the Director, Currency Management Department (CMD), SBP BSC Head Office, Karachi on the same day (October 2, 2012) as per contact details provided at last Para in the circular letter.</p>
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		<p>(iv) The SBP BSC field offices will acknowledge receipt of the reported balances by the regional offices of the banks and CMD, SBP BSC, Head Office, Karachi will acknowledge receipt to the head offices of the banks until 1.30 p.m. on October 03, 2012. Any queries can be referred to CMD, SBP BSC, Head Office, Karachi.</p> <p>C. Surrender of Rs. 500 Old Design Banknotes</p> <p>Branches of banks/NBP Chests/Sub-Chests will surrender the reported stock, under Para 2-B above, of Rs. 500 old design banknotes to their nearest SBP BSC field office until October 05, 2012.</p> <p>D. Public Awareness & Exchange of Value of Rs. 500 Old Design Banknotes</p> <p>(i) Branches of banks/NBP Chests/Sub-Chests should display posters/banners regarding the revised date for the acceptance of the demonetized Rs. 500 old design banknotes (bigger size), at public counters and other visible places in and outside their branches.</p> <p>(ii) The State Bank of Pakistan/SBP BSC (Bank) will neither exchange nor be liable to pay any value of such banknote to any person or a bank after the deadline fixed above.</p> <p>(iii) SBP BSC field office shall credit the value of the surrendered banknotes to the account of the banks maintained with them.</p>
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B-1 Central Board Decisions and Deliberations during FY12

Decisions/deliberations/approvals by the Central Board during FY12 have been categorized into matters related to Corporate Governance, Monetary Policy & Research, Banking, Financial Markets & Reserve Management, and Corporate Services.

Corporate Governance

1. Amendment in ToRs of Committees of the Central Board of SBP.
2. Nomination of a member on the Audit Committee of the Central Board of SBP.
3. Formation of Advisory Committee on Monetary Policy.
4. Governance Structure of Internal Audit.
5. Discussion on Board's effectiveness.
6. Discussion on SBP (Amendment) Act, 2012.
7. Schedule of the Central Board meetings for the year 2012.

Monetary Policy & Research

1. Monetary Policy Statement
 - July, 2011
 - February, 2012
2. Monetary Policy Decision
 - September 2011
 - November 2011
 - April 2012
 - June 2012
3. The State of Pakistan's Economy
 - First Quarterly Report (July-September, 2011)
 - Second Quarterly Report (October-December, 2011)
 - Third Quarterly Report (January-March, 2012)
4. SBP Annual Report for the year 2010-11
 - The State of Pakistan's Economy (Vol-I).
 - Performance Review (Vol-II).
5. Approval for conducting a study on "Individual Philanthropy".
6. Discussion on implementation of new Section 9C of the SBP (Amendment) Act, 2012 - Limitation on Federal Government Borrowing.

Banking

1. Financial Stability Review - November 2011.
2. Appointment of Chairman of State Bank of Pakistan's Shariah Board.
3. Appointment/Reappointment of SBP Shariah Board Members.
4. Reimbursement of bonafide losses to banks against agricultural loans extended during Jan-Jun 2005.
5. Discussion on Banking Regulation.
6. Discussion on Report on Assessment of the Banking Sector.
7. Discussion on competitive environment in Banking Industry.

Financial Markets and Reserve Management

1. Quarterly Review of Performance of Reserves – December 2011

Corporate Services

1. Finance
 - Appointment of Auditors for FY12 & fixation of their remuneration.
 - Ratification of 'On Account Payment' to the Federal Government.
 - September 30, 2011
 - December 31, 2011
 - March 30, 2012
 - Federal Government Payment - June 30, 2011.
 - Revenue Expenditure Budget and Capital Expenditure Budget of SBP and its subsidiaries for FY12.
 - Profit & Loss Review of Expenditure Budget for
 - Quarter ended September 30, 2011
 - Half year ended December 31, 2011
 - Nine months ended March 31, 2012
 - Consolidated Financial Statements of the Bank for the year ended June 30, 2011.
 - Moratorium on penal interest on overdraft of Pakistan Railways.
 - Revision of Ways and Means Limit of Gilgit-Baltistan Government.
 - Overview of Government Audit Report on Accounts of SBP for FY10.
2. IT Related Matters
 - Renewal of maintenance and support contract of Oracle ERP, DWH and CBA Modules
3. HR Related Matters
 - Renewal of employment contract of ED-FMRM.
 - Renewal of employment contract of Chief Spokesperson SBP.
 - Revision of Staff Car Usage Policy for OG-6 and above officers.
 - Revision of Deputation Policy.
 - Revision in Policy of Mobile Phone Facility for OG-7 and OG-8 officers.
 - Revision of Professional Development Incentive Program.
 - Revision of Higher Studies Policy (2011).
 - Allocation of Annual Merit Increase (AMI) – FY11.
 - CBA's Charter of Demand (CoD) – 2011.
 - Compensation/benefits survey and salary adjustment of employees.
 - Employees' Compensation Policy.
 - Normalization of Bell Curve and Performance Based Exit Policy.
 - Application of PMS and Career Development Policy of OG-2 and above officers on OG-1s.
 - Change in medical option.
4. Other Matters
 - Applicability of Public Procurement Rules, 2004 on SBP and SBP-BSC.

B-2 Business Continuation Management

Business Continuity Management (BCM) is a comprehensive risk management approach which encompasses the policies, procedures and governance structure to ensure that, in the event of a disruption, the critical time sensitive functions of an organization can be performed or recovered in a timely manner. A Business Continuity Plan (BCP) is a comprehensive, written plan of action that sets out the procedures and establishes the processes and systems necessary to continue or restore operations in the event of a disaster or a major operational disruption. The BCP provides detailed guidance for implementing the recovery plan and outlines the roles and responsibilities in managing operational disruptions.

Pro-active Business Continuity Management plays a significant role in ensuring that the central bank can continue its critical and time sensitive operations even during a disaster situation. The Business Continuity Plan of the State Bank of Pakistan ensures continuity of critical functions of SBP and SBP-BSC and aims to prevent any major operational disruption in the financial system of the country in the face of a catastrophe caused, either by natural disaster, fire, civil strife, sabotage or an act of war.

In order to establish controls and minimize the chances of major operational disruption of critical time sensitive functions of SBP and SBP-BSC, the Business Continuity Plan sets out a governance structure in the form of various committees, groups and teams which ensure senior management's commitment and define management's role and responsibilities in the event of a disaster. The BCP Committee is the apex steering body for all BCP related activities, and is headed by the Deputy Governor (Operations) and comprises of members of senior management, drawn from the critical areas of the bank representing Operations, Financial Markets & Reserve Management, SBP Banking Services Corporation, Financial Resource Management and Office of the Corporate Secretary. During FY12, two meetings of the BCP Committee were convened where the Committee took various decisions to improve the effectiveness and implementation of BCP.

The State Bank of Pakistan has strengthened its level of preparedness and readiness by establishing a state of the art Disaster Recovery Site and a fully equipped Backup Site for critical time sensitive functions. To further enhance the state of readiness of the Business Continuity Program of SBP, the following initiatives were taken during the year:

BCM Workshops

The most effective approach to achieving organizational resilience, besides instilling resilient structures and processes, is to train the relevant personnel in handling crisis, as the organizations can only cope, respond and recover from a major crisis with the intervention of trained personnel. In order to embed business continuity in the organization's culture, a major initiative was launched where a series of workshops on Business Continuity Management (BCM) were organized in Karachi, Lahore, Islamabad and Multan where more than 120 officers from SBP and SBP-BSC field offices all over the country participated. The purpose of these workshops was to equip the participants with the knowledge and skills of BCP and to ensure that they are familiar with SBP's BCP plan, understand the escalation process and are able to activate the recovery procedures developed in the BCP program.

BCP Preparedness Review

The size, complexity and geographically dispersed nature of operations make the implementation of BCP even more challenging. To assess the BCP arrangements at the field offices, infrastructure,

environment and facilities available at the existing backup sites and to evaluate the suitability of backup sites identified by the respective offices as per the benchmarks approved by the BCP Committee, an exercise was initiated in which the offices of Hyderabad, Sukkur, Multan, Bahawalpur, Faisalabad, Gujranwala, Lahore, Peshawar, Sialkot and Muzaffarabad were evaluated.

Table top, Mock Exercises and Rehearsals

The purpose of testing is to achieve organizational acceptance that the business continuity solution satisfies the organization's recovery requirements. An untested plan may be worse than not having a plan in place because it gives a false sense of security to the organization. Continuous testing of the Business Continuity Plan enhances the readiness of employees to cope with a disaster. To further streamline the testing procedure at SBP and SBP BSC and to facilitate the departments/offices to conduct their tests and rehearsals smoothly, an Annual Test Plan was compiled in coordination with the critical departments and field offices where all critical departments/field offices planned to conduct quarterly table top exercise, half yearly mock exercise and annual rehearsals. Consequently, 87 table top tests, 53 mock exercises and 22 rehearsals were conducted by departments and field offices. In addition to that, evacuation and fire fighting drills were also held at field offices and the SBP main building.

Updation of BCP Manuals

Through a documented Business Continuity Plan, the organization builds an effective program that provides a planned response, recovery, and restoration mechanism to safeguard the interests of key stakeholders and its reputation. At SBP, BCP Book I is designed for the critical departments of SBP and SBP BSC while BCP Book II is designed for the field offices. To reflect the effect of restructuring at State Bank of Pakistan and based on criticality, the Payment Systems Department (PSD) and Currency Management Department (CMD) were included while the Exchange Policy Department (EPD) and Risk Management & Compliance Department (RMCD) were excluded from the list of Critical (time sensitive) Departments. Similarly, the General Services Department (GSD) was included in place of the erstwhile Business Support Services Department (BSSD) in the list of Critical (support) Departments.

Combined exercises of critical (time sensitive) departments

Testing the organizations' Business Continuity Plan assesses its viability and ensures that the relevant staff is familiar with the continuity plan, understands the activation process and is able to execute the recovery strategies documented. In order to stress test the reliability of networks, equipments, services and other allied facilities, four combined exercises were successfully conducted from the backup site by the critical (time sensitive) departments. Approximately 50 persons from critical (time sensitive) departments participated in the combined exercises on each occasion.

Apart from the routine testing of the backup site, for the first time scenario-based testing was initiated from the backup site where different scenarios were proposed, documented and conducted successfully. Further, the combined exercises helped in achieving the desired level of preparedness which enabled the critical (time sensitive) departments to conduct live operations from the backup site which is in an advance level of testing.

Dedicated Backup Site for Critical (Time Sensitive) departments

To improve the level of readiness and preparedness, the backup site was upgraded and made operational on a round-the-clock basis. Complete refurbishment of the backup site was undertaken which has resulted in increased seating capacity to cater to the demands of critical (time sensitive) departments. Further initiatives were undertaken to improve and enhance the allied facilities to

provide secure boarding and lodging to the critical staff during crisis situations. To cater to the need for maintenance, supervision of civil works and preparation for exercises at the backup site, officers from SBP BSC were deputed which has significantly improved the working condition, environment of the backup site and helped in maintaining the costly equipment and allied facilities. Further, round the clock staff including electricians and a generator operator has also been deputed to provide emergency support services at the backup site.

In order to provide connectivity for the backup site, an alternative to the costly Radio Frequency (RF) Tower was proposed. The alternative solution was successfully tested on full load during the combined exercise held in December 2011 and the alternative solution was approved by the BCP Committee for the backup site of critical (time sensitive) departments.

Automation of backup sites of field offices

Over a period of time, most of the critical functions and processes have been automated and require the availability of relevant IT applications at the backup sites of field offices. Priority was allocated to upgrade the backup sites in terms of automation, proximity, backup data and cash availability to improve the readiness and preparedness of field offices.

Improved Vigilance for the Backup Site

To implement effective internal controls at the Backup site, various measures were undertaken such as vigilance of the activities at the backup site through IP cameras and its monitoring through control room manned by staff of Internal Bank Security Department (IBSD), log controls for entry/exit, movement and asset register etc.

TORs of the BCP Committee

After the realignment of BCP function in 2011, it was decided to develop Terms of Reference of the BCP Committee which will help the committee and its members to focus and work according to its mandate. The TORs of the BCP Committee were developed after reviewing the international best practices, identifying the roles, responsibilities and composition of the BCP Committee, defining the role of BCP Coordinator etc. The TORs were approved and adopted by the BCP Committee in December 2011.

B-3 Risk Based Auditing

Internal Audit & Compliance Department (IA&CD) at State Bank of Pakistan is performing the important function of providing independent and objective, assurance and consulting services, designed to add value, improve operations of SBP and help it in accomplishment of its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In this regard, IA&CD conducts financial, operational, and information technology (IT) based audits of SBP operations.

Presently, four financial & operational audit teams and one IT audit team are conducting audit engagements, based on risk-based internal auditing methodology. A quality assurance (QA) Unit in IA&CD undertakes the ongoing quality assurance of audit activities and ensures that these activities conform to the Institute of Internal Auditors (IIA) Standards. A Compliance Division of IA&CD obtains status of audit recommendations on quarterly basis, in order to ensure compliance of outstanding audit recommendations previously agreed by the Auditee Departments.

The functions of IA&CD are overseen by the Honorable Governor SBP and Committee of the Central Board on Audit.

The following milestones have been achieved by IA&CD during FY12:

- Continuous updation was made in the Audit Universe (Database) of auditable business processes with the feedback of Auditee Departments. This was developed by IA&CD using its own prepared risk scoring model based on IIA Research Foundation. Annual Audit Plan of the Department is being developed, based on the updated content of Audit Universe.
- Accomplished all audit assignments of the Audit Plan FY12 successfully. IA&CD also carried out different special audit assignments on the advice of Audit Committee and higher management of SBP. In addition to the above, IA&CD reviewed Internal Audit Reports of SBP BSC and highlighted significant observations to Governor SBP.
- Constant efforts were made to strengthen the role of QA with regard to its coverage in all audit activities.
- In order to bring the concept of Self Risk Assessment by business departments, IA&CD is assisting different Departments of SBP for developing their Risk Registers. Further improvements were made in Risk Registers already developed by the Departments during audit assignments in FY12.
- Close coordinations with External and Govt. Auditors were made and Audit Reports of various Departments duly audited by IA&CD were reviewed by both of them.

B-4 Legal Services Department

In order to align the activities and core functions, together with the new areas of focus, the General Counsel's Office was restructured and renamed as Legal Services Department during FY12. Given the complexity and importance of establishing a well-coordinated architecture for the legal-oriented services that ensures professional management in the respective areas, the new department consists of the following four Divisions:

1. Corporate Service Division
2. Banking Legal Division
3. Litigation Division
4. Projects, Compliance and Support Services Division

During the period under review, this department participated in achievement of Bank's goals through opinions, advices, litigation, and appearance before the Courts of Law at Lahore, Islamabad and Karachi etc. It also provided help in drafting of regulations and contracts besides vetting replies to the notices for submission to Supreme Court and various High Courts of the country. Moreover, our legal professionals have been playing a critical and decisive role in deciding appeals, addressed to the honorable Governor by various banks against the decisions given by the Banking Ombudsman. Together with these developments, the professionals of this department also attended the court proceedings at Supreme Court and other different Courts of Law at various places during the reporting period.

Legal Services department have received more than 3100 references from various stakeholders consisting of SBP, SBP BSC and NIBAF during FY12. It may be interesting to note that 65 percent references were related to the opinions, drafting, contracts and vetting the correspondence of various nature mainly of core functions of SBP and SBP BSC, 18 percent directly related with the house building advance matters and the remaining 17 percent were related to different courts notices and judgments in the respective cases of SBP, SBP BSC and NIBAF. All these references were disposed of in line with the prevailing law and policies of the Bank where applicable.

Follow up the Cases under Litigation

This department collected and analyzed the progressive status of litigation cases on a monthly basis from all stakeholders which, in return, helped the department to review of the cases under litigation at different courts of law and also to take views for any adverse orders. During the period, 735 cases were under litigation in different courts of law. Of these, 82 percent cases under litigation were related to the core banking policies and the rest 18 percent were related to the HR services related matters.

Amendments and Drafting of Legislation

In line with the emerged banking practices at international level and also to mitigate the threat of anticipated financial risks, this department participated to compile information keeping in view the latest available research in international law for comparative studies, which helped in the proposed amendments in SBP Act 1956 which was submitted to the parliament and standing committees during the period under review. Moreover, this department also remained involved in the studying, discussing, drafting and amending the proposed various Laws and Acts:

- The State Bank of Pakistan Act 1956.

- Draft Banking Act.
- State Bank of Pakistan Amendment Bill, 2010
- Amendments to the Banking Companies Ordinance, 1962.
- Corporate Rehabilitation Act
- Deposit Protection Fund Act.
- Various other amendments in regulations

[illegible]

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(As per practice, names of EDs and Directors on deputation with BSC, NIBAF and FMU or Leave have not been included in this list.)