

Annual Report

Performance Review

2012 - 2013



STATE BANK OF PAKISTAN



STATE BANK OF PAKISTAN

ANNUAL PERFORMANCE REVIEW

2012-13

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

April 24, 2014

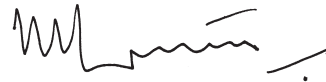
Dear Dar Sahib,

As required by Section 40(2) of the State Bank of Pakistan Act, 1956 the Balance Sheet of the Bank as on June 30, 2013 and the Profit and Loss Account for the year 2012-2013 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, 2013.

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, 2013.

With warmest regards,

Yours sincerely,



(Ashraf M. Wathra)
Governor (Acting)

Mohammad Ishaq Dar
Federal Minister for Finance, Revenue,
Economic Affairs & Statistics
Government of Pakistan
Islamabad

The Team

Dr. Muhammad Nadim Hanif
Mr. Imran Naveed Khan

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Governor's Message



State Bank of Pakistan is the apex financial institution of the country. It is responsible for regulating the monetary and credit system of Pakistan to foster its economic growth, by fuller utilisation of country's productive resources, while securing monetary stability. During the fiscal year 2013, as in the previous years, the Bank continued to endeavour to achieve its goal of economic growth with low inflation environment despite internal and external shocks and amid difficult trade-offs. Though economic growth remained slightly below the target, SBP succeeded in bringing inflation down to single digit level in FY13.

Noteworthy policy decisions and other developments during FY13 are summarized below:

- The monetary policy easing, which started in FY12, continued in FY13 as well. SBP reduced its policy rate by 300 basis points (bps) in FY13, with a cumulative reduction of 500 bps in the last two years, bringing the SBP reverse repo rate to 9.0 percent. The key drivers of these policy decisions were a sharper than anticipated decline in inflation and attempt to promote dwindling private investment in the country. With the objective to have a forward-looking view while deciding on monetary policy stance, consumer confidence and inflation expectations indices are built by the Bank. These micro level survey based indices are useful in explaining inflation dynamics in Pakistan. For the benefit of external stakeholders as well, SBP has published the survey results, the indices of the consumer confidence and inflation expectations, and the background research on its website.
- SBP provided banks more flexibility in their liquidity management by extending reserve maintenance period from one week to two weeks (for CRR) and reducing the daily minimum CRR from 4 percent to 3 percent. SBP also guided banks to improve their liquidity management practices by dissuading their frequent access to SBP overnight reverse repo or repo facilities by introducing a spread of plus/minus 50bps for an eligible institution visiting said window more than seven times in a given quarter. Dissemination of bank-wise data on excess cash reserves and banks' use of SBP's standing facilities has brought transparency and efficiency in our money market.
- With the introduction of an interest rate corridor of 300bps, in August 2009, volatility in the short-term interest rates reduced significantly that helped in strengthening the transmission mechanism of the monetary policy. In order to improve the transmission mechanism by further reducing the interest rate volatility in the short-term interest rates; SBP narrowed the interest rate corridor by 50 bps, effective February 11, 2013, to 250 bps.
- Most of the banks in Pakistan were used to pay profit to saving depositors on minimum monthly balances. To promote savings by rationalizing the deposit rates, and to reduce high banking spreads by bringing compatibility between the return on loans and the payment of profit on saving deposits; banks are now, effective from April 01, 2013, directed to pay profit

to depositors on average monthly balances. Furthermore, instead of following a discretionary policy to fix the minimum deposit rate, SBP has recently made a rule for it by linking the same to the floor of the interest rate corridor. The minimum profit rate to be paid on all PKR saving deposits will now be 50 bps below the prevailing SBP repo rate.

- In order to improve transparency and bring standardization in Islamic banking institutions' profit and loss distribution policies and practices, SBP issued instructions for 'Profit & Loss Distribution and Pool Management for Islamic Banking Institutions' on November 19, 2012. The instructions were well received by domestic and international stakeholders, which are likely to improve perception and understanding of the masses generally and Islamic banking clients particularly.
- The exchange rate policy in Pakistan continued during FY13 to aim at ensuring smooth functioning of the foreign exchange market and optimizing foreign currency reserves of the country. Considering the increasing volume of transactions and enabling banks to manage large flows without adding excessive volatility in the market, SBP raised the cap on aggregate foreign exchange exposure limit (FEEL) of individual authorized dealers (ADs) from PKR 2.5 billion to PKR 3.5 billion and increased the overall FEEL of the market by 9.7 percent. During FY13, PKR exhibited a modest depreciation of 5.1 percent against US\$ in the interbank market, compared to 9.1 percent depreciation in FY12. Proactive approach of SBP to market regulation and management not only led to stability in the foreign exchange market, but also enhanced the depth of the market. Though the deficit in the balance of payments and IMF debt servicing resulted into a fall in the country's foreign exchange reserves during FY13; the decline in the reserves was gradual due to prudent SBP management that helped to avoid any undue negative impact on the market sentiment.
- In consonance with the policy to organize and facilitate the foreign exchange companies (ECs), the SBP issued comprehensive network expansion policy for the ECs. Through this policy, ECs have been provided with detailed set of instructions regarding network expansion that has been linked with capital and compliance ratings of ECs. Further, in order to protect the interests of the buyers/sellers of foreign exchange, SBP made it mandatory for ECs that the spread between buying and selling rates of foreign currencies should not exceed 25 paisas.
- In order to facilitate the foreign currency depositors/borrowers and to increase liquidity in the foreign exchange market; regulations related to foreign currency accounts and trade loans (under FE-25 scheme) have been further clarified during FY13. ADs have been allowed to open foreign currency accounts and extend trade loans in US Dollar, UK Pound Sterling, Euro, Japanese Yen, Canadian Dollar, UAE Dirham, Saudi Riyal, Chinese Yuan, Swiss Franc and Turkish Lira. Furthermore, the interbank placements and interbank SWAPs or any other source of foreign currency liquidity, permitted under SBP regulations, are now allowed to be used for trade loans (in the currency of the underlying LC/Firm Trade Contract) in the above foreign currencies.
- In order to facilitate and support efficient flow of workers' remittances and to provide domestic investment opportunities to overseas Pakistanis; a joint initiative, called Pakistan Remittance Initiative (PRI), was launched by SBP, Ministry of Overseas Pakistanis, and Ministry of Finance in early 2009. The establishment of PRI has contributed significantly in enhancing the flow of workers' remittances to Pakistan, which emerged as a major source to finance the trade deficit of the country. Remittances financed over two-third of Pakistan's

trade deficit during FY13 compared to less than one-third of the trade deficit financed by the remittances during FY08.

- One of the core responsibilities of SBP is to regulate and supervise the financial system (comprising banking institutions/DFI's and ECs) to ensure its soundness and stability. As part of enhanced surveillance, SBP has been assessing the resilience of banking system towards shocks arising from both the financial and macroeconomic risk factors. The Bank has also been preparing and publishing quarterly Financial Soundness Indicators (FSIs) of the banking industry for the benefit of stakeholders. Through enforcement of consumer protection framework; current regime of banking regulation and supervision in the country is effectively protecting the rights of financial consumers as well.
- Consequent to changes in the international capital standards and to strengthen SBP's regulations on banks' capital adequacy, Quantitative Impact Assessment was carried out to evaluate the impact of newly proposed Basel-III capital regime on capital adequacy of Pakistani banks. The assessment indicated that, with the exception of a few small-size banks, banking industry was well placed to comfortably meet the capital requirements as prescribed under Basel III capital accord.
- During FY13, SBP made developments on its plan for the consolidated supervision of banking groups and financial conglomerates in collaboration with SECP. Objective is to monitor and mitigate the contagion risk and address the challenges which may arise from conglomeration in the financial sector. In order to strengthen the ongoing monitoring framework, the BPRD of the Bank, in collaboration with SECP, devised and issued regulatory returns (in September 2012) to collect key information from banks and NBFIs on half yearly basis.
- Bank branches and ATMs reflect access to finance. During FY13 banks were allowed to open 772 new branches which included 527 conventional banking branches, 172 Islamic banking branches and 73 microfinance branches. Accordingly, total number of bank branches in the country increased to 11,699. Keeping in view the low ratio of ATMs per branch in Pakistan; banks have been advised to add one ATM in their network against each new branch to be opened in CY13 and onwards. Banks, having ATM per branch ratio less than 1, are advised to cover their existing gap linearly in 5 years starting CY13. During FY13, SBP also allowed Pakistani banks to further expand their overseas operations in Afghanistan, Bangladesh, Mauritius, Bahrain, Sri Lanka, Seychelles, Malaysia and China. Presently, 8 Pakistani banks are operating in 36 countries of the world to serve Pakistanis there and the host countries.
- Given the importance of SMEs to the country's economic growth and employment prospects; SBP rationalized SME Regulations, during FY13, to encourage lending to such enterprises. These regulations focused more on Small Enterprises, by defining them separately (from the Medium Enterprises) and formulating more specific and simpler regulations for them. SBP also put in place a Credit Guarantee Scheme for Small and Rural Enterprises, which allowed banks to develop a portfolio of fresh borrowers who are creditworthy, but could not fit into the usual credit parameters of banks, especially when collaterals were required.
- During FY13, microfinance banking sector has gained traction, marked by fresh equity investments, growing deposits, and rising profitability. Pakistan's microfinance and

branchless banking market has become one of the fastest growing and innovative markets in the world. SBP's role, to foster a thriving environment for microfinance and branchless banking in the country, has garnered esteem and acclamation from financial inclusion experts and organizations across the globe.

- A pilot Nationwide Financial Literacy Programme (NFLP) was launched by SBP in FY12 in collaboration with and support from Asian Development Bank, Pakistan Banks Association (PBA) and Pakistan Poverty Alleviation Fund; to assist financial inclusion and poverty alleviation efforts across the country. It was completed in FY13 by reaching around 50,000 beneficiaries. The programme focused on disseminating basic education about financial concepts, products and services to masses; explaining budgeting, saving, investment, debt management and consumer right and responsibilities. We intend to scale up this programme in coming year, to 500,000 poor and low income Pakistanis, which are more prone to financial fraud/victimization.
- Successful upgrade of core Enterprise Resource Planning system was a major achievement of IT in SBP during FY13. To align with the developments on business systems, technological infrastructure of the Bank has also been augmented this year. Similarly, the protection of information assets of the Bank was beefed up during the year. Another achievement was consolidation of country-wide Globus related support mechanism into a central workflow solution using the SBP Service Desk system. SBP also strengthened and upgraded IT setup for SWIFT international payments system. Furthermore, keeping in view the risks associated with clear text emails and to address ever increasing phishing threats, SBP (in collaboration with PBA) issued a circular for banking industry to implement industry standard protocol which ensures bank to bank email communication will be authenticated first at the email gateway level and later, contents of the message exchange will be encrypted.
- The SBP Banking Services Corporation (SBP-BSC), established in 2002, is one of the two subsidiaries launched by State Bank of Pakistan, the other one being National Institute of Banking and Finance (NIBAF). SBP-BSC is an operational arm of the SBP. Since its inception, it has shown unswerving advancement in its activities. Voyage of the Corporation witnessed an era of success on different fronts including timely and quality services to Government, banking industry, and the general public. Over time, it strengthened its role as an extended arm of the Development Finance Group of SBP. A visible improvement was observed during FY13 in the area of currency management. It has been made mandatory upon the banks to use good quality notes for ATM operations. SBP-BSC ensured availability of Bank notes (and coins) across the country, particularly on special occasions like Eid ul Fitr.
- NIBAF, being the training arm of SBP, continued to play its role effectively in the development of human capital of the Bank, its subsidiaries and other financial institutions, both local as well as regional. The Institute offered a variety of programmes to 3229 participants from banking and financial sector by delivering 140 weeks of training during FY13. As part of priority for SBP & SBP-BSC, the Institute also launched some programmes to instill new skills critical for job competency and to enhance managerial capacities of staff besides other function specific training programmes.

In the end, I am proud to mention here that a survey, carried out in 2013 by Pakistan's most popular financial daily, of treasury bosses at banks and brokerage houses, showed that SBP's communication is ranked at an average of 6 on a scale of 1-10. It is improved, over the past (2007) perception, as a

result of detailed monetary policy statements, data compendiums and higher frequency of policy decisions. Importantly, this improvement is achieved over the period when such skills of the central banks of some developed countries deteriorated in the eyes of the international financial markets, according to another survey.

It is heartening to note that all 7 vacant positions on the Board of Directors of the Bank were filled through appointments by the Federal Government during February-March 2013. Fourteen meetings of the Central Board were held in FY13, during which the Board took various decisions on matters related to corporate governance, monetary policy, banking regulation, financial markets & reserve management, and corporate services. In line with best practices, the Board initiated the practice of formally declaring conflict of interest, if any, with the agenda of each meeting from March 21, 2013 onwards, which is now recorded as part of the Board's proceedings.

During this year, Government also appointed Kazi Abdul Muktadir and me as Deputy Governors of the Bank. Recently Mr. Saeed Ahmad has also been appointed as Deputy Governor of the Bank (on January 21, 2014). After resignation of Mr. Yaseen Anwar as SBP Governor on January 31, 2014, I have been given the responsibility of Acting Governor of SBP by the Government.

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

Ashraf Mahmood Wathra
Acting 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 Act mandates the Bank to regulate 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

The 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 8 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 SBP Act, 1956 (as amended) stipulates that the Board members should be eminent professionals from the fields of economics, finance, banking and accountancy and shall have no conflict of interest with the business of the Bank. During FY13, all 7 vacant positions on the Board were filled through appointment of Directors by the Federal Government. Out of these 7 newly appointed Directors, 5 were appointed on February 26, 2013 followed by 2 appointments in March, 2013. Brief profile of the members of the Board is given on pages 9-10. The current composition of the Board brings a diverse range of professional expertise, adding value to the deliberations.

Fourteen meetings of the Central Board were held during FY13 out of which six meetings were convened to decide the Monetary Policy stance. In line with best practices, the Board initiated the practice of formally declaring conflict of interest, if any, with the agenda of each meeting from March 21, 2013 onwards, which is now recorded as part of the Board's proceedings.

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 the Governor, SBP from October 19, 2011 till January 31, 2014 when the Federal Government accepted his resignation. He was the 17th Governor of the Bank and prior to his appointment as the Governor SBP, he had been associated with the Bank as Deputy Governor since March 2007 and was appointed twice as Acting Governor of the Bank in Jun-Sep, 2010 and July-Sep, 2011.

Mr. Ashraf Mahmood Wathra, Deputy Governor (Banking) was appointed as the Acting Governor, SBP by the Federal Government and he assumed charge from the close of business on January 31, 2014.

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 one or more Deputy Governors and Executive Directors/Chief Economic Advisers (Organogram is placed at **Annexure-C**).

Deputy Governors

The SBP Act, 1956 (as amended) provides that one or more Deputy Governors (DGs) may be appointed by the Federal Government for a term not exceeding five years. The terms of service of a DG are determined by the Federal Government and he performs duties as assigned by the Central Board. The Deputy Governors are entitled to attend the meetings of the Central Board without voting rights.

During the year FY13, the Governor was assisted by two DGs, one each in the area of Operations and Banking while Mr. Saeed Ahmad was appointed as Deputy Governor, SBP in January, 2014.

Mr. Kazi Abdul Muktadir, DG (Operations) was appointed on July 6, 2012. He has a long association with the Bank that dates back to 1997; during which time he has been the Executive Director of the Banking Supervision Group, Managing Director (NIBAF) and prior to that he also supervised key departments of the Bank.

Mr. Ashraf Mahmood Wathra was appointed as DG (Banking) with effect from March 11, 2013. He carries a wealth of over 35 years of experience in commercial & investment banking and has served domestic and international operations of leading national and international banks and financial institutions.

Mr. Saeed Ahmad was appointed as Deputy Governor, SBP with effect from January 21, 2014. Mr. Ahmad brings with him 45 years of experience in commercial & investment banking. His responsibilities include Financial Markets, Islamic Banking & Special Initiatives.

Central Board of Directors¹

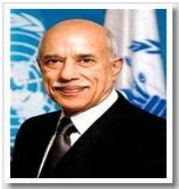


Mr. Yaseen Anwar, (former) Governor/Chairman²



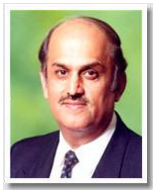
Dr. Waqar Masood Khan (Member, SBP Board since April 16, 2013)

Dr. Khan, in his capacity as Secretary, Finance Division, Government of Pakistan is an ex-officio member of the Board of Directors of the State Bank of Pakistan. He has held various senior positions during his service with the Government of Pakistan which include Special Secretary to the Prime Minister, Secretary, Economic Affairs Division, and Additional Secretary, Prime Minister's Secretariat. Prior to his current term, he had been appointed twice as Secretary, Finance Division.



Mr. 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 the National School of Public Policy, Pakistan. 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 Mills Limited. He has also been the President of the World Food Program.



Mr. M. Nawaz Tiwana (Member, SBP Board since February 26, 2013)

Former Managing Director, Pakistan International Airlines, Mr. M. Tiwana had held key positions in leading public and private enterprises. Presently he is serving on the Board of Directors of leading organizations. He is also fellow of Chartered Institute of Transport, UK, Fellow of Royal Aeronautical Society, UK, and has been Chairman of Chartered Institute of Logistics & Transport, Pakistan.



Mr. Shahid Ahmed Khan (Member, SBP Board since February 26, 2013)

A chartered accountant by profession, Mr. Khan has been providing financial and tax advisory to a large and varied national and international clientele. He is founding member of Anjum Asim Shahid Rahman (AASR) and as part of AASR, he has rendered a diverse range of advisory/consulting services in the areas of privatization, institutional reforms, public financial management and social sector interventions to name a few.

¹ Board composition is as of June 30, 2013.

² Mr. Ashraf Mahmood Wathra assumed the charge of the Acting Governor, State Bank of Pakistan from close of business on January 31, 2014.



Mr. Khawaja Iqbal Hassan (Member, SBP Board since February 26, 2013)

Mr. Hassan has a long association with the banking industry and during his banking career he established a commercial bank and a leading investment banking firm. He is serving on the Board of Directors of prominent public and private enterprises and previously has served on the Boards of institutions like the Civil Aviation Authority of Pakistan, Pakistan Steel Mills Limited and Habib Bank Limited among others. He has also served on many Task Forces established by the Government of Pakistan from time to time. Mr. Hassan was awarded the Sitara-i-Imtiaz by the Government of Pakistan for his meritorious contribution to national interests.



Mr. Mehmood Mandviwalla (Member, SBP Board since February 26, 2013)

Founding and Senior Partner of the law firm Mandviwalla & Zafar, Mr. Mandviwalla has extensive experience of over 30 years in all aspects of banking, commercial, and corporate law and has contributed in drafting various statutes and regulatory frameworks of the country. He has been associated with Pakistan Banks' Association for over 15 years and is presently serving as member board of directors and trustee of a number of renowned institutions. He is also a founder member of SAARCLAW and is currently serving as a member of its Executive Council.



Mr. Iskander Mohammed Khan (Member, SBP Board since February 26, 2013)

Mr. Khan is a prominent Pakistani businessman and is presently associated with Premier Group of Companies as Director. He has been involved in various commercial and industrial projects of national scope. He has also been chairman of several industrial bodies and was twice elected as Chairman of the Pakistan Sugar Mills Association. He has served on the Board of Directors of Pakistan State Oil, Oil and Gas Development Company, Zarai Taraqati Bank and Islamabad Stock Exchange. Mr. Khan is a chartered accountant and also holds a degree in Legislative Law.



Mr. Muhammad Hidayatullah (Member, SBP Board since March 15, 2013)

A chartered accountant by profession, Mr. Hidayatullah has been in the accounting and financial advisory profession for over 34 years. He is a Senior Partner of M. Hidayatullah & Company (MHCO) and has been engaged with a leading chartered accountancy firm. As part of MHCO, he has provided consultancy services for privatization, dis-investment, merger and acquisitions of top-notch public and private sector financial and business units involving local and overseas clientele.



Mr. Zafar Masud (Member, SBP Board since March 16, 2013)

Mr. Masud is a Founding Partner of Burj Capital, a leading private equity firm that also provides financial advisory services to domestic and international clients. Previously, he has been engaged with several international financial institutions in their domestic and international operations and served on their key management committees.

Corporate Secretary

The Corporate Secretary is the Secretary to the Central Board and the Committees of the Board and acts as a focal person for communication between the Board and the Bank management. Ms. Sahar Z. Babar is serving as the Corporate Secretary since March 01, 2011. She is responsible for recording the proceedings of meetings of the Board and its Committees and also 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 and availability of relevant information to the Board members to facilitate informed decision-making. In addition to her responsibilities of organizing meetings of the Central Board and its Committees, she also interfaces with the Federal Government on matters related to the Governor/Deputy Governors and Directors of the Board.

Committees of the Central Board

Committees of the Central Board extend the oversight function of the Board in certain specialized areas. The Board re-constituted the Board Committees in its meetings held in February and March, 2013. The details of the 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 six times during the year. It comprises of the following members:

Mr. Shahid Ahmed Khan	Chairman
Mr. Mirza Qamar Beg	Member
Mr. Khawaja Iqbal Hassan	Member
Mr. Iskander M. Khan	Member
Mr. Muhammad Hidayatullah	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 met once during the year. It has the following composition:

Mr. Yaseen Anwar	Chairman/Governor SBP ³
Dr. Waqar Masood Khan	Member/Secretary Finance
Mr. Khawaja Iqbal Hassan	Member
Mr. Iskander M. Khan	Member
Mr. Zafar Masud	Member

³ Position presently held by Mr. Ashraf Mahmood Wathra when he assumed charge of the Acting Governor, State Bank of Pakistan from close of business on January 31, 2014.

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 and revision 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, other than Deputy Governors. The Committee met five times during the year. It has the following composition:

Mr. Mirza Qamar Beg	Chairman
Mr. M. Nawaz Tiwana	Member
Mr. Mehmood Mandviwalla	Member
Mr. Zafar Masud	Member

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. It 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.

Corporate Management Team⁴



Mr. Ashraf Mahmood Wathra, Acting Governor/Chairman



Mr. Kazi Abdul Muktadir
Deputy Governor (Operations)



Mr. Saeed Ahmad
Deputy Governor (FM, IB & SI)



Mr. Riaz Riazuddin
Chief Economic Adviser (MP) and
Executive Director (HR)



Mr. Noman Ahmed Qureshi
Executive Director - FRM



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



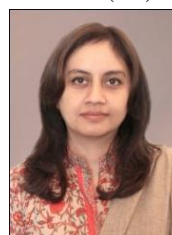
Mr. Qasim Nawaz
Executive Director (BSG)



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



Mr. Muhammad Haroon Rasheed
Acting MD SBP-BSC



Ms. Sahar Z. Babar
Corporate Secretary

⁴ CMT Composition is as of March 31, 2014.

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)
- Investment Committee of the Management
- Management Committee on Information Technology
- Management Committee on Properties and Equipment
- Enterprise Risk Management Committee
- Publications Review Committee
- Data-warehouse Committee
- BCP Committee

SBP Subsidiaries

The SBP Act, 1956 (as amended) 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 Central Directorate of National Savings. 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 public 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 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 programmes to SBP-BSC and other financial institutions.

Strategic Objectives of SBP

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

1 Maintaining Price Stability with Growth

1.1 Monetary Policy Formulation

The monetary policy easing, which started in FY12, continued in FY13 as well. SBP reduced its policy rate by 300 basis points (bps) in FY13, with a cumulative reduction of 500 bps in the last two years, bringing the *SBP reverse repo rate* to 9.0 percent. The key drivers of these policy decisions during FY13 were a sharper than anticipated decline in inflation and to promote dwindling private investment in the country. While taking these policy decisions, SBP did acknowledge the risks that emanate from the fiscal and external sectors of the economy.

In the first half of FY13, SBP lowered its policy rate by a cumulative 250 bps. The policy rate was initially lowered by 150 bps to 10.5 percent in August 2012 and then by 50 bps each in October and December 2012 to reach 9.5 percent. At the beginning of FY13, amid fiscal slippages and plummeting financial flows, SBP was wary of the high inflation and low economic growth equilibrium in the economy. However, SBP decided to assign a higher weight to growth considerations while taking its monetary policy decisions. Initially SBP was expecting CPI inflation to remain in the double digits for FY13. Later on, the likelihood of meeting the 9.5 percent inflation target for FY13 increased due to significant reduction in administered price of gas and decline in food inflation. The core inflation also declined, which provided further support to subsequent reduction in the policy rate.

During most of H2-FY13, SBP remained cautious in further easing of the monetary policy. In its policy decisions of February 2013 and April 2013, SBP kept the policy rate unchanged at 9.5 percent. The key determining factor in keeping the policy rate unchanged was the anticipated difficulties in managing the balance of payments position. However, a continuous decline in inflation had been increasing the real cost of borrowing which prompted SBP to further reduce its policy rate by 50 bps to bring it to 9.0 percent in June 2013.

1.2 Monetary Policy Department

Monetary Policy Department (MPD) is a core department of the State Bank of Pakistan which produces research based analysis for formulation of monetary policy. It provides intellectual, analytical, and information support to the SBP Central Board of Directors and senior management of SBP for taking monetary policy decisions. In this regard, the department is contributing by drafting monetary policy statements (MPS), compiling monetary policy information compendium and preparing forecasts of key macroeconomic indicators.

During FY13, MPD made significant progress in achieving the strategic goals of the SBP related to monetary policy. With respect to research on monetary policy transmission mechanism, its various channels such as the interest rate, exchange rate, and credit channels were explored further. The department initiated work on estimation of the interest rate pass through, testing the uncovered interest rate parity theory of exchange rate, role of subsidized lending and the balance sheet of corporate in the credit channel. These projects will help in further enhancing our understanding of the effectiveness of monetary policy in Pakistan.

MPD also achieved several improvements in its operational tasks. Updated econometric techniques and computing software were used to improve the forecasts of key macroeconomic variables. Inflation forecasting has been further enhanced by analyzing disaggregate CPI inflation data and

incorporation of Bayesian estimation for vector-auto-regression models. These additions have helped significantly in scenario analysis by exploring the impact of anticipated and un-anticipated shocks on CPI inflation.

Forecasts of credit to private sector businesses and credit to public sector enterprises have been added to the list of macroeconomic variables being projected. Based on extensive review of the financial statements of major listed companies, which represent key sectors of the economy, MPD aims at better understanding of corporate profitability and industry outlook. An assessment of financial sector is also carried out by specifically looking at (a) the lending behavior of the banks, (b) the behavior of deposits; and (c) the banking sector spreads. The purpose is to understand the dynamics of the supply of credit and the risk taking behavior of the banking sector, besides forecasting deposits of private sector and personal categories. Moreover, assessment of financial markets and liquidity conditions is also carried out to analyze the liquidity in the market and the movements in market interest rates.

These forecasts are combined into a macroeconomic framework for preparing consistent projections of key macroeconomic indicators. The quality of macroeconomic projections was improved by using simple time series models for forecasting real GDP and Large Scale Manufacturing Index. Going forward, the focus will be on investigating more behavioral aspects of key macroeconomic variables to improve the quality of projections. Moreover, debt sustainability analysis has been initiated to make it a regular component of medium-term macroeconomic framework projections.

Keeping in view the important role of communication in making monetary policy effective, the department dedicated significant effort for effective dissemination of its monetary policy stance. To provide timely direction to the stakeholders, SBP announced its monetary policy six times during FY13. The two monetary policy statements, produced in August 2012 and February 2013, provided detailed analytical and forward-looking assessment of the economy that shed light on factors determining the monetary policy stance. While brief statements were issued in October 2012, December 2012, April 2013, and June 2013. The department also participated in various forums, such as interviews and discussions on the electronic media, to explain the monetary policy decision; and attended to the queries of the various stakeholders.

During FY13 the department organized discussion forums for financial market analysts and banks' treasury heads to share knowledge on concepts, procedures, and issues relating to monetary policy implementation in Pakistan. The monetary policy information compendium was further improved by adding more data and historical trends. The monetary policy webpage is in final stages of review and is likely to be placed on the SBP website in FY14.

With the objective of strengthening the capabilities of SBP officers in applied economics research, and stimulating discussions on contemporary macroeconomic issues, SBP started a Working Paper (SBP WP) Series in September 2001. The then director of the Research Department served as Editor for this series since 2001. 52 papers were published by FY12 as SBP WPs. The Series is now open to all authors, including those from outside SBP, for submitting an economics research paper. The Director, MPD is now Editor of this SBP WP Series. As earlier, the submitted research paper is peer reviewed and is presented in a seminar. If recommended, the revised paper, in the light of comments received, is released on the SBP website. During FY13, 9 such papers (SBP WP No. 53 to 61) were released by the Bank.

1.3 Research Department

The idea behind current Research Department's (RD) agenda is to help the policy-maker study the economy in a structure that allows economic agents (households, firms, banks, government and the central bank) to interact with one another in a manner that incorporates backward and forward-looking behaviors of these agents. This customized structure would allow the policy maker to have a superior feel for the economy, help pin down likely movements in the economy when an unexpected change arrives and also understand how policy actions are likely to affect key variables that are of interest to the policy maker. Such a structure is important as it alleviates the limitations of information being presented in an isolated, disconnected and backward-looking manner.

There are two approaches to go about building economic structures to overcome the above limitations: (1) an off-the-shelf approach where one would borrow from the literature and try to fit their models to Pakistan's case assuming that the experiences of agents studied in the literature and our economic agents are similar; (2) build a structure which has internalized the micro economic features of economic agents in various segments of the Pakistan Economy - a micro-founded macro model. The latter approach necessitates developing complex model-based structures and their empirical testing and also requires collection and examination of micro data on the behavior of key agents. RD contributes to policy making using the latter approach and most contributions are internationally peer reviewed.

During FY13, RD established the annual stylized facts of Pakistani business cycle fluctuations as well as completed a simple and augmented Real Business Cycle model for Pakistan. Furthermore, in the second iteration the Dynamic Stochastic General Equilibrium (DSGE) model of Pakistan contained price and wage rigidities in a simple Bayesian DSGE model for both annual and quarterly frequency. In addition, a fresh DSGE model with households, firms, commercial banks, monetary authority and Government is developed. This model is used to explore/understand the implications of Government borrowing on the lending behavior of commercial banks (to private sector) as well as on the aggregate economy. Results from this model appeared in a special section of the quarterly report FY13.

Research Department continued its micro level research agenda with the objective to facilitate the management in forward-looking policy decision making. In this regard, consumer confidence and inflation expectations indices are built and are being used regularly by the management of the Bank in the monetary policy deliberations. These are also used by RD itself while contributing to write up on explaining inflation, in SBP's annual and quarterly reports on the state of Pakistan economy. For the benefit of external stakeholders since Dec 2013, State Bank of Pakistan publishes survey results relating to the indices of the consumer confidence and inflation expectations, and the background research on its website (<http://dsqx.sbp.org.pk/ccs/index.php>).

Research Department also initiated a credit assessment survey during FY13 through emails to selected senior officers of all domestic and foreign banks across Pakistan, to understand the dynamics of demand and supply channels of corporate as well as SME business loans in the country. This survey is in its developmental stage. We expect this would be a regular feature next year onwards. Furthermore, RD also launched a novel project to understand, in an experimental setup, issues relating to supply of and demand for credit by farmers. This special focus on agriculture credit is in view of its stagnant agricultural growth in Pakistan. The learning from this interesting experiment will be available in FY14.

This department has also contributed to the SBP WP Series during FY13. For example the work on 'Sticky Wages in a Developing Country: Lessons from Structured Interviews in Pakistan' is an

important contribution. The interviews for this research study were conducted from a sample of managers of formal sector manufacturing firms and it provided the basis for a comparison with studies performed in the developed countries and how relative wage-stickiness affects monetary policy transmission.

Research Department also publishes 'SBP Research Bulletin'. With the objective of making SBP Research Bulletin a journal of international quality, few changes were introduced in the review process and the editorial board during FY13. The journal is now open to contributions outside SBP. The manuscripts submitted to the Bulletin are first screened by the board itself. If the manuscript shows potential for the Bulletin, only then it is sent to the reviewers. Moreover, a short papers/notes section is also added in the Bulletin to encourage young economists to submit their research on recent macroeconomic issues. The Issue published during 2013 (i.e. Volume 9) contained two articles, two short notes, an opinion, and a review.

Last year RD estimated the overall quarterly GDP and its various subsectors on current prices and constant prices (1999-2000) from production as well as expenditures side for the period of FY73-FY10. During FY13, it extended its estimation coverage of said quarterly GDP series for the next two years (FY11-FY12) and an overall paper was published in SBP Research Bulletin, Volume 9. The quarterly GDP data was used in Pakistan's general equilibrium models.

Annual Report (on the Performance) of State Bank of Pakistan (and its subsidiaries) for the year FY12 was compiled by the Research Department. It was based upon the contributions from Bank's departments, SBP-BSC, and NIBAF.

During FY13, this department of the Bank organized the following events of international repute:

26th SAARCFINANCE Group Meeting

In pursuance of the decision of 24th Group Meeting held in Nepal on 16th May 2012, State Bank of Pakistan hosted the 26th SAARCFINANCE Group Meeting and SAARCFINANCE Governors' Symposium back-to-back with the Meeting of the Board of Directors of Asian Clearing Union at Islamabad during June 18-19, 2013.

Governors from SAARC member Central Banks/Monetary Authorities and Finance Secretaries of the SAARC countries participated in the 26th SAARCFINANCE Group Meeting held on June 18, 2013. Dr. Fazeel Najeeb, Governor and Chairman of the Maldives Monetary Authority, chaired the Meeting. Key decisions made during this Meeting, included the approval of amendment to Article 4 of the terms of reference of the SAARCFINANCE, launching of SAARCFINANCE 10-year history at SAARCFINANCE Portal, and the SAARCFINANCE scholarship scheme.

SAARCFINANCE Governors' Symposium

State Bank of Pakistan also hosted the 9th SAARCFINANCE Governors' Symposium on 18th June, 2013 at Islamabad. The focus of the Governors' Symposium was to gauge the impact of euro debt crisis on the SAARC region. Besides Pakistan, the delegates from SAARC member countries participated in the event. Mr. Yaseen Anwar, Governor, State Bank of Pakistan chaired the Governors' Symposium. Governors of SAARC central banks or their representatives presented their country papers on the subject issue. Dr. Ishrat Husain (former SBP Governor, currently Dean & Director of IBA, Karachi) and Dr. Ehtisham Ahmad (former IMF official, presently Senior Fellow at the LSE Asia Research Centre & ZEF University of Bonn, Germany) also presented their views as key note speakers at the occasion.

Meeting of SAARC Central Banks' Economists

State Bank of Pakistan organized the first (roundtable) meeting of senior officials of SAARC central banks at Islamabad on June 19, 2013. The main objective of this meeting was to have an informal discussion on the common challenges/issues being faced by the SAARC countries in the backdrop of current international economic developments. The participants of the meeting gained a lot from discussion and benefitted from country experiences on specific economic issues. Besides Pakistan, the delegates from Afghanistan, Bangladesh, Bhutan, India, Nepal and Sri Lanka participated in the meeting.

19th Zahid Husain Memorial Lecture¹

The 19th Zahid Hussain Memorial Lecture was delivered by the Cambridge University Prof. Ha-Joon Chang on 'Rethinking Role of the State in Economic Development'. The participants of the lecture included the prominent economists of the country, bankers, diplomats, Government officials, and the officers of SBP. Unlike previous years, SBP organized the memorial lecture alongside the ACU/SAARCFINANCE meetings in Islamabad.

1.4 Economic Policy Review Department

Economic Policy Review Department (EPRD) evaluates performance of the economy and disseminates its analysis through SBP flagship publications, i.e., Annual and Quarterly reports in accordance with the statutory provisions of the State Bank of Pakistan Act, 1956. It also actively participates in discussions related to monetary policy formulation. During FY13, it prepared the Annual Report on the state of the economy in FY12, and three Quarterly Reports on prevailing economic conditions during FY13. These reports were submitted to both Houses of Parliament.

In addition to regular functions of publishing reports and giving inputs in monetary policy formulation, EPRD also responded to a number of references/requests for information received from various Government agencies/ ministries; and prepared speeches for the Governor.

EPRD has been continuously improving the quality and depth of analysis of Pakistan's economy in its Annual and Quarterly reports. Like previous years, the SBP reports prepared in FY13 also initiated debates on key economic issues among academia, media persons, and the general public. The Annual Report highlighted issues like (a) constraints on growth due to energy shortages; security concerns; and floods in two consecutive years; (b) high growth in consumption supported by strong worker remittances, a vibrant informal economy, and higher fiscal spending; but low level of investment in the country; (c) unsustainable fiscal deficit which contributed to inflation, squeezed out private investment, impacted the balance sheet of commercial banks, and pushed the country into a debt trap; and (d) lack of decisive reforms to solve the energy problem, revitalize PSEs and to consolidate the fiscal situation.

SBP Quarterly reports for FY13 analyzed economic developments during respective quarters of the year and identified areas of reforms. A number of boxes and special sections were also included in these reports to spotlight key issues, in addition to regular assessment of the economy, as given below:

¹ State Bank of Pakistan has a tradition of organizing a prestigious series of Zahid Husain Memorial Lectures in the memory of its first Governor. Starting from the year 1975, 19 lectures have been organized so far.

- The first Quarterly Report had a box on consumption demand which explored possible factors behind high growth in consumption on the one hand (as was evident from imports of consumer durables, setting up of new food processing industries, and sustained growth in construction activity) and negative growth in production of home electronics and automobile – which are key metrics for consumer demand – on the other.
- The second Quarterly Report examined the declining trend in inflation over the past two years. It argued that the recent decline might be traced to a combination of favorable circumstances and policy decisions. It also explained the links of inflation trend with exchange rate, administered prices, and global commodity prices.
- The third Quarterly Report included four boxes on issues of (i) rebasing of national income accounts by Pakistan Bureau of Statistics (PBS) from the fiscal year 1999-2000 to 2005-06; (ii) tax amnesty schemes; (iii) sharp rise in public debt; and (iv) new hybrid indicators of reserves adequacy. Moreover, this report also included a special section on macroeconomic dynamics with a dominant borrower (Government). It highlighted a difficult trade-off faced by State Bank of Pakistan, i.e., with an insatiable Government appetite for credit, how does the central bank manage the quantum of inflationary finance and yet ensure adequate credit to the private sector.

Apart from the above mentioned boxes and special sections which were parts of the SBP flagship reports, this department also prepared a number of stand-alone papers on different macroeconomic issues during the year under review. For example, a note was prepared (for senior management of the Bank) on the solution to the natural gas crisis which focused on household consumption patterns, energy requirements and the energy mix; and suggested a possible gas allocation framework. Another paper was written on optimal liquidity for banks in Pakistan and was submitted to the Editor, SBP Working Paper series. A research paper (jointly written by officers of EPRD and RD) on price level convergence was published in *Pakistan Economic and Social Review*; 51:1 (2013).

EPRD is also playing its role in achieving key goals under Strategic Plan 2011-15 in collaboration of with other departments of the Bank. It provides its feedback to MPD in projections of key variables in macroeconomic framework. It also gives its input to RD in developing macro model, experimental economics studies on credit mechanism in rural areas of Pakistan, survey based research, etc. EPRD is currently undertaking a historical analysis of overall investment as well as its sectoral distribution. Once these trends are reviewed at a broader level, it will carry out micro surveys in collaboration with the RD to identify the binding constraints for low investment in Pakistan.

1.5 Statistics and Data Warehouse Department

Statistics and Data Warehouse Department (S&DWD) is responsible for collection, compilation and dissemination of statistics on economic, financial and monetary aspects pertinent to the central banking. The department is primarily engaged in collecting and compiling data with different periodicities on money and banking, international trade, balance of payments, international investment position, exchange rate, foreign exchange reserves, foreign investment, private external debt, and flow of funds. Data in various formats/tabulations in these areas are disseminated through SBP website and also in form of publications. An 'Advance Release Calendar' is available on the Bank's website. The department regularly brings out two monthly, two quarterly, one bi-annual and eight annual publications. Therefore, like statistics departments of central banks around the world, this department supports in formulation, implementation and surveillance of monetary, exchange rate and other policies of the Bank. S&DWD also provides statistical data to the other policymakers, Government, academia and other stakeholders for research/analysis, policy formulation and decision making.

Modern & state-of-the-art systems and well-defined procedures are in place for collection, compilation and timely dissemination of statistics on regular basis. The systems of data collection and processing have undergone major improvement over the past few years by making extensive and efficient use of information technology. Most of the data are collected electronically and processed using indigenously developed software. For automation of business processes of SBP, and effective use of information technology, this department also coordinates with other departments of the Bank like it assists ISTD in automation processes through Data Warehouse. One major achievement of this department is the utilization of its most important database, International Transactions Reporting System, in all field offices of SBP-BSC for verification of exporter performance also known as Export Earning Export Finance (EEEF) verification.

To follow recent developments taking place in the area of official statistics at global level, for harmonization and improvements of such statistics, this department implements the international standards² (**Box 1.1**).

Box 1.1: Major Steps taken by the S&DWH Department for Improvements in Data Management System

Statistics & Data Warehouse Department has brought many improvements in compilation of data, dissemination procedures, and adopting international standards by taking a number of steps during FY13 including:

- Implementation of the guidelines of IMF 6th Manual of Balance of Payments Statistics (BPM6).
- After adoption of latest classification systems such as Harmonized coding System (HS) for classification of trade data and International Standard Industrial Classification 3.1 for private sector business, S&DWD is working to implement ISIC 4.
- Acquisition and compilation of data from non-bank financial institutions.
- Compilation of International Investment Position (IIP) of Pakistan on quarterly basis.
- Updated metadata of Coordinated Direct Investment Survey (CIDS), Coordinated Portfolio Investment Survey (CPIS) and International Investment Position (IIP) on revised format of IMF.
- After Implementation of phase 1 of the System of National Accounts 2008 (SNA 2008) for compilation of Flow of Funds Accounts, the phase 2 is in progress.
- Report on Sources & Uses of Funds, for 'non financial public sector' for FY11 compiled and released.
- Compilation and dissemination of regional data on advances and deposits.
- Financial Statement Analysis of the financial sector of Pakistan.
- Implementation of the recommendations made by the ROSC missions of IMF.

² The S&DWD follows General Data Dissemination System (GDDS) of International Monetary Fund and fulfills the requirements of Special Data Dissemination Standard (SDDS) of the Fund.

2 Broadening Access to Financial Sector

2.1 Infrastructure, Housing & SME Finance Department

2.1.1 Small and Medium Enterprise Finance

Lending by banks to SMEs showed a declining trend over the past few years. Credit from formal sources to SMEs was Rs 234 billion as of end FY13 against Rs 248 billion on June 30, 2012; showing a decline of 5.8 percent. With this decline, the SMEs' loan proportion to the total loans of banks also decreased from 6.5 percent in FY12 to 6 percent in FY13. During last one year number of SME borrowers also decreased from 147,578 to 144,141. This decline in SME financing can be attributed to poor law and order situation, rising cost of doing business, and energy shortages. Besides, high ratio of NPLs in SMEs also kept banks from taking exposure on this sector. Furthermore, banks increased investment in government papers and commodity operations financing also caused crowding out effect on SME financing.

SBP, cognizant of the declining trend in SME financing, took following initiatives during the year to reverse the declining trend primarily through (i) improvements in regulatory regime; (ii) direct market interventions (like Mark-up subsidy and Guarantee Facility for Rice Husking Mills in Sindh); and (iii) capacity building of banks.

SBPs Initiatives to Promote SME Finance

Revised Prudential Regulations for Small and Medium Enterprise (SME)

State Bank of Pakistan issued revised Prudential Regulations for SME Financing on May 7, 2013. The revised SME PRs created more focus on Small Enterprises, by defining them separately (from the Medium Enterprises) and formulating more specific and simpler regulations for them. Given the importance of SMEs to the country's economic growth and employment prospects, SBP issued these facilitative SME Regulations to encourage lending to such enterprises (**Box 2.1**).

Box 2.1: Revised Prudential Regulations (PRs) for Small and Medium Enterprise (SME)

The new set of Regulations aims at improving the current Regulatory Environment in order to boost lending to SMEs. The revised SME PRs underscore importance of cash flow analysis and other proxies in assessing the primary source of repayment of SME borrowers and also emphasize on greater use of technology and documentation for disciplined credit control for monitoring of credit quality. Since Medium Enterprises are relatively less credit constrained (compared to Small Enterprises) in accessing loans on account of their size and sophistication level, a separate definition for Medium Enterprises has been given in revised Regulations, and their individual as well as aggregate borrowing limits have been revised upward.

Revised PRs are applicable with immediate effect for the fresh financing facilities. Banks/DFIs need to segregate their existing SME portfolio according to the new definitions and revised classification criteria. For this purpose, banks/DFIs are allowed an implementation period up to September 30, 2013.

Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh: In order to modernize and upgrade rice husking mills of Sindh, SBP introduced a Mark-up Subsidy and Guarantee Facility for the Rice Husking Mills in the province; in collaboration with the Government of Sindh. SBP provides mark up subsidy of 6.25 percent and credit risk sharing facility of up-to 30 percent against the long term loans extended to rice husking mills of Sindh under SBP Refinancing Scheme for modernization of SMEs.

Credit Guarantee Scheme for Small and Rural Enterprises: SBP put in place a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises, which allowed banks to develop a portfolio of fresh borrowers who are creditworthy, but could not fit into the usual credit parameters of banks, especially

when collaterals were required. Under CGS, SBP shares 40 percent of credit losses of lending banks on their loans to Small and Rural Enterprises. SBP allocated credit exposure limits of Rs 6.585 billion (with SBP Guarantee Coverage Limit of Rs 2.634 billion) for the FY13 to 10 banks selected as Participating Financial Institutions (PFIs) under the Scheme.

Capacity Building Programmes for SME Bankers

- **Grass Root Training Programmes:** State Bank of Pakistan took many initiatives for the Development of SME sector, specifically for capacity building of banks. Grass root cluster training programmes was one of such initiatives for branch level officers. Three training programmes were organized in Faisalabad, Hyderabad and Quetta during FY13.
- **Scaling Up SME Banking Training Programme:** State Bank, in collaboration with IFC, organized a three day training programme for mid-level bankers during 7-9 January, 2013. The purpose of this training programme was to educate bankers in key areas like strategy formulation, quality and strength of human resource, product design etc. The international consultants/trainers were engaged for this programme.
- **Half-Day Roundtable for Presidents/CEOs:** Half-Day roundtable for Presidents/CEOs was organized on 16th January, 2013 to discuss effective strategies for SME banking in the light of global best practices.

SME Cluster Survey Project: During FY13 with the technical assistance of DFID UK, SBP hired the services of a local consultant to undertake survey of 10 important SME sub-sectors in the country. Project consultants completed the survey of over 1000 small businesses in selected 10 sectors¹ and submitted survey reports. These research reports contained an industry overview and chapters on market assessment, risk assessment, financial benchmarking and proposed banking products for the sector.

Refinance Schemes for SMEs: SBP also operates various concessionary financing schemes for promotion of SME sector like Refinance Facility for Modernization of SMEs, Scheme for Financing Power Plants using Renewable Energy, Refinance Scheme for Revitalization of SMEs in KPK, Gilgit-Baltistan & FATA, and Financing Facility for Storage of Agricultural Produce (FFSAP). The validity period of these schemes was extended during FY13 for one year, upto December 31, 2013.

Secured Transaction Framework: A draft Secured Transactions Law has been prepared through a legal consultant and the same is being finalized in consultation with relevant stakeholders. The law aims at establishment of a 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.

2.1.2 House Finance Market

The housing and construction sector of Pakistan has huge potential to make significant contribution in the overall economic development. Through its multiplier effect, with a host of beneficial forward and backward linkages with more than forty allied industries, the housing sector of Pakistan can act as one of the key drivers of the economy, as has been the case in many developed and developing countries.

¹ Cotton ginning, marble & marble products, plastic products, hand-made carpets, leather products, dry-cleaning & laundry services, beauty parlors & spa, super markets & retail shops, printing press, and gem & jewelry.

At present, 27 commercial banks, House Building Finance Company Limited (HBFCL), and two microfinance banks are catering to housing finance needs. HBFCL is the only specialized institution in the country, which has been providing housing finance to public since 1952, while commercial banks entered the mortgage business during FY03.

After showing a promising growth till 2008, the housing finance declined afterwards. The gross outstanding reported by banks and HBFCL, as of June 30, 2013, was Rs 52.2 billion, as compared to Rs 57.1 billion as of June 30, 2012 showing a decline of Rs 4.8 billion (8.5 percent) over the year. Of the total outstanding as of June 30, 2013, commercial banks accounted for Rs 39.8 billion; a 17.7 percent decline since June 30, 2012. The outstanding loans of HBFCL fell by 4.7 percent to Rs 12.3 billion in FY13. Number of borrowers also decreased from 87,059 to 79,478 during FY13. NPLs also decreased from Rs 19.1 billion during FY12 to Rs 17.6 billion in FY13 registering a decline of 7.6 percent during the year.

SBP's Initiatives to Promote Housing Finance

Following initiatives were taken by SBP in FY13 for the promotion of housing finance in Pakistan.

Mortgage Refinance Company: A meeting of SBP and IFC representatives was held with the high level government officials to discuss the incorporation and way forward for the mortgage refinance company (MRC) in current economic scenario. It was decided in the meeting that SBP shall undertake the fresh round of consultation with stakeholders to carry forward the initiative according to the prevalent economic environment. MRC business plan and financial model prepared in 2009 would also be revalidated. The results of re-validation study would be presented to the stake-holders as well as the Ministry of Finance and Planning Commission on receipt of the comprehensive report from the IFC.

Formation of Housing Finance Consultative Group: To flourish the housing industry and expand the outreach of housing finance, a housing finance consultative group with members from key stakeholders i.e. Association of Builders and Developers, Association of Mortgage Bankers, HBFCL, MoH&W, MoF & SBP. SBP has made an effort to increase coordination among various stakeholders. First meeting of the group was arranged by SBP in April, 2013, in which Terms of References (ToRs) of the consultative group were discussed and finalized.

Seminar on Housing Microfinance: Being a developing country, Pakistan is facing acute shortage of houses especially in low income groups. Though microfinance banks are operating to cater the need of low income groups; however, due to non availability of suitable housing finance products large chunk of population remains underserved. In this regard, SBP held a seminar on housing microfinance to discuss the problems of microfinance banks and way forward to cater the housing finance needs of low income group. Representatives from commercial banks, NGOs, MFBs and MFIs participated in the seminar. Following recommendation of the seminar; a working group was formed to work for suitable products for low income group. Working group consists of members from commercial banks, MFBs and low income housing builders.

Workshop on Regional & National Models of Housing Finance: SBP & Association of Mortgage Bankers (AMB) jointly organized the workshop on Regional & National Models of Housing Finance. Mr. Ashraf Mahmood Wathra, Deputy Governor, SBP made the inaugural speech. Contents of the workshop can be accessed on <http://www.sbp.org.pk/departments/ihfd-house.htm>

Capacity Building Programmes: State Bank of Pakistan (SBP) is extending its endeavors to flourish the housing finance system in the country. Efforts are also being made to build the capacity of the financial industry related to housing finance. During FY13, 8 different training programmes were organized in various cities across the country i.e. Islamic Housing Finance, Recoveries & Foreclosures, Land Titles, and Recovery of Willful Defaults in Housing Finance, etc. which were highly appreciated by the participants.

2.1.3 Infrastructure Finance Market

Quality Infrastructure has significance for sustainable development of an economy. Infrastructure services encourage new investment and underpin many aspects of economic and social activity including implications for environmental sustainability, economic growth and poverty reduction. Further, improved infrastructure quality and quantity reduces inequality in an economy.

Infrastructure development requires considerable upfront capital for benefits that spread over longer time. Banks/DFIs participate only when there is a clear assurance of a project's viability or/and government's support. Banks/DFIs in Pakistan have been participating in such different projects. An analysis of the infrastructure financing profile during FY13 depicts the following trends.

The stock of infrastructure finance decreased from Rs 286.3 billion in FY12 to Rs 267.0 billion during FY13 registering a downfall of 6.7 percent, mainly attributable to telecom and power generation sectors. Sector-wise analysis reveals that the lion's share (66.3 percent) in total outstanding Infrastructure financing remained with Power Generation sector, followed by Telecom sector (13.0 percent). Furthermore, in FY13 a sectoral review of the total sanctioned amount (Rs 505.4 billion) revealed that 52.7 percent was the share of power generation sector, followed by telecom sector with 19.2 percent share, and petroleum sector with 9.3 percent. NPLs increased from Rs 17.5 billion to Rs 18.6 billion, YoY basis.

Major initiatives to Promote Infrastructure Finance

In FY13, SBP took many steps for the development of infrastructure finance in the economy. The major initiatives were as follow.

Consultative Working Group: SBP established a Consultative/Working Group on Infrastructure Financing in the country. Since, there is an increasing recognition of the fact that different stakeholders in both the public and the private sectors have to work in close coordination to find out ways and means to meet the infrastructure financing requirements of the economy.

Capacity Building Programmes on Infrastructure Finance

- A two-day's training programme on Infrastructure Project Finance was conducted on November 13-14, 2012 to enhance the knowledge and understanding of the participants in development of their technical side in the area of infrastructure project finance. More than 30 officers from different banks and DFIs participated in the training programme, which proved to be very useful and knowledgeable for the participants.
- A two days' programme on Infrastructure Project Financing was held at NIBAF, Islamabad on March 18-19, 2013. 40 officials from banks & DFIs attended the sessions. The programme covered topics like Introduction to Project Finance – a Lenders' Perspective, SBP Guidelines/Regulatory Framework, Project Feasibility, Credit Evaluation/Appraisal, Risk Allocation, Project Financing Documentation, Public Private Partnerships (PPP), Successful PPP Programmes, and Domestic Experiences in Project Financing etc.

- A one day programme on Islamic Infrastructure Project Financing was held at SBP BSC (Bank), Lahore on May 21, 2013. The programme covered topics like SBP Guidelines/Regulatory Framework on Infrastructure Project Financing, Islamic Modes of Financing for Infrastructure Projects and Challenges in Long Term Islamic Financing.

2.1.4 SBP Refinance Facilities

SBP, during FY13, continued pursuing its objectives of facilitating the exporters by providing financing under its Export Finance Scheme (EFS) on the one hand and enhancing the scope of various long-term and short-term financing schemes on the other hand aiming at the industrialization of the country. In order to promote the export of engineering goods, SBP introduced Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) during the year and to promote Power Plants using Renewable Energy in the country, SBP enhanced the capacity limit from 10MW to 20MW under the Scheme for Financing Power Plants Using Renewable Energy. To promote the exports of Services Sector, SBP has introduced a new Long Term Financing Facility for the Services Sector (LTFF-SS), which will provide necessary finance to the exporters of services sector for adoption of new technologies and enhance their capacities to perform better services in line with the international competitive environment.

Markup rates of Export Finance Scheme (EFS) and Long Term Financing Facility (LTFF) were rationalized keeping in view the movement in Weighted Average Yields of 6 month T-bills and PIBs of relevant tenors.

Export Finance Scheme (EFS): The outstanding financing under EFS stood at Rs 177.8 billion in FY13 against overall limits of Rs 255.1 billion. Outstanding financing showed an increase of 8 percent from previous year's outstanding financing of Rs 164.8 billion.

Long Term Financing Facility (LTFF): The outstanding financing under LTFF was Rs 36.0 billion against 344 borrowers at the end of June 30, 2013. Textile sector is the largest recipient of this facility with Rs 18.9 billion (52.5 percent) against 275 borrowers. Of all the SBP's long term financing facilities, LTFF has 95 percent share that shows the primary focus of SBP remained on promotion of exports through long term investment.

Other Refinance Facilities: SBP introduced some others financing facilities during FY13 such as: **Financing Facility for Storage of Agricultural Produce** was introduced on June 04, 2010 to encourage Private Sector to establish Silos, Warehouses and Cold Storages. Outstanding refinance provided by SBP under this facility in FY13 was Rs 2.2 billion.

Refinancing Facility for Modernization of SMEs was introduced to encourage the sponsors of SMEs to modernize their mills/units to produce quality products. Outstanding refinance under this facility was Rs 94.0 million during FY13.

Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas was introduced for agri production/working capital finance to Farmers and Small & Medium Enterprises (SMEs) in districts affected by floods of 2010 as notified by National Disaster Management Authority (NDMA). Outstanding refinance under this scheme was Rs 2 billion at the end of FY12 which remained almost the same at the end of FY13.

Major Initiatives taken for Trade, Industry and Services Sectors: SBP took some important initiatives for the betterment of trade, industry and services during FY13; as presented in **Box 2.2**.

Box 2.2: SBP's Major Initiatives for Refinance Facilities

SBP launched Export Finance Facility for Locally Manufactured Machinery (EFF-LMM), vide IHSMEFD Circular No. 04/2013, with a view to promote the export of Locally Manufactured Plant & Machinery.

Technology Up-gradation Fund (TUF): Federal Government had announced TUF Scheme under Textile Policy 2009-14 for Textile Sector to support investment for upgrading textiles machinery and technology. The SBP vide IH&SMEFD Circular No. 03 /2012 issued necessary instructions to banks/DFIs regarding implementation of said Scheme of the Government.

Long Term Financing Facility for the Services Sector (LTFF-SS) introduced to promote the exports of Services Sector. LTFF-SS will provide necessary finance to the exporters of services sector for adoption of new technologies and enhance their capacities.

SBP has extended the expiry date of the Refinance Facility for Modernization of Small & Medium Enterprises (SMEs), Refinance Scheme for Revitalization of SMEs in Khyber Pakhtunkhwa (KPK), Gilgit-Baltistan (GB) and the Federally Administered Tribal Area (FATA), Financing Facility for Storage of Agricultural Produce (FFSAP), and Agri Loans Refinancing & Guarantee Scheme for War Affected Areas of KPK and FATA by one year. These facilities / schemes will now remain valid up to December 31, 2013. SBP has also extended the validity period of Refinance Scheme for Revival of SMEs & Agricultural Activities in flood affected areas from November 2012 to November 2013.

SBP enhanced scope/expiry time of the **Scheme for Financing Power Plants using Renewable Energy** allowing procurement of plant & machinery to be used in new Renewable Power Projects with a capacity of up to 20 MW.

SBP, in order facilitate banks to increase financing under Islamic Export Refinance Scheme, allowed un-encumbered GoP Ijara Sukuk to be included in the Musharaka Pool (MP) created under IERS vide IH&SMEFD Circular Letter No 5 / 2013.

SBP allowed financing for Soda Ash Plant and Machinery under LTFF for new imported and locally manufactured plant, vide IH&SMEFD circular letter No. 10 / 2012.

SBP allowed further relaxations to exporters under Export Finance Scheme part-II to include the export proceeds realized up to August 31, 2012 for entitlement of limit in the EE-1 statement for the year FY13.

Payment of Mark-up Rate Support under Textile Policy Initiatives 2009-14: On budgetary allocation for FY13 by Ministry of Textile Industry, SBP announced to release 22 percent Export Finance Mark up Rate Facility; and 100 percent Mark-up Rate Support on Long Term Loans to the beneficiaries of Textile Sector.

2.2 Agriculture Credit & Microfinance Department

2.2.1 Agricultural Finance

The banks surpassed the indicative agri (agriculture) credit disbursement target set by State Bank of Pakistan for the year FY13. Against the target of Rs 315 billion, the banks actually disbursed Rs 336.2 billion during the year, which is 14.4 percent higher than the disbursement of Rs 293.8 billion in the preceding year. The outstanding portfolio also showed an increase of 16 percent and reached to Rs 257.1 billion as on 30th June 2013 compared to Rs 221.5 billion as on June 30, 2012. The achievement of agri credit disbursement target during the year was extremely difficult in the backdrop of overall decline in the private sector credit and high risk perception of banks about agri financing due to unpredictability of calamities like floods, heavy rains, plant diseases/viruses, etc. However, SBP adopted a multipronged strategy and made all out efforts in achieving the target which inter alia included: sensitizing banks to adopt agri financing as a viable business line, follow up of targets with the top management of banks and their agri credit heads, introduction of agri lending diversification Project in the under-served districts, close co-ordination with provincial revenue departments to facilitate the One Window Operation for timely completion of necessary formalities, holding of farmers' awareness and financial literacy programmes at grass root level and capacity building of banks' field officers through Batch Training Programmes. The contribution by SBP BSC field offices in monitoring the regional targets was also greatly helpful.

Detailed analysis showed that five large banks disbursed Rs 172.8 billion against their target of Rs 153.5 billion, ZTBL disbursed Rs 67.1 billion against its target of Rs 72.0 billion, PPCBL disbursed Rs 8.3 billion against Rs 9.0 billion, and the Domestic Private Banks disbursed Rs 69.3 billion against their target of Rs 66.7 billion. Five Microfinance Banks as a group disbursed Rs 18.8 billion against their annual targets of Rs 13.8 billion (**Table 2.1**).

Table 2.1: Agricultural Credit Targets and Actual Disbursement
(billion rupees)

Bank	FY13		FY12		FY11		FY10		FY09	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Five big commercial banks*	153.5	172.8	141.0	146.3	132.5	140.3	124.0	119.6	119.5	110.7
Specialized banks										
ZTBL	72.0	67.1	70.1	66.1	81.8	65.4	80.0	79.0	72.0	75.1
PPCBL	9.0	8.3	7.6	8.5	6.9	7.2	6.0	5.7	6.0	5.6
Domestic private banks	66.7	69.3	54.1	60.9	48.9	50.2	50.0	43.8	52.5	41.6
Microfinance banks**	13.8	18.8	12.2	12.1	-	-	-	-	-	-
Total	315.0	336.2	285.0	293.8	270.0	263.0	260.0	248.1	250.0	233.0

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

* Include ABL, HBL, NBP, MCB, and UBL

** Khushhali Bank, NRSP Microfinance, The First Microfinance Bank, Pak Oman and Tameer Microfinance Bank have been included since July, 2011.

SBP's Initiatives for Promotion of Agricultural Credit

SBP has implemented several measures for the promotion and expansion in the coverage of agricultural and rural finance in the economy. The major initiatives taken during FY13 in collaboration with stakeholders are summarized as under (**Box 2.3**).

Box 2.3: Initiatives for Promotion of Agricultural Credit during FY13

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

- a) Developed framework for Livestock Loan Insurance** to encourage banks to increase flow of credit to livestock sector and mitigate the risk of losses due to diseases and natural calamities (floods, earthquake), etc.
- b) Developed framework on National Agriculture Insurance Scheme** in collaboration with key stakeholders and insurance companies as per the instructions of the President of Pakistan.
- c) Introduced Concessional Financing Facility for Storage of Agricultural Produce (FFSAP)** to encourage private sector to establish silos, warehouses & cold storages for storing agricultural produce.
- d) Launched Farmers Financial Literacy & Awareness Programmes** in collaboration with SBP-BSC & commercial/microfinance banks to improve financial inclusiveness in agriculture sector by creating demand of agri finance products through enhanced flow of information. Besides spreading financial education to farming community, major thrust of these programmes was to develop a pool of master trainers through 'training of trainers' sessions to facilitate banks to replicate this activity at grass root level. Around 250 agri credit officers of commercial/microfinance banks were trained in 15 master trainer programmes besides educating around 1800 farmers. Further, around 1000 grass root level programmes were conducted by SBP, by end June, 2013. The trained officers of banks have started replicating farmers' financial literacy programmes in the area of their jurisdiction.
- e) Launched Agri Lending Diversification Project (ALDP)** to improve access to agriculture financing in underserved agri intensive districts after successful implementation of four pilot projects from March 2009 to September 2012. The project started off from 9 districts of Sindh and covered 60 districts of the country by the completion of Phase-IV of the project. After the completion of these phases, SBP launched agri lending diversification project under a "Lead Bank Concept" who will lead awareness campaign in selected districts.
- f) Roundtable Conference on Warehouse Receipt Financing (WHR)** was conducted to sensitize the banks and other stakeholders on the initiative and best practices to facilitate them in development of specialized WHR financing products,

procedures and systems. The objective of WHR financing is to facilitate post harvest financing to farmers, traders and exporters

g) A Study on Agri Financing & Value Chain Assessment is being conducted by SBP through international consultants. Its objective is to make an assessment of agriculture sector's access to banking and finance that is analyzing demand/supply side issues/constraints; studying geographical patterns of agri sub-sectors and their value chains like those of rice, tobacco, potato, meat, milk and fisheries; and unearthing value chain actors and their role in provision of inputs to the farmers. The draft report of the study has been shared with stakeholders in a roundtable discussion and based on the feedback the report is being finalized. The study would follow capacity building of a few banks and development of a couple of value chain financing products on pilot basis before expanding its scope to other banks.

h) For the capacity building of agri field officers of banks, SBP (in collaboration with its training arm – NIBAF) is conducting a series of 4 days Batch Training programmes for newly inducted agri credit officers with an aim to sensitize them with the changing dynamics of agriculture financing. Four batch training programmes has been conducted so far whereby, 125 officers have been trained.

2.2.2 Microfinance

During FY13, microfinance banking sector has gained traction, marked by fresh equity investments, growing deposits, and rising profitability. Presently, ten privately owned MFBs are operating in Pakistan. With the establishment of U-MFB by Pakistan Telecom Company Ltd. (PTCL) and Waseela-MFB by Mobilink during the current year, three telecoms have now majority stakes in their respective owned MFBs. Further, Advans SA and FMO (the Netherlands Development Financial Company) have established a provincial (Sindh) MFB namely Advans SA Microfinance Bank. Resultantly, the overall equity base of MFBs has jumped to Rs 12 billion as of end June, 2013, experiencing 41 percent YoY growth from Rs 8.5 billion last year.

Deposits of MFBs have also shown a staggering growth of 72 percent during the year to reach an all time high of Rs 28.6 billion as of June, 2013 compared to Rs 16.6 billion in the preceding year. Microfinance banking assets have also shown remarkable growth of 45 percent during the period under review and reached Rs 51.6 billion. The gross loan portfolio of MFBs has increased by Rs 8 billion (or 47 percent) during the year to reach Rs 25.4 billion. The portfolio growth is largely result of higher loan size pursued by the leading MFBs. Importantly, the portfolio quality during the year also improved as NPLs decreased from 4.34 percent to 2.07 percent during the year. The decline in NPLs was largely owed to repayments and write-offs against rescheduled loans in the flood affected areas.

Another substantial development during the year was mobile phone banking which has been adding vast, easy-to-access alternative distributional channels in the sector. The SBP's prudent regulatory role in microfinance and branchless banking has been recognized at international forums like Consultative Group to Assist the Poor (which is housed at the World Bank); and by the global leaders in financial media such as The Economist, and the Financial Times. Other important developments and initiatives undertaken by the SBP during the year are discussed as follows (**Box 2.4**).

Box 2.4: Initiatives and Developments for Promotion of Microfinance**Initiatives**

- Tameer Microfinance Bank and Advans Microfinance Banks were allowed to undertake microenterprise lending on a pilot basis. Other MFBs have also demonstrated interest to undertake microenterprise lending in the near future.
- To further facilitate micro-enterprises, the scope of SMEs credit guarantee scheme was extended to include microfinance banks as eligible participating financial institutions (PFIs); whereby, they would be able to access the guarantee facility for extending loans from above Rs 150,000 up to Rs 500,000 to micro-enterprises for a tenor not exceeding 5 years.
- SBP in collaboration with NIBAF completed forty microfinance grass root level training programmes, held in different parts of the country. In these programmes, around 1000 field/credit officers of microfinance banks and institutions have been trained.
- Khushhali Microfinance Bank has been acquired by UBL led consortium, while Kashf Microfinance Bank is in advanced stage of acquisition by M/s. FINCA Microfinance Holding Company (FMH), a subsidiary of FINCA International, Inc. a global leader in leveraging funding of socially responsible partners. Similarly, Rozgar microfinance bank has been acquired by Pakistan Telecom Company Limited and converted into a nation-wide microfinance bank. It has now been renamed as U Microfinance Bank after its acquisition. Like Tameer and Waseela, U MFB has also launched its branchless banking operations during the year for offering financial services.
- Advans SA was licensed, and it commenced business as a province-wide MFB in Sindh. The MFB is sponsored by Advans Group which is a network of financial institutions providing financial services to micro, small and medium sized enterprises (MSMEs) in developing/transition economies.

Developments

- SBP has been working with key stakeholders to undertake various market surveys and research projects to analyze the related demand and supply issues. In an important research initiative to observe key issues in registration and usage of branchless banking accounts, Bill & Melinda Gates Foundation conducted a mobile money survey in Pakistan between May and September 2012. According to the survey findings, 83 percent of mobile money transactions in Pakistan are conducted through over-the-counter (OTC) channels / agent locations rather than through a customer-driven branchless banking account. 59 percent of OTC users said they did not register for an account because they did not see the need to open an account. Moreover, 22 percent of OTC users said they did not open an account either because they did not know registration was possible (12 percent), they did not have the necessary documents (6 percent), or they did not think they could afford the account registration fee (4 percent).

Policy Advocacy on Financial Inclusion

State Bank of Pakistan's regulatory prudence to foster a thriving environment for microfinance and branchless banking in Pakistan has garnered esteem and acclamation from financial inclusion experts and organizations across the globe. The adopted policy measures demonstrate a pioneering shift from traditional regulatory stances and have led Pakistan's microfinance and branchless banking market to become one of the fastest growing and innovative markets in the world². To support similar expansion in other parts of the world, SBP openly and ardently shares its endorsed regulatory approaches to various international financial inclusion alliances, platforms and advocacy groups, and hosts various exposure visits for countries that are interested to learn from Pakistan's financial inclusion experiences.

SBP's Engagement with the Alliance for Financial Inclusion (AFI)

Alliance for Financial Inclusion (AFI) is a global knowledge sharing network, with members from over 80 countries working together to advance innovative financial inclusion policy solutions globally. As a member of AFI since 2009, SBP has been playing an active role in promoting activities of this global network.

Senior officials from Development Finance Group, State Bank of Pakistan are part of AFI's various committees and working groups, which provide strategic guidance on the future direction of different

² Financial Times (November 06, 2012) and Consultative Group to Assist the Poor (January 30, 2013)

areas relating to financial inclusion, through offering innovative ideas, identifying new opportunities, and building the AFI network. In FY13, SBP officials were designated as chair and/or co-chair of AFI's various working groups including Financial Inclusion Strategy Peer Learning Group (FISPLG), The Consumer Empowerment and Market Conduct (CEMC) Group, and SME Group. In addition, SBP is also a member of the Mobile Financial Services Group (MFSWG). These platforms have provided avenues for capturing, tracking and sharing information on innovative financial products, business models and appropriate regulatory responses for global financial inclusion.

Currently, AFI is undergoing a critical transformation towards an independent international organization. An independent, self-funded institution is of significant importance to host discourse on policy reforms regarding financial inclusion and the AFI Steering Committee has actively promoted the idea of independence of AFI. The SBP's Head of Agricultural Credit & Microfinance Department has been selected as the Chair of the AFI Sub-Committee on Host-Country Evaluation. He has played a critical part in advancing the process of selection of a host country, in which AFI will be headquartered as an independent entity, and continue its enabling role for worldwide financial inclusion.

Exposure visits

Central banks of several developing countries have expressed keenness to learn from Pakistan's microfinance and branchless banking experience and adopt the country's internationally recognized policy measures. SBP has an open and supportive approach to promote global knowledge sharing for financial inclusion and has hosted exposure visits for different countries each year. This year, delegations from Afghanistan and Republic of Zambia were hosted for a holistic exposure visit of Pakistan's financial landscape.

2.2.3 Donor Funded Programmes Based SBP Initiatives

SBP is managing a number of government and donor funded programmes with the objective to enhance financial inclusion in Pakistan. These programmes are playing a pivotal role in the development of financial markets to serve the unbanked low income segments, especially the poor and women through sustainable models. The funded interventions have been designed by SBP to enhance credit risk of the borrowers and capacity of market players, spur innovations and bridge key market information and infrastructure gaps. Progress on funded initiatives during the period is as follows:

Credit Enhancement Facilities

- ***Microfinance Credit Guarantee Facility (MCGF³)***, a £15 million facility, was launched by SBP in December 2008 under UK's Department for International Development (DFID) funded Financial Inclusion Programme (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 address growth funding needs of the microfinance sector and maximize the outreach in microfinance sector. So far, 27 guarantees have been issued under MCGF which has mobilized over Rs 7.9 billion from commercial banks and capital markets/ retail investors for onward lending to around 400,000 micro borrowers. The facility has helped develop the market and introduced poor borrowers to mainstream financial institutions.

³ Initially, MCGF, CGS and ISF were launched for £10.0 million each, but later these were revised as £15 million, £13 million, and £6 million respectively.

- **Credit Guarantee Scheme (CGS)**, worth £13 million, was launched in March 2010 under FIP 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. CGS has allocated limits of Rs 2.6 billion to 10 banks in line with the available seed money and request of the banks. The selected partner banks have booked guarantees of Rs 1.6 billion against sanctioned loans of Rs 3.9 billion for 6,239 small and rural enterprises.

Smart Grants for Institutional Development and Financial Innovations

- **Institutional Strengthening Fund (ISF)**, a £6 million facility, was launched by SBP in December 2008 under FIP. The objective was to provide grants for institutional strengthening of the microfinance sector, develop and implement strategies for mobilization of savings, strengthen governance and internal controls functions, and launch branchless banking initiatives. Under ISF, so far Rs 743.7 million has been approved for 15 microfinance providers including top and middle tier MFBs and MFIs as well as Pakistan Microfinance Network. The grants cover 23 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 ISF support has been transformational; supporting graduation of NGO MFIs to MFBs and has put the industry on a more sound footing. As a result the major segment of the MF industry has been brought under SBP's MF regulations and is enjoying the lower funding costs that savings provide. In addition, ISF has helped a number of institutions to be sustainable and efficient in financial service delivery.
- **Financial Innovation Challenge Fund (FICF)**, a £10 million facility, was launched by SBP in May 2011 under FIP 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 was held on Financially Inclusive Government to Person (G2P) Payments which has now been successfully concluded. 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 small payment for people who are not part of financial services.

Support to Cross Cutting Themes to Enhance Capacity and Bridge Market Information & Infrastructure Gaps

- **Nationwide Financial Literacy Programme (NFLP)**: SBP launched Pakistan's first-ever Nationwide Financial Literacy Programme, on 20th January 2012, under Asian Development Bank (ADB) sponsored Improving Access to Financial Services Fund (IAFSF) 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, and PPAF. The pilot of the programme was completed in July 2012 and 47,800 beneficiaries were targeted through class room training sessions and street theaters. The programme focused on disseminating basic education about financial concepts, products and services to masses; explaining budgeting, saving, investment, debt management and consumer right and

responsibilities⁴, etc. Currently the pilot assessment is under process after which the programme 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.

- **Grass-root Level Training Programme for Credit/Loan Officers of MFBs/MFIs:** The programme aims to provide capacity building support to the industry by developing understanding within the industry through mutual knowledge/ideas sharing. The first phase of Grass Root Level Microfinance Training Programme was completed by conducting 40 training programmes at different locations across the country in which around 1,000 loan and field officers were targeted. Now, after the completion of the programme, it will be evaluated and then scaled up to train a large number of loan and field officers
- **Regional Internship Programme for Agri Graduates:** Given the scarcity of agri finance professionals, a 10 weeks pilot internship programme for 100 agri graduates has been launched. Objective is to create a pool of agri finance human resources who would have hands on knowledge in agri financing; both its operational and regulatory aspects.
- **Establishment of Nationwide Microfinance Credit Information Bureau:** SBP is supporting establishment of Nationwide Microfinance-exclusive Credit Information Bureau (MF-CIB) that will help microfinance providers (MFPs) in developing robust risk management system and practices, which in turn reduce the risk of multiple borrowing and loan defaults. The MF-CIB is being established with the objective to store all past and present credit transactions of all microfinance borrowers, to minimize the instances of over-indebtedness, to bring financial discipline in microfinance sector and to improve the loan portfolio quality of MFPs.
- **Launching of Client Protection (CP) Monitoring and Pricing Transparency Initiatives for Pakistan's Microfinance Sector:** SBP is supporting Pakistan Microfinance Network (PMN) to develop a holistic microfinance transparency and client protection intervention at the industry level. The key objectives of the initiatives are monitoring of client protection measures in place at MFPs in accordance with globally accepted benchmarks and standardization in calculating and communicating product prices to clients.
 - a. For CP monitoring initiative, PMN signed a Partnership agreement with Smart Campaign to support and review smart assessments of PMN Member Institutions and conduct training of local industry stakeholders in Pakistan to build their capacity.
 - b. For pricing transparency initiative, PMN signed a Partnership agreement with Microfinance Transparency (MFT) to tailor MFT's data collection tool to the Pakistan market, build stakeholders' capacity in understanding pricing, data collection and analysis, publication of data on the MFT website, preparation and publication of pricing analysis report for Pakistan etc.
- **Training Programme on Governance Needs of the Microfinance Industry:** SBP is supporting the development of a customized course and roll out of training programmes on governance needs of microfinance providers. The objective of the programme is to develop a resource pool to be available for serving as BoDs of MFPs. The programme is focused on addressing the capacity gaps to empower the BoDs through building their awareness, vision and capacity for growth so as to make the goal of promoting financial inclusion achievable.

⁴ www.financialeducation.pk

- ***SME Finance Grass Root Cluster Training Programmes:*** 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 Programme under FIP for the credit officers of banks to equip them with the latest tools and technology being used in SME finance across the globe. About 500 credit officers from commercial banks have been trained in the SME finance area at SME hubs across the country. The major areas covered included risk mitigation tools like credit scoring, programme-based lending schemes, effective marketing strategies for SME finance and utilizing the area of social profiling in SME finance.
- ***Capacity Building of SBP officers in development finance areas:*** SBP also provided numerous opportunities to its officers to develop capacity in the development finance areas including microfinance, SME and agri/rural finance etc to help in implementing financial inclusive policies.

3 Ensuring Soundness of Financial Sector

3.1 Banking Supervision Group

3.1.1 Banking Inspection (On-Site) Department

Banking Inspection (On-site) Department (BID) is one of the core departments at SBP. Its mission is to strive for soundness and stability of the financial system and safeguard interests of stakeholders through proactive inspection, compatible with best international practices. During FY13, the functions of DFIs & Exchange Companies Inspection (On-site) Department (DFIs & ECID) were merged into Banking Inspection (On-site) Department. After this merger, BID is now responsible to conduct on-site inspections of all financial institutions which come under the regulatory ambit of SBP. Besides carrying-out regular on-site inspection of banks, DFIs, Exchange Companies (ECs) and MFBs; BID also carries out special inspection(s) as and when necessary. BID also conducts investigation on the basis of any complaint from any source/quarter. It prepares statutory report under section 25-AA of Banking Companies Ordinance (BCO), 1962, regarding 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 deviated from with a view to causing wrongful loss to the bank).

The regular on-site inspection of banks, DFIs and MFBs is conducted on the basis of CAMELS Framework. (Capital, Asset Quality, Management, Earnings, Liquidity, and System & Controls). The focus of inspection is generally on risk assessment of policies & procedures of the banks, control environment to keep attached risks within acceptable limits and compliance with laws, regulations and supervisory directives. In continuation of the inspection process, discussions are held with external auditors of the banks to review banks' internal controls, compliance with legislation & prudential standards, and adequacy of provisions. It would be pertinent to mention here that BID works in close coordination with Off-site Supervision and Enforcement Department and other departments in SBP.

Inspection Plan

During FY13, the department carried out on-site inspections of 27 banks, 3 DFIs, 2 MFBs and 28 ECs. During these inspections, the inspection teams identified significant observations on corporate governance, risk management, internal audit and compliance, AML/CFT and other regulatory breaches, which were highlighted in the inspection reports for corrective actions by the inspected institutions and timely enforcement by other relevant departments of SBP.

Preparation of Write off Reports

Besides on-site inspections, BID also prepared statutory reports, during FY13, 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 deviated from with a view to causing wrongful loss to the bank).

Other Special Investigations

During FY13, 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. In addition, various special inspections at the request of other departments related to branchless banking, ATM operations, AML/CFT, frauds, complaints, financial inclusion, etc. were carried out.

Developmental Projects

The department continuously endeavors to improve its own processes. During this year some development projects were initiated which included: i) development of FX & Treasury Inspection Manual; ii) standardization of annexure for microfinance institutions; iii) development of rating mechanism for “Management”; iv) development of Annexure Toolkit for DFIs / MFBs; and v) development of Checklist & Standardization of Inspection Report of Crop Loan Insurance Premium Claims.

Specialized Groups

The department has developed over a period of time a resource pool for specialized areas like Basel Implementation, AML / CFT, Islamic Banking and Branchless Banking for the purpose of meeting the supervisory challenges in these areas. The response on queries & feedback pertaining to these areas sought by various internal stakeholders are given by these specialized groups.

Capacity Building

In order to build and enhance the skills BID officers, various local and foreign trainings were arranged in different areas including Risk Based Supervision, AML-CFT, Central Banking, Islamic Banking, Communication Skills, Prevention of Frauds in Commercial Banks, Microfinance and Financial Inclusion during FY13.

3.1.2 Off-Site Supervision & Enforcement Department (OSED)

One of the core responsibility of SBP is to regulate and supervise the financial system (comprising banking institutions/DFI's and ECs) to ensure its soundness and stability for realization of broader objectives of economic growth (and development) in low inflation environment.

OSED at present conducts off-site supervision of 37 banks, 8 DFI's, 10 MFCs and 58 ECs. OSED through an effective supervisory framework not only plays a vital role in assessing health of individual financial institution on CAELS basis but also follows-up on on-site inspection findings/observations in order to ensure compliance with the regulatory, policy and statutory rules and instructions. A penalty regime is in place to deter financial institutions from non compliance of regulatory instructions. Apart from ensuring health of every institution; OSED also conducts macro prudential oversight to achieve the objective of financial stability.

To keep pace with the rapidly changing financial and economic world, OSED strives for continuous improvement in supervisory framework to achieve the core objective of financial stability. The key initiatives undertaken, during FY13, in this respect were following.

Consolidation of Supervisory Structure at SBP

Following the in-house restructuring/reorganization in November 2012, functions performed by erstwhile Banking Surveillance Department (BSD) have been transferred to Banking Policy and Regulations Department (BPRD) and OSED to facilitate enhanced coordination in the policy and supervisory frameworks. Functions pertaining to policy formulations including Basel Accord implementation, risk management policy, financial disclosure policy, and related party exposures and transactions were transferred to BPRD. Functions dealing with compliance, monitoring and financial analysis (including stress testing), monitoring of large exposures, equity exposures and financial statements, and implementation of ICFR were transferred to OSED.

Enhancement in SBP's Macro Stress Testing Framework

As part of enhanced surveillance, OSED has been assessing the resilience of banking system towards shocks to the financial and macro-economic risk factors, which are closely associated with the performance of the economy. Recently, OSED has embarked on a macro financial vector autoregression (VAR) model for assessing the impact of macro shocks on borrowers' repayment capacity and its bearing on solvency profile of the banking system in parallel with Credit Portfolio View (CPV); piecemeal model for measuring banking performance indicator such as Gross Non-Performing Loan Ratio (GNPLR). The CPV model is well specified and is adequate for supervisory surveillance. The initiative taken by SBP for developing the VAR model has been appreciated by the multilateral experts.

Macro-prudential Indicators

Financial Stability Assessment and Publications Division (FSAP) at OSED has been preparing quarterly Financial Soundness Indicators (FSIs) of the banking industry and publishing the same on its website since September 2009. In order to facilitate the stake holders, SBP started publication of a comprehensive Quarterly Compendium of statistics of the industry from March 2011. In addition to the FSIs, the compendium comprises detailed statistics of the banking industry, DFIs and Islamic banks.

In December 2010, the IMF approached SBP for preparation and direct submission of FSIs, and metadata to the IMF's web portal. OSED remained engaged with IMF for about two years to align the FSI's as prepared by SBP and as required by IMF on array of conceptual (definitions) and calculations (formulae) platforms. The submission process of FSIs and metadata was successfully completed in May 2013 on IMF's required format. The quarterly time series presently loaded on the IMF website are from March 31, 2008 to June 30, 2013 and are being updated on quarterly basis.

SBP representation on Financial Stability Board (FSB)-Regional Consultative Group (RCG) Asia

Effective participation on such esteemed platforms not only earns laurels for the respective country but also opens up new avenues for sharing idiosyncratic experiences and to learn about the new developments happening across different areas of common interests. On regional front, SBP is playing an active role in bank regulation. Governor SBP, representing the Bank on the Regional Consultative Group, effectively participated and contributed in the discussions, the fact that was duly recognized by the RCG Heads. Governor was twice invited as a lead discussant on the issues of managing ***Systemically Important Financial Institutions (SIFIs)*** and implementation of ***BASEL-III*** where he shared his detailed thoughts on the issues as well as status of implementation and SBP approach towards these new regulatory regimes.

3.2 Banking Policy and Regulation Group**3.2.1 Banking Policy & Regulations Department (BPRD)*****Entry of New Banks/Microfinance Banks***

During FY13, Advans Microfinance Bank was allowed to commence its operations in Pakistan as a Province-wide microfinance bank in Sindh. Further, nation-wide microfinance banking license was issued to U Microfinance Bank thus enhancing its scope of operations from a district-wide to a Nation-wide microfinance bank.

Opening of New Bank Branches

During FY13 Banks/MFBs were allowed to open 772 new branches¹ which included 527 conventional banking branches, 172 Islamic banking branches and 73 microfinance branches. Accordingly, total number of bank branches in the country reached to 11,699.

Overseas Expansion of Pakistani Banks

Presently, eight Pakistani banks are operating in 36 countries of the world in different modes (i.e. branches, representative offices and subsidiaries/joint ventures). During FY13, SBP allowed Pakistani banks to further expand their overseas operations in Afghanistan, Bangladesh, Mauritius, Bahrain, Sri Lanka, Seychelles, Malaysia and China.

Facilitation in Various Government Initiatives

SBP has been facilitating Government of Pakistan (GoP) in its various initiatives, like financial assistance to flood affectees 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 affectees' relief. During FY13, SBP continued its support by coordinating and facilitating Benazir Income Support Programme (BISP), NADRA and the concerned banks in the process of disbursement of BISP funds to the beneficiaries through smart cards.

Enhancing the Coverage Ratio of ATMs

Besides the number of branches, other key parameter to measuring the access of finance is the number of Automated Teller Machines (ATMs) installed by banks in the country. Therefore, keeping in view the low ratio of ATMs per branch in Pakistan and to supplement other initiatives for financial inclusion already being undertaken by SBP and the industry, banks were advised that effective from CY13 onwards, all banks shall add one ATM in their network against each new branch to be opened in a calendar year. Further, the banks having less than 1:1 ATM per branch ratio were also directed to cover their existing gap linearly, in 5 years starting from CY13. As a result, in the first six months of CY13, the banks have added about 450 ATMs in their networks and have also submitted plans for installation of around 700 more ATMs throughout the country in the second half of CY13.

Branchless & Mobile Banking

Branchless Banking approvals for pilot launch were given to Bank Alfalah Limited and Meezan Bank Limited. In addition, U-Microfinance Bank Limited, Habib Bank Limited, Waseela Microfinance Bank Limited and Askari Commercial Bank Limited were given approval to launch their branchless banking services on a commercial basis. Apart from branchless banking, mobile banking (a mobile phone banking service for bank's existing customers) commercial launch approvals were granted to Bank Alfalah Limited and Faysal Bank Limited. Allied Bank Limited was allowed to launch their mobile phone banking services on a pilot basis. Owing to enabling policy framework, the major banks and all the five Mobile Network Operators have developed alliances to leverage their financial services expertise, technology and distribution network for extending efficient and low cost financial services in every corner of the country. The market for branchless banking services has been flourishing. As of June 30, 2013 there were more than 90,000 branchless banking agent touch points providing branchless banking services across 1350 cities, towns and villages of Pakistan. The volume of transactions through agent banking as of June 30, 2013 has reached over 250 million transactions worth of over Rs 1,200 billion.

¹ Branches also include sub-branches and permanent booths.

Banking Regulations

SBP's regulatory framework endeavors to promote financial stability, efficiency, and market discipline in the banking industry. During FY13, SBP focused on close cooperation and coordination with Securities and Exchange Commission of Pakistan (SECP) and other associations/bodies, including Pakistan Banks Association (PBA) and Institute of Chartered Accountants of Pakistan, to ensure cohesive policies and regulations. The State Bank, involving all material stakeholders, carried out review of the set of Prudential Regulations for corporate/commercial banking which is at its advanced stages of completion. SBP also remained involved in different policy initiatives of SECP and provided its feedback on Commercial Paper Regulations, 2013, Underwriters Rules, Review of Valuers Regime etc. Based on industry feedback through PBA, review of instructions on writing off consumer loans is in process. In addition, Regulations for Debt Property Swap are being finalized.

Mergers & Acquisitions

Three acquisition transactions involving a commercial bank and two microfinance banks were carried out during FY13 and the new (respective) management took-over control of these banks.

Anti-money Laundering and Countering the Financing of Terrorism (AML/CFT) Regulations

Revised AML/CFT Regulations for banks/ DFIs were issued vide BPRD Circular No. 2 dated September 13, 2012. The regulations follow international standards to manage related risks in a systematic way. In comparison with old regulations, the new regulations inter alia require record retention for 10 years, risk assessment of new products and services, extended category of identity documents, enhancing controls on online transfers, expanding due diligence requirement to close associates or family members of Politically Exposed Persons, clarified responsibilities of respective institutions in wire transfers/correspondent banking, linking Customers' profiles with automated transaction monitoring systems. The regulations require due diligence at the time of hiring employees and require banks to provide adequate training to employees including online training. Moreover, stringent requirements for the accounts of NGOs/NPOs and Charities have been introduced.

Guidelines on Risk Based Approach on AML/CFT

SBP also issued separate Guidelines on Risk Based Approach (RBA), and banks/DFIs have been required to improve their RBA as per the Guidelines and best practices including relevant recommendations, interpretative notes, best practices papers etc. of the FATF and Basel Core Principles. The regulations require banks to apply RBA in their relationships and services keeping in view the factors like customer type, products, delivery channels and location. The concept of Customers Risk Profiling on scenario-based ranking of customers has been developed along with development of Red Alerts to trigger scrutiny of accounts and transactions.

Strengthening of Capital and Implementation of Basel III

Consequent to changes in the international capital standards and to strengthen SBP's regulations on banks' capital adequacy, Quantitative Impact Assessment was carried out to evaluate the impact of newly proposed Basel-III capital regime on capital adequacy of Pakistani banks. The assessment indicated that, with the exception of a few small-size banks, banking industry was well placed to comfortably meet the capital requirements as prescribed under Basel III capital accord. Keeping in view this assessment, SBP issued revised instructions on capital adequacy. While these instructions mainly strengthen the SBP's existing rules (under Basel II capital accord) on the definition of capital and related deductions, a number of new concepts such as Leverage Ratio, Loss Absorption Clause and Capital Conservation Buffers are being introduced for the first time. Moreover, in the coming years SBP plans to initiate deliberations 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.

Internal Capital Adequacy Assessment Process (ICAAP) - Reporting Template

The review of first Internal Capital Adequacy Assessment Process (ICAAP) document (1st component under Pillar 2 of Basel II) as submitted by Banks/ DFIs manifested a great deal of diversity in terms of scope as well as coverage. Therefore, SBP devised a format, prescribing minimum set of information for various components of ICAAP so as to ensure consistency and uniformity. The use of standardized ICAAP reporting template would not only make the Supervisory Review and Evaluation Process (SREP) more efficient for both the bank and SBP, it would also enhance the comparability of respective ICAAPs across different banks having similar business and risk profiles. Moreover, as per the SBP instructions, banks and DFIs are also required to review their ICAAPs annually, or more frequently in the event of a material change in their respective risk profiles.

Internal Credit Risk Rating System – Retail Portfolio

Guidelines on Internal Credit Risk Rating System in banks/DFIs issued in 2007 mainly pertained to corporate portfolio. Therefore, instructions on Internal Credit Risk Rating System – Retail Portfolio were issued; vide BSD Circular No. 1 of January 2, 2013, for rating of retail loans (including retail SMEs loans). As per the instructions, banks shall develop an application and behavioral scorecards for their retail borrowers including consumer portfolio. The banks should review and update the assigned scores at regular intervals, which may range from one month to one year.

Consolidated Supervision

Besides the risks residing on its books, a bank is exposed to a number of risks which arise from its association with affiliated entities. These contagion risks could significantly affect the stability of both individual banks as well as the entire banking system. Therefore, consolidated supervision is considered a critical part of any effective banking supervision framework. The recent financial crisis, in particular, highlighted the importance of supervision of financial conglomerates. Therefore, international standard setters i.e. Basel Committee on Banking Supervision and Joint Forum of International Standards Setters on banking, insurance and securities supervision have propounded principles for the consolidated supervision of banks and effective supervision of financial conglomerates.

During FY13, SBP made developments on its (earlier initiated) plan for the consolidated supervision of banking groups and is also monitoring financial conglomerates in collaboration with SECP. These initiatives aim to monitor and proactively mitigate the contagion risk and address the challenges which may arise from conglomeration in the financial sector. In order to strengthen the ongoing monitoring framework, the BPRD(SBP), in collaboration with SECP, devised and issued regulatory returns (in September 2012) to collect key information from banks and NBFIs on half yearly basis. Incidentally, a key element of consolidated supervision is that the bank regulator should have adequate powers to supervise, and issue prudential standards, to banks on consolidated basis. Further, ownership and corporate structure greatly influence the stability and performance of banks and financial sector. For these considerations, certain amendments in the BCO, 1962 have been envisaged and are in consultation process with stakeholders.

Other Initiatives

In order to facilitate taxpayers and revenue collection, SBP in collaboration with the Federal Board of Revenue (FBR) advised the banks to open authorized branches for extended hours on quarterly, half yearly and yearly closings.

3.2.2 Islamic Banking Department**Islamic Banking**

To facilitate and catalyze development of sound and stable Islamic banking industry in the country, SBP is actively engaged in various promotional and regulatory initiatives. The key measures and steps taken towards this goal during FY13 are given below.

Mass Media Awareness Campaign

Despite showing significant growth in terms of assets, financing, investment, deposits, market share and branch network, Islamic banking industry of Pakistan is still facing many issues and challenges. Misconceptions and lack of awareness/understanding among the general public are at top amongst them. Though Islamic Banking Institutions (IBIs) have been organizing awareness seminars, conferences workshops; no significant effort was made to create mass awareness using electronic and print media at the industry level. SBP mobilized the Islamic Banking Industry to launch Mass Media Campaign during FY13 to create awareness on Islamic Finance. The first Phase of the Mass Media Campaign was launched in Ramadan 1434 AH with focus on improving visibility of Islamic Banking and removing the misperceptions about the Islamic banking in the country. The next phase will focus more on the education, awareness and improving the understanding of Islamic banking and finance.

Capacity Building Programmes for Islamic Banking Industry

Capacity building has remained a vital component of SBP strategy for future development of the industry. In this regard State Bank of Pakistan has been collaborating with reputed national and international institutions for organizing targeted seminars, lectures, training programmes and workshops for both lower and middle management of the industry. During FY13, SBP/NIBAF offered three courses on Fundamentals of Islamic Banking Operations (FIBO) in Hyderabad, Quetta and Peshawar for imparting theoretical and practical training to Branch Managers, Operation Managers and Relationship Managers of Islamic banks/branches. Further, SBP conducted seminars in various cities including Bahawalpur, Sukkur, Lahore, Peshawar and Sargodha in collaborations with SBP BSC – Development Finance Units. Further to improve the skill sets of Shariah Advisors in core banking, finance and treasury, specialized training course on ‘Treasury Operation for Shariah Advisors’ was organized by SBP. The course was well received by all Islamic banking institution and their Shariah Advisors.

NIBAF (SBP) and Islamic Research and Training Institute (Jeddah, Saudi Arabia) conducted two international courses on Islamic Finance during FY13. These courses received participation from Bangladesh, Turkey, Maldives and Iran. Redmoney, a Malaysian based group, organized an ‘Islamic Finance News (IFN) Roadshow’ in Pakistan, with support by SBP, that attracted many leading Islamic finance experts.

Global Participation

With an aim to improve the legal, regulatory, supervisory and risk management infrastructure of the Islamic banking industry, SBP has actively participated in different working committees/groups of global organizations such as Islamic Financial Services Board (IFSB) and International Islamic Financial Market (IIFM). In FY13 SBP become part of the Working group on ‘Revising Standard on Supervisory Review Process’ and ‘Developing Core Principles for Islamic Finance Regulation’. SBP

also provided support to Islamic Research and Training Institute/ Islamic Development Bank for the Survey for Financial Sector Assessment Programme for Islamic Financial Institutions (iFSAP) for Pakistan.

D-8² Summit on “Financial and Monetary Cooperation for Promoting Inclusive Economic Growth” was held in Pakistan. The summit among others resolved to strengthen cooperation amongst the member countries for facilitating development of Islamic banking and finance.

Adoption of AAOIFI Shariah Standards

Adoption of Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Shariah Standards stands out as one of the key building blocks towards strengthening the Shariah compliance architecture and harmonizing the Shariah practices of the Islamic banking industry. During the year, SBP adopted two more AAOIFI Shariah Standards i.e. Standard No. 12 related to ‘Sharika (Musharaka) and Modern Corporations’ and Standard No. 17 on ‘Investment Sukuk’. After adoption of these two standards the total numbers of Shariah Standards adopted have risen to 6.

Regulations for Islamic Banking Industry

The legal, regulatory and Shariah compliance framework for IBIs is reviewed on an ongoing basis to ensure their responsiveness to the evolving dynamics of the Islamic banking industry. During FY13, following regulations were introduced.

- In order to improve transparency and disclosures and bring standardization in IBIs’ profit and loss distribution policies and practices, the SBP issued detailed Instructions for Profit & Loss Distribution and Pool Management for IBIs. The instructions were well received by domestic and international stakeholders, which are likely to improve perception and understanding of the masses generally and Islamic banking clients particularly (**IBD Circular No. 03 of 2012, dated November 19, 2012**).
- Keeping in view the increasing number of products based on the structure of ‘Diminishing Musharakah’ being developed by IBIs in Pakistan, SBP has developed and issued a Shariah Standard on ‘Sharikat ul Milk and Diminishing Musharakah’ (**IBD Circular No. 02 of 2013, dated April 08, 2013**).
- To ensure standardization and Shariah harmonization, the IBIs were advised to submit the detailed features of new products, process flows, accounting treatment, draft agreements and Shariah Advisors certificate at least 30 days before the launching of the product. SBP shall take up the issue, if any, with the IBI within the 30 days time frame (**IBD Circular Letter No. 02 of 2013, dated January 04, 2013**).

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

In order to better understand dynamics of the industry, quantify the demand for Islamic banking and measure the impact of demand-supply mismatch on the incidence of financial inclusion, SBP launched a survey-based study on “Knowledge, Attitude and Practices of Islamic Finance in Pakistan” in FY12. The study has been completed and its results will soon be shared with the industry. The findings of this study are not only expected to benefit SBP in policy formulation but also be of interest to both incumbent and potential entrants to the market.

² D-8 countries include Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey.

3.2.3 Consumer Protection Department

Financial landscape in Pakistan has transformed significantly during the post financial sector reforms period leading to increased competition amongst financial institutions. Focus on financial inclusion also led to alternate financial services delivery channels. In a technology driven financial environment, customer protection has become more challenging. Furthermore, maintaining consumers' confidence in globally connected financial system has become increasingly complex. Therefore, for stability and integrity of the financial system, consumer protection is at the heart of various (policy as well as operational) measures taken by the State Bank of Pakistan. In the absence of a comprehensive legislation on financial consumer protection, current regime of banking regulation and supervision in the country is effectively protecting the rights of financial consumers through proactive enforcement and monitoring of consumer protection framework.

Consumer Protection Department (CPD) is at the forefront of SBP's efforts in protecting consumers' rights through fair treatment, proper disclosures, and improved financial awareness/education. Towards this end, CPD strives that the financial services providers should have competitive products/services, responsible marketing practices, and adequate complaints handling and redress mechanisms to safeguard all the segment of customers.

Over the years CPD, as an Integrated Dispute Resolution Centre for redressal of financial grievances, has provided relief to thousands of consumers through *free of cost* mediation as an alternate to the judicial recourse. Besides, CPD is also functioning as quasi judicial forum for complaints' redressal. The courts (High Courts as well as the Supreme Court of Pakistan) have referred certain writ petitions/suits/cases for direct disposal through speaking orders. This confidence of the judicial system in the SBP's complaint resolution process is an indicator of CPD's performance in the area of financial consumer protection.

During FY13, CPD received and resolved a total of 5,654 complaints as against 6,037 complaints received in a year earlier, showing an overall decline of 6.3% in the number of complaints against banks/ DFIs/ Microfinance banks. Three-fourth of these complaints were lodged against 8 big banks having extensive branch outreach in urban as well as rural areas, large deposit base, substantial consumer finance portfolio and vast network of ATMs. The analysis of complaint data revealed that around 75% of the complaints were lodged against private sector banks followed by the public sector banks (14%). Further, over 60% of the complaints lodged were pertaining to (i) Account Operations & Deposits, (ii) Credit Cards, (iii) Personal Loans, (iv) ATMs and (v) Remittances.

Consumer Awareness Initiatives

Emergence of diversified and sophisticated financial products/services has necessitated for more effective financial consumer protection measures. This led SBP to ensure consumer protection which is complemented by financial education and market intelligence to highlight products/services and practices posing undue risk to consumers, such as aggressive credit-card marketing, deceptive sales practices and outsourcing of debt collection. Accordingly, in addition to the financial literacy initiatives launched by the Agricultural Credit & Microfinance Department (like Nation-wide Financial Literacy Program); CPD also initiated concerted consumer education/awareness campaign for different segments of society including members of Small Traders Associations, NGOs, Consumers Associations, and faculty members and students of reputable universities / management institutes throughout the country. During the year 2013, such programmes were arranged with the collaboration of 13 SBP-BSC field offices across Pakistan, covering 18 reputable universities.

These awareness workshops/seminars are aimed at disseminating information relating to complaint redressal mechanism available for the victims of financial frauds, role of State Bank in resolving the disputes vis-à-vis role and functions of Banking Mohtasib Pakistan (BMP). It is important to mention here that during FY13, the parliament has enacted a new piece of legislation namely Federal Ombudsmen Institutional Reforms Act, 2013 to standardize and harmonize the laws relating to Federal Ombudsmen Institutions functioning in Pakistan (Box 3.1).

Moreover, CPD's consumer education/awareness campaign also covers basic but necessary information relating to debt collection/recovery guidelines, precautionary measures for using ATMs, Debit/Credit Cards, Cheque Handling, Identity Theft and Skimming Frauds and understanding on e-CIB functions and its implications for debtors.

Box 3.1 - Enactment of Federal Ombudsmen Institutional Reforms Act, 2013

The parliament has enacted a new piece of legislation on February 12, 2013 namely Federal Ombudsmen Institutional Reforms Act, 2013. This newly enacted Act provides institutional reforms for standardizing and harmonizing the laws relating to Federal Ombudsmen Institutions functioning in Pakistan. The provisions of Section 2(b) & 2(c) provide applicability of this Act to the Office of Banking Mohtasib Pakistan (BMP). Under this Act, the role of Banking Mohtasib Pakistan has been further strengthened by culminating the SBP's role as Appellant Authority against the orders passed by BMP. Now, any person or party aggrieved by a decision, order, findings or recommendations of BMP may file representation directly to the President of Pakistan within thirty days of such decision, order, findings or recommendations.

Further, in terms of Section 3 of this Act, the tenure of holding the office of BMP has been extended from three years to four years; with no provision for second term. Moreover, BMP Secretariat has been given autonomy with regard to administrative and financial expenses under Section 17(2) of this Act, which will now be borne by the Government through Federal Consolidated Fund. Earlier, SBP was arranging budgetary requirements of BMP Secretariat from all banks in such a proportion as was approved by the Governor SBP.

CPD's role remained integral during the General Election 2013. The Election Commission of Pakistan (ECP) collaborated with the State Bank of Pakistan (SBP), Federal Board of Revenue (FBR) and National Accountability Bureau (NAB) to scrutinize credentials of candidates who contested general election, 2013. For this purpose, an online "Candidate Management System" was developed for scrutiny of candidates and their family members. Scrutiny process was started on March 26, 2013 and completed on April 07, 2013. Particulars of 24,286 candidates and their 110,972 dependents were searched in e-CIB database as per criteria provided by ECP and system generated responses were uploaded online on daily basis. The whole scrutiny process was completed in a timely manner which was duly recognized by the then Chief Election Commissioner on many occasions.

4 Monetary, Exchange Rate, and Reserve Management

4.1 Money and Debt Market

Efficient money and debt markets are an integral part of a vibrant financial system.

Improving the liquidity, depth, and efficiency of the money and debt markets has been one of the main strategic objectives of SBP. These markets play an essential role in promoting savings in the country, improving the financial intermediation process, and transmitting the monetary policy signals to impact inflation and economic growth. During FY13, SBP continued to progress in this direction and introduced a number of measures primarily aiming at strengthening monetary policy transmission mechanism, improving liquidity management and efficiency of intermediation by banks, and achieving diversification of investor base. In the following, we summarize the main steps taken by SBP during the fiscal year.

Amendments in Interest Rate Corridor Facilities

Since the introduction of interest rate corridor in August 2009, volatility in the short-term interest rates reduced significantly that has helped in strengthening the transmission mechanism of monetary policy. With the objective of improving the transmission mechanism by further reducing the volatility in the short-term interest rates, w.e.f. February 11, 2013, SBP decided to narrow the width of the interest rate corridor to 250bps from 300bps.

Moreover, in order to dissuade frequent access to the SBP overnight reverse repo and repo facilities by banks and to strengthen the liquidity management framework, effective from October 8, 2012, SBP announced that in case an eligible institution accesses either of SBP's reserve repo or SBP's repo facilities more than seven times during a given quarter, a spread of plus/minus 50bps will be applied over and above the applicable SBP overnight reverse repo and repo rates, respectively, for the remainder of the same quarter.

The above measure has significantly reduced the banks reliance on SBP interest rate corridor windows, and has improved the liquidity management of the banks by inducing the required change in their market behavior.

Mechanism on determining return on saving deposits

Most of the banks in Pakistan were used to pay profit to saving depositors on minimum monthly balances. To promote savings by rationalizing the deposit rates, and to reduce high banking spreads by bringing compatibility between the recovery of return on loans and the payment of profit on saving deposits; banks are now, effective from April 01, 2013, directed to pay profit to saving depositors on average monthly balances. Recently, SBP has also decided to link the minimum profit rate¹ with SBP's Repo rate (i.e. floor of the interest rate corridor). Specifically, with effect from October 01, 2013, the minimum profit rate to be paid on all Pak Rupee saving deposits will be 50 basis points below the prevailing SBP Repo rate.

Cash Reserve Requirements (CRR)

In order to provide banks more flexibility in their liquidity management and further reduce the volatility in the short term interest rates, SBP has rationalized the reserve maintenance requirements

¹ Since May 2008, SBP had placed a minimum rate of return of 5 percent for all savings accounts of the scheduled banks, which was later increased to 6 percent.

during FY13. With effect from October 12, 2012, the reserve maintenance period has been extended from one week to two weeks for the purpose of CRR. All banks have to maintain CRR at an average of 5 percent of Demand Liabilities (including time deposits with tenor of less than 1 year) during the reserve maintenance period. The daily minimum CRR has been reduced from 4 percent to 3 percent. Under the revised procedure, banks have been advised to maintain required reserves, during the period starting from Friday and ending on Thursday of subsequent week, by taking into account the Demand Liabilities as of close of business on Friday i.e. first day of reserve maintenance period.

Data on Bank-wise Access to SBP's Standing Facilities and Excess Cash Reserves

In addition to aforementioned measures for incentivizing banks for improving their liquidity management practices, in FY13, SBP has started publishing a quarterly report on its website showing bank-wise access to the overnight repo and reverse repo facilities of SBP. The report provides market with details the number of times individual institutions have accessed to SBP overnight standing facilities during the preceding quarter.

SBP has also started publishing bank-wise data on 'excess cash reserves' maintained by banks over and above CRR. The data is being published with a lag of about one month; and will help in differentiating between the relative performances of various banks in their money market operations. Excess cash reserve not only adversely impacts smooth functioning of the interest rate corridor but also has implications on banks' own liquidity management.

It is expected that the dissemination of this bank-wise information on use of central bank's standing facilities and maintenance of Excess Cash Reserve will bring more transparency and efficiency in the domestic money market.

Primary Dealer System

In order to improve effectiveness of Primary Dealer Primary (PD) System in broadening the investor base of Government securities, State Bank of Pakistan has further strengthened the rules governing PD system. In July 2012, revisions in the rules governing PD system have been made, whereby each PD is now required to:

- Provide complete information regarding processes, charges and forms required for investment in government securities, on their official websites.
- Disseminate and keep the service charges related to Investor Portfolio Securities (IPS) account activities, at a reasonable level.
- Display prices of government securities in their branches.
- Quote two-way prices on Electronic Bond Trading Platform (EBND) and generate at least 35 percent of its trading volume with other PDs on this platform.

In order to incentivize PDs to bring retail investment in Government securities (PIB, T-Bill) through non-competitive bids, a commission @ 10 paisa per rupees 100 was introduced. This commission is in addition to the under-writing commission already available for PIBs.

Recently in July 2013, a benchmark related to IPS accounts, has also been introduced against which performance of each PD will be evaluated at the end of a fiscal year. As per this benchmark each PD should have a minimum portfolio of 250 IPS accounts and shall ensure minimum 15 percent increase in its IPS accounts during a year. This measure will incentivize the primary dealers to market these accounts to retail investors through their branch network and will help in broadening the investor base of Government securities.

State Bank continued to recognize the efforts of PDs in the development of Government securities market, by announcing three best performing PDs for FY13 in the primary and secondary markets of Government securities. Faysal Bank Limited was declared best performing PD for FY13, followed by Habib Bank Limited and NIB Bank Limited.

Marketing Campaign of Government Securities

In coordination with Ministry of Finance a marketing campaign to create awareness about Government securities among the retail/small investors was launched, in October 2012, with following salient features:

- Advertisements were published in leading newspapers of the country to explain the salient features of government securities and operational details for investment therein.
- To further augment the impact of media advertisement, investor guides were also published for all government securities i.e. Market Treasury Bills, Pakistan Investment Bonds and GOP Ijara Sukuk. These guides were distributed through main branches of PDs and are also available at SBP website.² The investor guides provide complete information to the investors, both residents and non-residents, about features, investment procedure and benefits of investing in Government securities.

Online Auction of Government Securities

Since February 2013, the auction of MTBs and PIBs is being conducted online via Bloomberg Auction System. This decision to automate was taken by SBP to bring more efficiency in the Primary Auction process which has not only reduced operational risk in manual auction process but has also brought Pakistan at par with other countries that have already implemented an automated electronic auction system. The online auction system has been customized to the needs of Pakistan market, which has enabled SBP to implement the straight through processing of accepted bids in auction. Hence, the process of auction from bid submission to settlement of accepted bids has been completely automated.³

GOP Ijara Sukuk

In December 2011, Government of Pakistan launched GOP Ijara Sukuk with M2 Motorway as underlying asset 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 Rs 234.6 billion, out of which GOP had issued Ijara Sukuk worth Rs 186.8 billion in four auctions held during FY12. The last auction of the series was conducted in Q1-FY13; in which Ijara Sukuk of Rs 47.0 billion were issued. In March, 2013, Government of Pakistan launched another series of GOP Ijara Sukuk with M-1 Motorway as an underlying asset. The maximum value of the asset was Rs 43.2 billion against which Sukuk worth Rs 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 501.4 billion have been issued so far. As of June 30, 2013, the outstanding amount of GoP Ijara Sukuk was Rs 459.2 billion, out of which Sukuk worth Rs 381.7 billion are held by Islamic Banks/Branches.

² <http://www.sbp.org.pk/Guidelines/index2.asp>

³ Detailed instructions issued to PDs in this regard are available at <http://www.sbp.org.pk/dmmd/2013/C3.htm>

Trading of Government Securities at Stock Exchanges

A committee was formed in August 2013 to evaluate trading of Government securities⁴ on the stock exchanges of Pakistan consisting of all stakeholders i.e. SBP, SECP, KSE and CDC. Objective of the committee was to put up an appropriate regulatory and operational framework to launch the trading of Government securities on the stock exchanges by the end of January 2014. To broaden the investor base of Government securities, it was agreed that the trading of such securities at the stock exchanges will be an additional platform and will not replace the existing OTC market⁵. Accordingly, SBP has allowed trading of government securities on the stock exchanges of the country. Necessary instructions to primary dealers / banks were issued on January 28, 2014.

Foreign Exchange Market

The exchange rate policy in Pakistan primarily aims at ensuring smooth functioning of the foreign exchange market and managing the foreign currency reserves of the country. SBP continued to follow these broad objectives in FY13. Proactive approach of SBP to market regulation and management has not only led to stability in the foreign exchange market, but has also enhanced the depth of the market. Considering the increasing volume of transactions and enabling banks to manage large flows without adding excessive volatility in the market, SBP in its annual review during FY13 increased the overall Foreign Exchange Exposure Limit (FEEL) of the market by 9.7 percent. Moreover, with effect from April 15, 2013, cap on aggregate FEEL of an authorized dealer has been increased from Rs 2,500 million to Rs 3,500 million.

Regulations related to foreign currency accounts and trade loans under FE-25 scheme have also been improved during FY13. As per new instructions, issued in September 2012, Authorized Dealers (ADs) have been allowed to open foreign currency accounts and extend trade loans 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). Furthermore, the interbank placements and interbank swaps or any other source of foreign currency liquidity permitted under SBP regulations are now allowed to 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. These changes in the regulation have not only facilitated the depositors and borrowers, but have also increased liquidity of all the concerned currencies in the foreign exchange market.

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
FY13	99.80	93.70	99.66	96.85	1.67

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

During FY13, rupee exhibited a depreciation of 5.1 percent against US\$ in the interbank market, compared to a larger depreciation of 9.1 percent observed in FY12 (**Table 4.1**). This trend in the exchange rate was largely a reflection of demand and supply in the foreign exchange market. In FY13, external account showed a relatively lower deficit of US\$2.5 billion compared to US\$4.7 billion recorded in the previous fiscal year. Similarly, overall balance of payments also depicted a smaller deficit of US\$2.0 billion in FY13 against US\$3.3 billion recorded in FY12.

⁴ That is Market Treasury Bills, Pakistan Investment Bonds, and GOP Ijara Sukuk.

⁵ The OTC market (Bloomberg, Reuters and money market brokers) of Government securities will continue to function as usual and no changes will be made in the current OTC market.

The deficit in the balance of payment positions and repayment of IMF loans resulted into a fall in the foreign exchange reserves of the country from US\$15.3 billion at end-June 2012 to US\$11.0 billion by the end of FY13. However, due to proactive management of SBP, the decline in the reserves during the year has been gradual that helped avoiding any undue negative impact on the market sentiments.

42nd Meeting of ACU Board of Directors

SBP got the honor of hosting the 42nd meeting of the Board of Directors of Asian Clearing Union (ACU) in June 2013 in Islamabad⁶. The meeting was held in conjunction with the 26th SAARCFINANCE Group Meeting and 9th Governors' Symposium.

During the meeting, Governor State Bank of Pakistan assumed the Chairmanship of Board of Directors of the ACU for the year 2013. The meeting was attended by Governors of central banks/monetary authorities of Bhutan, India, Maldives, Myanmar, Nepal and Deputy Governors from Bangladesh, Iran and Sri Lanka. First Deputy Governor of Da Afghanistan Bank also attended the meeting as an observer.

In the inaugural address the Governor SBP highlighted the need for economic cooperation among the participants of the ACU member countries in current scenario. The expansion of intra-regional trade and cooperation on other fronts, among ACU member countries will help absorb any negative shocks in the global markets. With an increase in trade amongst ACU countries, and an integrated financial system that reduces the cost of trade, the countries of the ACU will be able to diversify their trade and tap into some of the fastest growing markets of the region.

During the meeting Secretary General ACU, Mrs. Lida Borhan-Azad presented the draft annual report on the operations of the ACU for FY12. Afterwards, Directors/Alternate Directors of ACU member countries delivered brief presentations about their countries highlighting respective economic developments during the FY12.

The meeting discussed over the issues related to promotion of intra regional trade among ACU member countries and to facilitate the importers and exporters by bringing more efficiency in the existing payments and settlement processes.

4.2 Foreign Exchange Reserve Management

The foreign exchange reserves of Pakistan are maintained for ensuring coverage of international payments obligation as well as the effective implementation of the foreign exchange policy.

The liquid foreign exchange reserves of country stood at \$11.0 billion at June 30, 2013 compared to \$15.3 billion as on June 30, 2012 (see **Table 4.2**).

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

Month	SBP	Banks	Total
Jun-12	10,803	4,485	15,289
Jul-12	10,154	4,455	14,609
Aug-12	10,392	4,464	14,856
Sep-12	10,358	4,564	14,923
Oct-12	9,733	4,592	14,325
Nov-12	8,704	4,828	13,531
Dec-12	8,987	4,872	13,859
Jan-13	8,694	4,942	13,636
Feb-13	7,945	4,992	12,936
Mar-13	7,126	5,124	12,250
Apr-13	6,694	5,118	11,812
May-13	6,393	5,081	11,474
Jun-13	6,008	5,011	11,020

⁶ ACU is the multilateral organization comprising central banks of Bangladesh, Bhutan, India, Iran, Maldives, Myanmar, Nepal, Pakistan and Sri Lanka. Its main objective is to provide an efficient mechanism for payment and settlement among the member countries on a multilateral basis.

This decline by \$4.3 billion during FY13 represented current account deficit and the repayments to the IMF. The import coverage ratio was registered at 14.5 ‘weeks of imports’ by the end of FY13, down from 19.8 at the end of FY12.

Reserve Management Strategy

The global economy continued on the recovery path during FY13 as the markets responded to the financial and fiscal reforms undertaken in developed economies. Given the ongoing economic and financial developments in core investment markets, the Investment Strategy remained a key focus area for the reserve management function - leading to asset allocation and currency mix diversification initiatives. In-house reserve management capabilities were enhanced by augmenting the role of sovereign instruments in the in-house portfolio. The Agency Agreement signed between SBP and the People’s Bank of China, permitting SBP to conduct investment activity in the Chinese Interbank Bond Market, was the most significant development in Reserve Management area during FY13. This agreement represents the close collaboration between the State Bank of Pakistan and People’s Bank of China that has been built over time. The access to the Chinese Bond Market also provides integral flexibility to the State Bank of Pakistan for diversification and optimal management of foreign exchange reserves. It will help us meet SBP’s reserve management objectives while enhancing the overall profitability of invested reserves. Additional asset class and currency mix diversification initiatives are also planned to be phased-in upon assessment of favorable conditions in international foreign exchange and capital markets. Furthermore, a benchmark reassessment exercise was also conducted during FY13 resulting in reduction of credit exposure for Bank’s overall reserves portfolio - a key initiative given elevated uncertainty in Euro zone countries and rapidly changing global economic dynamics.

Reserve Outlook

SBP maintains a positive outlook for the foreign exchange reserves position for the upcoming year. While strong workers’ remittances continue to provide a buffer against an unfavorable trade balance, the Extended Fund Facility from IMF should allow for consolidation of the foreign exchange reserve position. The initiatives for enhancement of reserve management capabilities – implemented and planned – should allow for enhanced profitability while adhering to SBP’s pre-specified investment guidelines. The Investment Policy for foreign exchange reserves and any adjustments therein are formulated under the broad investment guidelines – of Security, Liquidity and optimal Returns – developed by the Central Board of the Bank.

4.3 Changes in Foreign Exchange Related Instructions

Instructions on the forward cover facility provided by the ADs against imports were further streamlined in terms of F.E. Circular No. 06 dated December 21, 2011. In this regard, certain queries were raised which were clarified vide Circular Letter No. 01 dated February 19, 2013. The said clarifications provide necessary guidelines on the facility. Further, the need for strict observance of applicable rules and regulations governing foreign currency accounts has been stressed upon the ADs vide Circular Letter No. 03 dated February 27, 2013. Besides, in case of any deposit of foreign currency notes of more than USD 10,000 (or equivalent in other currencies) in a single day, the account holders have been required to present the original receipt of acquisition.

4.4 Exchange Companies (ECs)

In consonance with the policy to organize and facilitate the exchange companies, SBP issued comprehensive network expansion policy for the ECs. Through this policy, ECs have been provided with detailed set of instructions regarding network expansion that has been linked with capital and compliance ratings of ECs. Further, in order to protect the interests of the buyers/sellers of foreign

exchange, SBP made it mandatory for ECs that the spread between buying and selling rates of foreign currencies should not exceed 25 paisas.

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 workers' remittances; and (b) to provide domestic investment opportunities to overseas Pakistanis. The establishment of PRI has contributed positively in enhancing the flow of remittances to Pakistan. More importantly, workers' remittances emerged as a major source to finance the trade deficit of the country. Remittances financed over two-third of Pakistan's trade deficit during FY13 compared to less than one-third of the trade deficit financed by the remittances during FY08. Among others, the introduction of instant account credit facility through inter-bank fund transfer (IBFT) was the major initiative of PRI in FY12. This product offers convenient and fast delivery of home remittance into beneficiaries' bank accounts within a maximum 30 minutes on 24/7 basis. It is hoped that this product will become popular amongst the remitters and beneficiaries.

Further, PRI is about to initiate a pre-departure briefing program for outbound Pakistani workers. The implementation strategy of pre-departure briefing program is under discussion between PRI and Emigration Bureau. Under this program, outbound Pakistani workers will be briefed about the sources and usage of sending and receiving home remittance through formal channels. They will also be provided facilities to open their own and their beneficiaries' bank accounts at the spot. Since over half million Pakistanis are going abroad annually through Emigration Bureau, this program is expected to increase remittances on sustainable basis.

4.6 Treasury Operations

During FY13, Treasury Operations Department continued to perform the treasury back-office and Nostro operations in addition to other functions such as accounting of outsourced portfolio/ execution of foreign currency payments; contributing significantly towards the achievement of the key objectives of SBP like prudent reserves management and financial stability. It ensured accurate & timely settlement, recording and reporting of traditional as well as advanced treasury products and FCY payments in automated environment, by developing skilled professionals of international caliber. Following are the major achievements:

- TOD successfully handled a complex and new treasury product under Currency SWAP Agreement (CSA) with Peoples Bank of China (PBC). Entire job was indigenously completed envisaging capacity building, technical analysis on substance of CSA, development of business process manual, opening of new accounts and their classification in GL as per accounting policy.
- As part of improving the efficiency and cost effectiveness of SBP's Treasury Operations, the account arrangements with foreign correspondents were reviewed, whereby certain nostros were rationalized and in a few instances terms and conditions of the nostros were re-negotiated.
- Developed program for auto loading of daily exchange rates directly into the Globus system through interface, without manual intervention.
- Capacity building of TOD's officers in treasury areas as well as Globus and Oracle Systems/ functionalities for improved efficiency.

- Enhanced the in-house capacity/skill set for independent valuation of the fixed income securities and derivative products held with foreign fund managers/custodians.
- Created interface with custodians' accounting platform and took initiatives for increased efficiency of their reporting on SBP portfolio for accounting, reconciliation and MIS.

5 Payment and Settlement Systems

5.1 Overview

Payment and settlement systems are the mechanisms that enable smooth transfer of funds between buyers/sellers, debtors/creditors etc., in an economy. The efficient transfer of money is essential for the flow of economic activities and hence for the growth and development of the country. A safe, reliable and efficient payments infrastructure is necessary for the stability of financial system, and consumers' confidence in it.

Payment systems infrastructure in Pakistan is evolving from traditional paper-based modes of payments to electronic payments. Electronic banking is gaining popularity in the country as various e-channels like Real Time Online Banking (RTOB), mobile banking, call centers and internet banking are becoming the preferred retail payment channels in addition to ATM network. Moreover, settlement of large value payments through Pakistan Real-time Interbank Settlement Mechanism (PRISM), the real-time gross settlement system of Pakistan, has greatly facilitated financial markets in reducing their settlement as well as systemic risks.

As a regulator, SBP has been playing an important role in promoting electronic payment systems by enhancing their safety and efficiency. For this purpose, various guidelines/instructions have been issued from time-to-time to give direction to the industry and to reduce the operational inefficiencies faced by customers while using these channels. In FY13, SBP directed the banks in Pakistan to adopt International Bank Account Number (IBAN)¹ for all local and domestic fund transfers. With the adoption of IBAN, Pakistan has joined the group of countries using this mechanism for ensuring reduced risk of data errors at the time of transferring funds. SBP also prepared and issued a draft concept paper for public feedback for development of e-Payment gateways, aimed at assuring safe and efficient routing of domestic and international payments carried out through various electronic channels; as well as enabling interoperability.

The Payment Systems Department (PSD) of the Bank is also playing an active role in developing and promoting cooperation among regional countries and contributing in reforming their national payment and settlement systems in order to facilitate trade and investment flows in the region. SBP is currently hosting Secretariat for SAARC Payment Council (SPC), which is a forum of central banks/monetary authorities of SAARC countries to collectively develop strategies and roadmaps for the improvement of payment systems in the this region. The SPC meets bi-annually in one of the member countries, on rotation basis.

5.2 Large Value Payment System

Large value payment system facilitates large value and low volume payments among banks or between participants in the financial markets that require urgent and timely settlement of their payments. In Pakistan, the final settlement of these large value and high priority payments takes place through PRISM, which is owned and operated by the SBP. Transactions that are settled through PRISM include settlement of Government securities' trade, interbank funds transfers, multilateral net

¹ IBAN implementation is in progress across banking industry in Pakistan whereby Phase 1 (generation and notification of IBAN to customers) was completed in January, 2013. Phase 2 of implementation i.e. operational use of IBAN for domestic and international transactions, is currently in progress which is expected to be completed by December 2014.

settlement for cheque clearing², Rupee leg of foreign exchange transactions, cash leg of capital market and high value customer transfers. Currently, PRISM has 45 direct participants consisting of 37 banks, 7 DFIs and a non-bank entity which is Central Depository Company. Although there is no minimum value set for the interbank fund transfers in PRISM; however there are caps on customer fund transfers i.e. Rs 1 million for single customer transfer and Rs 100,000 for multiple credit transfer messages.

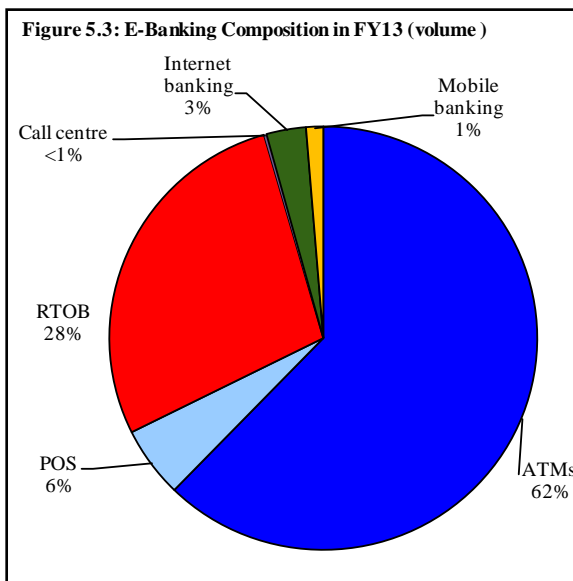
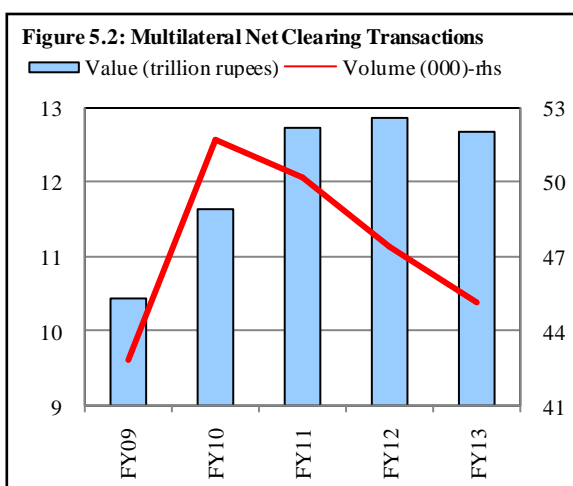
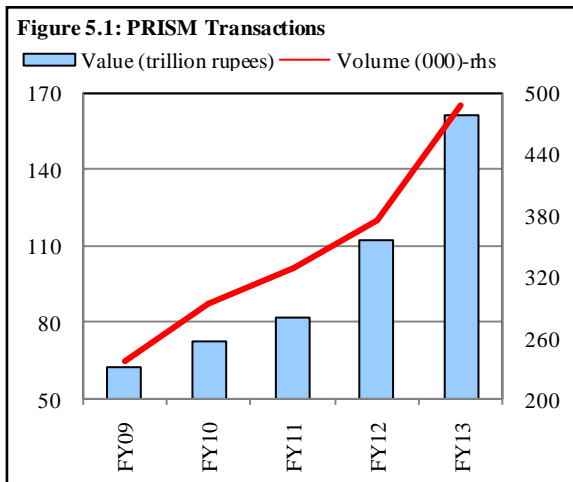
Since the launch of the PRISM system in 2008-09, there has been an increase of 107 percent in volume and 161 percent in value of transactions that were processed (**Figure 5.1**). FY13 witnessed a growth of 43 percent in value and 30 percent in volume of transactions that were processed. During FY13, total value of Rs 161.7 trillion was settled in PRISM of which Rs 45.3 trillion (28 percent) related to interbank bank settlement, Rs 12.7 trillion (7.8 percent) related to NIFT settlement and Rs 103.7 trillion (64.1 percent) related to the settlement of interbank trade of Government securities.

From FY09 to FY11, there has been an increase of above 16 percent in volume and 30 percent in value of retail clearing cheque-based transactions

that were processed by NIFT. However, over the last couple of years the volume of cheques decreased by 10 percent and maintained the value (**Figure 5.2**). Dependency on cheque is expected to fall further following integration of existing two switches M/s. MNet and ILink. The fund transfer facility is now available across these two switches along with other services like cash withdrawals.

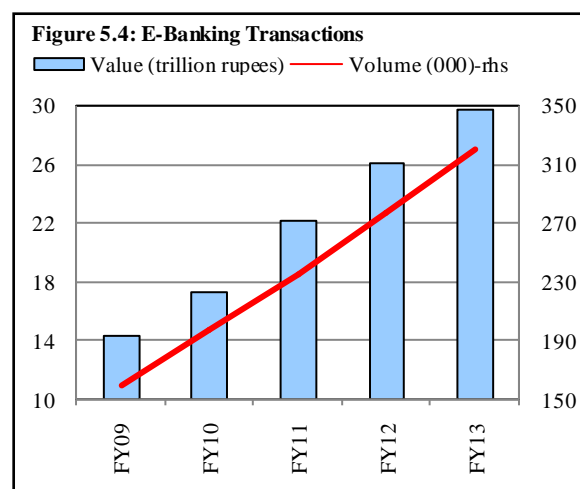
5.3 Retail Payment Systems

Retail payments are mainly consumer payments of relatively low value and can generally be classified as paper based (cheques, Pay orders, Demand Drafts, Telegraphic and Money transfers etc.) and electronic. The electronic payments in Pakistan involve specific types of instruments



² Due to its systemic importance, the multilateral net clearing position of cheques, as prepared by NIFT, is settled in PRISM.

and payment delivery channels like ATM, internet, point of sale (POS) terminals, mobile banking, call centers, and RTOB for providing the payment services to end-users. But, e-banking in Pakistan is dominated by ATM network as customers have greater access and availability of ATM machines. Furthermore, ATM network is available since well before the introduction of other e-channels. The number of transactions done through ATMs during FY13 had the highest share in e-banking transactions (62 percent) followed by those done through RTOB (28 percent). Only 0.2 percent of transactions were executed through call centers which was negligible in the composition of e-banking transactions in the country (**Figure 5.3**). During FY13, mobile banking increased in value and volume by 121 percent and 33 percent respectively whereas the value and volume of internet banking increased by 38 percent and 37 percent respectively. The overall volume and value of e-banking transactions increased more than 100 percent over the past five years. During FY13 the overall growth in e-banking volume was 16 percent while that of value was 14 percent (**Figure 5.4**).



Banks and financial institutions in the country have invested substantially in the ATM infrastructure. As a result the number of ATM increased to 37 per million people at the end of FY13, compared to 32 per million people at the end of FY12.

Advancement in the technological landscape, particularly in the banking and finance, is resulting in the rapid introduction of new products and payments delivery channels in the economy. Consumer demand for such channels, on the other hand, is also thriving which can be witnessed in the form of increased use of ATMs. However, ATMs are mainly, channels for cash disbursement and hence needs to be supplemented by non-cash delivery channels, including POS, internet banking and mobile enabled devices. The main challenge for SBP, as a regulator of banking and payment/settlement systems in the country, is to facilitate promotion of these new payment mechanisms/channels while ensuring safety and efficiency via sound regulatory/supervisory framework. SBP is working on a number of initiatives under three-pronged strategy (**Box 5.1**).

Box 5.1: SBP Payment Systems Strategy and Initiatives

SBP realizes that robust payment mechanisms are a pre-requisite for improving the financial inclusion in the country. SBP's three-pronged strategy for payment systems growth and development includes: (i) development of sound legal framework for innovative payment systems and instruments; (ii) robust and effective monitoring and oversight framework; and (iii) enabling environment for the growth and development of an efficient payments infrastructure.

SBP has started working on a number of initiatives including: (a) issuing regulations and guidelines on various type of e-Payment Gateways while processing requests for establishing new switches/gateways; (b) upgrading the existing RTGS system to cater for increased e-payments in future; (c) introduction of Cheque Truncation (conversion of physical cheque into a substitute electronic form for transmission to the paying bank) System for faster cheques' clearing; (d) standardization of Financial Articles; and (e) prevention of e-banking fraudulent transactions.

Table 5.1 shows historic trends in various e-banking indicators. It is expected that in coming years, the country will move towards a less-cash society at an enhanced pace and with increased participation of general public in the financial system at a low cost, high efficiency and full security.

Table 5.1: e-Payment System Indicators						
Item	Unit	FY09	FY10	FY11	FY12	FY13^P
1 e-banking infrastructure						
Online branches	number	6,040	6,671	7,416	9,291	10,013
Automated Teller Machines (ATMs)	number	3,999	4,465	5,200	5,745	6,757
Point of Sale (POS)	number	49,715	52,049	37,232	34,879	33,748
2 Plastic cards number						
Credit cards	thousand	1,664	1,613	1,385	1,231	1,088
Debit cards ¹	thousand	6,395	8,140	11,990	15,984	20,267
ATMs only cards	thousand	881	764	642	738	806
3 e-banking transactions						
Number of transactions	thousand	159,783	196,305	234,853	277,384	320,526
Value of transactions	billion rupees	14,374	17,332	22,142	26,023	29,690
3.1 ATM transactions						
Number of transactions	thousand	91,126	115,677	137,659	166,158	199,779
Value of transactions	billion rupees	669	905	1,196	1,589	1,979
3.2 POS transactions						
Number of transactions	thousand	18,280	15,677	14,287	17,447	17,311
Value of transactions	billion rupees	90	75	70	80	87
3.3 RTOB transactions						
Number of transactions	thousand	47,279	60,615	74,407	83,070	89,058
Value of transactions	billion rupees	13,538	16,202	20,652	23,969	27,091
3.4 Other e-banking channels²						
Number of transactions	thousand	3,098	4,336	8,500	10,709	14,378
Value of transactions	billion rupees	77	150	224	385	534
1-Does not include ATM-only cards						P: Provisional
2-Internet, call centre & mobile banking						
Note: Sr. No. 1 to 2 contains data as on 30th June.						

Management Strategy of SBP

6. Human Resource Developments

7. Information Technology Developments

6 Human Resource Developments

6.1 Overview

Some noteworthy developments took place in the area of ‘recruitment’ (both permanent as well as contractual) and ‘training & development’ of SBP staff. A brief analysis of these activities follows.

6.2 HR Profile

Officer Grade -wise comparison of headcount for FY12 and FY13 is given in **Table 6.1**¹. The overall HR strength of the SBP marginally declined (by 0.7 percent) in FY13. This decline was mainly contributed by OG-3s. The representation of women in the Bank remained the same as last year i.e. 10 percent.

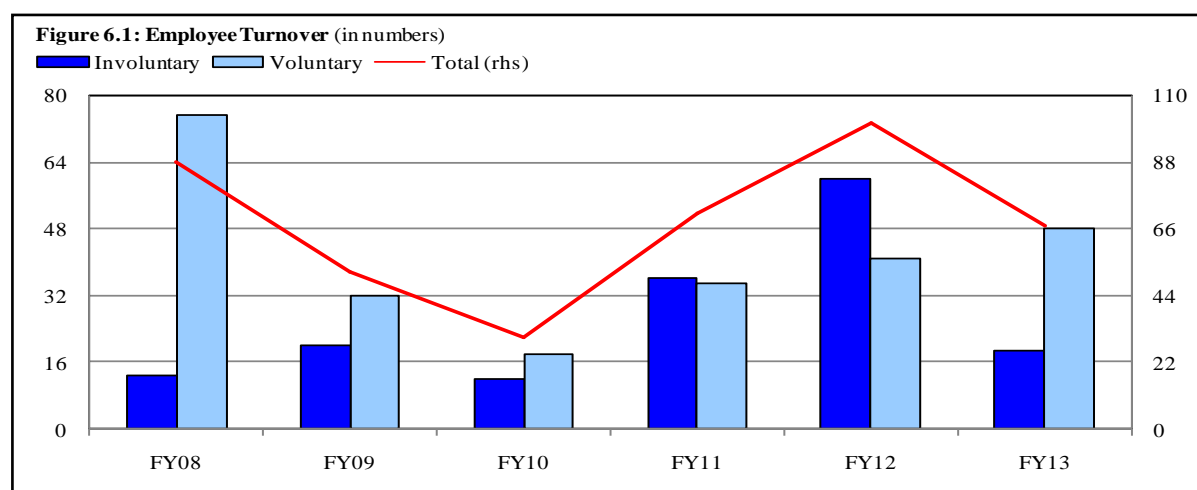
6.2.1 Employee Turnover

Employee attrition rate in FY13 stood at 4.84 percent, with a total of 19 involuntary² and 48 voluntary³ separations during the year. The resignation rate in FY13 stood at 1.73 percent.

Figure 6.1 depicts the attrition trend of SBP employees during the last six years. There was an increase in the number of resignations during FY13 while the number of early retirements declined during the year compared to earlier couple of years.

Table 6.1: SBP Human Resource Profile
(numbers)

Grade	FY12	FY13
OG-8	11	10
OG-7	27	26
OG-6	43	43
OG-5	91	90
OG-4	211	203
OG-3	371	351
OG-2	324	365
OG-1	144	138
Support staff	144	135
Contractual employees	27	21
Total	1393	1383



¹ For Governor and Deputy Governors, see Chapter on ‘The Governance Structure at the State Bank of Pakistan’.

² Includes retired, contract expired, dismissed, and expired employees.

³ Includes resigned employees and early retired employees.

6.2.2 Recruitment

Permanent Recruitment

In line with the traditional HR Strategy of SBP, major recruitment was done at the officer's entry level, OG-2 position. To fulfill the HR gap evident in the approved manpower plan, induction of fresh graduates from HEC recognized universities was done through the State Bank Officers Training Scheme (SBOTS) Batch-18.

The management continued to engage National Testing Services (NTS), particularly for the purpose of managing and conducting the pre-induction written tests across the country to ensure efficiency, transparency and neutrality in the process. This year, NTS was also involved in the preliminary recruitment process for SBOTS' Batch-18 on a trial basis.

Apart from entry level, recruitment was also initiated to induct professional/experienced individuals in the areas, where there was a dire skill gap for the positions of Director / Head (Chief Spokesman) (OG-7/OG-6) and Divisional Head (OG-5) for External Relations Department, Director / Head (OG-7/OG-6) and Legal Officers (OG-3 & OG-2) for Legal Services Department, Protocol Officers (OG-4 & OG-3) for Office of the Corporate Secretary, Deputy/Assistant Directors (OG-3 & OG-2) for Internal Audit & Compliance Department and OG-3 position for Library. The recruitment of these positions is under process. During FY13, 53 officers were recruited under SBOTS (OG-2) and an officer was appointed as an OG-5.

Contractual Recruitment

In addition to the permanent recruitments, 03 professionals were also hired on contractual basis to meet the short term need of the Bank in specialized areas during FY13.

6.2.3 Training and Development

Training Need Assessment

Training and Development is the most authentic tool towards resource development which enhances knowledge base and skill set of employees. SBP is committed to facilitate its employees with quality training and development opportunities within Pakistan and abroad. To measure the organizational training needs, institution wide TNA (Training Need Assessment) exercise based on Form-1 of Performance Management and Improvement System (PMIS) is followed annually at SBP. In the light of TNA exercise, 750 nominations were made for SBP officers' training during FY13.

Higher Studies

SBP encourages the pursuit of higher education at overseas to keep its officers up-to-date to new developments in different areas of central banking. During FY13, under Higher Studies Policy, eight officers from the Bank availed the facility.

In-House Training Arrangements

To address the training needs of SBP employees during FY13; Training and Development Division of HRD coordinated with NIBAF on designing and delivery of technical and soft skills based training programs. Subsequently, 36 modules were arranged for 603 nominations of SBP employees (**Table 6.2**). There was a significant increase in the courses and the participation in FY13 over the previous year.

Table 6.2: Domestic Training
(numbers)

	Nominations		Courses	
	FY12	FY13	FY12	FY13
NIBAF	336	603	18	36
Institutional	59	83	28	25
Total	395	686	46	61

Institutional Trainings

Apart from NIBAF, SBP nominates its employees to attend the requisite Function Specific and Management Trainings vis-à-vis workshops, seminars and symposiums offered by the domestic training institutions like Institute of Business Administration; Institute of Bankers, Pakistan; Lahore University of Management Sciences; and Pakistan Management Institute (PMI) etc. During FY13, 83 nominations were made for participating in 25 programmes (**Table 6.2**).

Foreign Trainings

SBP encourages and provides opportunities to its employees for acquisition of the latest techniques in relevant fields. During FY13, 64 nominations were made for various training courses, workshops, seminars, pertaining to core and support functions of the Bank. These programmes were offered by the International Monetary Fund, Asian Development Bank, Monetary Authority of Singapore, Deutsch Bundesbank, Boulder Institute of Microfinance, etc. (**Table 6.3**). The training received enhanced the officers' specialized knowledge and increased their operational capacity. Most of these programmes were either fully or partially funded by the host organizations.

Table 6.3. Foreign Training

(numbers)

Organization/Institute	FY12	FY13
International Monetary Fund	51	29
European Central Bank	2	1
Asian Development Bank	1	2
Islamic Development Bank	2	0
Monetary Authority of Singapore	0	1
Deutsche Bundesbank	0	1
Boulder Institute of Microfinance	1	3
Australian Transaction Reports and Analysis Centre (AUSTRAC)	8	4
Asia-Pacific Rural and Agricultural Credit Association (APRACA)	1	4
Asia Pacific Group	0	3
Bank Negara Malaysia	0	3
Centre for Central Banking Studies (UK)	0	1
Central Bank of Turkey	0	1
Financial Services Authority (U.K)	0	1
Islamic Financial Services Board	0	1
The Bank of Korea	0	1
UBS, Switzerland	0	1
Others	25	7
Total	91	64

6.2.4 Networking Efforts

Visit Program

To share knowledge on the functioning of the SBP, various visit programmes for student's vis-à-vis government dignitaries are facilitated by the Bank. During FY13, 461 visitors comprising of 117 government officials under syndicates and 344 students of colleges/universities visited the Bank (**Table 6.4**).

Internship Program

SBP offers internship opportunities to students across Pakistan. During FY13 a Summer Internship Programme was arranged for 230 participating students of HEC recognized universities (**Table 6.4**).

Table 6.4: SBP Awareness/Visits and Internship Programs

(numbers)

Particulars/Category	FY12	FY13
Government officials	187	117
College /University students	194	344
International delegations *	12	0
Summer internship programme (six weeks duration)	195	230

*=A delegation of 12 employees from Nepal Rastra Bank under SAARCFINANCE

7 Information Technology Developments

7.1 Overview

This year, upgrade of core Enterprise Resource Planning system was a major achievement of IT in SBP. Several business and technical objectives of the upgrade were successfully achieved. This upgrade was a part of the 3-Year Information Systems Strategy for SBP & SBP-BSC and was initiated in March 2013. To align with the developments on business systems side, technological infrastructural base of the Bank has also been augmented this year, with appropriate enhancements. Similarly, the protection of information assets of the Bank was beefed up during the year with the introduction of latest mechanisms to monitor and fix security issues proactively.

Another achievement of this year was consolidation of country-wide Globus related support mechanism into a central workflow solution using the SBP Service Desk system where all technical support related issues were being recorded and responded to/from one point that enabled prompt support in addition to providing the analysis capabilities related to Globus support areas. Similarly, Engineering Department's compliant management lifecycle was automated. That ensured swift system flow (without any ambiguity), granular reporting and analysis capabilities of Engineering related issues and tasks.

7.2 Business Systems Developments

The upgrade of Oracle systems achieved this year with very tight timelines and by utilizing internal resources of SBP. To minimize business-side disruptions the final round of upgrade was purposefully planned and executed between Eid-ul-Fitr and Pakistan Independence Day holidays. A rigorous training programme was administered to ensure smooth transition to the upgraded version.

A transformational project completed this year was straight-through processing for auction of Government securities where an interface between Globus Banking System and Bloomberg System was developed for online auction of Pakistan Investment Bonds and Market Treasury Bills.

ISTD played a key role in supporting the General Election 2013 process by completing a project of national importance namely Data Scrutiny System for Election Commission of Pakistan in record minimum time that ensured checking of loan related history of election candidates for any possible defaults. This system ran successfully during the nomination papers' filing and scrutiny phase of General Elections 2013.

In the prize bond area, new Bond of Rs 100 denomination was added to Globus Banking system while enhancement of prize money payment process through one window operation was also implemented in the system.

A notable achievement was NAB Convicted Person Information System developed to facilitate to maintain data storage/presentation application by NAB unit of BPRD. This covered the provision of information to NAB, circulation of information to banks/DFIs, MIS of willful default cases and circulation of freezing and de-freezing orders received from NAB u/s 12 of National Accountability Ordinance 1999.

Exchange Companies (ECs) Licensing System Phase-I was also developed this year which covered the MIS of ECs and Management and Employees information. In Phase – II, system will facilitate the

processes and MIS reporting about the Licenses, agreements and Anti Money Laundering issues related to ECs.

Cash Monitoring and On-site Examination was also automated this year. This system automated the process of Cash monitoring and examination at SBP-BSC field offices and commercial banks.

Web based SBP Employee Self Services software was also developed and launched this year to facilitate all employees to check their personal information with the Bank, performance history, salary history, loan details, and leave record. The system aimed to decrease the work load on HRD about the employees' queries regarding their above mentioned details. Moreover, Email notification functionality was added for 'Employee Payments' and 'End of Employments' activities. Using this functionality, an automated email is generated to notify the concerned stakeholders on payment(s) to an employee and End of Employment (in case of retirement, resignation, contract expiry etc) activity in HRMS. In addition to facilitating employees about relevant payment(s), if any; this functionality also addresses the risk related to unauthorized use of retired/resigned/expired employee system IDs.

Data Acquisition, Compilation and Presentation project was also done this year. This project is a major enhancement in the previous A-07 system. The new system acquires additional information on Investments, Total off balance sheet Exposure, Non-Performing Assets (NPAs) and Information on credit demand besides credit supply to provide not only analytical data but the required assurance to the policy making wing for appropriate amendments in the relevant policies.

7.3 Infrastructure Developments

This year, the major focus of IT infrastructural area remained on the enterprise Windows based deployments. To cater to the growing data and file storage needs, enterprise class storage area network was revolutionized by implementing the latest storage technologies. Similarly, several server hardware equipments were replaced with the latest ones across the country to upgrade the services being provided to the enterprise users.

A major accomplishment this year was to strengthen and upgrade IT setup for SWIFT international payments system. The latest server hardware has been acquired and the installations are in progress. During 2012-13, the basic building block of entire IT setup of State Bank and SBP-BSC Offices i.e. the uninterrupted power was planned to be upgraded and the planning and acquisition phase has been finalized. Now the deployment of new UPS systems is in initiation phase that is expected to complete by mid next year.

7.4 Information Security and Assurance

Email is the most important business tool used extensively by Pakistan financial and banking sector. Keeping in view the risks associated with clear text emails and to address ever increasing phishing threats, ISTD in collaboration with BPRD and PBA issued a circular for banking industry to implement industry standard protocol which ensures bank to bank email communication will be authenticated first at the email gateway level and later, contents of the message exchange will be encrypted.

This year, IT Security Division launched a vulnerability scanning system to identify and discover software vulnerabilities within IT infrastructure components (including in the SBP-BSC offices). By proactively identifying and fixing software vulnerabilities in a timely manner, the risk of Internet based cyber attack on SBP IT systems and network exploiting these vulnerabilities could be

minimized. Additionally, on the request of BID, ISTD also procured a well recognized commercial website scanning tool which will be used by BID during their inspection of banks.

SBP Subsidiaries

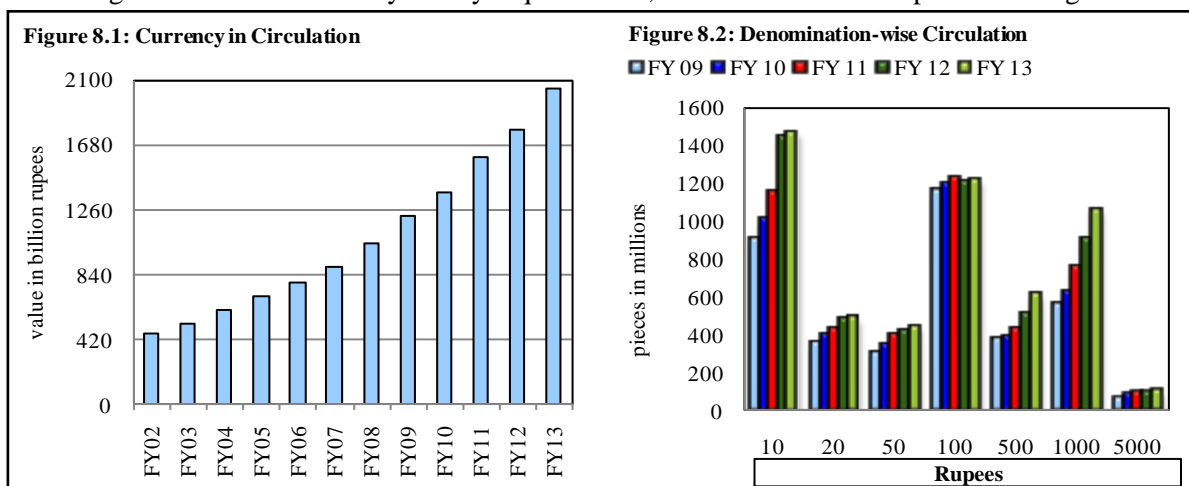
- 8. SBP Banking Services Corporation (SBP-BSC)**
- 9. National Institute of Banking & Finance (NIBAF)**

8 SBP Banking Services Corporation (SBP-BSC)

The SBP Banking Services Corporation (SBP-BSC), established in 2002, is one of the two subsidiaries launched by State Bank of Pakistan, the other one being National Institute of Banking and Finance (NIBAF). SBP-BSC is an operational arm of the SBP. Since its inception, it has shown unswerving advancement in its activities. Voyage of the Corporation witnessed an era of success with regard to its operations on different fronts including: (i) good quality and prompt services to the federal, provincial and district governments, banking industry (including SBP), as well as the common man; (ii) improving the quality of services, and enhancing the transparency; (iii) strengthening its role as an extended arm of the Development Finance Group (DFG) of SBP. The hardworking and committed staff of the Corporation continuously strives for displaying their best, so as to effectively assist senior management towards the policy formulation and implementation process, aimed at successful achievement of the organizational goals embodied in the mission and vision statements of the Corporation.

VISION STATEMENT	MISSION STATEMENT
To develop SBP-BSC into a dynamic and efficient organization equipped with requisite technology and human resource capable of extending sustainable support to the State Bank of Pakistan in achieving its objectives.	To provide excellent banking and financial services to stakeholders besides ensuring implementation of SBP policies in order to command their trust and respect.

A visible improvement was observed during FY13 in the journey of success made during the first decade of the Corporation's progress. While unfolding the performance account of the Corporation during the year under review, one of the most important assignments relates with "Currency Management". It hardly needs emphasis that the availability of clean and durable bank notes is the cornerstone of services performed by a central bank, particularly when seen from the perspective of a common man. It would be worthwhile to mention here that Pakistan is a cash oriented economy, as evident from the increase in Currency in Circulation (CIC) which stood at Rs 2,043 billion as on 30th June 2013, compared to Rs 1,777 billion on 30th June, 2012; showing an increase of 15 percent (**Figures 8.1 and 8.2**). In a society having more reliance on the printed bank notes in the payments of their obligations and for other day-to-day requirements, it becomes more complex to manage



availability of bank notes and coins across the country. A considerable increase in CIC during the recent past has suggested Currency Management Department (CMD) of the Corporation to manage more aggressively the stocks of fresh and re-issuable notes held at SBP-BSC field offices, primarily due to remittance arrangements for currency movement in bulk. Notwithstanding the operational difficulties, CMD has successfully managed availability of bank notes and coins across the country, in order to meet its commitment and resolve to provide good quality bank notes.

The replacement of soiled bank notes and availability of good quality bank notes across Pakistan warrants both institutional commitment as well as operational innovation, in a payment system relying more on physical exchange of bank notes for settling payments. CMD has been doing the needful towards this direction 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. As a part of an ongoing process, it has also been made conditional on the banks to use good quality notes for ATM operations. Moreover, under CNP, banks have been advised to devise strong internal control mechanisms, in order to check compliance of the instructions issued by CMD from time to time, and submit the compliance certificate to the Director, CMD on 15th January every year.

The underlying philosophy has been to implement the CNP with the cooperation and ownership of stakeholders. Moreover, category-wise database of all commercial banks has been developed, thereby showing their performance with regard to implementation of SBP's CNP, taking corrective action by aligning more resources to banks having relatively poor performance in this regard. It would be worthwhile to mention here that, on an overall basis, fresh cash equivalent to Rs 518 billion was disbursed to banks and various other institutional and non-institutional stakeholders during FY13, as against Rs 443 billion in FY12.

On account of managing the banking business of the government, SBP-BSC remained engaged with the operational work relating to National Prize Bonds Scheme and National Saving Certificate Scheme of the Central Directorate of National Savings (CDNS). Sale and encashment of prize bonds of various denominations and the payment of prize money were areas where SBP-BSC deployed resource to administer the scheme efficiently. During FY13, total sale of Rs 155.0 billion was handled compared to Rs 162.2 billion in FY12 showing a decrease of Rs 7.2 billion in sale. Likewise, the encashment volume recorded at Rs 98.8 billion during FY13, while it was Rs 105.9 billion in FY12 again showing a reduction of Rs 6.7 billion. With a comparison of both the coefficients, a net decrease of Rs 0.5 billion can be witnessed towards the net outstanding position. The field offices of SBP-BSC settled 1,558,778 cases of prize money payments compared to 1,312,798 cases during FY12, showing a significant increase of 19 percent. While administering the regular prize bond scheme, SBP-BSC also facilitated the CDNS in re-launching of Student Welfare Prize Bond of Rs 100 denomination during November 2012, sales of which were handled simultaneously in all the 16 field offices of the Corporation.

The Corporation also managed other schemes of CDNS; notably the sale, encashment and profit payments of Special Saving Certificates (SSC) and Defence Saving Certificates (DSC). During the year under review, 11,751 cases (valuing Rs 24.2 billion) in respect of sale of SSCs and 5,741 cases (valuing Rs 23 billion) of DSCs were handled. The combined sale of SSCs and DSCs for the FY13 was increased by 36 percent compared to FY 12. During FY13, both SSCs and DSCs contributed almost equally in achieving the combined sale of Rs 47.6 billion, whereas major chunk of the total sale of Rs 35 billion pertained to SSCs in the previous fiscal year. Further, in order to mitigate all

operational risks, SBP-BSC implemented a new online system developed in Globus, for confirmation of PB-18 from Public Debt Offices (for prizes above Rs 18,500).

Being an operational arm of SBP, in its role as banker to the government, SBP-BSC provides specialized banking services to the federal as well as provincial governments through its 16 field offices all over the country. These services include collection of revenue, making payments and clearing financial instruments issued by the government. Moreover, government departments were facilitated in the transfer of funds within country. The consolidation and reporting of federal, provincial, district governments and zakat balances, is one of the key responsibilities of Accounts Department of SBP-BSC. Data pertaining to government transactions carried out in these accounts is reported to various stakeholders such as Accountant General Pakistan Revenue, Accountant Generals of the Provinces, Pakistan Railway, etc. on periodical basis. During FY13, around 6.30 million transactions pertaining to government receipts/payments were processed by the SBP-BSC offices. The tax revenue (FBR collections) handled by SBP-BSC offices and the network of NBP branches on behalf of the government, and credited to the relevant accounts during the year, was around Rs 1974 billion compared to Rs 1970 billion last year. The collection, disbursement, consolidation and reporting of zakat account is another prime responsibility of SBP-BSC Accounts Department. During the year under review, total collection of zakat amounted to Rs 4.1 billion compared to Rs 3.9 billion collected last year.

In addition to the functions delegated by the Exchange Policy Department of SBP, Foreign Exchange Operations Department (FEOD) and Foreign Exchange Adjudication Department (FEAD) in SBP-BSC undertake the responsibility for implementation of Foreign Exchange Manual, as illustrated through implementation of the Foreign Exchange Regulation Act (FERA) 1947. FEOD is also responsible for ensuring realization of export proceeds, 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 details regarding major achievements of FEOD are presented in **Box 8.1**.

Box 8.1: Significant Accomplishments of FEOD during FY13

- As a sequel to follow-up with the delinquent exporters failing to realize export proceeds under the stipulated time period, FEOD remained successful in realizing around US\$ 500 million during FY13.
- For the purpose of realization of proceeds, FEOD issued 19,211 show cause notices (SCNs) to the delinquent exporters compared to 18,054 in FY12; whereas 8,730 SCNs were issued to Authorized Dealers (ADs) as against 6,930 cases in the previous year.
- Moreover, 3,467 complaints in FY13 were also filed by the FEOD against exporters for referral to Foreign Exchange Adjudication Courts for taking action under Section 23B of FERA 1947, as against 2,855 filed during FY12.
- The most significant step taken in the year under review was the lodgment of a huge number of complaints against those ADs who failed to provide pre-adjudication information for taking punitive action under FERA 1947 against those exporters who failed to repatriate export proceeds within prescribed period. In this regard 4,970 complaints against ADs were lodged in Foreign Exchange Adjudication Courts in FY13 as against 740 complaints in FY12.
- FEOD also facilitates the Development Finance Group (DFG) of SBP in monitoring the performance of the exporters having availed the funding under Export Finance Scheme of SBP.
- FEOD also undertakes the responsibility of managing R&D subsidy to the textile sector. In this regard, a total of 14,488 DLT (Drawback on Local Taxes and Levies) claims (amounting Rs 1.4 billion) were paid as against 78,385 cases (amounting Rs 5.6 billion) paid in FY12.
- Various MIS have been developed in the area of remittances and foreign exchange allocation record of government and semi-government departments maintained at FEOD.
- After shifting from manual ledger system to system-based Foreign Exchange Accounts Information System (FEAIS), a total of 12,596 entries (involving Rs 149.3 billion) were cleared through FEAIS during FY13 as against 11,243 transactions last year.

The prime objective of the Foreign Exchange Adjudication Department (FEAD) is to adjudicate the complaints received from FEOD. Adjudicating Officers in FEAD exercise powers vested in them under Section 23B of FERA 1947, in order to undertake the legal proceedings and to dispense justice to the aggrieved parties. Details regarding noteworthy activities, performed by FEAD during FY13, are given in **Box 8.2**.

Box 8.2: Major Achievements of FEAD during FY13

- As a result of dedicated efforts of FEAD, a stuck up sum of US \$49.4 million was realized during FY13 compared to US\$ 43 million previous year.
- During FY13, FEAD processed 5957 complaints against delinquent exporters on country wide basis and disposed of 1,677 complaints through 9 courts.
- 445 cases against ADs for non-submission of pre-adjudication information/ documents were received, leading to the imposition of penalties worth Rs 0.1 million which were subsequently deducted from their accounts maintained with SBP-BSC.
- Moreover, improvements have been made in the database which now contains the comprehensive data pertaining to last eight years. This provides a useful tool for multidimensional analysis of the emerging trends and may also be helpful in the policy making by Exchange Policy and Microfinance Departments of the State Bank. It will be helpful for commercial banks (in coming years) in certifying the E- Form / granting loan to exporters / negotiating various instruments drawn on the basis of E-Form.
- A significant progress has also been made in the development of a system that will generate consolidated SCNs. The system generated consolidated SCNs are supposed to enhance accuracy and consistency in the database, along with saving on account of time and effort.
- For the purpose of capacity building of FEAD, a five-day training programme was conducted at Sindh Judicial Academy for Adjudicating Officers and the readers, with the support of Training and Development Department of SBP-BSC. FEAD also has a Recovery Cell to pursue revenue authorities/government departments for recovery of penalty from defaulting exporters. These authorities have so far collected Rs 24.0 million out of the total penalty amount of Rs 9.5 billion imposed by the FEAD Courts on defaulting exporters since inception. It shows the difficulties faced by our recovery cell in implementing orders of FEAD.

Development finance, being more inclusive, performs a crucial role in the progress of developing nations. In this regard, Development Finance Support Department (DFSD) of SBP-BSC and its field units across the country, support the Development Finance Group of SBP in their efforts through organizing conferences, seminars, workshops, exhibitions, fairs, and awareness programmes at grassroots level. The objective is to disseminate knowledge about policies, approach and initiatives for broadening and deepening of financial sector as well as to increase outreach of financial services to the un-banked/under-banked areas. Furthermore, DFSD and its field units also remained actively involved in the monitoring and implementation of various SBP's policies initiatives and schemes undertaken during FY13 including Pilot Project-IV for Farm, Non- Farm Sectors and Group Based Lending, Agriculture Lending Diversification Project 2013, Farmer Financial Literacy Program, Agri Indicative Targets, Credit Guarantee Scheme for Small and Rural Enterprises, Microfinance Credit Guarantee Facility, different concessional refinancing schemes for SMEs, Mark-up Subsidy and Guarantee Facility for Rice Husking Mills in Sindh, revised PRs for SME Financing. Glimpses from DFSD's performance during FY13 are embodied in the **Box 8.3**.

Box 8.3: Major Achievements of DFSD during FY13

- Focus Groups established at field offices for each of the Development Finance Sectors (viz. Agriculture, SME, Microfinance and Islamic Banking) are aimed to disseminate DFG-SBP policy initiatives, schemes and guidelines for the sectors; to discuss and evolve operational strategies for increasing outreach of financial services amongst the micro enterprises and low income communities in both urban and rural areas and to collect feedback on various SBP/government policies for growth and development. During FY13, 66 Focus Groups' meetings were held.
- During FY13, 153 programmes relating to awareness, information dissemination and capacity building were arranged and participated by DFSD and its field units. During the same period, DFSD and its field units also facilitated DFG-SBP Departments and local centers of Institute of Bankers Pakistan, in organizing their training and capacity building programmes for the credit officers of commercial/ specialized banks. Supplementing the

training initiatives, further 16 programmes on development finance related subjects and SBP Credit Schemes were also arranged by Access to Finance Units in different parts of the country, so as to meet specific training needs of bankers in their respective regions.

- DFSD also strived for creating linkages between government policy makers as well as academia, in order to minimize traditional disconnect between the two important stakeholders. During the year under review, 14 internship programmes for students and 5 in-house/on-site visits/meetings were held for faculty members of different educational institutions of the country, as also 18 in-house meetings and 27 on-site visits/ meetings with the representatives of provincial/ district administration, chamber and traders associations, SME Development Center, SME Business Support Fund, SMEDA, Society of Urban & Rural Entrepreneurship, Pakistan Agriculture & Dairy Farmers Associations, non-governmental organizations and model farms.

The significant role played by internal audit in the functioning of an organization needs not be over-emphasized. Internal Audit Department (IAD) of the Corporation provides value additive support through an integrated and ongoing feedback loop, not just for the current state of business processes but also for business process re-engineering. In the overarching architecture that facilitates risk management processes, governance and effective framework of internal controls, IAD of SBP-BSC acts as a crucial pillar within the architecture, through extension of independent and objective policy advice to the senior management.

Under consistent guidance by a vibrant Audit Committee (of the Board of Directors of SBP-BSC), IAD of the Corporation completed its obligations for objective and independent evaluation of control environment of the Corporation during the year. Further, impact of audit observations from July 2010 to April 2013 was assessed on the basis of value addition to the organization and improvements that were brought in the control environment.

Combined impact of approximately 48 percent audit observations resulted in recommendation of new and improved controls where new controls recommendations resulted from almost 27 percent and Improved controls resulted from almost 21 percent of audit observations. IAD of SBP-BSC further enhanced its IT audit scope during FY13 for covering those IT areas which are affecting SBP-BSC business operations. For this, a proposal was initiated and mutually agreed by IAD (SBP-BSC) and IA&CD and ISTD of SBP. As a result, IT infrastructure, application, change management, network, pre and post implementation, and business continuation plan design & arrangements are now part of SBP-BSC's IAD audit universe.

Annual audits of 16 SBP-BSC field offices and 6 departments of its head office, Karachi (HOK) were carried out by the IAD during the year under review. Further, 75 audit engagements were performed by audit hubs located at Karachi and Lahore. In total, 713 audit observations were highlighted in field offices, while 82 were noted in HOK during FY13. Key developmental projects completed by IAD during the year included Sampling Techniques for Auditors, Audit Rating & Compliance Rating Framework, and Audit Checklists & Audit Documentation.

During FY13, Personnel Management Department (PMD) of SBP-BSC continued with consolidation of its ongoing initiatives to strengthen the HR base of the Corporation in line with its strategic objectives. The results of previous measures to revise the early retirement incentives were apparent, as depicted by departure of 388 employees during the year, thereby reducing the workforce¹ to 3,589 from 3,919. As planned, the HR gap is being filled through a transparent and merit-based recruitment process by hiring (a much a lesser number of) professionally qualified, better trained, technology savvy resources on market based remuneration. In this regard, a batch of 54 OG-2s under Young

¹ The working strength of SBPBSC for FY13 excludes 309 contractual employees, thereby leading to an aggregate number of 3898 employees as compared with a total of 4113 employees during FY12.

Professionals Induction Programme (YPIP) and 48 Junior Officers (on contract) was inducted after a competitive process and rigorous pre-induction training. Further, in pursuance of establishing academia-industry linkage and to meet the short-term skill gap, a batch of 39 business graduates of reputed universities across Pakistan was selected and offered a two years Internship Programme under Management Apprenticeship Attachment Programme (MAAP). This was probably first such initiative in the financial sector, under which aspiring business graduates were provided with opportunity to gain valuable work experience and also complete their requirement for admission in masters programs.

There may not be two opinions about the fact that staff training is a strategic requirement for the success of any organization. Accordingly, this job is being accorded with high importance in the milieu of functions performed by the Corporation. In this connection, the focus of Training & Development Department (T&DD) of SBP-BSC during FY13 remained on closely aligning training objectives with the emerging priorities of the Corporation. To meet this end, T&DD worked in close collaboration with stakeholders in designing the need-based priority training programmes throughout the year. Broadly categorizing, the following training programmes were facilitated by T&DD during FY13:

- Skill Development Training Programs, based on IT applications like Globus and ERP, at NIBAF Islamabad and Karachi.
- Specialized Foreign Training programs, like International Commercial Cash Operations and Internal Auditing Seminars.
- 211 in-house training programmes at HOK/field offices ensuring ensure equal opportunities for personal and professional development at all levels and to meet office/departmental needs.
- Promotion-focused Fast Track Training Programmes for 522 OG-1 to OG-3 Officers in line with Career Development Policy 2009.
- Industrial Relations/Outsourcing Training Programs.
- Recruitment-driven training programmes for YPIP, Junior Officers Training Programme (JOTP) and MAAP, with full orientation to overall functioning of SBP-BSC.
- Need-based technical training programmes for FEAD and IBSD officials at Sindh Judicial Academy (5 days) and NIBAF Islamabad (1 day) respectively.

Moreover, SBP-BSC also conducted 6-week summer and winter internship programmes for talented students from accredited institutions across the country. In total, 61 such Internship Programmes were arranged in Dera Ismail Khan, Hyderabad, Islamabad, Quetta and Sukkur field offices.

Going forward, T&DD intends to augment its focus from supply to demand-driven training programs. It also aims to promote knowledge sharing culture, peer networking and exchanging internal best practices through arranging seminars, workshops, and in-house training programmes for employees working at all levels.

9 National Institute of Banking and Finance (NIBAF)

9.1 Overview

National Institute of Banking and Finance (NIBAF), being the training arm of State Bank of Pakistan, continued to play its role effectively in the development of human capital of the Bank, its subsidiaries, and other financial institutions (both local as well as regional). With a view to transform NIBAF as a leading center of research and academic excellence in the region, the Institute offered a variety of programmes to the banking and financial sector by delivering 140 weeks of training to its valuable stakeholders in different areas. A wide range of 3229 participants - local as well as foreign - benefitted during the FY13 (**Figure 9.1**). During the year, NIBAF delivered 140 training weeks against its plan of 134.4 weeks (**Figure 9.2**). As part of priority for SBP and SBP-BSC, the Institute launched some new programmes to instill skills which are critical for job competency and to enhance managerial capacities of staff. These included officers development programme, demystifying decision making, leveraging managerial skills for performance; besides function specific programmes like deferred taxation, treasury operations-advanced, latest auditing techniques, oracle as supervisory tool, interviewing techniques and industrial management etc.

Moreover, the course contents of the pre-induction programmes¹ were thoroughly reviewed and revisited to equip new inductees with the latest techniques required at entry level² while ensuring focus and relevancy. Apart from rigorous class room trainings; study tours to financial institutions combined with project assignments, roles playing, teams building exercises and problems solving were also carried out. These activities further add value to the learning and development mainly by encouraging teamwork and synergizing group dynamics required for professional growth. In addition; training in specialized areas including agri/rural finance, SME, microfinance, and Islamic Banking continued to be part of NIBAF's priority to promote SBP development finance agenda besides meeting growing requirements (of the financial sector of Pakistan) of trained human resources.

Figure 9.1: Training Participation and Coverage

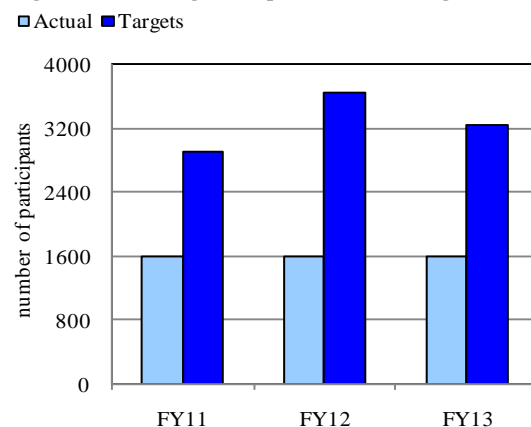
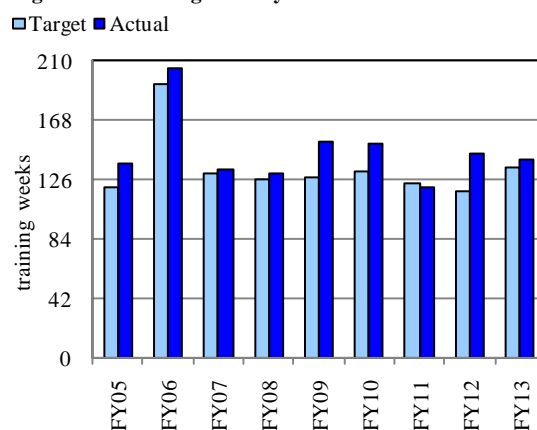


Figure 9.2: Training Delivery



¹ The 'State Bank Officials Training Scheme (SBPOT)' for SBP and 'Young Professionals Induction Programme (YPIP)' for SBP-BSC.

² Like office management, exposure to IT, and soft skills.

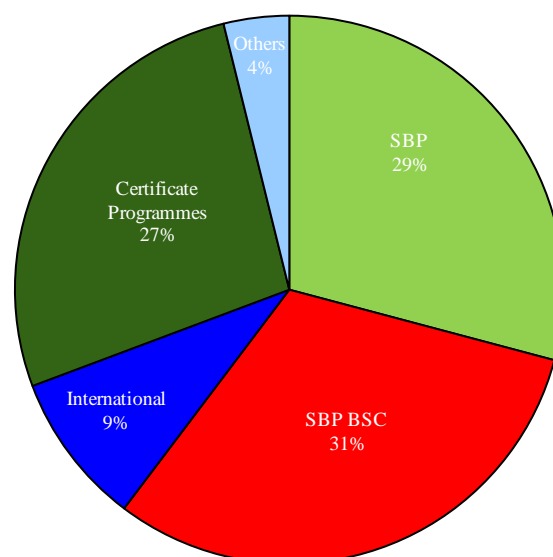
Meanwhile NIBAF continued to offer regional programmes; it successfully organized ‘Banking Leadership’ programme for Afghanistan International Bank apart from arranging a workshop on ‘Regulatory Framework and Project Financing’ for the senior management of Pak China Investment Company.

Besides enhancing the quality of programmes through effective training delivery, we also improved the ambience of the Institute through creating an environment conducive for learning and development as envisioned under the ‘New Concept Note’ of NIBAF.

Of the total training delivered, the share of SBP was at 29 percent (40.8 weeks), SBP-BSC at 31 percent (43.6 weeks), international training programmes at 9 percent (12.6 weeks), certificate training/programmes at 27 percent (37.6 weeks), and training programmes for other financial institutions at 4 percent (5.4 weeks) during FY13 (**Figure 9.3**).

Other major initiatives included inroads for collaborations with different research & academic organizations including IRTI-Islamic Development Bank, successful conducting of research study “Who is the “Arthi”: Understanding the Commission Agent’s Role in the Agriculture Supply Chain jointly with Pakistan Microfinance Network.

Figure 9.3: Training by Stakeholders (FY13)



9.2 Training Delivery at NIBAF

9.2.1 State Bank of Pakistan

Successful attainment of SBP’s strategic goals critically hinges upon the capacity of its human resource to deliver. NIBAF continued to implement and improve upon its role as the training arm of the SBP. In this direction, we undertook various training and development interventions during FY13 with strong emphasis to enhance the knowledge base and skill-set of SBP employees. We paid attention both to the re-crafting of skills-up-gradation modules and revision of the pre-induction SBOTS curriculum.

A total of 40.8 weeks of training was delivered to the SBP officers. Of this, 20.8 weeks training of skill up-gradation was delivered to 676 officers; while, 20 weeks pre-induction training was delivered which included 16 weeks spill over of SBOTS-17, and 4 weeks of SBOTS-18. In order to upgrade skill-set and managerial capacity of SBP officers, a number of new programmes were launched on upgrading Managerial Skills, Problem Solving and Decision Making. Efforts were made to equip the trainees of necessary tools while building on concepts thus to join new assignments and shoulder future responsibilities in SBP in an effective manner. NIBAF engaged best ‘management and soft skills’ trainers and always ensured that the programme is highly interactive/participative.

9.2.2 SBP-BSC (Bank)

NIBAF has been proactive in playing its role during the transformational process of change in SBP-BSC. The Institute contributed in human resource development and capacity building endeavours of the Corporation mainly by training young professionals, to deliver on its important functions in efficient manner. During FY13, NIBAF successfully conducted the YPIP, Junior Officers Training Programme (JOTP) and Management Apprenticeship Attachment Programme (MAAP). The course contents of these pre-induction programmes were carefully crafted while working closely with TDD and PMD of SBP-BSC. Of the total training programme delivered at NIBAF, SBP-BSC was the largest beneficiary during FY13, with a share of 31 percent or 43.6 weeks. 32.8 weeks' training was delivered at NIBAF Islamabad whereas 10.8 weeks' training was delivered at NIBAF Karachi. Overall, 1,315 officers from SBP-BSC benefited from these training sessions. A number of new programmes under 'skills up gradation' were launched during the year. This included Oracle & Globus Lab based 'sharpening operational skills' programmes to enhance service delivery standards and to increase efficiency of the employees of the Corporation.

9.2.3 Training Programme for Afghanistan International Bank

Under institutional arrangements with Afghanistan International Bank (AIB), NIBAF delivered 8 weeks training programme during March – May 2013, exclusively designed & developed for senior team leaders heading various important departments at AIB. The programme aimed at accelerating the management as well as the banking knowledge and competencies by focusing on managerial and leadership qualities of the participants. The objective was to enabling them to perform their functional responsibilities better. The training was designed by combining theoretical and applied knowledge in the areas of communication skills, managerial & leadership development, risk management, and commercial banking. As part of providing hands-on experience and exposure, one week attachment programme was also arranged with HBL regional office (Lahore), apart from visiting various commercial banks, and NIFT.

9.2.4 A Course for Senior Management of Pak China Investment Company

A five days training on Regulatory Framework and Project Financing for the senior management of Pak China Investment Company Limited (PCICL) was organized at NIBAF, Islamabad. The programme encompassed topics of credit and documentation, liability management, KYC & AML regulations, regulatory framework, prudential regulations, credit risk management, and compliance; besides project financing and its feasibility analysis. In the program, 11 senior officers, including foreigners, participated. PCICL is a joint venture of Ministry of Finance, Government of Pakistan and China Development Bank (Peoples' Republic of China). The management of the company has shown keen interest in capacity building of the employees of the company and approached the Institute for arranging more training programs.

9.2.5 Written and Verbal Communication Skills Programmes with IBA, Karachi

In response to an excellent feedback received for the communication skills programme with IBA, Karachi offered last year, NIBAF continued to offer the same programme during FY13, with some modification in its content. Four programmes were offered, one in each quarter, covering major areas in verbal and writing communication skills. 80 participants joined the programmes. The two year intervention to enhance communication skills culminated with the offering of last programme in June 2013. Based on the overall assessment of these programmes, new programmes with focus on English comprehension would be considered for coming years.

9.2.6 Certification Courses

Being training arm of the central bank of the country, NIBAF also offered certificate courses to the officers from SBP, SBP-BSC and commercial banks in the areas of Islamic banking, microfinance, SME finance, and agri/rural finance etc.

Islamic Banking Certificate Programme

With rapidly growth of Islamic banking industry and demand for the qualified and trained Islamic bankers in the country, NIBAF continued to offer its flagship Islamic Banking Certificate Course (IBCC) to the officers of banks and other financial institutions. We organised the 24th and 25th iterations of IBCC during FY13. These were attended by 60 participants, including 24 from BID of SBP. Further, in collaboration with IBD of SBP, NIBAF also offered the Fundamentals of Islamic Banking Operations programme to cater the growing demand from banking sector by conducting 3 iterations of one week each at Hyderabad, Peshawar and Quetta. Meanwhile, as part of the cooperation, necessary support was extended to INCEIF - Global University in Islamic Finance, by conducting the “Chartered Islamic Finance Professionals” Part I and Part II examinations that were held at NIBAF Islamabad and Karachi during FY13. With a view to expand the outreach of Islamic banking and join hands with strategic partners, NIBAF and IRTI (IDB) inked a memorandum of understanding, and under the arrangements a Training of Trainers programme was organised for delegates from Turkey, Iran, Bangladesh, Maldives, and Pakistan.

Microfinance Grass Root Level Training Programme

NIBAF conducted Microfinance Grass Root Training Programmes during FY13; to cope with the capacity building requirements and helped expanding horizon and scope of financial services. Under this project, 20 iterations were offered at Muzaffarabad (2 iterations), Kasur, Nowshera, Hyderabad (2 iterations), Rahim Yar Khan, Mingora, Islamabad, Sukkur, Sialkot, Faisalabad, D. G. Khan, Sahiwal, Lahore (2 iterations), Peshawar, Karachi, Multan and Quetta.

SME Finance Grass Root Cluster Training Programme

During FY13, three workshops regarding SME Finance Grass Root Cluster Training Programme were delivered at Faisalabad, Hyderabad and Quetta. Credit/Loan officers of commercial banks were targeted to aim at expanding the horizon and scope of SME finance in the country as one of the objectives.

Batch Training Programme for Agri Credit Officers of Commercial/Microfinance Banks

Another important intervention was the successful launching of the Batch Training Programme jointly with AC&MFD of SBP; in the area of agri/rural finance to cope to the capacity building needs of the Agri Credit Officers of commercial/microfinance banks. The programme aimed to sensitize the target group on the changing dynamics of agriculture sector, particularly the innovations in agricultural financial products. It helped to enrich target group knowledge/understanding on the fundamentals of agri finance policy & regulatory framework, documentation, risk management, latest initiatives taken by SBP apart from exposure to the best agri lending practices of the world. During FY13, NIBAF delivered 3 iterations of the programme at Multan, Faisalabad and Hyderabad. It is important to mention that the programme has received a very positive response from the commercial banks in terms of nominations & participation in the programme.

9.3 Others Training Programmes/Courses

9.3.1 Management and Leadership Programmes-New Initiatives

During FY13, NIBAF as part of new developmental initiatives, designed and delivered various programmes covering key areas in managerial skills and leadership development. A 3-days

customised SBP Officers Development Programme was designed in collaboration with HRD-SBP and was offered twice in FY13. It was well received by the participants of both SBP and SBP-BSC. The programme covered important topics such as professional etiquettes, SBP HR regulations, Time and Stress Management, Team Building etc.

Similarly, realising the need to improve decision making and problem solving skills for SBP staff, a new 2-days programme on ‘Demystifying Problem Solving and Decision Making’ was offered to SBP officers. The programme imparted state-of-the-art training in contemporary decision making models and enhanced the capacity of officers in solving problems both at an individual as well as at team level.

Furthermore, to cater to the need of improving key managerial skills of SBP officers, a 3-days new programme - Leveraging Managerial Skills for Performance - was designed and delivered which was attended by SBP and SBP-BSC participants. The key focus of the programme was to leverage managerial skills such as motivation, people management, team dynamics etc. to enhance performance of staff at the departmental level.

An important aspect of the management programmes conducted in FY13 was the fact that some of the programmes were offered outside SBP premises as an experiment. It was highly appreciated by SBP staff. In future, the practice of conducting a few programmes outside SBP will continue, providing diversity and exposure to the participants.

Leadership plays an important role in improving the effectiveness of the organisations. Developing leadership skills requires time and concerted efforts on the part of the organisation to continue to invest in enhancing human capabilities. NIBAF in FY13 worked with various top leadership training providers to design a tailored programme for SBP. More specifically, Leadership Grid International USA was contacted to offer a 4 day Leadership Grid programme to SBP and SBP-BSC top management. All aspects of the programme were carefully crafted to ensure rigour and effectiveness. The programme is expected to be offered in FY14.

9.3.2 Bank of Azad Jammu and Kashmir (BAJK) MTOs Training Programme (Batch-1)

NIBAF conducted a 4-Week programme for newly inducted MTOs of Bank of Azad Jammu and Kashmir (BAJK), to impart training on core areas related to general banking and commercial banking with focus on banking and financing laws/regulations.

9.3.3 Training Programmes for Baluchistan and Punjab Provincial Governments

A 2-day programme on Monitoring and Evaluation of Development Project was designed and delivered during FY13 for 12 senior officials from the Baluchistan Government. Further, NIBAF arranged another 3-day training programme on “Sustainability Issues in Poverty Reduction” during the year for the capacity building of Baluchistan and Punjab Governments Officials. A total of twenty senior officials from Baluchistan and Punjab Governments participated in this programme.

9.3.4 International Conference on the Power of Entrepreneurship

NIBAF arranged an international Conference, in collaboration with Ozair A. Hanafi School of Learning on ‘The Power of Entrepreneurship’ which attracted about 150 local and foreign delegates. Renowned scholars/academicians and business community members attended the conference.

Annual Accounts of SBP and its Subsidiaries

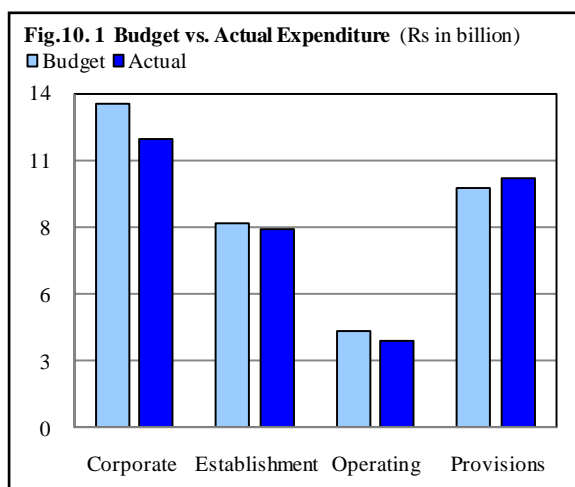
- 10. Annual Budget Review FY13**
- 11. Annual Financial Performance Review FY13**
- 12. Consolidated Financial Statements of SBP & its Subsidiaries**
- 13. Unconsolidated Financial Statements of SBP**
- 14. Financial Statements of SBP-BSC (Bank)**
- 15. Financial Statements of NIBAF**

10 Annual Budget Review FY13

10.1 Overview

Total expenditures of 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**. The share of each of these heads in total expenditures is shown in **Table 10.1**.

The total consolidated expenditure of SBP and its subsidiaries amounted to Rs 34,450 million against budget of Rs 36,128 million; thus showing variance of Rs 1,678 million, i.e. 4.6 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:

- 1. Agency Commission Charges.** Agency commission charges were paid to NBP on account of Government transactions and remittances on behalf of SBP as per agency agreement. Agency commission exhibited a variance of Rs 640 million, i.e., 3 percent; due to decrease in rate of commission.
- 2. Currency Notes' Printing Charges.** Variance of Rs 612 million, i.e., 10 percent was witnessed in notes' printing charges; attributed to price changes.
- 3. Charges on Allocation of SDRs.** The charges on allocation of SDRs resulted in variance of Rs 187 million, i.e., 62 percent; mainly due to decrease in average rate of charges, partially offset by increase in exchange rate of SDRs.

Table 10.1: Breakup of Revenue Expenditure during FY13 (percent)

Description	Budget	Actual
Corporate	37	35
Establishment	24	24
Operating	11	11
Provisions	28	30
Total	100	100

10.3 Establishment Expenses

Establishment expenses included employees' salaries, medical, benefits and training expenditures. The establishment expenditures showed variance of Rs 244 million, i.e., 3 percent.

10.4 Operating Expenses

Operating expenses included rent, taxes, legal and professional charges, stationery & publications, communication, traveling expenditure, repair & maintenance, and depreciation. On overall basis, operating expenses showed variance of Rs 443 million, i.e., 11 percent; owing primarily to under

spending in professional consultancy expenses, depreciation expenses, travelling expenses and communication expenses.

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 negative variance of Rs 448 million, i.e., 4.5 percent; owing to provisions against staff retirement benefits based on actuarial valuation report.

11 Annual Financial Performance Review FY13

11.1 Overview

For the financial year ended June 30, 2013, net profit of the Bank stood at Rs 233,782 million, showing 10 percent decrease compared to the profit of Rs 260,800 million in the preceding year. The decrease is mainly attributed to lower exchange gains on foreign currency exposures and portfolio income. **Table 11.1** gives a comparative summary of Bank's annual profit and loss account for FY13 and FY12.

Table 11.1: Summary Statement of Profit and Loss

(million rupees)

Description	FY13	FY12
Income		
Discount / interest /markup and/or return earned	250,756	236,277
Less: Interest/mark-up expense	7,593	11,338
Net discount / interest /markup and/or return income	243,163	224,939
Commission income	1,759	1,953
Exchange gain – net	6,703	42,828
Dividend Income	16,481	15,698
Other operating income/(loss) – net	(1,020)	9,033
Gross income	267,086	294,451
Other income (loss) – net	60	(124)
Total income	267,146	294,327
Expenditure		
Bank notes printing charges	5,635	5,690
Agency commission	6,344	5,954
General administrative and other expenses	22,307	20,160
(Reversal of Provisions) / Provisions	(922)	1,723
Less: Total expenditure- net of reversal of provisions	33,364	33,527
Profit for the year	233,782	260,800

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

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

(million rupees)

Description	FY13	FY12
Interest/discount income on domestic assets	243,388	227,426
Interest/discount income on foreign assets	7,368	8,851
Total	250,756	236,277

14,479 million, posting an increase of 6 percent compared to the last year. The increase is mainly attributed to increase in quantum of lending as given in the **Table 11.2** and **Table 11.3**.

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 33 percent as compared to previous year due to decrease in interest rate and decrease in payable to IMF.

11.2.2 Commission Income

The Bank drives commission income from management of instruments of public debt, MTBs, prize bonds, national saving schemes and Government securities as well as issuance of drafts and payment orders. The commission income during FY13 decreased by 10 percent and stood at Rs 1,759 million compared to Rs 1,953 million during the previous financial year.

11.2.3 Exchange Gain – Net

The net exchange gain/loss arises 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. 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 6,703 million during the FY13 as against the income of Rs 42,828 million during the previous financial year marking drastic decrease of Rs 36,125 million. The decrease was mainly due to decline in exchange gain from foreign currency placements, deposits and other assets amounting to Rs 41,729 million, forward covers under exchange risk cover to Rs 13 million and exchange risk fee income to Rs 6 million; partly offset by decrease in exchange loss on payable to IMF amounting Rs 5,623 million during the current year from previous year (**Table 11.5**).

Table 11.3: Lending to Government, Banks and Financial Institutions

(million rupees)

Description	FY13	FY12
Government securities	2,323,578	1,807,054
Overdraft /loans to Governments	24,468	48,842
Banks and financial institutions	304,828	293,399
Total	2,652,874	2,149,295
Yield on Treasury Bills	8.92 percent to 11.94 percent	11.63 percent to 11.94 percent

Table 11.4: Foreign Currency Reserves

(million rupees)

Description	FY13	FY12
Investments	389,279	289,055
Deposit accounts	124,320	455,947
Current accounts	45,975	96,831
Securities purchased under agreement to resale	80,296	197,465
Unrealized gain / (loss) on - derivative financial instruments	2,312	(3,840)
Special drawing rights with IMF	85,246	91,334
Total	727,428	1,126,793

Table 11.5 Breakup of the Exchange Account

(million rupees)

Description	FY13	FY12
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	25,856	67,585
Forward covers under Exchange Risk Coverage	6	19
Payable to the International Monetary Fund (IMF) and SDRs	(19,253)	(24,876)
Exchange risk fee income	94	100
Total	6,703	42,828

11.2.4 Dividend Income

The SBP holds the equity investments in banks and financial institutions. The breakup of dividend income on Bank's listed and unlisted equity investments as on June 30, 2013 are given in **Table 11.6**.

The dividend income of the Bank increased by Rs 783 million during the current financial year which is 5 percent higher than the income in the previous financial year.

Table 11.6: Dividend Income on Investments in Shares of Banks and Financial Institutions

(million rupees)

Description	FY13	FY12
Listed	16,256	15,269
Unlisted	225	180
Other investments with holding less than or equal to 50 percent	-	249
Total	16,481	15,698

11.2.5 Other Operating Income/Loss - Net

During the year under review, the loss of Rs 1,020 million was recorded under this head against the gain of Rs 9,033 million in the previous financial year. Main component of Bank's net other operating loss includes loss on re-measurement of securities classified as held for trading; partly offset by gain on sale of investments, penalties levied on banks & financial institutions, license / Credit Information Bureau fee recovered etc.

11.2.6 Other Income / (Charges) - Net

The net income under this head was recorded amounting to Rs 60 million against the charges of Rs 124 million during the previous year. This change was mainly due to decrease in the amount against charges in allocation of Special Drawing Rights of IMF. Further, an income from foreign assistance program amounting to Rs 26 million was also recorded in the FY13.

11.3 Expenditure

The total expenditure (including provisions against impaired assets net of reversals) during FY13 amounted to Rs 33,364 million as against the expenditure of Rs 33,527 million during FY12, resulting a decline of 163 million. An analysis of main elements of Bank's expenditure is given as under:

11.3.1 Bank Notes' Printing Charges

During FY13, expense under this head stood at Rs 5,634 million compared to the expense of Rs 5,690 million during the previous year; resulting a decrease of 1 percent.

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 6,344 million as against the expenditure of Rs 5,954 million posting an increase of 7 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,

Table 11.7: General Administrative and Other Expenses

(million rupees)

Description	FY13	FY12
Salaries and other benefits	7,638	7,595
Retirement benefits and employees' compensated absences	10,716	8,759
Other expenses	3,953	3,806
Total	22,307	20,160

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**.

11.3.4 Provision / (Reversal of Provision):

At the end of FY13, the balance of net provisions against 'Doubtful Assets and Claims' amounted to Rs (922) million as compared to the net provision of Rs 1,723 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 rupees)

Description	FY13	FY12
Net profit for the year	233,782	260,800
Transferred from the Reserve Fund	-	-
Total distributable profit	233,782	260,800
Breakup of above:		
Dividend	10	10
Transfer to reserve fund	-	-
Surplus profit transferable to the Federal Government	233,772	260,790
Total	233,772	260,790

12 Consolidated Financial Statements of SBP and its Subsidiaries

KPMG TASEER HADI & CO.

Chartered Accountants

Sheikh Sultan Trust Building No. 2

Beaumont Road

Karachi

A. F. FERGUSON & CO.

Chartered Accountants

State Life Building No. 1-C

I. I. Chundrigar Road

P.O. Box 4716

Karachi-74000

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 the consolidated balance sheet as at June 30, 2013, and the 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 (here-in-after referred to as the consolidated financial statements).

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with approved accounting standards as disclosed in note 2 to the consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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.

KPMG TASEER HADI & CO.

Chartered Accountants

A. F. FERGUSON & 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 June 30, 2013, and of its financial performance and its cash flows for the year then ended in accordance with approved accounting standards as disclosed in note 2 to the consolidated financial statements.

Other Matter

The consolidated financial statements of the Group for the year ended June 30, 2012 were audited by Ernst & Young Ford Rhodes Sidat Hyder and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 5, 2012.

KPMG Taseer Hadi & Co.

Chartered Accountants

Karachi

Mohammad Mahmood Hussain

Audit Engagement Partner

Date: October 30, 2013

A. F. Ferguson & Co.

Chartered Accountants

Karachi

Salman Hussain

Audit Engagement Partner

STATE BANK OF PAKISTAN
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2013

	Note	2013	2012 (Restated)	2011 (Restated)
------(Rupees in '000)-----				
ASSETS				
Gold reserves held by the Bank	5	246,096,839	313,077,419	267,969,374
Local currency - coins	6	924,997	1,814,196	2,225,301
Foreign currency reserves	7	642,181,554	1,035,459,135	1,289,700,794
Earmarked foreign currency balances	8	3,849,637	4,994,808	75,464,270
Special Drawing Rights of the International Monetary Fund	9	85,246,487	91,334,177	102,188,403
		978,299,514	1,446,679,735	1,737,548,142
Reserve tranche with the International Monetary Fund under quota arrangements	10	17,755	17,104	16,392
Securities purchased under agreement to resale	11	198,787,435	112,898,648	63,660,336
Current accounts of Governments	20.2	5,932,762	12,744,407	586,181
Investments	12	2,490,745,139	1,952,690,329	1,507,790,777
Loans, advances, bills of exchange and commercial papers	13	335,857,529	340,046,025	385,191,976
Assets held with the Reserve Bank of India	14	5,236,648	6,311,529	5,652,991
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	7,318,538	6,797,433	6,312,679
Property and equipment	16	22,341,050	23,450,893	24,722,358
Intangible assets	17	16,241	30,882	21,495
Other assets	18	4,865,957	5,612,820	7,085,133
Total assets		4,049,418,568	3,907,279,805	3,738,588,460
LIABILITIES				
Bank notes in circulation	19	2,041,361,303	1,776,962,388	1,599,833,487
Bills payable		603,922	587,542	780,155
Current accounts of Governments	20.1	133,392,486	148,815,907	217,968,067
Securities sold under agreement to repurchase	21	-	12,240,388	-
Payable under bilateral currency swap agreement	22.1	81,614,727	-	-
Deposits of banks and financial institutions	23	475,647,801	396,172,467	349,426,939
Other deposits and accounts	24	156,193,349	153,534,625	189,162,447
Payable to the International Monetary Fund	25	431,229,449	656,185,305	732,764,340
Other liabilities	26	113,107,984	104,307,724	36,670,597
		3,433,151,021	3,248,806,346	3,126,606,032
Deferred liability - unfunded staff retirement benefits	27	23,972,702	21,457,079	19,393,880
Capital grant rural finance resource centre		-	-	59,430
Endowment fund		74,490	67,281	-
Total liabilities		3,457,198,213	3,270,330,706	3,146,059,342
Net assets		592,220,355	636,949,099	592,529,118
REPRESENTED BY				
Share capital	28	100,000	100,000	100,000
Reserves	29	175,944,238	175,944,238	177,044,238
		176,044,238	176,044,238	177,144,238
Unrealised appreciation on gold reserves	30	242,568,983	309,565,438	268,947,619
Unrealised appreciation on remeasurement of investments		147,628,730	125,361,019	120,458,857
Surplus on revaluation of property and equipment		25,978,404	25,978,404	25,978,404
Total equity		592,220,355	636,949,099	592,529,118

CONTINGENCIES AND COMMITMENTS

31

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

The annexed notes from 1 to 49 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 PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
Discount, interest / mark-up and / or return earned	32	250,755,679	236,276,844
Less: Interest / mark-up expense	33	(7,592,737)	(11,338,230)
		243,162,942	224,938,614
Commission income	34	1,758,625	1,952,783
Exchange gain - net	35	6,703,415	42,827,638
Dividend income		16,480,789	15,697,821
Other operating (loss) / income - net	36	(1,020,311)	9,033,651
Other income / (charges) - net	37	60,250	(123,761)
		267,145,710	294,326,746
Less: Direct operating expenses			
- Bank notes printing charges	38	5,634,372	5,689,829
- Agency commission	39	6,344,354	5,953,743
- General administrative and other expenses	40	22,307,027	20,159,546
Provision for / (reversal of provision against):			
- loans and advances		(1,059,387)	-
- claims	26.2.2	(550,880)	1,885,143
- diminution in value of investments-net	12.3	677,892	(59,212)
- other doubtful assets	26.2.1.1	10,303	(102,415)
		(922,072)	1,723,516
		33,363,681	33,526,634
PROFIT FOR THE YEAR		233,782,029	260,800,112

The annexed notes from 1 to 49 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 COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012 (Restated)
	(Rupees in '000)	
Profit for the year	233,782,029	260,800,112
Other comprehensive income		
Items that may be reclassified subsequently to the profit and loss account		
Unrealised appreciation on remeasurement of investments	22,267,711	4,902,162
Unrealised (diminution) / appreciation on gold reserves	(66,996,455)	44,962,441
	(44,728,744)	49,864,603
Total comprehensive income for the year	189,053,285	310,664,715

The annexed notes from 1 to 49 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, 2013

	Share capital	Reserves						Unappropriated profit	Unrealised appreciation on gold reserves	Unrealised appreciation on remeasurement of investments	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 July 1, 2011 - as previously reported	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
Effect of change in accounting policy (refer note 4.1.1)	-	-	-	-	-	-	-	-	-	120,458,857	-	120,458,857
Balance as at July 1, 2011 - restated	100,000	165,744,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	268,947,619	120,458,857	25,978,404	592,529,118
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	260,800,112	-	-	-	260,800,112
Other comprehensive income												
Unrealised appreciation on remeasurement of investments	-	-	-	-	-	-	-	-	-	4,902,162	-	4,902,162
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	44,962,441	-	-	44,962,441
	-	-	-	-	-	-	-	260,800,112	44,962,441	4,902,162	-	310,664,715
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 pertaining to gold reserves held by the Reserve Bank of India transferred to provision for other doubtful assets	-	-	-	-	-	-	-	-	(4,344,622)	-	-	(4,344,622)
	-	(1,100,000)	-	-	-	-	-	1,100,000	(4,344,622)	-	-	(4,344,622)
Balance as at June 30, 2012 - restated	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	309,565,438	125,361,019	25,978,404	636,949,099
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	233,782,029	-	-	-	233,782,029
Other comprehensive income												
Unrealised appreciation on remeasurement of investments	-	-	-	-	-	-	-	-	-	22,267,711	-	22,267,711
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	(66,996,455)	-	-	(66,996,455)
	-	-	-	-	-	-	-	233,782,029	(66,996,455)	22,267,711	-	189,053,285
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(233,772,029)	-	-	-	(233,772,029)
	-	-	-	-	-	-	-	(233,782,029)	-	-	-	(233,782,029)
Balance as at June 30, 2013	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	242,568,983	147,628,730	25,978,404	592,220,355

The annexed notes from 1 to 49 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
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 (Rupees in '000)	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash items	41	229,150,582	255,268,546
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(26,169)	(59,871)
Reserve tranche with the International Monetary Fund under quota arrangements		(651)	(712)
Securities purchased under agreement to re-sale		(85,888,787)	(49,238,312)
Investments		(516,524,204)	(440,024,845)
Loans, advances, bills of exchange and commercial papers		5,247,883	45,145,951
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh (former East Pakistan)		(532,417)	(413,988)
Other assets		746,863	2,382,749
		(596,977,482)	(442,209,028)
		(367,826,900)	(186,940,482)
Increase / (decrease) in liabilities:			
Bank notes issued		264,398,915	177,128,901
Bills payable		16,380	(192,613)
Current accounts of Governments		(8,627,651)	(81,455,990)
Securities sold under agreement to repurchase		(12,240,388)	12,240,388
Payable under bilateral currency swap agreement		81,614,727	-
Deposits of banks and financial institutions		79,475,334	46,745,528
Other deposits and accounts		2,658,724	(35,627,822)
Payable to the International Monetary Fund		(224,955,856)	(76,579,035)
Other liabilities		(3,895,885)	4,775,504
Endowment fund / capital grant rural finance resource centre		7,209	7,851
		178,451,509	47,042,712
Net cash used in operating activities		(189,375,391)	(139,897,770)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment of retirement benefits and employees' compensated absences		(8,200,650)	(6,695,854)
Proceeds from disposal of investments		58,937	96,751
Dividend received		16,480,789	15,697,821
Fixed capital expenditure		(391,127)	(335,749)
Proceeds from disposal of property and equipment		11,626	28,998
Net cash generated from investing activities		7,959,575	8,791,967
CASH FLOWS FROM FINANCING ACTIVITIES			
Surplus profit paid to the Federal Government		(219,999,994)	(204,000,000)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(220,009,994)	(204,010,000)
Decrease in cash and cash equivalents during the year		(401,425,810)	(335,115,803)
Cash and cash equivalents at beginning of the year		1,132,711,931	1,467,827,734
Cash and cash equivalents at end of the year	42	731,286,121	1,132,711,931

The annexed notes from 1 to 49 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
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 monitoring of credit and foreign exchange, management of currency and also acts as the banker to the Government. The activities of the Bank include:

- formulating and implementing the monetary policy;
- 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 in Pakistan under the SBP Banking Services Corporation Ordinance, 2001 ("the Ordinance") and commenced its operations with effect from January 2, 2002. It is responsible for carrying out certain statutory and administrative functions and activities on behalf of the State Bank of Pakistan, as transferred or delegated by the Bank under the provisions of the Ordinance.

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 ("the financial statements") are presented in Pakistani Rupees, which is the Group's functional and presentation currency.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with the requirements of approved accounting standards as adopted by the Central Board of the Bank. Approved accounting standards comprise of International Accounting Standards (IASs) 1 to 38 and policies for bank notes and coins, investments, gold reserves and transactions and balances with the International Monetary Fund (IMF) [as stated in notes 4.2, 4.3, 4.6 and 4.17 respectively] as adopted by the Bank, and the requirements of the State Bank of Pakistan Act, 1956. Under the power conferred by the State Bank of Pakistan Act, 1956, the Central Board has approved IAS-1 to IAS-38 and policies referred above for adoption. Where the requirements of State Bank of Pakistan Act, 1956 and policies adopted by the Central Board differ with the requirements of IASs adopted by the Central Board, the requirements of State Bank of Pakistan Act, 1956 and 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, certain foreign currency reserves, certain investments and certain items of property as referred to in their respective notes have been included at revalued amounts and certain staff retirement benefits have been carried at present value of defined benefit obligations.

3.2 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with approved accounting standards as adopted 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 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. Judgments made by the management in the application of approved accounting standards as adopted by the Central Board of the Bank, and estimates that have a significant risk of material adjustment to the carrying amounts of amounts of assets and liabilities 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, quality of collateral and other relevant factors are considered. The amount of provision may require adjustment in case borrowers do not perform according to the 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 40.2.1 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 New and amended standards and interpretations that are effective in the current year

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 impact of this change has been disclosed in the consolidated statement of comprehensive income.

There are certain other new and amended standards and interpretations that have been published and are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or did not have any significant effect on the Group's operations and are, therefore, not detailed in these financial statements.

3.4 New and amended standards and interpretations that are not yet effective

The following new amendments to approved accounting standards that have been published and are mandatory for the Group's accounting period beginning on or after July 1, 2013.

IAS 19, 'Employee benefits' was amended in June 2011 applicable for periods beginning on or after January 1, 2013. The amendment has resulted in the following changes: eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. As at June 30, 2013 the Group has unrecognised actuarial losses amounting to Rs.27,791 million. Following the change, all actuarial gains/ losses will be recognised in the Consolidated Statement of Comprehensive Income.

There are certain other new and amended standards and interpretations that are mandatory for the Group's accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any material effect on the Group's operations and are therefore not detailed in these consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Change in accounting policies

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the year ended June 30, 2012 except for change mentioned in note 4.1.1.

- 4.1.1** During the current year, the Group has changed its policy in respect of subsequent measurement of its strategic listed investments. These investments, after initial recognition, are now being remeasured at fair value. Previously, these investments were carried at cost. The change in the policy has been made to align the policy of the Group with the requirements as specified in the International Financial Reporting Standards (IFRS). Unrealised appreciation / diminution arising on remeasurement of investments is credited / debited to "unrealised appreciation / diminution on remeasurement of investments" and is taken to consolidated statement of comprehensive income. Appreciation / diminution is transferred to profit and loss account upon disposal of such investments.

The above change in accounting policy has been accounted for retrospectively in accordance with the requirements of International Accounting Standard (IAS) 8: "Accounting Policies, Changes in Accounting Estimates and Errors" and comparative figures have been restated. The effect of the change in accounting policy on the current and prior year financial statements have been summarised below:

	2013	2012	2011
	----- (Rupees in '000) -----		
Impact on consolidated balance sheet			
Increase in available for sale investments	<u>147,628,730</u>	<u>125,361,019</u>	<u>120,458,857</u>
Recognition of unrealised appreciation on remeasurement of investments	<u>147,628,730</u>	<u>125,361,019</u>	<u>120,458,857</u>
Impact on consolidated statement of comprehensive income			
Recognition of unrealised appreciation on remeasurement of investments	<u>22,267,711</u>	<u>4,902,162</u>	<u>120,458,857</u>
There is no impact of this change on the consolidated profit and loss account and consolidated cash flow statement for the current or prior years.			

4.2 Bank notes and coins

The liability of the Group towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at face value and is represented by the specified assets of the Issue Department of the Group as per the requirements stipulated in the State Bank of Pakistan Act, 1956. 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 Group are not reflected in the books of account.

The Group 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, except for investments classified as held for trading. 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 consolidated profit and loss account.

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

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 at which the Group commits to purchase or sell the investment, otherwise transactions are treated as derivatives until settlement occurs.

Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity other than loans and receivables. These securities are carried at 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 at which the Group commits to purchase or sell the investment, otherwise 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 the consolidated profit and loss account.

Loans and receivables

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

All loans and receivables 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 consolidated profit and loss account.

An allowance for impairment is established if there is evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans and receivables except where the loan is secured by the guarantee of the Federal or Provincial Governments. 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 receivables.

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 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 consolidated 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 available for sale is their quoted bid price at the balance sheet date.

All purchases and sales of investments categorised as available for sale 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 at which the Group commits to purchase or sell the investment, otherwise transactions are treated as derivatives until settlement occurs.

Derecognition

Investments classified as held for trading or available for sale are derecognised by the Group on the date it transfers the related risks and rewards. Securities held to maturity are derecognised on the day titles on such securities are transferred by the Group. Unrealised gains and losses on derecognition of held for trading and available for sale securities are taken to the consolidated profit and loss account.

4.4 Derivative financial instruments

The Group uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in note 31.2. The resultant gains or losses from derivatives are included in the consolidated profit and loss account.

4.5 Collateralised borrowings / lendings

4.5.1 Reverse repurchase and repurchase agreements

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

4.5.2 Bilateral currency swap agreements

Bilateral currency swap agreements with counterpart central banks involve the purchase / sale and subsequent resale / repurchase of local currencies of counterpart central banks against PKR at a specified exchange rate. The drawing by the counterpart, if any, is reported as “Commitments” in note 31. The actual use of facility by the Bank / counterpart central bank under the agreement is recorded as borrowing / lending in books of the Bank and interest is charged / earned at agreed rates and is taken to the consolidated profit and loss account on time proportion basis from the date of actual use.

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.

Gold is recorded at the prevailing rate at initial recognition. Subsequent to initial measurement, it is 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. Appreciation or diminution, if any, on revaluation is taken to equity under the head “unrealised appreciation on gold reserves”. Appreciation / diminution realised on disposal of gold is taken to the profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the consolidated statement of changes in equity pending transfer of these assets to the Bank subject to final settlement between the Governments of Pakistan and India. Instead it is shown in other liabilities as provision for other doubtful assets.

4.7 Property and equipment

Property and equipment except land, buildings and capital work-in-progress (CWIP) are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Free hold land is stated at revalued amount. Leasehold land and buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any. CWIP is stated at cost and consists of expenditure incurred and advances made in respect of fixed assets in the course of their construction and installation. CWIP assets are capitalised to relevant asset category as and when work is completed.

Depreciation on property and equipment is charged to the consolidated profit and loss account using 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 appropriate, at each balance sheet date.

Depreciation on additions is charged to the consolidated profit and loss account from the month in which the asset is available for 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 consolidated 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 the consolidated profit and loss account.

Increase in carrying amount arising on revaluation of land and buildings is credited to 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, while all other decreases are charged to the consolidated profit and loss account. The surplus on revaluation realised on 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 amount 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 the consolidated profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount except where the loan is secured by the guarantee of the Federal or Provincial Government. Impairment loss on revalued assets 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 consolidated profit and loss account.

If, in a subsequent period, the 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 consolidated profit and loss account (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 Corporation operate:

- 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 and Corporation 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 and July 1, 2010 respectively. 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 or Corporation 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 are 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 or corporation after 1975 and are entitled only to pension scheme benefits;
 - a funded Employees' Gratuity Fund (EGF) was introduced by the Bank and the Corporation effective from June 1, 2007 and July 1, 2010 respectively for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
 - an unfunded pension scheme for those employees who joined the Group after 1975 and before the introduction of EGF which is effective from June 1, 2007 in case of the Bank and July 1, 2010 in case of Corporation;
 - an unfunded benevolent fund scheme;
 - an unfunded post retirement medical benefit scheme; and
 - six months post retirement facility.

Obligations for contributions to defined contribution provident plans are recognised as an expense in the consolidated 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 was carried out as at June 30, 2013. Unrecognised actuarial gains and losses at the beginning of the year are recognised in the consolidated 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 the consolidated profit and loss account at the trade date.
- Training and education fee is recognised on completion of relevant courses.
- Hostel income is recognised on performing services.
- All other revenues are recognised on time proportion basis.

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 consolidated 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 foreign exchange forward and swap contracts disclosed in note 31.2 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 prevailing at on the balance sheet date.

4.17 Transactions and balances with the 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 consolidated 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 the consolidated profit and loss account.
- commitment fee is charged to the consolidated profit and loss account on date of the commitment of Funds by the IMF.
- service charge is recognised in the consolidated profit and loss account at the time of receipt of the IMF tranches.

All other income or charges pertaining to balances with the IMF are taken to the consolidated 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, certain foreign currency reserves, local currency coins, earmarked foreign currency balances, SDRs, balances in the current and deposit accounts and securities that are realisable in known amounts of cash within three months from the date of original investments 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 risks 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 consolidated 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 repurchase transactions, government accounts, balances with the IMF, payable under bilateral currency swap agreement, other deposits and accounts and other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

4.21 Stationery and other consumables

Stationery and other consumables are valued at the lower of cost and net realisable value. Cost comprises of 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.

4.24 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the consolidated 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.

5. GOLD RESERVES HELD BY THE BANK	Note	Net content in troy ounces	2013 (Rupees in '000)	2012
Opening balance		2,071,492	313,077,419	267,969,374
Additions during the year		134	15,875	145,604
(Diminution) / appreciation for the year due to revaluation	30		(66,996,455)	44,962,441
	19.1	<u>2,071,626</u>	<u>246,096,839</u>	<u>313,077,419</u>
6. LOCAL CURRENCY - COINS	Note		2013 (Rupees in '000)	2012
Bank notes held by the Banking Department			143,300	160,156
Coins held as an asset of the Issue Department	6.1 & 19.1		<u>924,997</u>	<u>1,814,196</u>
			1,068,297	1,974,352
Less: bank notes held by the Banking Department	19		<u>(143,300)</u>	<u>(160,156)</u>
			<u>924,997</u>	<u>1,814,196</u>

- 6.1** As mentioned in note 4.2, the Group 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 Group at the year end (also refer Note 19.1).

7. FOREIGN CURRENCY RESERVES	<i>Note</i>	2013	2012
		(Rupees in '000)	
Investments	7.1	389,279,223	289,055,261
Deposit accounts	7.3 & 7.4	124,320,174	455,947,533
Current accounts	7.2	45,975,224	96,830,826
Securities purchased under agreement to resale	7.5	80,295,659	197,465,169
Unrealised gain / (loss) on derivative financial instruments	7.7	2,311,274	(3,839,654)
		642,181,554	1,035,459,135
The above foreign currency reserves are held as follows:			
Issue Department	19.1	92,827,744	360,180,828
Banking Department		549,353,810	675,278,307
		642,181,554	1,035,459,135

7.1 Investments

Held for trading	7.4	284,636,358	288,832,726
Held to maturity	7.6	104,421,331	-
Available for sale	7.2	221,534	222,535
		389,279,223	289,055,261

- 7.2** These include following assets which are recoverable from the Government of India. Reliability of these assets is subject to final settlement between the Governments of Pakistan and India.

	2013	2012
	(Rupees in '000)	
Investments - available for sale	221,534	222,535
Current accounts	1,934	1,942
	223,468	224,477

- 7.3** The balance include money market placements carrying interest at various rates ranging between 0.11% to 3.12% (2012: 0.12% to 4.54%) per annum.

- 7.4** These consist of investments made in:

- International markets through reputable Fund Managers. The activities of the Fund Managers are being monitored through a custodian. Market value of investments is equivalent to USD 2,366.04 million (2012: USD 2,565.58 million) and
- Short Term Investments Funds. Market value of these investments is equivalent to USD 490 million (2012: USD 490 million).

- 7.5** These represent lending under repurchase agreements and carry mark-up in USD at 0.10% having maturity on July 1, 2013 (2012: 0.14% matured on July 2, 2012).

- 7.6** This represents investment in sovereign bonds and treasury bills of a foreign country carrying yield ranging from 2.62% to 5.70% per annum and having maturities from July 16, 2013 to June 4, 2014.

- 7.7** This represents unrealised gain / loss on foreign currency swaps, futures and forward contracts entered into with various counterparties.

8. EARMARKED FOREIGN CURRENCY BALANCES

These represent certain foreign currency balances held by 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 Group as at June 30, 2013. Interest is credited by the IMF on the SDR holding of the Group at weekly interest rates on daily products of SDRs held during each quarter.

	<i>Note</i>	2013	2012
SDRs are held as follows:		(Rupees in '000)	
- By the Issue Department	<i>19.1</i>	7,437,650	7,146,000
- By the Banking Department		77,808,837	84,188,177
		85,246,487	91,334,177

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

Quota allocated by the International Monetary Fund	154,086,949	148,440,350
Liability under quota arrangements	(154,069,194)	(148,423,246)
	17,755	17,104

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents lending under repurchase agreements with various financial institutions and carry mark-up at rates ranging from 8.99% to 9.20% per annum (2012: 11.67% to 11.77% per annum) and will mature on July 5, 2013 (2012: July 6, 2012).

12. INVESTMENTS	<i>Note</i>	2013	2012	2011
			(Restated)	(Restated)
Loans and receivables		----- (Rupees in '000) -----		
Government securities				
Market Related Treasury Bills (MRTBs)		2,320,403,202	1,803,874,716	1,363,842,425
Federal Government scrip		2,781,100	2,781,100	2,781,100
	<i>12.1</i>	2,323,184,302	1,806,655,816	1,366,623,525
Available for sale investments				
Investments in banks and other financial institutions				
Ordinary shares				
- Listed		163,192,519	140,924,808	136,022,646
- Unlisted		4,862,706	4,919,706	4,957,247
	<i>12.2</i>	168,055,225	145,844,514	140,979,893
Term Finance Certificates		84,722	127,082	169,441
Certificates of Deposits		33,705	50,558	67,411
		168,173,652	146,022,154	141,216,745
Provision against diminution in value of investments	<i>12.3</i>	(1,006,863)	(385,971)	(445,183)
		167,166,789	145,636,183	140,771,562
Investment held to maturity - Pakistan				
Investment Bonds		394,048	398,330	395,690
		2,490,745,139	1,952,690,329	1,507,790,777
The above investments are held as follows:				
Issue Department - MRTBs	<i>19.1</i>	1,688,902,225	1,088,514,072	916,804,517
Banking Department (including subsidiaries)		801,842,914	864,176,257	590,986,260
		2,490,745,139	1,952,690,329	1,507,790,777

12.1 Investments in Government securities

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

	2013 (% per annum)	2012
- Market Related Treasury Bills	8.92 to 11.94	11.63 to 11.94
- Federal Government scrip	3	3

MRTBs are created for a period of six months where as Federal Government Scripps are of a perpetual nature.

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

	Note	2013	2012	2011	2013	2012	2011
		% of holding				(Restated)	(Restated)
					-----	(Rupees in '000)	-----
Listed							
- National Bank of Pakistan	12.2.2	75.20	75.20	75.20	65,785,656	60,571,550	63,766,180
- United Bank Limited	12.2.3	19.49	19.49	19.49	25,665,079	18,698,911	14,769,710
- Allied Bank Limited	12.2.4	10.07	10.07	10.07	7,182,365	6,114,070	5,554,780
- Habib Bank Limited	12.2.5	40.60	40.60	40.60	64,559,419	55,540,277	51,931,976
					163,192,519	140,924,808	136,022,646
Unlisted							
- Federal Bank for Cooperatives		75.00	75.00	75.00	150,000	150,000	150,000
- Equity Participation Fund		0.00	0.00	65.81	-	-	37,540
Other- investments							
with holding less than or equal to 50%					4,712,706	4,769,706	4,769,707
					168,055,225	145,844,514	140,979,893

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 Cost of the Group's investment in the shares of National Bank of Pakistan at June 30, 2013 amounted to Rs. 1,100.8 million (2012: Rs. 1,100.8 million).

12.2.3 Cost of the Group's investment in the shares of United Bank Limited at June 30, 2013 amounted to Rs. 5,919.5 million (2012: Rs. 5,919.5 million).

12.2.4 Cost of the Group's investment in the shares of Allied Bank Limited at June 30, 2013 amounted to Rs. 350.6 million (2012: Rs. 350.6 million).

12.2.5 Cost of the Group's investment in the shares of Habib Bank Limited at June 30, 2013 amounted to Rs. 8,192.8 million (2012: Rs. 8,192.8 million).

12.3 Provision against diminution in value of investments

	<i>Note</i>	2013	2012
		(Rupees in '000)	
Opening balance		385,971	445,183
Provision during the year	<i>12.3.1</i>	737,104	-
Reversal during the year		(59,212)	(59,212)
Write-off during the year	<i>12.3.2</i>	(57,000)	-
Closing balance		1,006,863	385,971

12.3.1 This represent impairment loss recognised in respect of Group's investment in Pak Libya Holding Company Limited.

12.3.2 This represents write off of investment in shares of Industrial Development Bank of Pakistan against related provision.

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

	<i>Note</i>	2013	2012
		(Rupees in '000)	
Governments	<i>13.1</i>	18,535,338	36,097,865
Government owned / controlled financial institutions	<i>13.2 & 13.3</i>	99,102,323	99,767,523
Private sector financial institutions	<i>13.4</i>	205,725,901	193,631,809
		304,828,224	293,399,332
Employees		17,844,498	16,958,746
		341,208,060	346,455,943
Provision against doubtful balances	<i>13.5</i>	(5,350,531)	(6,409,918)
		335,857,529	340,046,025

13.1 Loans and advances to the Governments

Provincial Government - Punjab	<i>13.1.1</i>	11,477,094	25,477,121
Provincial Government - Baluchistan	<i>13.1.2</i>	5,183,244	8,183,244
Provincial Government - Khyber Pakhtunkhwa	<i>13.1.3</i>	1,875,000	2,437,500
		18,535,338	36,097,865

During the year, mark-up on above balances due from the Provincial Governments was charged at various rates ranging between 9.21% to 11.93% (2012: 11.71% to 13.65%) per annum.

13.1.1 This includes current account receivable balance of the Government of Punjab amounting to Rs. 50,900 million converted in a loan balance under agreement finalised on November 10, 2009 and which is effective from August 01, 2009. This loan carries interest equivalent to quarterly average rate of six months weighted average 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 have 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, 2013, the outstanding balance of this loan amounts to Rs. 5,302 million (2012: Rs 18,027 million). The loan is secured by the guarantee of the Federal Government.

Further, this amount also includes bridge financing facility extended to the Government of Punjab under agreement carried out on May 27, 2009. This loan is repayable in 16 equal quarterly installments amounting to Rs. 318.75 million starting from July, 2010 along with mark-up at the rate of 3 months weighted average Market Treasury Bills rate of the last auction of the preceding quarter. As at June 30, 2013, the outstanding balance of this loan amounts to Rs. 6,175 million (2012: Rs 7,450 million). The loan is secured by the guarantee of Federal Government.

13.1.2 This represents current account receivable balance of the Government of Baluchistan and carries interest at a rate equivalent to quarterly average rate of six months weighted average Market Treasury Bills rate. Under the agreement, the total loan is repayable in 65 monthly installments, which started from July 1, 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. 187.50 million starting from December 31, 2011 along with mark-up at the rate of 3 months weighted average Market Treasury Bills rate of the last auction of the preceding quarter. As at June 30, 2013, the outstanding balance of this loan amounts to Rs 1,875 million (2012: Rs 2,437 million). The loan is secured by the guarantee of the Federal Government.

13.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2013	2012	2013	2012	2013	2012
	(Rupees in '000)					
Agricultural sector (13.2.1)	50,659,855	50,789,594	-	-	50,659,855	50,789,594
Industrial sector (13.2.1 & 13.2.3)	6,709,427	7,573,812	-	-	6,709,427	7,573,812
Export sector (13.2.3)	13,547,868	13,218,944	3,567	3,567	13,551,435	13,222,511
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)	16,939,306	16,939,306	-	-	16,939,306	16,939,306
	87,856,456	88,521,656	11,245,867	11,245,867	99,102,323	99,767,523

13.2.1 Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2012: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative government guaranteed financing of Rs. 51,257.21 million (2012: 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 (2012: Rs. 3,204 million) classified in other loans and advances. The entire exposure has become overdue and 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, 2013 all of these credit lines are over due amounting to Rs. 11,242 million (2012: Rs. 11,242 million). These credit lines are secured by the guarantee from the Federal Government.

13.2.3 This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) Credit Line amounting to Rs. 1,054 million (2012: Rs. 1,054 million). Furthermore, loans and advances include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2012: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government during the current year vide its vesting order dated November 13, 2012 has transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. In line with Federal Cabinet decision of winding up, the bank closed nine of its branches during the current year.

13.2.4 These balances include Rs. 423 million (2012: Rs. 423 million) which are recoverable from various financial institutions operating in Bangladesh (former East Pakistan). The reliability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.3 These balances include face value of certain commercial papers amounting to Rs. 78.5 million (2012: Rs. 78.5 million) which are held in Bangladesh (former East Pakistan). The reliability of this 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	
	2013	2012	2013	2012	2013	2012
	(Rupees in '000)					
Agricultural sector	1,627,651	1,352,495	131,540	157,846	1,759,191	1,510,341
Industrial sector	35,402,043	35,816,917	4,252,409	4,651,692	39,654,452	40,468,609
Export sector	164,286,776	151,627,377	-	-	164,286,776	151,627,377
Others	25,482	25,482	-	-	25,482	25,482
	201,341,952	188,822,271	4,383,949	4,809,538	205,725,901	193,631,809

13.5	Provision against doubtful assets		2013	2012
			(Rupees in '000)	
	Opening balance		6,409,918	6,397,908
	(Reversal) / charge during the year		(1,059,387)	12,010
	Closing balance		5,350,531	6,409,918
13.6	The interest / mark-up rate profile of the interest / mark-up bearing loans and advances is as follows:			
			2013	2012
			(% per annum)	
	Government owned / controlled and private sector financial institutions		0 to 11	0 to 12
	Employees loans		10	10
14.	ASSETS HELD WITH THE RESERVE BANK OF INDIA	<i>Note</i>	2013	2012
			(Rupees in '000)	
	Gold reserves			
	- Opening balance		5,075,827	4,346,524
	- (Diminution) / appreciation for the year due to revaluation	30	(1,086,193)	729,303
			3,989,634	5,075,827
	Sterling securities		501,657	486,977
	Government of India securities		16,970	17,047
	Rupee coins		4,938	4,959
		14.1	4,513,199	5,584,810
	Indian notes representing assets receivable from the Reserve Bank of India	14.2	723,449	726,719
		19.1	5,236,648	6,311,529
14.1	These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 26.2.1).			
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. Reliability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 26.2.1).			
15.	BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)	<i>Note</i>	2013	2012
			(Rupees in '000)	
	India			
	Advance against printing of notes		39,616	39,616
	Receivable from 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	6,458,161	5,937,056
			7,278,085	6,756,980
		15.2	7,318,538	6,797,433
15.1	These represent interest bearing loans and advances provided to the Government of Bangladesh (former East Pakistan).			
15.2	The reliability of the above balances is subject to final settlement between the Government of Pakistan and Governments of Bangladesh (former East Pakistan) and India (also refer notes 26.1 and 26.2.1).			

16. PROPERTY AND EQUIPMENT

Note

2013
(Rupees in '000)

2012

Operating fixed assets
Capital work-in-progress16.1
16.3**21,835,143**
505,907
22,341,05023,086,639
364,254
23,450,893**16.1 Operating fixed assets**

	2013							Annual rate of depreciation %
	Cost / revalued amount at July 1, 2012	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2013	Accumulated depreciation at July 1, 2012	Depreciation for the year/ (deletions) / adjustments	Accumulated depreciation at June 30, 2013	Net book value at June 30, 2013	
	(Rupees in '000)							
Freehold land	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land	16,807,143	3,862	16,811,005	589,562	590,006	1,179,568	15,631,437	over the remaining term of lease
Buildings on freehold land	1,041,145	26,367	1,067,512	203,807	210,392	414,199	653,313	over the remaining useful life
Buildings on leasehold land	1,916,988	40,538	1,957,526	368,691	379,481	748,172	1,209,354	over the remaining term of lease
Furniture and fixtures	230,291	7,405 (5,919)	231,777	154,479	17,678 (4,684)	167,473	64,304	10
Office equipment	1,492,574	97,586 (42,701)	1,547,459	1,183,110	126,950 (42,152)	1,267,908	279,551	20
EDP equipment	1,590,549	49,567 (8,777)	1,631,339	1,491,734	90,523 (6,766)	1,575,491	55,848	33.33
Motor vehicles	400,604	23,844 (22,327)	402,121	192,930	73,392 (13,879)	252,443	149,678	20
	27,270,952	249,169 (79,724)	27,440,397	4,184,313	1,488,422 (67,481)	5,605,254	21,835,143	
	2012							Annual rate of depreciation %
	Cost / revalued amount at July 1, 2011	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2012	Accumulated depreciation at July 1, 2011	Depreciation for the year/ (deletions) / adjustments	Accumulated depreciation at June 30, 2012	Net book value at June 30, 2012	
	(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	232,617	7,005 (9,331)	230,291	145,689	18,093 (9,303)	154,479	75,812	10
Office equipment	1,410,967	99,815 (18,208)	1,492,574	1,065,068	136,068 (18,051)	1,183,110	309,464	20
EDP equipment	1,569,523	21,733 (707)	1,590,549	1,325,277	166,976 (559) 40	1,491,734	98,815	33.33
Motor vehicles	371,239	72,200 (42,835)	400,604	148,608	70,075 (25,753)	192,930	207,674	20
	27,009,950	332,083 (71,081)	27,270,952	2,684,642	1,553,272 (53,666)	4,184,313	23,086,639	

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

16.2.1 Subsequent to revaluation on June 30, 2006, which had resulted in a net surplus of Rs.12,552.51 million, all land and buildings were revalued again on June 30, 2011 which resulted in a net surplus of Rs.7,231.39 million. The land and buildings valuations were carried out on the basis of professional assessment of market values by the independent valuers. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:

	2013 (Rupees in '000)	2012
Freehold land	39,124	39,124
Leasehold land	89,305	87,038
Buildings on freehold land	330,799	321,842
Buildings on leasehold land	553,314	541,898
	<u>1,012,542</u>	<u>989,902</u>

16.3 Capital work-in-progress

Buildings on freehold land	14,641	8,016
Buildings on leasehold land	402,567	309,301
Furniture and fixtures	181	-
Office equipment	57,091	46,559
EDP equipment	31,427	378
	<u>505,907</u>	<u>364,254</u>

17. INTANGIBLE ASSETS

	Cost at July 1	Addition s during the year	Cost at June 30	Accumulated amortisation at July 1	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
------(Rupees in '000) -----								
Software 2013	601,575	305	601,880	570,693	14,946	585,639	16,241	33.33
Software 2012	565,048	36,527	601,575	543,553	27,140	570,693	30,882	33.33

18. OTHER ASSETS

	Note	2013 (Rupees in '000)	2012
Accrued interest / mark-up, discount and return		4,055,326	4,817,489
Medical, stationery and stamps on hand		120,404	117,963
Other advances, deposits and prepayments		640,791	607,323
Others		49,436	70,045
		<u>4,865,957</u>	<u>5,612,820</u>

19. BANK NOTES IN CIRCULATION

Total bank notes issued	19.1	2,041,504,603	1,777,122,544
Notes held with the Banking Department	6	(143,300)	(160,156)
Notes in circulation		<u>2,041,361,303</u>	<u>1,776,962,388</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	2013 (Rupees in '000)	2012
Gold reserves held by the Bank	5	246,096,839	313,077,419
Coins	6	924,997	1,814,196
Foreign currency reserves	7	92,827,744	360,180,828
Special Drawing Rights of the International Monetary Fund	9	7,437,650	7,146,000
Investments	12	1,688,902,225	1,088,514,072
Commercial papers held in Bangladesh (former East Pakistan)	13.3	78,500	78,500
Assets held with the Reserve Bank of India	14	5,236,648	6,311,529
		<u>2,041,504,603</u>	<u>1,777,122,544</u>

20. CURRENT ACCOUNTS OF GOVERNMENTS

20.1 Current accounts of Governments - payable balances

Federal Government	20.3	75,614,619	95,381,342
Provincial Governments			
- Punjab	20.4	7,360,430	16,404,794
- Khyber Pakhtunkhwa	20.6	27,939,475	28,601,808
- Baluchistan	20.7	19,823,291	8,427,963
Gilgit - Baltistan Administration Authority	20.8	2,654,671	-
		<u>57,777,867</u>	<u>53,434,565</u>
		<u>133,392,486</u>	<u>148,815,907</u>

20.2 Current accounts of Governments - receivable balances

Provincial Government of Sindh	20.5	3,544,752	9,470,579
Gilgit - Baltistan Administration Authority	20.8	-	600,965
Government of Azad Jammu and Kashmir	20.9	2,388,010	2,672,863
		<u>5,932,762</u>	<u>12,744,407</u>

20.3 Federal Government

Non-food account	105,372,208	126,141,484
Zakat fund accounts	4,057,267	3,956,688
Railways accounts	(37,915,421)	(38,806,766)
Other accounts	4,100,565	4,089,936
	<u>75,614,619</u>	<u>95,381,342</u>

20.4 Provincial Government - Punjab

Non-food account	(43,130,592)	(34,998,448)
Zakat fund account	1,136,322	2,373,632
Other accounts	49,354,700	49,029,610
	<u>7,360,430</u>	<u>16,404,794</u>

20.5	Provincial Government - Sindh	<i>Note</i>	2013	2012
			(Rupees in '000)	
	Non-food account		(6,174,700)	(12,129,639)
	Zakat fund account		2,529,730	2,434,119
	Other accounts		100,218	224,941
			(3,544,752)	(9,470,579)
	Classified as receivable balance	<i>20.10</i>	3,544,752	9,470,579
			-	-
20.6	Provincial Government - Khyber Pakhtunkhwa			
	Non-food account		7,455,660	15,426,567
	Zakat fund account		1,012,133	1,168,535
	Other accounts		19,471,682	12,006,706
			27,939,475	28,601,808
20.7	Provincial Government - Baluchistan			
	Non-food account		19,279,158	7,843,144
	Zakat fund account		417,194	357,606
	Other accounts		126,939	227,213
			19,823,291	8,427,963
20.8	Gilgit - Baltistan Administration Authority		2,654,671	(600,965)
	Classified as receivable balance		-	600,965
			2,654,671	-
20.9	Government of Azad Jammu and Kashmir		(2,388,010)	(2,672,863)
	Classified as receivable balance	<i>20.10</i>	2,388,010	2,672,863
			-	-

20.10 These balances carry mark-up at the rate of 9.95% per annum (2012: 11.94% per annum).

21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents borrowings under repurchase agreement. There is no balance outstanding as at June 30, 2013 (2012: balances outstanding at markup of 9% per annum, maturing on July 3, 2012).

22. BILATERAL CURRENCY SWAP AGREEMENTS

22.1 Payable under bilateral currency swap agreement with the People's Bank of China (PBoC)

A bilateral currency swap agreement was entered between the Group and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The agreement is for a tenure of 3 years with overall limit of PKR 140,000 million and CNY 10,000 million in respective currencies. The Group has purchased CNY 5,000 million against PKR during the year with maturity of one year, which have been fully utilized as on June 30, 2013 and the same amount is outstanding as on June 30, 2013. Markup is charged on outstanding balance at agreed rates. As at June 30, 2013, the Group's overall commitment under this agreement is PKR 140,000 million.

22.2 Bilateral currency swap agreement with the Central Bank of Republic of Turkey (CBRT)

A bilateral currency swap agreement was entered between the Group and the CBRT on November 1, 2011 in order to promote bilateral trade and for any other purpose mutually agreed between the two central banks. The agreement is for a tenure of 3 years with overall limit of PKR 86,300 million and Turkish LIRA (TRY) 1,800 million in respective currencies. Till June 30, 2013, there has been no request from either of the two central banks to activate this agreement.

23. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	<i>Note</i>	2013	2012
		(Rupees in '000)	
Foreign currency			
Scheduled banks		23,420,232	23,115,145
Held under Cash Reserve Requirement		117,681,704	104,970,918
		141,101,936	128,086,063
Local currency			
Scheduled banks		331,626,659	266,657,312
Financial institutions		2,852,018	1,366,081
Others		67,188	63,011
		334,545,865	268,086,404
		475,647,801	396,172,467

24. OTHER DEPOSITS AND ACCOUNTS

Foreign currency			
Foreign central banks		44,846,775	42,548,754
International organisations	24.2	35,408,287	43,074,422
Others		15,319,924	15,113,063
		95,574,986	100,736,239
Local currency			
Special debt repayment	24.3	24,074,660	23,914,674
Government	24.4	19,130,988	19,130,988
Foreign central banks		1,848	-
International organisations		6,099,056	-
Others		11,311,811	9,752,724
		60,618,363	52,798,386
		156,193,349	153,534,625

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

	2013	2012
	(% per annum)	
Foreign central banks	0.36 to 0.61	0.31 to 0.58
International organisations	1.42 to 2.51	1.39 to 2.51
Others	0 to 0.17	0 to 1.11

24.2 This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2013) 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 February 7, 2013 and June 29, 2012 whereby the MoF has agreed to assume all liabilities and risks arising from the Group's agreement with SAFE China.

Further, this also includes a deposit of USD 500 million received from SAFE in June 2008 carrying interest at six months LIBOR plus 100 bps payable semi-annually. The outstanding balance of this deposit is USD 100 million as on June 30, 2013 (2012: USD 200 million). This deposit is the direct liability of the Group.

24.3 These are interest free deposits and represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan.

24.4 These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

25. PAYABLE TO THE INTERNATIONAL MONETARY FUND	<i>Note</i>	2013	2012
		(Rupees in '000)	
Borrowings under:			
- Fund facilities	25.1 & 25.4	273,926,650	487,815,186
- Other credit schemes	25.2 & 25.4	10,250,867	27,084,483
- Allocation of SDRs	25.3	147,051,898	141,285,603
		431,229,415	656,185,272
Current account for administrative charges		34	33
		431,229,449	656,185,305

25.1 IMF granted a Stand By Arrangement Facility (SBAF) amounting to SDR 5,168.50 million in FY 2008-09. The facility was extended in FY 2009-10 up to SDR 7,235.90 million which includes financing for Budget Support for the Government of Pakistan amounting to SDR 951.10 million. The amount was to be disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2011. However, a total amount of SDR 4,936.04 million, including GoP Budgetary Support, was disbursed under five (5) tranches of SBAF up to June 30, 2010. The Bank's share in the disbursement was SDR 3,984.94 million. The facility is subject to mark up based on the weekly rates determined by the IMF and is payable on each quarter end. The repayment of the facility has commenced from February 2012 and would continue up to May 2015. Upto June 30, 2013 out of the Bank's share an amount of SDR 2,147.28 million has been repaid (2012: SDR 587.92 million). The outstanding balance as on June 30, 2013 is SDR 1,837.65 million (2012: SDR 3,397.02 million).

25.2 Under IMF's lending facility for Low Income Countries (LICs) i.e. Poverty Reduction and Growth Facility (PRGF), a total amount of SDR 861.42 million was disbursed to Pakistan from December 2001 to July 2004. Upto June 30, 2013 an amount of SDR 792.51 million has been repaid (2012: SDR 671.91 million). Outstanding balance as on June 30, 2013 is SDR 68.91 million (2012: SDR 189.51 million).

25.3 This represents amount payable against allocation of SDRs. A charge is levied by the IMF on the SDR allocation of the Group at weekly interest rate applicable on daily product of SDR.

25.4 Interest profile of payable to IMF is as under:

	<i>Note</i>	2013	2012
		(% per annum)	
Fund facilities	25.4.1	1.04 to 1.12	1.10 to 1.60
Other credit schemes	25.4.2	Nil	Nil

25.4.1 Fund facilities of IMF are also subject to use of fund surcharge and additional surcharge of 2% and 1% per annum respectively payable on a quarterly basis. Use of fund surcharge is levied when the outstanding loan exceeds 300% of the quota whereas additional surcharge is levied when outstanding loan amount exceeding 300% of the quota remains outstanding for more than 3 years. These surcharge were levied up to March 31, 2013.

25.4.2 On December 21, 2012 the IMF Board extended the waiver of interest payments for concessional loans till December 31, 2014.

26.	OTHER LIABILITIES	Note	2013	2012
			(Rupees in '000)	
	Foreign currency			
	Accrued interest and discount on deposits		798,239	2,529,111
	Charges on allocation of Special Drawing Rights of the IMF		16,075	30,303
			814,314	2,559,414
	Local currency			
	Overdue mark-up and return	26.1	6,142,508	5,621,403
	Remittance clearance account		1,652,084	1,556,814
	Exchange loss payable under exchange risk coverage scheme		226,436	228,556
	Balance profit payable to the Government of Pakistan		76,472,914	62,700,879
	Dividend payable	26.3	10,000	10,000
	Share of loss payable under profit and loss sharing arrangements		2,407,129	2,407,129
	Other accruals and provisions	26.2	24,066,802	25,282,606
	Others	26.4	1,315,797	3,940,923
			112,293,670	101,748,310
			113,107,984	104,307,724
26.1	This represents suspended markup which is recoverable from Government of Bangladesh (former East Pakistan) subject to the final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).			
26.2	Other accruals and provisions	Note	2013	2012
			(Rupees in '000)	
	Agency commission		8,761,090	7,144,581
	Provision for employees' compensated absences	40.3	5,475,932	4,881,805
	Provision for other doubtful assets	26.2.1	6,359,475	7,435,365
	Other provisions	26.2.2	2,848,933	4,981,171
	Others		621,372	839,684
			24,066,802	25,282,606
26.2.1	Provision for other doubtful assets			
	Provision against assets receivable from Government of India and the Reserve Bank of India			
	- Issue Department		5,460,117	6,536,007
	- Banking Department		40,483	40,483
			5,500,600	6,576,490
	Provision against assets receivable from Government of Bangladesh (former East Pakistan)			
	- Issue Department		78,500	78,500
	- Banking Department		780,375	780,375
			858,875	858,875
			6,359,475	7,435,365
26.2.1.1	Movement of provisions for other doubtful assets			
	Opening balance		7,435,365	2,463,856
	Addition during the year		10,303	5,073,924
	Reversal of provision		(1,086,193)	(102,415)
	Closing balance		6,359,475	7,435,365

26.2.2 Movement of other provisions	2013	2012
	(Rupees in '000)	
Opening balance	4,981,171	3,110,055
(Reversal) / charge during the year	(550,880)	1,885,143
Payment during the year	(1,581,358)	(14,027)
Closing balance	2,848,933	4,981,171

	Home remittance	Agriculture loan	Specific claims (note 26.2.2.2)	Others (note 26.2.2.1)	Total
	----- (Rupees in '000) -----				
Opening balance	260,363	245,099	1,600,000	2,875,709	4,981,171
Charge during the year	-	-	-	-	-
Reversal during the year	-	(245,099)	-	(305,781)	(550,880)
Payment during the year	-	-	-	(1,581,358)	(1,581,358)
Closing balance	260,363	-	1,600,000	988,570	2,848,933

26.2.2.1 This represents provision made in respect of various litigations against the Group.

26.2.2.2 This represents provision made against a claim under arbitration.

26.3 This includes dividend payable to Government on shares held by the Government of Pakistan and Government controlled entities amounting to Rs.9.99 million.

26.4 This includes liability relating to demonetization of Rs. 5 note.

27. DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS	<i>Note</i>	2013	2012
		(Rupees in '000)	
Gratuity scheme		14,346	9,527
Pension		15,664,959	14,633,691
Benevolent fund scheme		1,733,742	1,476,652
Post retirement medical benefits		5,138,594	4,051,038
Six months post retirement facility		218,306	-
	<i>40.2.2</i>	22,769,947	20,170,908
Provident fund scheme		1,202,755	1,286,171
		23,972,702	21,457,079

28. SHARE CAPITAL

2013	2012		2013	2012
(Number of shares)			(Rupees in '000)	
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 and government controlled entities 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.

29. RESERVES

29.1 Reserve Fund

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

29.2 Other Funds

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

30.	UNREALISED APPRECIATION ON GOLD RESERVES	Note	2013 (Rupees in '000)	2012
	Opening balance		309,565,438	268,947,619
	Revaluation reserve pertaining to gold held by Reserve Bank of India - transferred to provision for other doubtful assets		-	(4,344,622)
	(Diminution) / appreciation for the year due to revaluation	5	(66,996,455)	44,962,441
			<u>242,568,983</u>	<u>309,565,438</u>

31. CONTINGENCIES AND COMMITMENTS

31.1 Contingencies

a)	Contingent liability in respect of guarantees given on behalf of:		
	Federal government	36,033,835	44,051,938
	Federal government owned / controlled bodies and authorities	8,307,650	8,187,802
		<u>44,341,485</u>	<u>52,239,740</u>

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

- b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme. The Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. In prior years, 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 Group would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.

		2013 (Rupees in '000)	2012
c)	Other claims against the Group not acknowledged as debts	<u>827,751</u>	<u>853,293</u>

31.2	Commitments		2013 (Rupees in '000)	2012
	Foreign currency forward and swap contracts - sale		420,921,081	412,632,541
	Foreign currency forward and swap contracts - purchase		423,161,966	390,848,354
	Futures - sale		14,044,952	15,877,206
	Futures - purchase		15,806,824	13,242,061
31.2.1	Commitments in respect of bilateral currency swap agreements with People's Bank of China and Central Bank of Republic of Turkey have been disclosed in note 22.			
31.2.2	Commitments in respect of capital expenditure contracted for but not as yet incurred amount to Rs. 34.63 million (2012: Rs. 51.37 million).			
32.	DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED	Note	2013 (Rupees in '000)	2012
	Discount , interest / markup on:			
	- Government securities	32.1	177,947,714	174,483,272
	- Federal Government Scripps		82,200	82,200
	- Loans and advances to Governments	32.2	3,329,965	6,875,852
	Securities purchased under agreement to resale		43,747,253	25,444,640
	Share of profit on finances under profit and loss sharing arrangements		18,151,189	20,406,243
	Foreign currency deposits		2,321,670	4,003,327
	Foreign currency securities		5,046,804	4,847,634
	Others		128,884	133,676
			250,755,679	236,276,844
32.1	This represents income earned on Market Related Treasury Bills, Market Treasury Bills and Pakistan Investment Bonds.			
32.2	Interest profile on loans and advances to facilities are as under:		2013 (% per annum)	2012
	Mark-up on facility		9.21 to 11.93	11.71 to 13.65
	Additional mark-up (where ways and means facility limit is exceeded)		4	4
33.	INTEREST / MARK-UP EXPENSE			
	Deposits		7,336,801	10,606,882
	Securities sold under agreement to repurchase		231,486	685,008
	Others		24,450	46,340
			7,592,737	11,338,230
34.	COMMISSION INCOME	Note	2013 (Rupees in '000)	2012
	Market Treasury Bills	34.1	528,351	341,647
	Draft / payment orders		178,055	731,424
	Prize Bonds and National Saving Certificates	34.1	337,409	311,099
	Management of public debts	34.1	347,218	215,856
	Others		367,592	352,757
			1,758,625	1,952,783
34.1	These represent commission income earned from services provided to the Federal Government.			

35.	EXCHANGE GAIN - NET	2013	2012
		(Rupees in '000)	
	Gain / (loss) on:		
	- Foreign currency placements, deposits, securities and other accounts - net	25,856,535	67,584,902
	- Forward covers under Exchange Risk Coverage Scheme	5,728	18,689
	- Payable to the IMF	(16,233,145)	(21,969,395)
	- Special Drawing Rights of the IMF	(3,019,610)	(2,907,061)
		6,609,508	42,727,135
	Exchange risk fee income	93,907	100,503
		6,703,415	42,827,638
36.	OTHER OPERATING (LOSS) / INCOME - NET		
	Penalties levied on banks and financial institutions	904,330	1,144,218
	License / Credit Information Bureau fee recovered	182,314	141,372
	Gain / (loss) on sale of investment:		
	Local	(276)	-
	Foreign	1,625,362	1,655,898
		1,625,086	1,655,898
	(Loss) / gain on remeasurement of securities classified as held for trading	(3,748,949)	6,097,647
	Others	16,908	(5,484)
		(1,020,311)	9,033,651
37.	OTHER INCOME / (CHARGES) - NET		
	(Loss) / gain on disposal of property and equipment	(617)	11,583
	Liabilities and provisions written back - net	777	4,329
	Charges on allocation of Special Drawing Rights of the IMF	(112,769)	(326,167)
	Grant income under foreign assistance program	26,292	-
	Others	146,567	186,494
		60,250	(123,761)
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% (2012: 0.13%) of the total amount of collections and payments handled by NBP.		

40. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	<i>Note</i>	2013	2012
		(Rupees in '000)	
Salaries and other benefits		7,637,669	7,595,370
Retirement benefits and employees' compensated absences		10,716,273	8,759,053
Rent and taxes		38,052	37,697
Insurance		28,415	29,053
Electricity, gas and water		300,401	286,131
Depreciation	16.1	1,488,422	1,553,272
Amortisation of intangible assets	17	14,946	27,140
Repairs and maintenance		443,371	370,075
Auditors' remuneration	40.1	12,170	13,030
Legal and professional		455,671	425,754
Travelling expenses		338,235	285,834
Daily expenses		64,499	69,598
Fuel		53,448	50,757
Conveyance		24,059	18,786
Postages, telegram / telex and telephone		163,633	161,349
Training		57,264	42,461
Stationery		25,097	25,710
Remittance of treasure		49,870	38,803
Books and newspapers		30,874	28,013
Advertisement		35,617	18,756
Uniforms		25,625	24,190
Others		303,416	298,714
		22,307,027	20,159,546

40.1 Auditors' remuneration

	2013			2012		
	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total (note 40.1.1)
----- (Rupees in '000) -----						
State Bank of Pakistan						
Audit fee	2,610	2,610	5,220	2,875	2,875	5,750
Out of pocket expenses	415	415	830	415	415	830
	3,025	3,025	6,050	3,290	3,290	6,580
SBP Banking Services Corporation						
Audit fee	2,090	2,090	4,180	2,275	2,275	4,550
Out of pocket expenses	885	885	1,770	875	875	1,750
	2,975	2,975	5,950	3,150	3,150	6,300
NIBAF						
Audit fee	-	-	170	-	-	150
	6,000	6,000	12,170	6,440	6,440	13,030

40.1.1 This includes amount relating to the year 2011.

40.2 Staff retirement benefits

40.2.1 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% (2012: 6.00%) per annum.
- Expected rate of discount 11.50% (2012: 12.50%) per annum.
- Expected rate of increase in salary 11.50% (2012: 11.50%) per annum.
- Expected rate of increase in pension 9.00% (2012: 8.00%) per annum.
- Medical cost increase 8.00% (2012: 8.50%) per annum.
- Personnel turnover 3.00% (2012: 2.5%) per annum.

40.2.2 Present value of the defined benefit obligations

Present value of obligations under the retirement benefit schemes and liabilities recognised there against for the past services of the employees at June 30, 2013 based on actuarial valuation as of that date were as follows:

		2013		
	Note	Present value of the defined benefit obligation	Unrecognised actuarial losses	Net recognised liabilities
----- (Rupees in '000) -----				
Gratuity	40.2.7	36,761	(22,415)	14,346
Pension	40.2.7	38,982,073	(23,317,114)	15,664,959
Benevolent	40.2.7	2,410,117	(676,375)	1,733,742
Post retirement medical benefits	40.2.7	8,914,110	(3,775,516)	5,138,594
Six months post retirement facility	40.2.7	218,306	-	218,306
		50,561,367	(27,791,420)	22,769,947
		2012		
		Present value of the defined benefit	Unrecognised actuarial loss	Net recognised liabilities
----- (Rupees in '000) -----				
Gratuity	40.2.7	36,286	(26,759)	9,527
Pension	40.2.7	33,929,015	(19,295,324)	14,633,691
Benevolent	40.2.7	2,115,859	(639,207)	1,476,652
Post retirement medical benefits	40.2.7	8,270,382	(4,219,344)	4,051,038
		44,351,542	(24,180,634)	20,170,908

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

	2013				
	Net recognised liabilities at July 1, 2012	Charge for the year (note 40.2.6)	Payments during the year	Employees contribution/ Amount transferred	Net recognised liabilities at June 30, 2013
------(Rupees in '000)-----					
Gratuity	9,527	12,040	(7,221)	-	14,346
Pension	14,633,691	6,765,810	(5,734,542)	-	15,664,959
Benevolent	1,476,652	413,816	(160,572)	3,846	1,733,742
Post retirement medical benefits	4,051,038	1,636,570	(549,014)	-	5,138,594
Six months post retirement facility	-	218,306	-	-	218,306
	20,170,908	9,046,542	(6,451,349)	3,846	22,769,947

	2012				
	Net recognised liabilities at July 1, 2011	Charge for the year (note 40.2.6)	Payments during the year	Employees' contribution/ Amount transferred	Net recognised liabilities at June 30, 2012
	----- (Rupees in '000) -----				
Gratuity	2,323	11,985	(4,781)	-	9,527
Pension	13,366,161	5,558,614	(4,291,084)	-	14,633,691
Benevolent	1,281,855	358,608	(167,797)	3,986	1,476,652
Post retirement medical benefits	3,550,209	1,419,093	(918,264)	-	4,051,038
	18,200,548	7,348,300	(5,381,926)	3,986	20,170,908

40.2.4 Movement of present value of defined benefit obligation

	2013						
	Obligation as at July 1, 2012	Current Service cost	Interest cost	Benefit paid	Past service cost	Actuarial loss	Obligation as at June 30, 2013
	----- (Rupees in '000) -----						
Gratuity	36,286	2,280	4,061	(7,221)	-	1,355	36,761
Pension	33,929,015	993,951	4,069,091	(5,734,542)	-	5,724,558	38,982,073
Benevolent	2,115,859	96,000	277,000	(160,572)	-	81,830	2,410,117
Post retirement medical benefits	8,270,382	178,860	1,101,048	(549,014)	-	(87,166)	8,914,110
Six months post retirement facility	-	-	-	-	218,306	-	218,306
	44,351,542	1,271,091	5,451,200	(6,451,349)	218,306	5,720,577	50,561,367

	2012						
	Obligation as at July 1, 2011	Current Service cost	Interest cost	Benefit paid	Past service cost	Actuarial loss	Obligation as at June 30, 2012
	----- (Rupees in '000) -----						
Gratuity	29,955	2,654	4,193	(4,781)	-	4,265	36,286
Pension	27,250,150	687,476	3,815,021	(4,291,084)	(8,908)	6,476,360	33,929,015
Benevolent	1,794,679	79,811	251,252	(167,797)	-	157,914	2,115,859
Post retirement medical benefits	6,469,642	131,028	905,750	(918,264)	46,481	1,635,745	8,270,382
	35,544,426	900,969	4,976,216	(5,381,926)	37,573	8,274,284	44,351,542

40.2.5 Expected contributions to be paid to the funds in the next financial year

The Group contributes to the retirement schemes according to the actuary's advice. Based on actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2014 would be as follows:

	Gratuity	Pension	Benevolent	Post retirement medical benefits	Employees' compensated absences	Six months post retirement facility
	----- (Rupees in '000) -----					
Expected charge for the year	6,288	5,471,820	384,937	1,350,965	871,712	39,954

40.2.6 Amount recognised in the consolidated profit and loss account

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

	2013					Total
	Current service cost	Interest cost	Past service cost	Actuarial loss recognised	Employees contributions	
	(Rupees in '000)					
Gratuity	2,280	4,061	-	5,699	-	12,040
Pension	993,951	4,069,091	-	1,702,768	-	6,765,810
Benevolent	96,000	277,000	-	44,662	(3,846)	413,816
Post retirement medical benefits	178,860	1,101,048	-	356,662	-	1,636,570
Six months post retirement facility	-	-	218,306	-	-	218,306
	1,271,091	5,451,200	218,306	2,109,791	(3,846)	9,046,542

	2012					Total
	Current service cost	Interest cost	Past service cost	Actuarial loss recognised	Employees contributions	
	(Rupees in '000)					
Gratuity	2,654	4,193	-	5,138	-	11,985
Pension	687,476	3,815,021	(19,022)	1,075,139	-	5,558,614
Benevolent	79,811	251,252	-	31,531	(3,986)	358,608
Post retirement medical benefits	131,028	905,750	167,466	214,849	-	1,419,093
	900,969	4,976,216	148,444	1,326,657	(3,986)	7,348,300

40.2.7 Historical information

	2013	2012	2011	2010	2009
	(Rupees in '000)				
Gratuity					
Present value of defined benefit obligation	36,761	36,286	29,955	42,982	41,116
Unrecognised actuarial loss	(22,415)	(26,759)	(27,632)	(28,358)	(12,754)
Net recognised liability / (asset) in the consolidated balance sheet	14,346	9,527	2,323	14,624	28,362
Experience adjustment arising on plan liabilities losses / (gains)	1,355	4,265	1,814	18,137	36,241
Pension					
Present value of defined benefit obligation	38,982,073	33,929,015	27,250,150	22,545,593	12,602,432
Unrecognised actuarial loss	(23,317,114)	(19,295,324)	(13,883,989)	(11,624,296)	(3,115,838)
Net recognised liability in the consolidated balance sheet	15,664,959	14,633,691	13,366,161	10,921,297	9,486,594
Experience adjustment arising on plan liabilities losses / (gains)	5,724,558	6,476,360	2,524,620	8,854,662	177,053
Benevolent Fund					
Present value of defined benefit obligation	2,410,117	2,115,859	1,794,679	1,577,127	1,200,605
Unrecognised actuarial loss	(676,375)	(639,207)	(512,824)	(451,149)	(183,232)
Net recognised liability in the consolidated balance sheet	1,733,742	1,476,652	1,281,855	1,125,978	1,017,373
Experience adjustment arising on plan liabilities losses / (gains)	81,830	157,914	(23,698)	287,013	11,280
Post retirement medical benefits					
Present value of defined benefit obligation	8,914,110	8,270,382	6,469,642	5,672,184	4,915,413
Unrecognised actuarial loss	(3,775,516)	(4,219,344)	(2,919,433)	(2,818,211)	(2,813,019)
Net recognised liability in the consolidated balance sheet	5,138,594	4,051,038	3,550,209	2,853,973	2,102,394
Experience adjustment arising on plan liabilities losses / (gains)	(87,166)	1,635,745	(696,690)	272,817	428,486
Six months post retirement facility					
Present value of defined benefit obligation	218,306	-	-	-	-
Unrecognised actuarial loss	-	-	-	-	-
Net recognised liability / (asset) in the consolidated balance sheet	218,306	-	-	-	-

40.3 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 5,475.93 million (2012: Rs. 4,881.81 million). An amount of Rs. 1,399.22 million (2012: Rs. 1,613.43 million) has been charged to the consolidated profit and loss account in the current period based on the actuarial advice.

41. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS	2013	2012
	(Rupees in '000)	
Profit for the year	233,782,029	260,800,112
Adjustments for:		
Depreciation	1,488,422	1,553,272
Amortisation of intangible assets	14,946	27,140
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	10,716,273	8,759,053
- loans and advances	(1,059,387)	-
- other doubtful assets	10,303	(102,415)
- diminution in value of investments	677,892	(59,212)
Loss / (gain) on disposal of property and equipment	617	(11,583)
Loss on disposal of investments	276	-
Dividend income	(16,480,789)	(15,697,821)
	<u>229,150,582</u>	<u>255,268,546</u>

42. CASH AND CASH EQUIVALENTS

Local currency	924,997	1,814,196
Foreign currency reserves	641,265,000	1,034,568,750
Earmarked foreign currency balances	3,849,637	4,994,808
Special Drawing Rights of the IMF	85,246,487	91,334,177
	<u>731,286,121</u>	<u>1,132,711,931</u>

43. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties in its normal course of business. Related parties include the Federal Government as major shareholder of the Group, Provincial Governments, Government of Azad Jammu and Kashmir, Gilgit-Baltistan Administration Authority, Government controlled enterprises / entities, retirement benefit plans, directors and key management personnel of the Group.

43.1 Governments and related entities

The Group is acting as an agent of the Federal Government and is responsible for functions conferred upon as disclosed in note 1 to these consolidated financial statements. Balances outstanding from and transaction with the Federal and Provincial Governments and related entities not disclosed elsewhere in the consolidated financial statements are given below:

	2013	2012
	(Rupees in '000)	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>3,882,294,001</u>	<u>3,260,502,773</u>
- Retirement / rollover of MRTBs	<u>3,366,761,383</u>	<u>2,818,313,395</u>

	2013	2012
<i>Balances at year end</i>	(Rupees in '000)	
- Accrued interest in respect of receivable balance of current account of governments	140,895	350,073
- Commission income from sale of Market Treasury Bills, issuance of prize bonds, national saving certificates and management of public debt (refer note 34.1)		

43.2 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 Group 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. Details of remuneration of key management personnel of the Group is as follows:

	2013	2012
	(Rupees in '000)	
Short-term employee benefit	166,273	135,393
Post-employment benefit	91,685	40,652
Loans disbursed during the year	35,948	53,585
Loans repaid during the year	26,615	17,492
Directors' fees	3,345	1,299

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

44. 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 44.1 to 44.5. 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.

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 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 investments 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.

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

44.2.1

	2013						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	-	-	-	924,997	-	924,997	924,997
Foreign currency reserves	602,106,628	-	602,106,628	39,381,840	693,086	40,074,926	642,181,554
Earmarked foreign currency balance	-	-	-	3,849,637	-	3,849,637	3,849,637
Special Drawing Rights of International Monetary Fund	85,246,487	-	85,246,487	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	17,755	17,755	17,755
Securities purchased under agreement to resale	198,787,435	-	198,787,435	-	-	-	198,787,435
Current account of Governments	5,932,762	-	5,932,762	-	-	-	5,932,762
Investments	2,320,720,802	2,827,020	2,323,547,822	30,528	167,166,789	167,197,317	2,490,745,139
Loans, advances and bills of exchange	256,446,457	45,448,025	301,894,482	18,448,367	15,514,680	33,963,047	335,857,529
Assets held with the Reserve Bank of India	-	-	-	1,247,014	-	1,247,014	1,247,014
Balances due from the Governments of India and Bangladesh (former East Pakistan)	6,458,161	-	6,458,161	860,377	-	860,377	7,318,538
Other assets	-	-	-	4,724,293	-	4,724,293	4,724,293
	3,475,698,732	48,275,045	3,523,973,777	69,467,053	183,392,310	252,859,363	3,776,833,140
Financial liabilities							
Bank notes in circulation	-	-	-	2,041,361,303	-	2,041,361,303	2,041,361,303
Bills payable	-	-	-	603,922	-	603,922	603,922
Current accounts of the Government	-	-	-	133,392,486	-	133,392,486	133,392,486
Payable under Bilateral Currency Swaps Agreements	81,614,727	-	81,614,727	-	-	-	81,614,727
Deposits of banks and financial institutions	-	-	-	475,647,801	-	475,647,801	475,647,801
Other deposits and accounts	47,730,941	44,846,776	92,577,717	63,615,632	-	63,615,632	156,193,349
Payable to International Monetary Fund	209,367,244	211,611,304	420,978,548	7,688,150	2,562,751	10,250,901	431,229,449
Other liabilities	-	-	-	100,606,001	-	100,606,001	100,606,001
	338,712,912	256,458,080	595,170,992	2,822,915,295	2,562,751	2,825,478,046	3,420,649,038
On balance sheet gap	3,136,985,820	(208,183,035)	2,928,802,785	(2,753,448,242)	180,829,559	(2,572,618,683)	356,184,102
Foreign currency forward and swap contracts - sale	-	-	-	(420,921,081)	-	(420,921,081)	(420,921,081)
Foreign currency forward and swap contracts - purchase	-	-	-	423,161,966	-	423,161,966	423,161,966
Futures - sale	-	-	-	(14,044,952)	-	(14,044,952)	(14,044,952)
Futures - purchase	-	-	-	15,806,824	-	15,806,824	15,806,824
Off balance sheet gap	-	-	-	4,002,757	-	4,002,757	4,002,757
Total yield / interest risk sensitivity gap	3,136,985,820	(208,183,035)	2,928,802,785	(2,757,450,999)	180,829,559	(2,576,621,440)	352,181,345
Cumulative yield / interest risk sensitivity gap	3,136,985,820	2,928,802,785	5,857,605,570	3,100,154,571	3,280,984,130	704,362,690	704,362,690

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

	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	968,800,665	-	968,800,665	65,992,562	665,908	66,658,470	1,035,459,135
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	1,806,655,816	3,179,430	1,809,835,246	-	142,855,083	142,855,083	1,952,690,329
Loans, advances and bills of exchange	258,432,054	48,426,033	306,858,087	16,812,564	16,375,374	33,187,938	340,046,025
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	-	-	-	5,612,820	-	5,612,820	5,612,820
	3,256,802,823	51,605,463	3,308,408,286	97,323,029	159,913,469	257,236,498	3,565,644,784
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 an 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	223,926,726	405,174,063	629,100,789	17,235,580	9,848,936	27,084,516	656,185,305
Other liabilities	-	-	-	94,467,090	-	94,467,090	94,467,090
	292,270,014	442,993,583	735,263,597	2,493,178,709	9,848,936	2,503,027,645	3,238,291,242
On balance sheet gap	2,964,532,809	(391,388,120)	2,573,144,689	(2,395,855,680)	150,064,533	(2,245,791,147)	327,353,542
Off Balance Sheet Financial Instruments							
Foreign currency forward and swap contracts - sale	-	-	-	(412,632,541)	-	(412,632,541)	(412,632,541)
Foreign currency forward and swap contracts - purchase	-	-	-	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	13,242,061
Off balance sheet gap	-	-	-	(24,419,332)	-	(24,419,332)	(24,419,332)
Total yield / interest risk sensitivity gap	2,964,532,809	(391,388,120)	2,573,144,689	(2,371,436,348)	150,064,533	(2,221,371,815)	351,772,874
Cumulative yield / interest risk sensitivity gap	2,964,532,809	2,573,144,689	5,146,289,378	2,774,853,030	2,924,917,563	703,545,748	703,545,748

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 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.

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 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.

44.5 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.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the financial instruments reflected in the consolidated financial statements approximates their fair value, except investments in unquoted shares as mentioned in note 12.2 which are carried at cost less permanent impairment in value, if any.

46. SUBSEQUENT EVENT

In September 2013, the Executive Board of the IMF approved an arrangement under the Extended Fund Facility (EFF) of an amount equivalent to SDR 4,393 million to be disbursed over a period of three years. An initial disbursement amounting to SDR 360 million was received on September 6, 2013, under this arrangement.

47. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on **October 25, 2013** by the Central Board of Directors of the Group.

48. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of better presentation and comparison. Significant reclassifications are as follows:

FROM	TO	2012	2011
		Rupees in '000	
Foreign currency reserves	Foreign currency reserves		
- Investments - held for trading (note 7)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>3,986</u>	<u>(24,742)</u>
Foreign currency reserves	Foreign currency reserves		
- Deposit accounts (note 7)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>(961,005)</u>	<u>(107,337)</u>
Other assets	Foreign currency reserves		
- Accrued interest / mark-up, discount and return (note 18)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>333,499</u>	<u>920,520</u>
Other liabilities	Foreign currency reserves		
- Accrued interest and discount on deposits (note 26)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>3,216,134</u>	<u>-</u>
Other assets	Investments		
- Accrued interest / mark-up, discount and return (note 18)	- Federal Government scrip (note 12)	<u>41,100</u>	<u>41,100</u>
Other assets	Investments		
- Accrued interest / mark-up, discount and return (note 18)	- Market Related Treasury Bills (note 12)	<u>37,023</u>	<u>26,939</u>

49. GENERAL

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

Yaseen Anwar
Governor

Kazi Abdul Muktedir
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

13 Unconsolidated Financial Statements of SBP

KPMG TASEER HADI & CO.

Chartered Accountants

Sheikh Sultan Trust Building No. 2

Beaumont Road

Karachi

A. F. FERGUSON & CO.

Chartered Accountants

State Life Building No. 1-C

I. I. Chundrigar Road

P.O. Box 4716

Karachi-74000

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying unconsolidated financial statements of the State Bank of Pakistan (the Bank), which comprise the unconsolidated balance sheet as at June 30, 2013, and the 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 (here-in-after referred to as the unconsolidated financial statements).

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 approved accounting standards as disclosed in note 2 to the unconsolidated financial statements and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the unconsolidated financial statements are free from material misstatement.

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

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

KPMG TASEER HADI & CO.

Chartered Accountants

A. F. FERGUSON & 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 June 30, 2013, and of its financial performance and its cash flows for the year then ended in accordance with approved accounting standards as disclosed in note 2 to the unconsolidated financial statements.

Other Matter

The unconsolidated financial statements of the Bank for the year ended June 30, 2012 were audited by Ernst & Young Ford Rhodes Sidat Hyder and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 5, 2012.

KPMG Taseer Hadi & Co.

Chartered Accountants

Karachi

A. F. Ferguson & Co.

Chartered Accountants

Karachi

Mohammad Mahmood Hussain

Audit Engagement Partner

Salman Hussain

Audit Engagement Partner

Date: October 30, 2013

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2013

	Note	2013	2012 (Restated)	2011 (Restated)
----- (Rupees in '000) -----				
ASSETS				
Gold reserves held by the Bank	5	246,096,839	313,077,419	267,969,374
Local currency - coins	6	924,997	1,814,196	2,225,301
Foreign currency reserves	7	642,181,554	1,035,459,135	1,289,700,794
Earmarked foreign currency balances	8	3,849,637	4,994,808	75,464,270
Special Drawing Rights of the International Monetary Fund	9	85,246,487	91,334,177	102,188,403
		978,299,514	1,446,679,735	1,737,548,142
Reserve tranche with the International Monetary Fund under quota arrangements	10	17,755	17,104	16,392
Securities purchased under agreement to resale	11	198,787,435	112,898,648	63,660,336
Current accounts of Governments	20.2	5,932,762	12,744,407	586,181
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		175,399	151,567	104,997
Investments	12	2,490,610,318	1,952,567,984	1,507,699,221
Loans, advances, bills of exchange and commercial papers	13	324,832,879	329,074,462	374,400,399
Assets held with the Reserve Bank of India	14	5,236,648	6,311,529	5,652,991
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	7,318,538	6,797,433	6,312,679
Property and equipment	16	22,103,505	23,169,202	24,446,771
Intangible assets	17	16,241	30,882	21,495
Other assets	18	4,701,569	5,435,616	6,922,078
Total assets		4,038,032,563	3,895,878,569	3,727,371,682
LIABILITIES				
Bank notes in circulation	19	2,041,361,303	1,776,962,388	1,599,833,487
Bills payable		603,922	587,542	780,155
Current accounts of Governments	20.1	133,392,486	148,815,907	217,968,067
Current account with SBP Banking Services Corporation - a subsidiary		8,475,848	7,453,254	6,033,302
Securities sold under agreement to repurchase	21	-	12,240,388	-
Payable under bilateral currency swap agreement	22.1	81,614,727	-	-
Deposits of banks and financial institutions	23	475,647,801	396,172,467	349,426,939
Other deposits and accounts	24	155,592,496	152,856,723	189,162,447
Payable to the International Monetary Fund	25	431,229,449	656,185,305	732,764,340
Other liabilities	26	109,186,319	100,586,793	33,108,662
		3,437,104,351	3,251,860,767	3,129,077,399
Deferred liability - unfunded staff retirement benefits	27	8,732,224	7,093,070	5,789,532
Total liabilities		3,445,836,575	3,258,953,837	3,134,866,931
Net assets		592,195,988	636,924,732	592,504,751
REPRESENTED BY				
Share capital	28	100,000	100,000	100,000
Reserves	29	175,919,871	175,919,871	177,019,871
		176,019,871	176,019,871	177,119,871
Unrealised appreciation on gold reserves	30	242,568,983	309,565,438	268,947,619
Unrealised appreciation on remeasurement of investments		147,628,730	125,361,019	120,458,857
Surplus on revaluation of property and equipment		25,978,404	25,978,404	25,978,404
Total equity		592,195,988	636,924,732	592,504,751

CONTINGENCIES AND COMMITMENTS

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Pursuant to the requirements of 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 to these financial statements.

The annexed notes from 1 to 50 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, 2013

	<i>Note</i>	2013	2012
		(Rupees in '000)	
Discount, interest / mark-up and / or return earned	32	250,681,600	236,191,296
Less: interest / mark-up expense	33	(7,592,737)	(11,338,230)
		243,088,863	224,853,066
Commission income	34	1,758,625	1,952,783
Exchange gain - net	35	6,703,415	42,827,638
Dividend income		16,480,789	15,697,821
Profit earned through subsidiaries	36	147,154	171,966
Other operating (loss) / income - net	37	(1,020,311)	9,033,651
Other income / (charges) - net	38	17,436	(210,179)
		267,175,971	294,326,746
Less: Direct operating expenses			
- Bank notes printing charges	39	5,634,372	5,689,829
- Agency commission	40	6,344,354	5,953,743
- General administrative and other expenses	41	22,334,984	20,159,546
Provision for / (reversal of provision against):			
- loans and advances	13.5	(1,057,083)	-
- claims	26.2.2	(550,880)	1,885,143
- diminution in value of investments-net	12.3	677,892	(59,212)
- other doubtful assets	26.2.1.1	10,303	(102,415)
		(919,768)	1,723,516
		33,393,942	33,526,634
PROFIT FOR THE YEAR		233,782,029	260,800,112

The annexed notes from 1 to 50 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, 2013

	2013	2012 (Restated)
	(Rupees in '000)	
Profit for the year	233,782,029	260,800,112
Other comprehensive income		
Items that may be reclassified subsequently to the profit and loss account		
Unrealised appreciation on remeasurement of investments	22,267,711	4,902,162
Unrealised (diminution) / appreciation on gold reserves	(66,996,455) (44,728,744)	44,962,441 49,864,603
Total comprehensive income for the year	189,053,285	310,664,715

The annexed notes from 1 to 50 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, 2013

	Share capital	Reserves						Unappropriated profit	Unrealised appreciation on gold reserves	Unrealised appreciation on remeasurement of investments	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 July 1, 2011 - as previously reported	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
Effect of changes in accounting policy (refer note 4.1.1)	-	-	-	-	-	-	-	-	-	120,458,857	-	120,458,857
Balance as at July 1, 2011 - restated	100,000	165,719,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	268,947,619	120,458,857	25,978,404	592,504,751
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	260,800,112	-	-	-	260,800,112
Other comprehensive income												
Unrealised appreciation on remeasurement of investments	-	-	-	-	-	-	-	-	-	4,902,162	-	4,902,162
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	44,962,441	-	-	44,962,441
	-	-	-	-	-	-	-	260,800,112	44,962,441	4,902,162	-	310,664,715
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	-	-	-	-	-	-	-	-	(4,344,622)	-	-	(4,344,622)
	-	(1,100,000)	-	-	-	-	-	1,100,000	(4,344,622)	-	-	(4,344,622)
Balance as at June 30, 2012 - restated	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	309,565,438	125,361,019	25,978,404	636,924,732
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	233,782,029	-	-	-	233,782,029
Other comprehensive income												
Unrealised appreciation on remeasurement of investments	-	-	-	-	-	-	-	-	-	22,267,711	-	22,267,711
Unrealised diminution on gold reserves	-	-	-	-	-	-	-	-	(66,996,455)	-	-	(66,996,455)
	-	-	-	-	-	-	-	233,782,029	(66,996,455)	22,267,711	-	189,053,285
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(233,772,029)	-	-	-	(233,772,029)
	-	-	-	-	-	-	-	(233,782,029)	-	-	-	(233,782,029)
Balance as at June 30, 2013	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	242,568,983	147,628,730	25,978,404	592,195,988

The annexed notes from 1 to 50 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 CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	<i>Note</i>	2013 (Rupees in '000)	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash items	42	221,924,764	249,424,721
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(26,169)	(59,871)
Reserve tranche with the International Monetary Fund under quota arrangements		(651)	(712)
Securities purchased under agreement to re-sale		(85,888,787)	(49,238,312)
Current account of National Institute of Banking and Finance (Guarantee)			
Limited - a subsidiary		(23,832)	(46,570)
Investments		(516,511,728)	(440,004,142)
Loans, advances, bills of exchange and commercial papers		5,298,666	45,325,937
Assets held with the Reserve Bank of India and balances due from			
Governments of India and Bangladesh (former East Pakistan)		(532,417)	(413,988)
Other assets		734,047	1,486,461
		(596,950,871)	(442,951,197)
		(375,026,107)	(193,526,476)
Increase / (decrease) in liabilities:			
Bank notes issued		264,398,915	177,128,901
Bills payable		16,380	(192,613)
Current accounts of Governments		(8,627,651)	(81,455,990)
Current account with SBP Banking Services Corporation - a subsidiary		1,022,594	1,419,952
Securities sold under agreement to repurchase		(12,240,388)	12,240,388
Payable under bilateral currency swap agreement		81,614,727	-
Deposits of banks and financial institutions		79,475,334	46,745,528
Other deposits and accounts		2,735,773	(36,305,724)
Payable to the International Monetary Fund		(224,955,856)	(76,579,035)
Other liabilities		(4,096,619)	4,616,509
		179,343,209	47,617,916
Net cash used in operating activities		(195,682,898)	(145,908,560)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment of retirement benefits and employees' compensated absences		(1,957,933)	(1,710,344)
Proceeds from disposal of investments		58,937	96,753
Dividend received		16,480,789	15,697,821
Fixed capital expenditure		(322,851)	(230,610)
Proceeds from disposal of property and equipment		8,140	28,617
Net cash generated from investing activities		14,267,082	13,882,237
CASH FLOWS FROM FINANCING ACTIVITIES			
Surplus profit paid to the Federal Government		(219,999,994)	(204,000,000)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(220,009,994)	(204,010,000)
Decrease in cash and cash equivalents during the year		(401,425,810)	(336,036,323)
Cash and cash equivalents at beginning of the year		1,132,711,931	1,468,748,254
Cash and cash equivalents at end of the year	43	731,286,121	1,132,711,931

The annexed notes from 1 to 50 form an integral part of these unconsolidated financial statements.

Yaseen Anwar
Governor

Kazi Abdul Mukhtar
Deputy Governor

Muhammad Haroon Rasheed
Executive Director

**STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 monitoring of credit and foreign exchange, management of currency and also acts as the banker to the Government. The activities of the Bank include:

- formulating and implementing the monetary policy;
- 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. STATEMENT OF COMPLIANCE

These unconsolidated financial statements have been prepared in accordance with the requirements of approved accounting standards as adopted by the Central Board of the Bank. Approved accounting standards comprise of International Accounting Standards (IASs) 1 to 38 and policies for bank notes and coins, investments, gold reserves and transactions and balances with the International Monetary Fund (IMF) [as stated in notes 4.2, 4.3, 4.6 and 4.17 respectively] as adopted by the Bank, and the requirements of the State Bank of Pakistan Act, 1956. Under the power conferred by the State Bank of Pakistan Act,

1956, the Central Board has approved IAS-1 to IAS-38 and policies referred above for adoption. Where the requirements of State Bank of Pakistan Act, 1956 and policies adopted by the Central Board differ with the requirements of IASs adopted by the Central Board, the requirements of State Bank of Pakistan Act, 1956 and 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, certain foreign currency reserves, certain investments and certain items of property as referred to in their respective notes have been included at revalued amounts and certain staff retirement benefits have been carried at present value of defined benefit obligations.

3.2 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as adopted 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 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. Judgments made by the management in the application of approved accounting standards as adopted by the Central Board of the Bank and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities 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, quality of collateral and other relevant factors are considered. The amount of provision may require adjustment in case borrowers do not perform according to the 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 41.5.1 to the 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 New and amended standards and interpretations that are effective in the current year

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 the profit or loss subsequently (reclassification adjustments). The impact of this change has been disclosed in the unconsolidated statement of comprehensive income.

There are certain other new and amended standards and interpretations that have been published and are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or did not have any significant effect on the Bank's operations and are, therefore, not detailed in these financial statements.

3.4 New and amended standards and interpretations that are not yet effective

The following new amendments to approved accounting standards that have been published and are mandatory for the Bank's accounting period beginning on or after July 1, 2013.

IAS 19, 'Employee benefits' was amended in June 2011 applicable for periods beginning on or after January 1, 2013. The amendment has resulted in the following changes: eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. As at June 30, 2013, the Bank has unrecognised actuarial losses amounting to Rs.10,283 million. Following the change, all actuarial gains / losses will be recognised in Other Comprehensive Income.

There are certain other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any material effect on the Bank's operations and are therefore not detailed in these financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Change in accounting policies

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 June 30, 2012, except for change mentioned in note 4.1.1.

- 4.1.1.** During the current year, the Bank has changed its policy in respect of subsequent measurement of its strategic listed investments. These investments, after initial recognition, are now being remeasured at fair value. Previously, these investments were carried at cost. The change in the policy has been made to align the policy of the Bank with the requirements as specified in the International Financial Reporting Standards (IFRS). Unrealised appreciation / diminution arising on remeasurement of investments is credited / debited to "unrealised appreciation / diminution on remeasurement of investments" and is taken to statement of comprehensive income. Appreciation / diminution is transferred to profit and loss account upon disposal of such investments.

The above change in accounting policy has been accounted for retrospectively in accordance with the requirements of International Accounting Standard (IAS) 8: "Accounting Policies, Changes in Accounting Estimates and Errors" and comparative figures have been restated. The effect of the change in accounting policy on the current and prior year financial statements have been summarised below:

	2013	2012	2011
	----- (Rupees in '000) -----		
Impact on unconsolidated balance sheet			
Increase in available for sale investments	<u>147,628,730</u>	<u>125,361,019</u>	<u>120,458,857</u>
Recognition of unrealised appreciation on remeasurement of investments	<u>147,628,730</u>	<u>125,361,019</u>	<u>120,458,857</u>
Impact on unconsolidated statement of comprehensive income			
Recognition of unrealised appreciation on remeasurement of investments	<u>22,267,711</u>	<u>4,902,162</u>	<u>120,458,857</u>

There is no impact of this change on the unconsolidated profit and loss account and unconsolidated cash flow statement for the current or prior years.

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 face value and is represented by the specified assets of the Issue Department of the Bank as per the requirements stipulated in the State Bank of Pakistan Act, 1956. 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, except for investments classified as held for trading. 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.

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

All purchases and sales of investments categorised as held for trading that requires 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 at which the Bank commits to purchase or sell the investment, otherwise 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 at which the Bank commits to purchase or sell the investment, otherwise 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 the 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 receivables are recognized 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 receivables except where the loan is secured by the guarantee of the Federal or Provincial Governments. 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 receivables.

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 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 available for sale is their quoted bid price at the balance sheet date.

All purchases and sales of investments categorised as available for sale 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 at which the Bank commits to purchase or sell the investment, otherwise transactions are treated as derivatives until settlement occurs.

Derecognition

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

4.4 Derivative financial instruments

The Bank uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in note 31.2. The resultant gains or losses from derivatives are included in the profit and loss account.

4.5 Collateralised borrowings / lending**4.5.1 Reverse repurchase and repurchase agreements**

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 as "Securities sold under agreement to repurchase". Conversely, securities purchased under analogous commitment to resell are not recognized on the balance sheet and an asset is recorded in respect of the consideration paid as "Securities purchased under agreement to resale". The difference between the sale and repurchase price in the repurchase transaction and the purchase price and resale price in reverse repurchase transaction represents expense and income respectively, and recognised in the profit and loss account on time proportion basis. Both repurchase and reverse repurchase transactions are reported at transaction value inclusive of any accrued expense / income.

4.5.2 Bilateral currency swap agreements

Bilateral currency swap agreements with counterpart central banks involve the purchase / sale and subsequent resale / repurchase of local currencies of counterpart central banks against PKR at a specified exchange rate. The drawing by the counterpart, if any, is reported as "Commitments" in note 31. The actual use of facility by the Bank / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Bank and interest is charged / earned at agreed rates to the profit and loss account on time proportion basis from the date of actual use.

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.

Gold is recorded at the prevailing rate at initial recognition. Subsequent to initial measurement, it is 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. Appreciation or diminution, if any, on revaluation is taken to equity under the head "unrealised appreciation on gold reserves". Appreciation / diminution realised on disposal of gold is taken to the profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the statement of changes in equity pending transfer of these assets to the Bank subject to final settlement between the Governments of Pakistan and India. Instead it is shown in other liabilities as provision for other doubtful assets.

4.7 Property and equipment

Property and equipment except land, buildings and capital work-in-progress (CWIP) are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at revalued amount. Leasehold land and buildings are stated at revalued amount less accumulated depreciation and accumulated impairment losses, if any. CWIP is stated at cost and consists of expenditure incurred and advances made in respect of fixed assets in the course of their construction and installation. CWIP assets are capitalised to relevant asset category as and when work is completed.

Depreciation on property and equipment is charged to the profit and loss account using 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 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 available for 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 the profit and loss account.

Increase in carrying amount arising on revaluation of land and buildings is credited to 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, while all other decreases are charged to the 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 the profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount except where the loan is secured by the guarantee of the Federal or Provincial Government. Impairment loss on revalued assets 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 account (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 are 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 unfunded 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 unfunded benevolent fund scheme;
- an unfunded post retirement medical benefit scheme; and
- six months post retirement benefit facility.

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 benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2013. 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 the 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 foreign exchange forward and swap contracts disclosed in note 31.2 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 prevailing at the balance sheet date.

4.17 Transactions and balances with the 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 the profit and loss account.
- commitment fee is charged to the profit and loss account on date of the commitment of Funds by the IMF.
- service charge is recognised in the profit and loss account at the time of receipt of the 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, certain foreign currency reserves, local currency coins, earmarked foreign currency balances, SDRs, balances in the current and deposit accounts and securities that are realisable in known amounts of cash within three months from the date of original investments 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 risks 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, current account with subsidiaries, bills payable, deposits of banks and financial institutions, balances under repurchase and reverse repurchase transactions, government accounts, balances with the IMF, payable under bilateral currency swap agreement, other deposits and accounts and other 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 are 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.

5. GOLD RESERVES HELD BY THE BANK	<i>Note</i>	Net content in troy ounces	2013 (Rupees in '000)	2012
Opening balance		2,071,492	313,077,419	267,969,374
Additions during the year		134	15,875	145,604
(Diminution) / appreciation for the year due to revaluation	<i>30</i>		(66,996,455)	44,962,441
	<i>19.1</i>	2,071,626	246,096,839	313,077,419
6. LOCAL CURRENCY - COINS	<i>Note</i>		2013 (Rupees in '000)	2012
Bank notes held by the Banking Department			143,300	160,156
Coins held as an asset of the Issue Department	<i>6.1 & 19.1</i>		924,997	1,814,196
			1,068,297	1,974,352
Less: bank notes held by the Banking Department	<i>19</i>		(143,300)	(160,156)
			924,997	1,814,196
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	<i>Note</i>		2013 (Rupees in '000)	2012
Investments	<i>7.1</i>		389,279,223	289,055,261
Deposit accounts	<i>7.3 & 7.4</i>		124,320,174	455,947,533
Current accounts	<i>7.2</i>		45,975,224	96,830,826
Securities purchased under agreement to resale	<i>7.5</i>		80,295,659	197,465,169
Unrealised gain / (loss) on derivative financial instruments	<i>7.7</i>		2,311,274	(3,839,654)
			642,181,554	1,035,459,135
The above foreign currency reserves are held as follows:				
Issue Department	<i>19.1</i>		92,827,744	360,180,828
Banking Department			549,353,810	675,278,307
			642,181,554	1,035,459,135
7.1 Investments				
Held for trading	<i>7.4</i>		284,636,358	288,832,726
Held to maturity	<i>7.6</i>		104,421,331	-
Available for sale	<i>7.2</i>		221,534	222,535
			389,279,223	289,055,261
7.2	These include following assets which are recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.			
			2013 (Rupees in '000)	2012
Investments - available for sale			221,534	222,535
Current accounts			1,934	1,942
			223,468	224,477

7.3 The balance includes money market placements carrying interest at various rates ranging between 0.11% to 3.12% (2012: 0.12% to 4.54%) per annum.

7.4 These consist of investments made in:

- International markets 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 2,366.04 million (2012: USD 2,565.58 million) and
- Short Term Investments Funds. Market value of these investments is equivalent to USD 490 million (2012: USD 490 million).

7.5 These represent lending under repurchase agreements and carry mark-up in USD at 0.10% having maturities on July 1, 2013 (2012: 0.14% matured on July 2, 2012).

7.6 This represents investment in sovereign bonds and treasury bills of a foreign country carrying yield ranging from 2.62% to 5.70% per annum and having maturities from July 16, 2013 to June 4, 2014.

7.7 This represents unrealised gain / loss on foreign currency swaps, futures and forward contracts entered into with various counterparties.

8. EARMARKED FOREIGN CURRENCY BALANCES

These represent certain foreign currency balances 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, 2013. 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.

	<i>Note</i>	2013	2012
SDRs are held as follows:		(Rupees in '000)	
- By the Issue Department	<i>19.1</i>	7,437,650	7,146,000
- By the Banking Department		77,808,837	84,188,177
		85,246,487	91,334,177

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

Quota allocated by the International Monetary Fund	154,086,949	148,440,350
Liability under quota arrangements	(154,069,194)	(148,423,246)
	17,755	17,104

11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE

This represents lending under repurchase agreements with various financial institutions and carry mark-up at rates ranging from 8.99% to 9.20% per annum (2012: 11.67% to 11.77% per annum) and will mature on July 5, 2013 (2012: July 6, 2012).

12. INVESTMENTS

Note

2013

2012

(Restated)

2011

(Restated)

Loans and receivables originated by the Bank

----- (Rupees in '000) -----

Government securities

Market Related Treasury Bills (MRTBs)

2,319,633,169

1,803,121,441

1,363,117,299

Federal Government scrip

2,781,100

2,781,100

2,781,100

12.1

2,322,414,269

1,805,902,541

1,365,898,399

Available for sale investments

Investments in banks and other financial institutions

Ordinary shares

- Listed

163,192,519

140,924,808

136,022,646

- Unlisted

4,862,706

4,919,706

4,957,247

12.2

168,055,225

145,844,514

140,979,893

Term Finance Certificates

84,722

127,082

169,441

Certificates of Deposits

33,705

50,558

67,411

168,173,652

146,022,154

141,216,745

Provision against diminution in value of investments

12.3

(1,006,863)

(385,971)

(445,183)

167,166,789

145,636,183

140,771,562

Investments in wholly owned subsidiaries

SBP Banking Services Corporation

1,000,000

1,000,000

1,000,000

National Institute of Banking and Finance (Guarantee)

29,260

29,260

29,260

Limited - NIBAF

1,029,260

1,029,260

1,029,260

2,490,610,318

1,952,567,984

1,507,699,221

The above investments are held as follows:

Issue Department - MRTBs

19.1

1,688,902,225

1,088,514,072

916,804,517

Banking Department

801,708,093

864,053,912

590,894,704

2,490,610,318

1,952,567,984

1,507,699,221

12.1 Investments in Government securities

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

	2013	2012
	(% per annum)	
Market Related Treasury Bills	8.92 to 11.94	11.63 to 11.94
Federal Government scrip	3	3

MRTBs are created for a period of six months where as Federal Government Scrips are of a perpetual nature.

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

	Note	2013 % of holding	2012	2011	2013	2012 (Restated)	2011 (Restated)
					----- (Rupees in '000) -----		
Listed							
- National Bank of Pakistan	12.2.2	75.20	75.20	75.20	65,785,656	60,571,550	63,766,180
- United Bank Limited	12.2.3	19.49	19.49	19.49	25,665,079	18,698,911	14,769,710
- Allied Bank Limited	12.2.4	10.07	10.07	10.07	7,182,365	6,114,070	5,554,780
- Habib Bank Limited	12.2.5	40.60	40.60	40.60	64,559,419	55,540,277	51,931,976
					163,192,519	140,924,808	136,022,646
Unlisted							
- Federal Bank for Cooperatives		75.00	75.00	75.00	150,000	150,000	150,000
- Equity Participated Fund		0.00	0.00	65.81	-	-	37,540
Other investments with holding less than or equal to 50%					4,712,706	4,769,706	4,769,707
					168,055,225	145,844,514	140,979,893

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 Cost of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2013 amounted to Rs. 1,100.8 million (2012: Rs. 1,100.8 million).

12.2.3 Cost of the Bank's investment in the shares of United Bank Limited at June 30, 2013 amounted to Rs. 5,919.5 million (2012: Rs. 5,919.5 million).

12.2.4 Cost of the Bank's investment in the shares of Allied Bank Limited at June 30, 2013 amounted to Rs. 350.6 million (2012: Rs. 350.6 million).

12.2.5 Cost of the Bank's investment in the shares of Habib Bank Limited at June 30, 2013 amounted to Rs. 8,192.8 million (2012: Rs. 8,192.8 million).

12.3 Provision against diminution in value of investments	Note	2013 (Rupees in '000)	2012
Opening balance		385,971	445,183
Provision during the year	12.3.1	737,104	-
Reversal during the year		(59,212)	(59,212)
Write-off during the year	12.3.2	(57,000)	-
Closing balance		1,006,863	385,971

12.3.1 This represent impairment loss recognised in respect of Bank's investment in Pak Libya Holding Company Limited.

12.3.2 This represents write off of investment in shares of Industrial Development Bank of Pakistan against related provision.

13. LOANS, ADVANCES, BILLS OF EXCHANGE AND COMMERCIAL PAPERS	<i>Note</i>	2013	2012
		(Rupees in '000)	
Governments	13.1	18,535,338	36,097,865
Government owned / controlled financial institutions	13.2 & 13.3	99,102,323	99,767,523
Private sector financial institutions	13.4	205,725,901	193,631,809
		304,828,224	293,399,332
Employees		6,810,142	5,975,173
		330,173,704	335,472,370
Provision against doubtful balances	13.5	(5,340,825)	(6,397,908)
		324,832,879	329,074,462
13.1 Loans and advances to the Governments			
Provincial Government - Punjab	13.1.1	11,477,094	25,477,121
Provincial Government - Baluchistan	13.1.2	5,183,244	8,183,244
Provincial Government - Khyber Pakhtunkhwa	13.1.3	1,875,000	2,437,500
		18,535,338	36,097,865

During the year, mark-up on above balances due from the Provincial Governments was charged at various rates ranging between 9.21% to 11.93% (2012: 11.71% to 13.65%) per annum.

- 13.1.1** This includes current account receivable balance of the Government of Punjab amounting to Rs. 50,900 million converted in a loan balance under agreement finalised on November 10, 2009 and which is effective from August 1, 2009. This loan carries interest equivalent to quarterly average rate of six months weighted average Market Treasury Bills and is repayable in 48 equal installments of Rs. 1,060 million each starting from October 1, 2009. Two installments of January 2012 and February 2012 have been deferred upon request of Government of Punjab. Accordingly the date of recovery of last installment has been revised to November 1, 2013. As at June 30, 2013, the outstanding balance of this loan amounts to Rs. 5,302 million (2012: Rs 18,027 million). The loan is secured by the guarantee of the Federal Government.

Further, this amount also includes bridge financing facility extended to the Government of Punjab under agreement carried out on May 27, 2009. This loan is repayable in 16 equal quarterly installments amounting to Rs. 318.75 million starting from July 2010 along with mark-up at the rate of 3 months weighted average Market Treasury Bills rate of the last auction of the preceding quarter. As at June 30, 2013, the outstanding balance of this loan amounts to Rs. 6,175 million (2012: Rs 7,450 million). The loan is secured by the guarantee of the Federal Government.

- 13.1.2** This represents current account receivable balance of the Government of Baluchistan and carries interest at a rate equivalent to six months weighted average Market Treasury Bills rate. Under the agreement, the total loan is repayable in 65 monthly installments, which started from July 1, 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 Market Treasury Bills rate of the last auction of the preceding quarter. As at June 30, 2013, the outstanding balance of this loan amounts to Rs. 1,875 million (2012: Rs. 2,437 million). The loan is secured by the guarantee of the Federal Government.

13.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2013	2012	2013	2012	2013	2012
	(Rupees in '000)					
Agricultural sector (13.2.1)	50,659,855	50,789,594	-	-	50,659,855	50,789,594
Industrial sector (13.2.1 & 13.2.3)	6,709,427	7,573,812	-	-	6,709,427	7,573,812
Export sector (13.3)	13,547,868	13,218,944	3,567	3,567	13,551,435	13,222,511
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)	16,939,306	16,939,306	-	-	16,939,306	16,939,306
	87,856,456	88,521,656	11,245,867	11,245,867	99,102,323	99,767,523

13.2.1 Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2012: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative government guaranteed financing of Rs. 51,257.21 million (2012: 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 (2012: Rs. 3,204 million) classified in other loans and advances. The entire exposure has become overdue and 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, 2013 all of these credit lines are over due amounting to Rs. 11,242 million (2012: Rs. 11,242 million). These credit lines are secured by the guarantee from the Federal Government.

13.2.3 This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) Credit Line amounting to Rs. 1,054 million (2012: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2012: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government during the current year vide its vesting order dated November 13, 2012 has transferred and vested all assets and liabilities of IDBL into the IDBL with effect from November 13, 2012. In line with the Federal Cabinet decision of winding up, the bank closed nine of its branches during the current year.

13.2.4 These balances include Rs. 423 million (2012: Rs. 423 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 face value of certain commercial papers amounting to Rs. 78.5 million (2012: Rs. 78.5 million) which are held in Bangladesh (former East Pakistan). The realisability of this 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	
	2013	2012	2013	2012	2013	2012
	(Rupees in '000)					
Agricultural sector	1,627,651	1,352,495	131,540	157,846	1,759,191	1,510,341
Industrial sector	35,402,043	35,816,917	4,252,409	4,651,692	39,654,452	40,468,609
Export sector	164,286,776	151,627,377	-	-	164,286,776	151,627,377
Others	25,482	25,482	-	-	25,482	25,482
	201,341,952	188,822,271	4,383,949	4,809,538	205,725,901	193,631,809

	2013	2012
	(Rupees in '000)	
13.5 Provision against doubtful assets		
Opening balance	6,397,908	6,397,908
Reversal during the year	(1,057,083)	-
Closing balance	5,340,825	6,397,908

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

	2013 (% per annum)	2012
Government owned / controlled and private sector financial institutions	0 to 11	0 to 12
Employees loans	10	10

14. ASSETS HELD WITH THE RESERVE BANK OF INDIA

Note

2013
(Rupees in '000)

2012

Gold reserves			
- Opening balance		5,075,827	4,346,524
- (Diminution) / appreciation for the year due to revaluation	30	(1,086,193)	729,303
		<u>3,989,634</u>	<u>5,075,827</u>
 Sterling securities		 501,657	 486,977
Government of India securities		16,970	17,047
Rupee coins		4,938	4,959
	14.1	<u>4,513,199</u>	<u>5,584,810</u>
 Indian notes representing assets receivable from the Reserve Bank of India		 723,449	 726,719
	14.2	<u>723,449</u>	<u>726,719</u>
	19.1	<u>5,236,648</u>	<u>6,311,529</u>

14.1 These assets were allocated to the Government of Pakistan as its share of the assets of the 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 (also refer note 26.2.1).

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 (also refer note 26.2.1).

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

Note

2013
(Rupees in '000)

2012

India

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

Bangladesh (former East Pakistan)

Inter office balances		819,924	819,924
Loans and advances	15.1	6,458,161	5,937,056
		<u>7,278,085</u>	<u>6,756,980</u>
	15.2	<u>7,318,538</u>	<u>6,797,433</u>

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 (also refer notes 26.1 and 26.2.1).

16. PROPERTY AND EQUIPMENT

Note

2013
(Rupees in '000)

2012

Operating fixed assets	16.1	21,597,598	22,804,949
Capital work-in-progress	16.3	505,907	364,253
		<u>22,103,505</u>	<u>23,169,202</u>

16.1 Operating fixed assets

	2013							
	Cost / revalued amount at July 1, 2012	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2013	Accumulated depreciation at July 1, 2012	Depreciation for the year/ (deletions)	Accumulated depreciation at June 30, 2013	Net book value at June 30, 2013	Annual rate of depreciation %
----- (Rupees in '000) -----								
Freehold land	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land	16,807,143	3,862	16,811,005	589,562	590,006	1,179,568	15,631,437	over the remaining term of lease
Buildings on freehold land	1,041,145	26,367	1,067,512	203,807	210,392	414,199	653,313	over the remaining useful life
Buildings on leasehold land	1,916,988	40,538	1,957,526	368,691	379,481	748,172	1,209,354	over the remaining term of lease
Furniture and fixtures	98,537	1,623 (2,139)	98,021	71,213	8,532 (2,132)	77,613	20,408	10
Office equipment	628,272	44,733 (40,540)	632,465	464,640	69,702 (40,283)	494,059	138,406	20
EDP equipment	1,241,961	44,828 (2,507)	1,284,282	1,169,325	67,975 (1,518)	1,235,782	48,500	33.33
Motor vehicles	273,026	18,942 (18,736)	273,232	126,543	54,174 (12,007)	168,710	104,522	20
	25,798,730	180,893 (63,922)	25,915,701	2,993,781	1,380,262 (55,940)	4,318,103	21,597,598	
----- (Rupees in '000) -----								
	2012							
	Cost / revalued amount at July 1, 2011	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2012	Accumulated depreciation at July 1, 2011	Depreciation for the year/ (deletions) / adjustments	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)	464,640	163,632	20
EDP equipment	1,247,382	21,266 (26,687)	1,241,961	1,043,105	142,976 (16,796)	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
	25,659,357	226,727 (87,354)	25,798,730	1,609,418	1,448,276 (63,978)	2,993,781	22,804,949	
		-			65			

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

16.2.1 Subsequent to revaluation on June 30, 2006, which had resulted in a net surplus of Rs.12,552.51 million, all land and buildings were revalued again on June 30, 2011 which resulted in a net surplus of Rs.7,231.39 million. The land and buildings valuations were carried out on the basis of professional assessment of market values by the independent valuers. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:

	2013 (Rupees in '000)	2012
Freehold land	39,124	39,124
Leasehold land	89,305	87,038
Buildings on freehold land	330,799	321,842
Buildings on leasehold land	553,314	541,898
	<u>1,012,542</u>	<u>989,902</u>

16.3 Capital work-in-progress

Buildings on freehold land	14,641	8,016
Buildings on leasehold land	402,567	309,301
Furniture and fixtures	181	-
Office equipment	57,091	46,558
EDP equipment	31,427	378
	<u>505,907</u>	<u>364,253</u>

17. INTANGIBLE ASSETS

	Cost at July 1	Additions during the year	Cost at June 30	Accumulated amortisation at July 1	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
	----- (Rupees in '000) -----							
Software 2013	601,575	305	601,880	570,693	14,946	585,639	16,241	33.33
Software 2012	565,048	36,527	601,575	543,553	27,140	570,693	30,882	33.33

18. OTHER ASSETS

	Note	2013 (Rupees in '000)	2012
Accrued interest / mark-up, discount and return		4,055,326	4,817,489
Other advances, deposits and prepayments		607,478	581,502
Others		38,765	36,625
		<u>4,701,569</u>	<u>5,435,616</u>

19. BANK NOTES IN CIRCULATION

Total bank notes issued	19.1	2,041,504,603	1,777,122,544
Notes held with the Banking Department	6	(143,300)	(160,156)
Notes in circulation		<u>2,041,361,303</u>	<u>1,776,962,388</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	2013 (Rupees in '000)	2012
Gold reserves held by the Bank	5	246,096,839	313,077,419
Coins	6	924,997	1,814,196
Foreign currency reserves	7	92,827,744	360,180,828
Special Drawing Rights of the International Monetary Fund	9	7,437,650	7,146,000
Investments	12	1,688,902,225	1,088,514,072
Commercial papers held in Bangladesh (former East Pakistan)	13.3	78,500	78,500
Assets held with the Reserve Bank of India	14	5,236,648	6,311,529
		<u>2,041,504,603</u>	<u>1,777,122,544</u>

20. CURRENT ACCOUNTS OF GOVERNMENTS	<i>Note</i>	2013	2012
		(Rupees in '000)	
20.1 Current accounts of Governments - payable balances			
Federal Government	20.3	75,614,619	95,381,342
Provincial Governments			
- Punjab	20.4	7,360,430	16,404,794
- Khyber Pakhtunkhwa	20.6	27,939,475	28,601,808
- Baluchistan	20.7	19,823,291	8,427,963
Gilgit - Baltistan Administration Authority	20.8	2,654,671	-
		57,777,867	53,434,565
		133,392,486	148,815,907
20.2 Current accounts of Governments - receivable balances			
Provincial Government of Sindh	20.5	3,544,752	9,470,579
Gilgit - Baltistan Administration Authority	20.8	-	600,965
Government of Azad Jammu and Kashmir	20.9	2,388,010	2,672,863
		5,932,762	12,744,407
20.3 Federal Government			
Non-food account		105,372,208	126,141,484
Zakat fund accounts		4,057,267	3,956,688
Railways accounts		(37,915,421)	(38,806,766)
Other accounts		4,100,565	4,089,936
		75,614,619	95,381,342
20.4 Provincial Government - Punjab			
Non-food account		(43,130,592)	(34,998,448)
Zakat fund account		1,136,322	2,373,632
Other accounts		49,354,700	49,029,610
		7,360,430	16,404,794
20.5 Provincial Government - Sindh			
Non-food account		(6,174,700)	(12,129,639)
Zakat fund account		2,529,730	2,434,119
Other accounts		100,218	224,941
		(3,544,752)	(9,470,579)
Classified as receivable balance	20.10	3,544,752	9,470,579
		-	-

20.6 Provincial Government - Khyber Pakhtunkhwa	Note	2013	2012
		(Rupees in '000)	
Non-food account		7,455,660	15,426,567
Zakat fund account		1,012,133	1,168,535
Other accounts		19,471,682	12,006,706
		<u>27,939,475</u>	<u>28,601,808</u>
20.7 Provincial Government - Baluchistan			
Non-food account		19,279,158	7,843,144
Zakat fund account		417,194	357,606
Other accounts		126,939	227,213
		<u>19,823,291</u>	<u>8,427,963</u>
20.8 Gilgit - Baltistan Administration Authority			
Classified as receivable balance	20.10	-	600,965
		<u>2,654,671</u>	<u>-</u>
20.9 Government of Azad Jammu and Kashmir			
Classified as receivable balance	20.10	(2,388,010)	(2,672,863)
		<u>2,388,010</u>	<u>2,672,863</u>
		<u>-</u>	<u>-</u>

20.10 These balances carry mark-up at the rate of 9.95% per annum (2012: 11.94% per annum).

21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represent borrowings under repurchase agreement. There is no balance outstanding as at June 30, 2013 (2012: balances outstanding at markup of 9% per annum, maturing on July 3, 2012).

22. BILATERAL CURRENCY SWAP AGREEMENTS

22.1 Payable under bilateral currency swap agreement with the People's Bank of China (PBoC)

A bilateral currency swap agreement was entered between the Bank and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The agreement is for a tenure of 3 years with overall limit of PKR 140,000 million and CNY 10,000 million in respective currencies. The Bank has purchased CNY 5,000 million against PKR during the year with maturity of one year, which have been fully utilized as on June 30, 2013 and the same amount is outstanding as on June 30, 2013. Markup is charged on outstanding balance at agreed rates. As at June 30, 2013, the Bank's overall commitment under this agreement is PKR 140,000 million.

22.2 Bilateral currency swap agreement with the Central Bank of Republic of Turkey (CBRT)

A bilateral currency swap agreement was entered between the Bank and the CBRT on November 1, 2011 in order to promote bilateral trade and for any other purpose mutually agreed between the two central banks. The agreement is for a tenure of 3 years with overall limit of PKR 86,300 million and Turkish LIRA (TRY) 1,800 million in respective currencies. Till June 30, 2013, there has been no request from either of the two central banks to activate this agreement.

23. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	<i>Note</i>	2013	2012
		(Rupees in '000)	
Foreign currency			
Scheduled banks		23,420,232	23,115,145
Held under Cash Reserve Requirement		117,681,704	104,970,918
		141,101,936	128,086,063
Local currency			
Scheduled banks		331,626,659	266,657,312
Financial institutions		2,852,018	1,366,081
Others		67,188	63,011
		334,545,865	268,086,404
		475,647,801	396,172,467
24. OTHER DEPOSITS AND ACCOUNTS			
Foreign currency			
Foreign central banks		44,846,775	42,548,754
International organisations	24.2	35,408,287	43,074,422
Others		15,319,924	15,113,063
		95,574,986	100,736,239
Local currency			
Special debt repayment	24.3	24,074,660	23,914,674
Government	24.4	19,130,988	19,130,988
Foreign central banks		1,848	-
International organisations		6,099,056	-
Others		10,710,958	9,074,822
		60,017,510	52,120,484
		155,592,496	152,856,723

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

	2013	2012
	(% per annum)	
Foreign central banks	0.36 to 0.61	0.31 to 0.58
International organisations	1.42 to 2.51	1.39 to 2.51
Others	0 to 0.17	0 to 1.11

- 24.2** This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2013) 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 February 7, 2013 and June 29, 2012 whereby the MoF has agreed to assume all liabilities and risks arising from the Bank's agreement with SAFE China.

Further, this also includes a deposit of USD 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 USD 100 million as on June 30, 2013 (2012: USD 200 million). This deposit is the direct liability of the Bank.

- 24.3** 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.
- 24.4** These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

25. PAYABLE TO THE INTERNATIONAL MONETARY FUND	<i>Note</i>	2013	2012
		(Rupees in '000)	
Borrowings under:			
- Fund facilities	25.1 & 25.4	273,926,650	487,815,186
- Other credit schemes	25.2 & 25.4	10,250,867	27,084,483
- Allocation of SDRs	25.3	147,051,898	141,285,603
		431,229,415	656,185,272
Current account for administrative charges		34	33
		431,229,449	656,185,305

- 25.1** IMF granted a Stand By Arrangement Facility (SBAF) amounting to SDR 5,168.50 million in FY 2008-09. The facility was extended in FY 2009-10 to SDR 7,235.90 million which includes financing for Budget Support for the Government of Pakistan amounting to SDR 951.10 million. The amount was to be disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2011. However, a total amount of SDR 4,936.04 million, including GoP Budgetary Support, was disbursed under five (5) tranches of SBAF up to June 30, 2010. The Bank's share in the disbursement was SDR 3,984.94 million. The facility is subject to mark up based on the weekly rates determined by the IMF and is payable on each quarter end. The repayment of the facility has commenced from February 2012 and would continue up to May 2015. Up to June 30, 2013 out of the Bank's share an amount of SDR 2,147.28 million has been repaid (2012: SDR 587.92 million). The outstanding balance as on June 30, 2013 is SDR 1,837.65 million (2012: SDR 3,397.02 million).

25.2 Under IMF's lending facility for Low Income Countries (LICs) i.e. Poverty Reduction and Growth Facility (PRGF), a total amount of SDR 861.42 million was disbursed to Pakistan from December 2001 to July 2004. Up to June 30, 2013 an amount of SDR 792.51 million has been repaid (2012: SDR 671.91 million). Outstanding balance as on June 30, 2013 is SDR 68.91 million (2012: SDR 189.51 million).

25.3 This represents amount payable against allocation of SDRs. A charge is levied by the IMF on the SDR allocation of the Bank at weekly interest rate applicable on daily product of SDR.

25.4 Interest profile of amount payable to the IMF is as under:

	<i>Note</i>	2013 (% per annum)	2012
Fund facilities	25.4.1	1.04 to 1.12	1.10 to 1.60
Other credit schemes	25.4.2	Nil	Nil

25.4.1 Fund facilities of IMF are also subject to use of fund surcharge and additional surcharge of 2% and 1% per annum respectively payable on a quarterly basis. Use of fund surcharge as levied when the outstanding loan exceeds 300% of the quota whereas additional surcharge is levied when outstanding loan amount exceeding 300% of the quota remains outstanding for more than 3 years. These surcharge were levied up to March 31, 2013.

25.4.2 On December 21, 2012 the IMF Board extended the waiver of interest payments for concessional loans till December 31, 2014.

26. OTHER LIABILITIES	<i>Note</i>	2013 (Rupees in '000)	2012
Foreign currency			
Accrued interest and discount on deposits		798,239	2,529,111
Charges on allocation of Special Drawing Rights of the IMF		16,075	30,303
		814,314	2,559,414
Local currency			
Overdue mark-up and return	26.1	6,142,508	5,621,403
Remittance clearance account		1,652,084	1,556,814
Exchange loss payable under exchange risk coverage scheme		226,436	228,556
Balance profit payable to the Government of Pakistan		76,472,914	62,700,879
Dividend payable	26.3	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		2,407,129	2,407,129
Other accruals and provisions	26.2	20,223,909	21,696,808
Others	26.4	1,237,025	3,805,790
		108,372,005	98,027,379
		109,186,319	100,586,793

26.1 This represents suspended markup which is recoverable from Government of Bangladesh (former East Pakistan) subject to the final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

26.2	Other accruals and provisions	<i>Note</i>	2013	2012
			(Rupees in '000)	
	Agency commission		8,761,090	7,144,581
	Provision for employees' compensated absences	41.6	1,633,039	1,296,007
	Provision for other doubtful assets	26.2.1	6,359,475	7,435,365
	Other provisions	26.2.2	2,848,933	4,981,171
	Others		621,372	839,684
			20,223,909	21,696,808

26.2.1 Provision for other doubtful assets

Provision against assets receivable from Government of
India and the Reserve Bank of India

- Issue Department	5,460,117	6,536,007
- Banking Department	40,483	40,483
	5,500,600	6,576,490

Provision against assets receivable from Government of
Bangladesh (Former East Pakistan)

- Issue Department	78,500	78,500
- Banking Department	780,375	780,375
	858,875	858,875
	6,359,475	7,435,365

26.2.1.1 Movement of provisions for other doubtful assets

Opening balance	7,435,365	2,463,856
Addition during the year	10,303	5,073,924
Reversal of provision	(1,086,193)	(102,415)
Closing balance	6,359,475	7,435,365

26.2.2 Movement of other provisions

Opening balance	4,981,171	3,110,055
(Reversal) / charge during the year	(550,880)	1,885,143
Payment during the year	(1,581,358)	(14,027)
Closing balance	2,848,933	4,981,171

	Home remittance	Agriculture loan	Specific claims (note 26.2.2.2)	Others (note 26.2.2.1)	Total
	----- (Rupees in '000) -----				
Opening balance	260,363	245,099	1,600,000	2,875,709	4,981,171
Charge during the year	-	-	-	-	-
Reversal during the year	-	(245,099)	-	(305,781)	(550,880)
Payment during the year	-	-	-	(1,581,358)	(1,581,358)
Closing balance	260,363	-	1,600,000	988,570	2,848,933

26.2.2.1 This represents provision made in respect of various litigation against the Bank.

26.2.2.2 This represents provision made against a claim under arbitration.

26.3 This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to Rs. 9.99 million.

26.4 This includes liability relating to demonetization of Rs. 5 note.

27. DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS	<i>Note</i>	2013 (Rupees in '000)	2012
Gratuity scheme		6,660	1,803
Pension		5,924,071	4,981,930
Benevolent fund scheme		367,769	305,672
Post retirement medical benefits		2,061,721	1,584,799
Six months post retirement facility		159,043	-
	<i>41.5.3</i>	8,519,264	6,874,204
Provident fund scheme		212,960	218,866
		8,732,224	7,093,070

28. SHARE CAPITAL

2013 (Number of shares)	2012	2013 (Rupees in '000)	2012
Authorised share capital			
1,000,000	1,000,000	100,000	100,000
Issued, subscribed and paid-up capital			
1,000,000	1,000,000	100,000	100,000
	Fully paid-up ordinary shares of Rs. 100 each		

The shares of the Bank are held by the Government of Pakistan and certain Government controlled entities except for 200 shares held by the Central Bank of India (held by Deputy Custodian Enemy Property, Banking Policy and Regulations Department, State Bank of Pakistan) and 500 shares held by the State of Hyderabad.

29. RESERVES

29.1 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.

29.2 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.

30. UNREALISED APPRECIATION ON GOLD RESERVES	<i>Note</i>	2013	2012
		(Rupees in '000)	
Opening balance		309,565,438	268,947,619
Revaluation reserve relating to gold reserves held by the Reserve Bank of India transferred to provision for other doubtful assets		-	(4,344,622)
(Diminution) / appreciation for the year due to revaluation	5	(66,996,455)	44,962,441
		242,568,983	309,565,438

31. CONTINGENCIES AND COMMITMENTS

31.1 Contingencies	2013	2012
	(Rupees in '000)	
a) Contingent liability in respect of guarantees given on behalf of:		
Federal Government	36,033,835	44,051,938
Federal Government owned / controlled bodies and authorities	8,307,650	8,187,802
	44,341,485	52,239,740

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. In prior years, 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.

	2013	2012
	(Rupees in '000)	
c) Other claims against the Bank not acknowledged as debts	827,751	853,293
31.2 Commitments		
Foreign currency forward and swap contracts - sale	420,921,081	412,632,541
Foreign currency forward and swap contracts - purchase	423,161,966	390,848,354
Futures - sale	14,044,952	15,877,206
Futures - purchase	15,806,824	13,242,061

31.2.1 Commitments in respect of bilateral currency swap agreements with People's Bank of China and Central Bank of Republic of Turkey have been disclosed in note 22.

32. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED	<i>Note</i>	2013 (Rupees in '000)	2012
Discount, interest / mark-up on:			
- Government Market Related Treasury Bills		177,876,025	174,398,455
- Federal Government Scrips		82,200	82,200
- Loans and advances to Governments	32.1	3,329,965	6,875,852
Securities purchased under agreement to resale		43,747,253	25,444,640
Share of profit on finances under profit and loss sharing arrangements		18,151,189	20,406,243
Foreign currency deposits		2,321,670	4,003,327
Foreign currency securities		5,046,804	4,847,634
Others		126,494	132,945
		250,681,600	236,191,296
32.1 Interest profile on loans and advances to facilities are as under:		2013 (% per annum)	2012
Mark-up on facility		9.21 to 11.93	11.71 to 13.65
Additional mark-up (where ways and means facility limit is exceeded)		4	4
33. INTEREST / MARK-UP EXPENSE	<i>Note</i>	2013 (Rupees in '000)	2012
Deposits		7,336,801	10,606,882
Securities sold under agreement to repurchase		231,486	685,008
Others		24,450	46,340
		7,592,737	11,338,230
34. COMMISSION INCOME			
Market Treasury Bills	34.1	528,351	341,647
Draft / payment orders		178,055	731,424
Prize Bonds and National Saving Certificates	34.1	337,409	311,099
Management of public debts	34.1	347,218	215,856
Others		367,592	352,757
		1,758,625	1,952,783

34.1 These represent commission income earned from services provided to the Federal Government.

35. EXCHANGE GAIN - NET	2013	2012
	(Rupees in '000)	
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	25,856,535	67,584,902
- Forward covers under Exchange Risk Coverage Scheme	5,728	18,689
- Payable to the IMF	(16,233,145)	(21,969,395)
- Special Drawing Rights of the IMF	(3,019,610)	(2,907,061)
	<u>6,609,508</u>	<u>42,727,135</u>
Exchange risk fee income	93,907	100,503
	<u><u>6,703,415</u></u>	<u><u>42,827,638</u></u>
36. PROFIT EARNED THROUGH SUBSIDIARIES		
SBP Banking Services Corporation	59,166	71,123
National Institute of Banking and Finance (Guarantee) Limited	87,988	100,843
	<u><u>147,154</u></u>	<u><u>171,966</u></u>
The above represents the profit of subsidiaries for the year ended June 30, 2013 transferred to the Bank in accordance with the arrangements mentioned in note 41.3.		
37. OTHER OPERATING (LOSS) / INCOME - NET	2013	2012
	(Rupees in '000)	
Penalties levied on banks and financial institutions	904,330	1,144,218
License / Credit Information Bureau fee recovered	182,314	141,372
Gain / (loss) on sale of investment:		
Local	(276)	-
Foreign	1,625,362	1,655,898
	<u>1,625,086</u>	<u>1,655,898</u>
(Loss) / gain on remeasurement of securities classified as held for trading	(3,748,949)	6,097,647
Others	16,908	(5,484)
	<u><u>(1,020,311)</u></u>	<u><u>9,033,651</u></u>
38. OTHER INCOME / (CHARGES) - NET		
Gain on disposal of property and equipment	159	5,241
Liabilities and provisions written back - net	777	4,329
Charges on allocation of Special Drawing Rights of the IMF	(112,769)	(326,167)
Grant income under foreign assistance program	26,292	-
Others	102,977	106,418
	<u><u>17,436</u></u>	<u><u>(210,179)</u></u>
39. BANK NOTES PRINTING CHARGES		

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

40. AGENCY COMMISSION

Agency commission is payable to National Bank of Pakistan under an agreement at the rate of 0.13% (2012: 0.13%) of the total amount of collections and payments handled by NBP.

41. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	<i>Note</i>	2013	2012
		(Rupees in '000)	
Salaries and other benefits		2,316,075	2,201,983
Retirement benefits and employees' compensated absences		3,597,087	3,013,882
Rent and taxes		25,492	26,369
Insurance		21,783	22,514
Electricity, gas and water		30,850	30,012
Depreciation	16.1	1,380,262	1,448,276
Amortisation of intangible assets	17	14,946	27,140
Repairs and maintenance		358,706	334,661
Auditors' remuneration	41.4	6,050	6,580
Legal and professional		451,404	422,512
Travelling expenses		129,482	104,919
Daily expenses		45,795	49,079
Fuel		48,799	45,814
Conveyance		6,011	5,337
Postages, telegram / telex and telephone		145,581	143,205
Training		30,668	2,001
Stationery		9,043	10,812
Books and newspapers		29,363	26,751
Advertisement		23,599	9,827
Uniforms		1,900	2,152
Others		63,382	61,348
		8,736,278	7,995,174
Expenses allocated by:			
SBP Banking Services Corporation	41.1	7,214,222	5,840,353
National Institute of Banking and Finance (Guarantee) Limited		13,124	9,814
		7,227,346	5,850,167
Expenses reimbursed to:			
SBP Banking Services Corporation	41.2	6,213,009	6,166,746
National Institute of Banking and Finance (Guarantee) Limited		158,351	147,459
		6,371,360	6,314,205
		22,334,984	20,159,546
41.1 Expenses allocated by SBP Banking Services Corporation			
Retirement benefits and employees' compensated absences		7,119,186	5,745,171
Depreciation		95,036	95,182
		7,214,222	5,840,353

41.2 Expenses reimbursed to SBP Banking Services Corporation	<i>Note</i>	2013	2012
		(Rupees in '000)	
Salaries and other benefits		5,243,803	5,325,967
Rent and taxes		11,833	10,607
Insurance		5,404	5,193
Electricity, gas and water		244,753	234,385
Repairs and maintenance		71,915	25,731
Auditors' remuneration	41.4	5,950	6,300
Legal and professional		4,122	3,182
Travelling expenses		12,578	10,471
Daily expenses		18,704	20,519
Recreation allowance		189,249	164,169
Fuel		3,329	3,217
Conveyance		18,049	13,449
Postage and telephone		16,797	16,969
Training		42,152	25,864
Remittance of treasure		49,870	38,743
Stationery		13,629	12,078
Books and newspapers		1,402	1,166
Advertisement		12,018	8,930
Bank guards		121,944	106,385
Uniforms		23,725	22,038
Others		101,783	111,383
		<u>6,213,009</u>	<u>6,166,746</u>

41.3 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, 2013, as mentioned in note 36, 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.

41.4 Auditors' remuneration

	2013			2012		
	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total (note 41.4.1)
	----- (Rupees in '000) -----					
State Bank of Pakistan						
Audit fee	2,610	2,610	5,220	2,875	2,875	5,750
Out of pocket expenses	415	415	830	415	415	830
	<u>3,025</u>	<u>3,025</u>	<u>6,050</u>	<u>3,290</u>	<u>3,290</u>	<u>6,580</u>
SBP Banking Services Corporation						
Audit fee	2,090	2,090	4,180	2,275	2,275	4,550
Out of pocket expenses	885	885	1,770	875	875	1,750
	<u>2,975</u>	<u>2,975</u>	<u>5,950</u>	<u>3,150</u>	<u>3,150</u>	<u>6,300</u>
	<u>6,000</u>	<u>6,000</u>	<u>12,000</u>	<u>6,440</u>	<u>6,440</u>	<u>12,880</u>

41.4.1 This includes amount relating to the year 2011.

41.5 Staff retirement benefits

41.5.1 During the year the actuarial valuations of the 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% (2012: 6.00%) per annum.
- Expected rate of discount 11.50% (2012: 12.50%) per annum.
- Expected rate of increase in salary 11.50% (2012: 11.50%) per annum.
- Expected rate of increase in pension 9.00% (2012: 8.00%) per annum.
- Medical cost increase 8.00% (2012: 8.50%) per annum.
- Personnel turnover 3.00% (2012: 2.50%) per annum.

41.5.2 Present value of the defined benefit obligations

Present value of obligations under the retirement benefit schemes and liabilities recognised there against for the past services of the employees at June 30, 2013 based on actuarial valuation as of that date were as follows:

		2013		
	Note	Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognised liabilities
----- (Rupees in '000) -----				
Gratuity	41.5.7	17,754	(11,094)	6,660
Pension	41.5.7	13,864,007	(7,939,936)	5,924,071
Benevolent	41.5.7	621,515	(253,746)	367,769
Post retirement medical benefits	41.5.7	4,139,720	(2,077,999)	2,061,721
Six months post retirement facility	41.5.7	159,043	-	159,043
		18,802,039	(10,282,775)	8,519,264
----- (Rupees in '000) -----				
		2012		
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognised liabilities
----- (Rupees in '000) -----				
Gratuity	41.5.7	12,726	(10,923)	1,803
Pension	41.5.7	11,952,287	(6,970,357)	4,981,930
Benevolent	41.5.7	496,484	(190,812)	305,672
Post retirement medical benefits	41.5.7	3,786,987	(2,202,188)	1,584,799
		16,248,484	(9,374,280)	6,874,204

41.5.3 Following is a movement in the net recognised liability in respect of the defined benefit schemes:

	2013				
	Net recognised liabilities at July 1, 2012	Charge for the year (note 41.5.6)	Payments during the year	Employees contribution / Amount transferred	Net recognised liabilities at June 30, 2013
------(Rupees in '000)-----					
Gratuity	1,803	4,857	-	-	6,660
Pension	4,981,930	2,071,513	(1,129,372)	-	5,924,071
Benevolent	305,672	93,987	(35,736)	3,846	367,769
Post retirement medical benefits	1,584,799	695,714	(218,792)	-	2,061,721
Six months post retirement facility	-	159,043	-	-	159,043
	6,874,204	3,025,114	(1,383,900)	3,846	8,519,264

	2012				
	Net recognised liabilities at July 1, 2011	Charge for the year (note 41.5.6)	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

41.5.4 Movement of present value of defined benefit obligation

	2013					
	Obligation as at July 1, 2012	Current Service cost	Interest cost	Benefit paid	Past service cost	Actuarial loss
------(Rupees in '000)-----						
Gratuity	12,726	1,632	2,019	-	-	1,377
Pension	11,952,287	172,000	1,322,000	(1,129,372)	-	1,547,092
Benevolent	496,484	15,000	70,000	(35,736)	-	75,767
Post retirement medical benefits	3,786,987	39,992	473,373	(218,792)	-	58,160
Six months post retirement facility	-	-	-	-	159,043	-
	16,248,484	228,624	1,867,392	(1,383,900)	159,043	1,682,396
	18,802,039					

	2012					
	Obligation as at July 1, 2011	Current Service cost	Interest cost	Benefit paid	Past service cost	Actuarial loss
------(Rupees in '000)-----						
Gratuity	9,794	1,906	1,371	(3,747)	-	3,402
Pension	9,692,032	149,476	1,356,884	(981,274)	(8,908)	1,744,077
Benevolent	427,280	12,811	59,818	(52,278)	-	48,853
Post retirement medical benefits	2,940,018	27,016	411,603	(306,472)	46,481	668,341
	13,069,124	191,209	1,829,676	(1,343,771)	37,573	2,464,673
	16,248,484					

41.5.5 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the retirement schemes according to the actuary's advice. Based on actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2014 would be as follows:

	Gratuity	Pension	Benevolent	Post retirement medical benefits	Leave Encashment	Six months post retirement
------(Rupees in '000)-----						
Expected charge for the year	3,739	1,809,113	92,143	538,305	280,269	30,195

41.5.6 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:

	2013				
	Current service cost	Interest cost	Past service cost	Actuarial loss recognised	Employees contributions
	(Rupees in '000)				
Gratuity	1,632	2,019	-	1,206	-
Pension	172,000	1,322,000	-	577,513	-
Benevolent	15,000	70,000	-	12,833	(3,846)
Post retirement medical benefits	39,992	473,373	-	182,349	-
Six months post retirement facility	-	-	159,043	-	-
	228,624	1,867,392	159,043	773,901	(3,846)
	3,025,114				
	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)
	2,614,895				

41.5.7 Historical information

	2013	2012	2011	2010	2009
	(Rupees in '000)				
Gratuity					
Present value of defined benefit obligation	17,754	12,726	9,794	6,888	3,077
Unrecognised actuarial loss	(11,094)	(10,923)	(8,339)	(8,353)	(7,086)
Net recognised liability / (asset) in balance sheet	6,660	1,803	1,455	(1,465)	(4,009)
Experience adjustment arising on plan liabilities losses / (gains)	1,377	3,402	(753)	1,911	(3,870)
Pension					
Present value of defined benefit obligation	13,864,007	11,952,287	9,692,032	8,323,797	3,650,528
Unrecognised actuarial loss	(7,939,936)	(6,970,357)	(5,652,879)	(5,123,330)	(750,404)
Net recognised liability in balance sheet	5,924,071	4,981,930	4,039,153	3,200,467	2,900,124
Experience adjustment arising on plan liabilities losses / (gains)	1,547,092	1,744,077	(844,953)	4,456,304	201,991
Benevolent Fund					
Present value of defined benefit obligation	621,515	496,484	427,280	360,457	284,458
Unrecognised actuarial loss	(253,746)	(190,812)	(150,980)	(100,352)	(36,937)
Net recognised liability in balance sheet	367,769	305,672	276,300	260,105	247,521
Experience adjustment arising on plan liabilities losses / (gains)	75,767	48,853	(55,575)	66,256	(88,812)
Post retirement medical benefits					
Present value of defined benefit obligation	4,139,720	3,786,987	2,940,018	2,348,166	2,124,433
Unrecognised actuarial loss	(2,077,999)	(2,202,188)	(1,657,832)	(1,244,525)	(1,308,547)
Net recognised liability in balance sheet	2,061,721	1,584,799	1,282,186	1,103,641	815,886
Experience adjustment arising on plan liabilities losses / (gains)	58,160	668,341	(497,449)	66,833	(237,916)
Six months post retirement facility					
Present value of defined benefit obligation	159,043	-	-	-	-
Unrecognised actuarial loss	-	-	-	-	-
Net recognised liability / (asset) in balance sheet	159,043	-	-	-	-

41.6 Employees' compensated absences

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 1,633.04 million (2012 : Rs. 1,296.01 million). An amount of Rs. 412.46 million (2012: Rs. 372.91 million) has been charged to the profit and loss account in the current period based on the actuarial advice.

42. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS	2013	2012
	(Rupees in '000)	
Profit for the year	233,782,029	260,800,112
Adjustments for:		
Depreciation	1,380,262	1,448,276
Amortisation of intangible assets	14,946	27,140
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	3,597,087	3,013,882
- loans and advances	(1,057,083)	-
- other doubtful assets	10,303	(102,415)
- diminution in value of investments	677,892	(59,212)
Gain on disposal of property, and equipment	(159)	(5,241)
Loss on disposal of investments	276	-
Dividend income	(16,480,789)	(15,697,821)
	<u>221,924,764</u>	<u>249,424,721</u>

43. CASH AND CASH EQUIVALENTS

Local currency	924,997	1,814,196
Foreign currency reserves	641,265,000	1,034,568,750
Earmarked foreign currency balances	3,849,637	4,994,808
Special Drawing Rights of the IMF	85,246,487	91,334,177
	<u>731,286,121</u>	<u>1,132,711,931</u>

44. RELATED PARTY TRANSACTIONS

The Bank enters into transactions with related parties in its normal course of business. Related parties include the Federal Government as major shareholder of the Bank, Provincial Governments, Government of Azad Jammu and Kashmir, Gilgit-Baltistan Administration Authority, Government controlled enterprises / entities, retirement benefit plans, directors and key management personnel of the Bank.

44.1 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 and transaction with the Federal and Provincial Governments and related entities not disclosed elsewhere in the financial statements are given below:

	2013	2012
	(Rupees in '000)	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>3,882,294,001</u>	<u>3,260,502,773</u>
- Retirement / rollover of MRTBs	<u>3,366,761,383</u>	<u>2,818,313,395</u>
<i>Balances at year end</i>		
- Accrued interest in respect of receivable balance of current account of governments	<u>140,895</u>	<u>350,073</u>
- Commission income from sale of Market Treasury Bills, issuance of prize bonds, national saving certificates, and management of public debt (refer note 34.1)		

44.2 Subsidiaries of the Bank

Material transactions with the subsidiaries have already been disclosed in the financial statements in note 36 and 41. The subsidiaries of the Bank and their primary activities are as follows:

44.2.1 SBP Banking Services Corporation ("the Corporation") - wholly owned 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.

44.2.2 National Institute of Banking and Finance (Guarantee) Limited ("the Institute") - wholly owned subsidiary

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

44.3 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. Details of remuneration of key management personnel of the Bank is as follows:

	2013	2012
	(Rupees in '000)	
Short-term employee benefit	166,273	135,393
Post-employment benefit	91,685	40,652
Loans disbursed during the year	35,948	53,585
Loans repaid during the year	26,615	17,492
Directors' fees	3,345	1,299

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, post retirement medical benefits and six months post retirement facility.

45. 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 45.1 to 45.5. 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.

45.1 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 investments 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.

45.2 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.

45.2.1

	2013						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity	Maturity	Sub-total	Maturity	Maturity	Sub-total	
	up to one	after		up to one	after		
	year	one year		year	one year		
(Rupees in '000)							
Financial assets							
Local currency - coins	-	-	-	924,997	-	924,997	924,997
Foreign currency reserves	602,106,628	-	602,106,628	39,381,840	693,086	40,074,926	642,181,554
Earmarked foreign currency balance	-	-	-	3,849,637	-	3,849,637	3,849,637
Special Drawing Rights of International Monetary Fund	85,246,487	-	85,246,487	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	17,755	17,755	17,755
Securities purchased under agreement to resale	198,787,435	-	198,787,435	-	-	-	198,787,435
Current accounts of Governments	5,932,762	-	5,932,762	-	-	-	5,932,762
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	175,399	-	175,399	175,399
Investments	2,319,633,169	2,781,100	2,322,414,269	-	168,196,049	168,196,049	2,490,610,318
Loans, advances and bills of exchange and commercial papers	256,440,028	45,353,370	301,793,398	16,953,227	6,086,254	23,039,481	324,832,879
Assets held with the Reserve Bank of India	-	-	-	1,247,014	-	1,247,014	1,247,014
Balances due from the Governments of India and Bangladesh (former East Pakistan)	6,458,161	-	6,458,161	860,377	-	860,377	7,318,538
Other assets	-	-	-	4,680,309	-	4,680,309	4,680,309
	3,474,604,670	48,134,470	3,522,739,140	68,072,800	174,993,144	243,065,944	3,765,805,084
Financial liabilities							
Bank notes issued	-	-	-	2,041,361,303	-	2,041,361,303	2,041,361,303
Bills payable	-	-	-	603,922	-	603,922	603,922
Current accounts of the Government	-	-	-	133,392,486	-	133,392,486	133,392,486
Current account with SBP Banking Services Corporation- a subsidiary	-	-	-	8,475,848	-	8,475,848	8,475,848
Payable under bilateral currency swaps agreements	81,614,727	-	81,614,727	-	-	-	81,614,727
Deposits of banks and financial institutions	-	-	-	475,647,801	-	475,647,801	475,647,801
Other deposits and accounts	47,730,941	44,846,776	92,577,717	63,014,779	-	63,014,779	155,592,496
Payable to International Monetary Fund	209,367,244	211,611,304	420,978,548	7,688,150	2,562,751	10,250,901	431,229,449
Other liabilities	-	-	-	96,684,336	-	96,684,336	96,684,336
	338,712,912	256,458,080	595,170,992	2,826,868,625	2,562,751	2,829,431,376	3,424,602,368
On balance sheet gap	3,135,891,758	(208,323,610)	2,927,568,148	(2,758,795,825)	172,430,393	(2,586,365,432)	341,202,716
Foreign currency forward and swap contracts - sale	-	-	-	(420,921,081)	-	(420,921,081)	(420,921,081)
Foreign currency forward and swap contracts - purchase	-	-	-	423,161,966	-	423,161,966	423,161,966
Futures - sale	-	-	-	(14,044,952)	-	(14,044,952)	(14,044,952)
Futures - purchase	-	-	-	15,806,824	-	15,806,824	15,806,824
Off balance sheet gap	-	-	-	4,002,757	-	4,002,757	4,002,757
Total yield / interest risk sensitivity gap	3,135,891,758	(208,323,610)	2,927,568,148	(2,762,798,582)	172,430,393	(2,590,368,189)	337,199,959
Cumulative yield / interest risk sensitivity gap	3,135,891,758	2,927,568,148	5,855,136,296	3,092,337,714	3,264,768,107	674,399,918	674,399,918

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

	2012						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity	Maturity	Sub-total	Maturity	Maturity	Sub-total	
	up to one	after		up to one	after		
	year	one year		year	one year		
(Rupees in '000)							
Financial assets							
Local currency - coins	-	-	-	1,814,196	-	1,814,196	1,814,196
Foreign currency reserves	968,800,665	-	968,800,665	65,992,562	665,908	66,658,470	1,035,459,135
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
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	151,567	-	151,567	151,567
Investments - restated	1,803,121,441	2,781,100	1,805,902,541	-	146,665,443	146,665,443	1,952,567,984
Loans, advances and bills of exchange and commercial papers	258,432,054	48,438,043	306,870,097	16,812,564	5,391,801	22,204,365	329,074,462
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	-	-	-	5,435,616	-	5,435,616	5,435,616
	3,253,268,448	51,219,143	3,304,487,591	97,297,392	152,740,256	250,037,648	3,554,525,239
Financial liabilities							
Bank notes issued	-	-	-	1,776,962,388	-	1,776,962,388	1,776,962,388
Bills payable	-	-	-	587,542	-	587,542	587,542
Current accounts of the Governments	-	-	-	148,815,907	-	148,815,907	148,815,907
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	7,453,254	-	7,453,254	7,453,254
Securities sold under an 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	32,465,700	61,456,720	93,922,420	58,934,303	-	58,934,303	152,856,723
Payable to International Monetary Fund	223,926,726	405,174,063	629,100,789	17,235,580	9,848,936	27,084,516	656,185,305
Other liabilities	-	-	-	87,530,025	-	87,530,025	87,530,025
	268,632,814	466,630,783	735,263,597	2,493,691,466	9,848,936	2,503,540,402	3,238,803,999
On balance sheet gap (a)	2,984,635,634	(415,411,640)	2,569,223,994	(2,396,394,074)	142,891,320	(2,253,502,754)	315,721,240
Foreign currency forward and swap contracts - sale	-	-	-	(412,632,541)	-	(412,632,541)	(412,632,541)
Foreign currency forward and swap contracts - purchase	-	-	-	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	13,242,061
Off balance sheet gap	-	-	-	(24,419,332)	-	(24,419,332)	(24,419,332)
Total yield / interest risk sensitivity gap	2,984,635,634	(415,411,640)	2,569,223,994	(2,371,974,742)	142,891,320	(2,229,083,422)	340,140,572
Cumulative yield / interest risk sensitivity gap	2,984,635,634	2,569,223,994	5,138,447,988	2,766,473,246	2,909,364,566	680,281,144	680,281,144

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

45.3 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.

45.4 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.

45.5 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 are reconciled with the portfolio managers, and recorded accordingly.

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of all the financial instruments reflected in the financial statements approximates their fair value, except investments in unquoted shares as mentioned in note 12.2 which are carried at cost less permanent impairment in value, if any.

47 SUBSEQUENT EVENT

In September 2013, the Executive Board of the IMF approved an arrangement under the Extended Fund Facility (EFF) of an amount equivalent to SDR 4,393 million to be disbursed over a period of three years. An initial disbursement amounting to SDR 360 million was received on September 6, 2013, under this arrangement.

48. DATE OF AUTHORISATION

These financial statements were authorised for issue on **October 25, 2013** by the Central Board of Directors of the Bank.

49. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of better presentation and comparison. Significant reclassifications are as follows:

FROM	TO	2012	2011
		Rupees in '000	
Foreign currency reserves	Foreign currency reserves		
- Investments - held for trading (note 7)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>3,986</u>	<u>(24,742)</u>
Foreign currency reserves	Foreign currency reserves		
- Deposit accounts (note 7)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>(961,005)</u>	<u>(107,337)</u>
Other assets	Foreign currency reserves		
- Accrued interest / mark-up, discount and return (note 18)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>333,499</u>	<u>920,520</u>
Other liabilities	Foreign currency reserves		
- Accrued interest and discount on deposits (note 26)	- Unrealised gain / (loss) on derivative financial instruments (note 7)	<u>3,216,134</u>	<u>-</u>
Other assets	Investments		
- Accrued interest / mark-up, discount and return (note 18)	- Federal Government scrip (note 12)	<u>41,100</u>	<u>41,100</u>

50. 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

14 Financial Statements of SBP-BSC (Bank)

KPMG TASEER HADI & CO.

Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi

A. F. FERGUSON & CO

Chartered Accountants
State Life Building 1-C
I. I. Chundrigar 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 June 30, 2013, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the financial statements).

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 approved accounting standards as disclosed in note 2.1 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2013, and of its financial performance and its cash flows for the year then ended in accordance with approved accounting standards as disclosed in note 2.1 to the financial statements.

Other Matter

The financial statements of the Corporation for the year ended June 30, 2012, were audited by Ernst & Young Ford Rhodes Sidat Hyder and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 5, 2012.

KPMG Taseer Hadi & Co.

Chartered Accountants
Karachi

Mohammad Mahmood Hussain

Audit Engagement Partner

Date: October 30, 2013

A. F. Ferguson & Co.

Chartered Accountants
Karachi

Salman Hussain

Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2013

	<i>Note</i>	2013	2012
		----- (Rupees in '000) -----	
ASSETS			
Balance in current account with the State Bank of Pakistan		8,475,848	7,453,254
Investments	4	926,641	937,420
Employee loans and advances	5	11,024,650	10,971,563
Property and equipment	6	197,957	244,704
Medical and stationery consumables	7	119,592	117,128
Advances, deposits and prepayments	8	35,930	28,018
Total assets		20,780,618	19,752,087
LIABILITIES			
Deferred liabilities - unfunded staff retirement benefits	9	15,240,478	14,364,009
Deposits and other liabilities	10	4,540,140	4,388,078
Total liabilities		19,780,618	18,752,087
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	11	1,000,000	1,000,000
CONTINGENCIES AND COMMITMENTS	12		

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2013

	<i>Note</i>	2013 ----- (Rupees in '000) -----	2012
Discount and interest earned	<i>13</i>	58,031	68,405
Net operating expenses	<i>14</i>	13,427,231	12,007,098
Reimbursable from the State Bank of Pakistan		(6,213,009)	(6,166,745)
Allocated to the State Bank of Pakistan		(7,214,222)	(5,840,353)
Operating profit		58,031	68,405
(Loss) / gain on disposal of property and equipment		(776)	2,648
Other income		1,911	70
Profit transferred to the State Bank of Pakistan		59,166	71,123

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

	2013	2012
	----- (Rupees in '000) -----	
Profit for the year	59,166	71,123
Other comprehensive income for the year	-	-
Total comprehensive income for the year	<u>59,166</u>	<u>71,123</u>

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2013

	Share capital	Unappropriated profit	Total
	-----	(Rupees in '000)	-----
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
Transaction with the 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>
Total comprehensive income for the year			
Profit for the year	-	59,166	59,166
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(59,166)	(59,166)
Balance as at June 30, 2013	<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

	<i>Note</i>	2013	2012
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) after adjustment of non-cash items	15	1,041,843	(283,714)
Expenses reimbursable from the State Bank of Pakistan		6,213,009	6,166,745
Profit transferred to the State Bank of Pakistan		(59,166)	(71,123)
Retirement benefits and employees' compensated absences paid		(5,985,622)	(4,286,862)
Discount income on Government Securities received		32,047	37,584
		1,242,111	1,562,630
(Increase) / decrease in assets			
Investments		(1,956)	(17,580)
Employee loans and advances		(53,087)	(192,227)
Medical and stationery consumables		(2,464)	(16,181)
Advances, deposits and prepayments		(7,912)	20,450
(Decrease) / increase in liabilities			
Deposits and other liabilities		(105,033)	152,563
Net cash generated from operating activities		1,071,659	1,509,655
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(52,553)	(97,177)
Proceeds from disposal of property and equipment		3,488	7,474
Net cash used in investing activities		(49,065)	(89,703)
Net increase in cash and cash equivalents		1,022,594	1,419,952
Cash and cash equivalents at beginning of the year		7,453,254	6,033,302
Cash and cash equivalents at end of the year		8,475,848	7,453,254

The annexed notes 1 to 20 form an integral part of these financial statements.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of approved accounting standards as adopted by the Board of Directors of the Corporation. Approved accounting standards comprise of International Accounting Standards (IASs) 1 to 38 and policy for investments as stated in note 3.1 as approved for adoption by the Board of Directors of the Corporation. Where the requirements of the policy adopted by the Board of Directors of the Corporation differ with the requirements of International Accounting Standards adopted by the Board of Directors of the Corporation, the requirements of the policy adopted by the Board of Directors of the Corporation take precedence.

2.2 Standards, interpretations and amendments to published accounting standards that are effective in current year

The following amendment to approved accounting standard has been published and is mandatory for the Corporation's accounting period beginning on or after July 1, 2012:

IAS 1, 'Financial statement presentation'. 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 amendments do not have any effect on the Corporation's financial statements.

There are other amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2012 but are considered not to be relevant or did not have any significant effect on the Corporation's operations and are, therefore, not detailed in these financial statements.

2.3 Standards, interpretations and amendments to published accounting standards that are not yet effective

The following new amendment to approved accounting standard that has been published and is mandatory for the Corporation's accounting period beginning on or after July 1, 2013.

IAS 19, 'Employee benefits' was amended in June 2011 applicable for periods beginning on or after January 1, 2013. The amendment has resulted in the following changes: eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. As at June 30, 2013 the corporation has unrecognised actuarial losses of Rs. 17,509 million. Following this change all unrecognised gains/losses will be recognised in other comprehensive income.

There are other amended standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2013 but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are therefore not detailed in these financial statements.

2.4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as adopted 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, 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.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

2.4.1 Held-to-maturity investments (notes 3.1 and 4)

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.

2.4.2 Useful life and residual value of property and equipment (notes 3.3 and 6)

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

2.4.3 Provision against obsolete medical and stationery consumables (notes 3.4 and 7)

The Corporation exercises judgment and makes provision for obsolete items based on their future usability and recoverable value. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

2.4.4 Accounting for staff retirement benefits (notes 3.6 and 9)

The key actuarial assumptions concerning the valuation of defined benefit plans and sources of estimation are disclosed in note 14.1 to these financial statements.

2.5 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain staff retirement benefits which are carried at present value of defined benefit obligation.

2.6 Functional and presentation currency

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in preparation of these financial statements are set out below. These have been consistently applied to all years presented, unless otherwise specified.

3.1 Investments - Held to maturity

The Corporation classifies its non-derivative financial assets with fixed or determinable payments and fixed maturities as held to maturity. In making this judgment, the Corporation evaluates its intention and ability to hold such investments till 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 investments are stated at amortized cost less accumulated impairment, if any. Premiums and discounts are accounted for using effective interest rate method.

3.2 Employee loans and advances

These are stated at cost less estimates made for any doubtful receivables based on a review of all outstanding amounts at the balance sheet date.

3.3 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any. Historical cost includes expenditure that are directly attributable to the acquisition of the items.

Depreciation on property and equipment is charged to profit and loss account by applying the straight-line method at the rates specified in note 6.1 to the financial statements, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation on additions is charged to the profit and loss account from the month in which the asset is available for use while no depreciation is charged in the month in which the assets are disposed off.

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. The assets' residual value, depreciation method and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property and equipment are recognised in the profit and loss account.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to profit and loss account as and when incurred.

3.4 Medical and stationery consumables

Medical and stationery consumables are valued at lower of weighted average cost and net realisable value.

Provision for obsolete items is determined based on the management's assessment regarding their future usability.

Net realisable value represents estimated selling prices in the ordinary course of business less the estimated cost of completion, if any and the estimated cost necessary to make the sale.

3.5 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 embodying economic benefits 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 adjusted to reflect the current best estimate.

3.6 Staff retirement benefits

The Corporation operates the following staff retirement benefit schemes 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;
 - an un-funded post retirement medical benefit scheme; and
 - an un-funded six months post retirement 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, 2013. 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.

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 14.1 to the financial statements.

3.7 Compensated absences

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

3.8 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.

3.9 Taxation

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

3.10 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise of balance in current account with the State Bank of Pakistan. The cash and cash equivalents are readily convertible to known amounts of cash and are therefore subject to insignificant risk of changes in value.

3.11 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, employee loans and advances, and deposits and other liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each financial instrument.

3.12 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

3.13 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.

4. INVESTMENTS	<i>Note</i>	2013	2012
		----- (Rupees in '000) -----	
Held to maturity			
Market Treasury Bills	4.1	532,593	539,090
Pakistan Investment Bonds	4.2	394,048	398,330
		926,641	937,420

4.1 Market Treasury Bills carry mark-up at the rate of 9.21 to 10.29% per annum (2012: 11.93 to 13.36% per annum) and are due to mature by June 2014.

4.2 Pakistan Investment Bonds carry mark-up at the rate of 8.0 to 9.6% per annum (2012: 8.0 to 9.6% per annum) and are due to mature by 2016.

5. EMPLOYEE LOANS AND ADVANCES	<i>Note</i>	2013	2012
		----- (Rupees in '000) -----	
Considered good		11,024,650	10,971,563
Considered doubtful		9,706	12,010
	5.1	11,034,356	10,983,573
Provision against doubtful loans		(9,706)	(12,010)
		11,024,650	10,971,563

5.1 Represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 110.790 million (2012: Rs. 127.657 million) that carry mark up at 10% per annum (2012: 10% per annum). Maximum maturity of the loans is upto year 2049 (2012: 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.

6. PROPERTY AND EQUIPMENT	<i>Note</i>	2013	2012
		----- (Rupees in '000) -----	
Operating fixed assets	6.1	197,957	244,704

6.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2013						Net book value as at June 30, 2013	Annual rate of depreciation %
	Cost			Accumulated Depreciation				
	As at July 01, 2012	Additions/ (deletions)	As at June 30, 2013	As at July 01, 2012	Charge for the year / (deletions)	As at June 30, 2013		
----- (Rupees in '000) -----								
Furniture and fixtures	113,312	5,759 (3,780)	115,291	71,090	8,355 (2,552)	76,893	38,398	10
Office equipment	823,012	37,729 (2,161)	858,580	685,246	53,213 (1,868)	736,591	121,989	20
EDP equipment	330,836	4,163 (6,270)	328,729	308,126	19,221 (5,248)	322,099	6,630	33.33
Motor vehicles	98,468	4,902 (3,593)	99,777	56,462	14,247 (1,872)	68,837	30,940	20
	1,365,628	52,553 (15,804)	1,402,377	1,120,924	95,036 (11,540)	1,204,420	197,957	

	2012						Net book value as at June 30, 2012	Annual rate of depreciation %
	Cost			Accumulated Depreciation				
	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 *			- *			
Office equipment	763,161	59,639	823,012	633,651	52,262	685,246	137,766	20
		(5,049)			(4,913)			
		5,261 *			4,246 *			
EDP equipment	308,230	467	330,836	273,022	20,700	308,126	22,710	33.33
		(380)			(380)			
		22,519 *			14,784 *			
Motor vehicles	82,889	23,132	98,468	45,035	14,290	56,462	42,006	20
		(9,077)			(4,387)			
		1,524 *			1,524 *			
	1,262,185	88,612	1,365,628	1,014,868	95,182	1,120,924	244,704	
		(14,506)			(9,680)			
		29,337 *			20,554 *			

7.	MEDICAL AND STATIONERY CONSUMABLES	Note	2013	2012
			------(Rupees in '000)-----	
	Medical and stationery consumables	7.1	120,740	118,276
	Provision against obsolete items		(1,148)	(1,148)
			<u>119,592</u>	<u>117,128</u>
7.1	These include stocks of medicine, stationery, engineering items and printing press.			
8.	ADVANCES, DEPOSITS AND PREPAYMENTS			
	Advances, deposits and prepayments		30,583	22,687
	Others		5,347	5,331
			<u>35,930</u>	<u>28,018</u>
9.	DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
	Gratuity		7,686	7,724
	Pension		9,740,888	9,651,761
	Benevolent fund scheme		1,365,973	1,170,980
	Post retirement medical benefits		3,076,873	2,466,239
	Six months post retirement benefits		59,263	-
		14.4	<u>14,250,683</u>	<u>13,296,704</u>
	Provident fund scheme		989,795	1,067,305
			<u>15,240,478</u>	<u>14,364,009</u>
10.	DEPOSITS AND OTHER LIABILITIES			
	Provision for employees' compensated absences	14.8	3,842,893	3,585,798
	Deposits		600,854	677,902
	Others		96,393	124,378
			<u>4,540,140</u>	<u>4,388,078</u>
11.	SHARE CAPITAL			
	2013	2012		
	(Number of shares)			
	<u>1,000</u>	<u>1,000</u>	Authorised share capital	
			Ordinary shares of Rs 1,000,000 each	
			<u>1,000,000</u>	<u>1,000,000</u>
			Issued, subscribed and paid-up capital	
			Fully paid-up ordinary shares of Rs 1,000,000 each	
	509	509	- issued for cash	509,000
	491	491	- issued against consideration in kind	491,000
	<u>1,000</u>	<u>1,000</u>	<u>1,000,000</u>	<u>1,000,000</u>

12. CONTINGENCIES AND COMMITMENTS**12.1 Contingencies**

12.1.1 The Corporation does not have any contingencies as at June 30, 2013 and June 30, 2012.

	Note	2013	2012
		------(Rupees in '000)-----	
12.2 Commitments			
Capital Commitments	12.2.1	<u>29,931</u>	<u>45,272</u>

12.2.1 This represents amounts committed by the Corporation to purchase assets from successful bidders.

	Note	2013	2012
		------(Rupees in '000)-----	
Discount income on Government securities		55,641	67,674
Interest on staff loans		<u>2,390</u>	<u>731</u>
		<u>58,031</u>	<u>68,405</u>

14. NET OPERATING EXPENSES**Reimbursable from the State Bank of Pakistan**

Salaries, wages and other benefits		5,243,803	5,325,967
Rent and taxes		11,833	10,607
Insurance		5,404	5,193
Electricity, gas and water		244,753	234,385
Repair and maintenance		71,915	25,730
Auditors' remuneration	14.9	5,950	6,300
Legal and professional		4,122	3,182
Travelling		12,578	10,471
Daily expenses		18,704	20,519
Passages / rest and recreational allowance		189,249	164,169
Fuel		3,329	3,217
Conveyance		18,049	13,449
Postages and telephone		16,797	16,969
Training		42,152	25,864
Remittance of treasure		49,870	38,743
Stationery		13,629	12,078
Books and newspapers		1,402	1,166
Advertisement		12,018	8,930
Bank guards		121,944	106,385
Uniforms		23,725	22,038
Others		<u>101,783</u>	<u>111,383</u>
		<u>6,213,009</u>	<u>6,166,745</u>

Allocated to the State Bank of Pakistan

Retirement benefits and employees' compensated absences	14.1 to 14.7	7,119,186	5,745,171
Depreciation	6.1	95,036	95,182
		<u>7,214,222</u>	<u>5,840,353</u>
		<u>13,427,231</u>	<u>12,007,098</u>

14.1 As mentioned in note 3.6, 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;
- a funded Employees Gratuity (EGF) introduced by the 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;
- an un-funded post retirement medical benefit scheme; and
- an unfunded six months post retirement benefits 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, 2013:

	2013 % per annum	2012
Expected rate of increase in salary level	11.5	11.5
Expected rate of discount	11.5	12.5
Medical cost trend	8	8.5
Pension indexation rate	9	8
Inflation in contribution and grants	6	6

14.2 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:

		2013			
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Unrecognised past service cost	Provision made in respect of retirement benefits
		----- (Rupees in '000) -----			
Gratuity	14.7	19,007	(11,321)	-	7,686
Pension	14.7	25,118,066	(15,377,178)	-	9,740,888
Benevolent fund scheme	14.7	1,788,602	(422,629)	-	1,365,973
Post retirement medical benefits	14.7	4,774,390	(1,697,517)	-	3,076,873
Six Months Post Retirement Benefits		59,263	-	-	59,263
		<u>31,759,328</u>	<u>(17,508,645)</u>	<u>-</u>	<u>14,250,683</u>
		2012			
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Unrecognised past service cost	Provision made in respect of retirement benefits
		----- (Rupees in '000) -----			
Gratuity	14.7	23,560	(15,836)	-	7,724
Pension	14.7	21,976,728	(12,324,967)	-	9,651,761
Benevolent fund scheme	14.7	1,619,375	(448,395)	-	1,170,980
Post retirement medical benefits	14.7	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>

14.3 The following is the movement of present value of the defined benefit obligation in respect of the defined benefit schemes mentioned above:

	2013					
	Present value of obligation as at June 30, 2012	Current service cost	Past service cost	Interest cost	Benefits paid during the year	Actuarial (gain)/ loss on obligation
----- (Rupees in '000) -----						
Gratuity	23,560	648	-	2,042	(7,221)	(22)
Pension	21,976,728	821,951	-	2,747,091	(4,605,170)	4,177,466
Benevolent fund scheme	1,619,375	81,000	-	207,000	(124,836)	6,063
Post retirement medical benefits	4,483,395	138,868	-	627,675	(330,222)	(145,326)
Six Months Post Retirement Benefits	-	-	59,263	-	-	-
	<u>28,103,058</u>	<u>1,042,467</u>	<u>59,263</u>	<u>3,583,808</u>	<u>(5,067,449)</u>	<u>4,038,181</u>
						<u>31,759,328</u>

	2012				
	Present value of obligation as at June 30, 2011	Current service cost	Interest cost	Benefits paid during the year	Actuarial (gain) / loss on obligation
	Present value of obligation as at June 30, 2012				
	------(Rupees in '000)-----				
Gratuity	20,161	748	2,822	(1,034)	863
Pension	17,558,118	538,000	2,458,137	(3,309,810)	4,732,283
Benevolent fund scheme	1,367,399	67,000	191,434	(115,519)	109,061
Post retirement medical benefits	3,529,624	104,012	494,147	(611,792)	967,404
	<u>22,475,302</u>	<u>709,760</u>	<u>3,146,540</u>	<u>(4,038,155)</u>	<u>5,809,611</u>
					<u>28,103,058</u>

14.4 The following is the movement of the net recognised liability in respect of the defined benefit schemes mentioned above:

	2013				
	Recognised liability as at June 30, 2012	Charge for the year	Payments during the year	Employee contributions	Recognised liability as at June 30, 2013
	------(Rupees in '000)-----				
Gratuity	7,724	7,183	(7,221)	-	7,686
Pension	9,651,761	4,694,297	(4,605,170)	-	9,740,888
Benevolent fund scheme	1,170,980	319,829	(124,836)	-	1,365,973
Post retirement medical benefits	2,466,239	940,856	(330,222)	-	3,076,873
Six Months Post Retirement Benefits	-	59,263	-	-	59,263
	<u>13,296,704</u>	<u>6,021,428</u>	<u>(5,067,449)</u>	<u>-</u>	<u>14,250,683</u>
	------(Rupees in '000)-----				
	2012				
	Recognised liability as at June 30, 2011	Charge for the year	Payments during the year	Employee contributions	Recognised liability as at June 30, 2012
	------(Rupees in '000)-----				
Gratuity	868	7,890	(1,034)	-	7,724
Pension	9,327,008	3,634,563	(3,309,810)	-	9,651,761
Benevolent fund scheme	1,005,555	280,944	(115,519)	-	1,170,980
Post retirement medical benefits	2,268,023	810,008	(611,792)	-	2,466,239
	<u>12,601,454</u>	<u>4,733,405</u>	<u>(4,038,155)</u>	<u>-</u>	<u>13,296,704</u>

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

	2013				
	Current service cost	Actuarial loss recognised	Interest cost	Past service cost	Employee contributions
	Total				
	------(Rupees in '000)-----				
Gratuity	648	4,493	2,042	-	-
Pension	821,951	1,125,255	2,747,091	-	-
Benevolent fund scheme	81,000	31,829	207,000	-	-
Post retirement medical benefits	138,868	174,313	627,675	-	-
Six Months Post Retirement Benefits	-	-	-	59,263	-
	<u>1,042,467</u>	<u>1,335,890</u>	<u>3,583,808</u>	<u>59,263</u>	<u>-</u>
					<u>6,021,428</u>
	------(Rupees in '000)-----				
	2012				
	Current service cost	Actuarial loss recognised	Interest cost	Past service cost	Employee contributions
	Total				
	------(Rupees in '000)-----				
Gratuity	748	4,320	2,822	-	-
Pension	538,000	648,541	2,458,137	(10,115)	-
Benevolent fund scheme	67,000	22,510	191,434	-	-
Post retirement medical benefits	104,012	90,864	494,147	120,985	-
	<u>709,760</u>	<u>766,235</u>	<u>3,146,540</u>	<u>110,870</u>	<u>-</u>
					<u>4,733,405</u>

- 14.6** The Corporation contributes to the above mentioned staff retirement benefit schemes according to the actuary's advice. The management estimates that the expected charge in respect of their defined benefit plans for the year ending June 30, 2014 would be as follows:

	2014	2013
	------(Rupees in '000)-----	
Gratuity	2,549	11,000
Pension	3,662,707	4,817,000
Benevolent fund scheme	292,794	319,000
Post retirement medical benefits	812,660	941,000
Employees Compensated Absences	591,443	697,000
Six Months Post Retirement Benefits	9,759	-
	<u>5,371,912</u>	<u>6,785,000</u>

14.7 Historical Information

	2013	2012	2011	2010	2009
	------(Rupees in '000)-----				
Gratuity					
Present value of defined benefit obligation	19,007	23,560	20,161	36,094	38,039
Unrecognised actuarial losses	(11,321)	(15,836)	(19,293)	(20,005)	(5,668)
Liability in balance sheet	<u>7,686</u>	<u>7,724</u>	<u>868</u>	<u>16,089</u>	<u>32,371</u>
Experience adjustment arising on plan liabilities losses	<u>(22)</u>	<u>863</u>	<u>2,567</u>	<u>16,226</u>	<u>3,046</u>
Pension					
Present value of defined benefit obligation	25,118,066	21,976,728	17,558,118	14,221,796	8,951,904
Unrecognised actuarial losses	(15,377,178)	(12,324,967)	(8,241,224)	(6,500,966)	(2,365,434)
Unrecognised past service cost	-	-	10,114	-	-
Liability in balance sheet	<u>9,740,888</u>	<u>9,651,761</u>	<u>9,327,008</u>	<u>7,720,830</u>	<u>6,586,470</u>
Experience adjustment arising on plan liabilities losses	<u>4,177,467</u>	<u>4,732,283</u>	<u>3,369,573</u>	<u>4,398,358</u>	<u>1,572,062</u>
Benevolent fund scheme					
Present value of defined benefit obligation	1,788,602	1,619,375	1,367,399	1,216,670	916,147
Unrecognised actuarial losses	(422,629)	(448,395)	(361,844)	(350,797)	(146,295)
Liability in balance sheet	<u>1,365,973</u>	<u>1,170,980</u>	<u>1,005,555</u>	<u>865,873</u>	<u>769,852</u>
Experience adjustment arising on plan liabilities losses	<u>6,063</u>	<u>109,061</u>	<u>31,877</u>	<u>220,757</u>	<u>100,092</u>
Post retirement medical benefits					
Present value of defined benefit obligation	4,774,390	4,483,395	3,529,624	3,324,018	2,790,980
Unrecognised actuarial losses	(1,697,517)	(2,017,156)	(1,261,601)	(1,573,686)	(1,504,472)
Liability in balance sheet	<u>3,076,873</u>	<u>2,466,239</u>	<u>2,268,023</u>	<u>1,750,332</u>	<u>1,286,508</u>
Experience adjustment arising on plan liabilities (gains) / losses	<u>(145,326)</u>	<u>967,404</u>	<u>(199,241)</u>	<u>205,984</u>	<u>190,570</u>
Six Months Post Retirement Benefits					
Present value of defined benefit obligation	59,263	-	-	-	-
Unrecognised actuarial losses	-	-	-	-	-
Liability in balance sheet	<u>59,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

14.8 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under Projected Unit Credit Method amounted to Rs 3,842.893 million (2012: Rs 3,585.798 million). An amount of Rs 986.755 million (2012: Rs 1,240.522 million) has been charged to the profit and loss account in the current year based on actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2014 would be Rs 591.443 million (2013: Rs 697 million).

14.9 Auditors' remuneration

	2013			2012		
	KPMG Taseer Hadi & Co.	A.F. Ferguson & Co.	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total
	------(Rupees in '000)-----					
Audit fee	2,090	2,090	4,180	2,275	2,275	4,550
Out of pocket expenses	885	885	1,770	875	875	1,750
	<u>2,975</u>	<u>2,975</u>	<u>5,950</u>	<u>3,150</u>	<u>3,150</u>	<u>6,300</u>

15. PROFIT / (LOSS) AFTER ADJUSTMENT OF NON-CASH ITEMS	2013	2012
	----- (Rupees in '000) -----	
Profit for the year	59,166	71,123
Expenses reimbursable from the State Bank of Pakistan	(6,213,009)	(6,166,745)
Expenses allocated to the State Bank of Pakistan	(7,214,222)	(5,840,353)
	<u>(13,368,065)</u>	<u>(11,935,975)</u>
Adjustments for:		
Provision for retirement benefits and employees' compensated absences	7,119,186	5,745,171
Expenses allocated to the State Bank of Pakistan	7,214,222	5,840,353
Amortisation of discount on Government securities	(23,594)	(30,090)
Depreciation	95,036	95,182
Amortisation of premium on Government Securities	4,282	4,293
Loss / (gain) on disposal of property and equipment	776	(2,648)
	<u>14,409,908</u>	<u>11,652,261</u>
	<u><u>1,041,843</u></u>	<u><u>(283,714)</u></u>

16. RELATED PARTY TRANSACTIONS

The Corporation is a wholly owned subsidiary of the State Bank of Pakistan (Parent entity), therefore all subsidiaries and associated undertakings of the Parent entity are the related parties of the Corporation. Other related parties comprise of key management personnel of the Corporation which include members of the Board of Directors, Managing Director and other executives of the Corporation who have responsibility for planning, directing and controlling the activities of the Corporation.

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. The accounting treatment of assets, liabilities, income and expenditure relating to such activities are detailed in note 1.1 to these financial statements.

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 to these financial statements. 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 and the Board of Directors 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.

	2013						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							
Balance in current account with the State Bank of Pakistan	-	-	-	8,475,848	-	8,475,848	8,475,848
Investments	850,193	45,921	896,114	30,527	-	30,527	926,641
Employee loans and advances	16,134	94,656	110,790	1,495,140	9,428,426	10,923,566	11,034,356
	866,327	140,577	1,006,904	10,001,515	9,428,426	19,429,941	20,436,845
Financial liabilities							
Deposits and Other liabilities	-	-	-	697,247	-	697,247	697,247
On balance sheet gap	866,327	140,577	1,006,904	9,304,268	9,428,426	18,732,694	19,739,598

	2012						
	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	-	-	-	7,453,254	-	7,453,254	7,453,254
Investments	509,000	391,397	900,397	37,023	-	37,023	937,420
Employee loans and advances	20,706	106,951	127,657	1,337,763	9,518,153	10,855,916	10,983,573
	529,706	498,348	1,028,054	8,828,040	9,518,153	18,346,193	19,374,247
Financial liabilities							
Deposits and Other liabilities	-	-	-	798,848	-	798,848	798,848
On balance sheet gap	529,706	498,348	1,028,054	8,029,192	9,518,153	17,547,345	18,575,399

17.2 The interest / mark-up for the financial assets and liabilities are mentioned in their respective notes to and forming part of 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 the 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 carrying value of all financial instruments reflected in the financial statements approximates their fair value at the balance sheet date.

18. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on **October 25, 2013** by the Board of Directors of the Corporation.

19. CORRESPONDING FIGURES

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

20. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

Muhammad Haroon Rasheed
Acting Managing Director

Muhammad Habib Khan
Director Accounts

Deloitte

M. Yousuf Adil Saleem & Co

Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

**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, 2013 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, 2013 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

Dated: October 23, 2013
Karachi

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
BALANCE SHEET
AS AT JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
NON CURRENT ASSETS			
Property plant and equipment	5	39,588,190	36,988,450
Long term deposits		953,497	953,497
CURRENT ASSETS			
Stock of stationery and consumables		812,104	834,908
Receivable against training programs	6	32,707,544	30,923,631
Advances, prepayments and other receivables	7	1,776,580	2,181,737
Short term investments	8	237,439,853	214,183,904
Cash in hand		33,780	160,860
		272,769,861	248,285,040
		<u>313,311,548</u>	<u>286,226,987</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	10	<u>74,489,990</u>	<u>67,280,645</u>
		128,118,097	120,908,752
CURRENT LIABILITIES			
Creditors, accrued expenses and other payables	11	<u>9,794,208</u>	<u>13,751,725</u>
Due to State Bank of Pakistan (Parent entity)	12	<u>175,399,243</u>	<u>151,566,510</u>
		185,193,451	165,318,235
		<u>313,311,548</u>	<u>286,226,987</u>
COMMITMENTS	13		

The annexed notes 1 to 24 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, 2013

	Note	2013 Rupees	2012 Rupees
INCOME			
Hostel and training halls	14	33,373,744	35,246,716
Training and education fee	15	36,572,682	44,072,329
Other income	16	18,041,436	21,523,615
		<u>87,987,862</u>	<u>100,842,660</u>
EXPENDITURE			
Operating, administrative and general expenses	17	<u>(171,474,906)</u>	<u>(157,273,420)</u>
Operating deficit for the year		(83,487,044)	(56,430,760)
Provision for taxation	18	<u>-</u>	<u>-</u>
Deficit for the year		(83,487,044)	(56,430,760)
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive deficit for the year		<u><u>(83,487,044)</u></u>	<u><u>(56,430,760)</u></u>

The annexed notes 1 to 24 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, 2013

	2013 Rupees	2012 Rupees
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating deficit for the year	(83,487,044)	(56,430,760)
Adjustments for non cash items:		
Income from investments	(16,046,605)	(17,141,632)
Depreciation	13,123,828	9,814,396
Gain on disposal	-	(3,624,730)
Provision for doubtful debts	-	956,990
Assets disposed off	-	-
	(2,922,776)	(9,994,976)
Operating deficit before working capital changes	(86,409,820)	(66,425,736)
Changes in working capital		
(Increase) / decrease in current assets:		
Stock of stationery and consumables	22,804	(112,462)
Receivable against training programs	(1,783,913)	(21,684,858)
Advances, prepayments and other receivables	405,157	(890,479)
	(1,355,952)	(22,687,799)
Increase / (decrease) in current liabilities:		
Creditors, accrued expenses and other payables	(3,957,517)	2,021,106
Due to State Bank of Pakistan (Parent entity)	107,319,777	103,000,397
	103,362,260	105,021,503
Net changes in working capital	102,006,308	82,333,704
Income tax paid	-	(128,000)
Net cash generated from operating activities	15,596,488	15,779,968
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(15,723,568)	(16,743,204)
Assets transferred from the Parent Entity	-	(2,008,607)
Proceeds from the disposal of property, plant and equipment	-	3,624,800
Long term security deposits	-	(552,097)
Net cash used in investing activities	(15,723,568)	(15,679,108)
Net increase in cash and cash equivalents	(127,080)	100,860
Cash and cash equivalents at beginning of the year	160,860	60,000
Cash and cash equivalents at end of the year	33,780	160,860

The annexed notes 1 to 24 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, 2013

	Share Capital	Accumulated Surplus	Total
	Rupees	Rupees	Rupees
Balance at July 01, 2011	29,260,840	24,367,267	53,628,107
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	29,260,840	24,367,267	53,628,107
Total comprehensive deficit for the year	-	(83,487,044)	(83,487,044)
Deficit allocated to State Bank of Pakistan (the Parent entity)	-	83,487,044	83,487,044
Balance at June 30, 2013	29,260,840	24,367,267	53,628,107

The annexed notes 1 to 24 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, 2013

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 New accounting standards / amendments and IFRS interpretations that are effective for the year ended June 30, 2013

The following standards, amendments and interpretations are effective for the year ended June 30, 2013. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

Standards / amendments / interpretations	Effective date (accounting periods beginning on or after)
<i>Amendments to IAS 1 - Presentation of Financial Statements – Presentation of</i>	<i>July 01, 2012</i>

2.3 New accounting standards and IFRS interpretations that are not yet effective

The following standards, amendments and interpretations are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures except for amendments in IAS 19.

Standards / amendments / interpretations	Effective for annual periods beginning on or after
<i>Amendments to IAS 1 - Presentation of Financial Statements – Clarification of Requirements for Comparative information</i>	<i>January 01, 2013</i>
<i>Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment</i>	<i>January 01, 2013</i>

<i>Amendments to IAS 19 - Employee Benefits</i>	<i>January 01, 2013</i>
<i>Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction</i>	<i>January 01, 2013</i>
<i>Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities</i>	<i>January 01, 2013</i>
<i>Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities</i>	<i>January 01, 2013</i>
<i>Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities</i>	<i>January 01, 2013</i>
<i>IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine</i>	<i>January 01, 2013</i>

The Fund expect that the adoption of the above standards and interpretation will not have any material impact on its financial statements in the period of initial application except for increase in disclosure requirement.

Other than the aforesaid standards, interpretations and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted locally by the Securities and Exchange Commission of Pakistan.

Standards or interpretations

IFRS 1 – First Time Adoption of International Financial Reporting Standards
IFRS 9 – Financial Instruments
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IFRS 13 – Fair Value Measurement
IAS 27 (Revised 2011) – Separate Financial Statements due to non-adoption of IFRS 10 and IFRS 11
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures due to non- adoption of IFRS 10 and IFRS 11

2.4 Basis of measurement

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

2.5 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 the trainings arranged for the officers of State Bank of Pakistan (the Parent entity) which are provided free of cost excluding training programmes financed by International Institutions.
- (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 sent by State Bank of Pakistan. Stipend to these trainees was also paid by the Institute uptill June 30, 2011 that has now been discontinued.

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 established an Endowment fund 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 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	<u>18,441,592</u>	<u>17,752,118</u>	<u>41,290,126</u>	<u>29,110,564</u>	<u>106,594,400</u>
Balance as at 01 July 2012	18,441,592	17,752,118	41,290,126	29,110,564	106,594,400
Additions during the year	22,999	576,424	15,124,145	-	15,723,568
Transfer in during the year	-	-	-	-	-
Disposals during the year	-	-	-	-	-
Balance as at 30 June 2013	<u>18,464,591</u>	<u>18,328,542</u>	<u>56,414,271</u>	<u>29,110,564</u>	<u>122,317,968</u>
Allowance for depreciation					
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	<u>12,175,395</u>	<u>14,282,860</u>	<u>33,222,898</u>	<u>9,924,797</u>	<u>69,605,950</u>
Balance as on 01 July 2012	12,175,395	14,282,860	33,222,898	9,924,797	69,605,950
Depreciation charge for the year	791,476	3,327,232	4,033,607	4,971,514	13,123,828
Transfer in during the year	-	-	-	-	-
Disposals during the year	-	-	-	-	-
Balance as at 30 June 2013	<u>12,966,871</u>	<u>17,610,092</u>	<u>37,256,505</u>	<u>14,896,311</u>	<u>82,729,778</u>
Carrying amounts - 2013	<u>5,497,720</u>	<u>718,450</u>	<u>19,157,766</u>	<u>14,214,253</u>	<u>39,588,190</u>
Carrying amounts - 2012	<u>6,266,197</u>	<u>3,469,258</u>	<u>8,067,228</u>	<u>19,185,767</u>	<u>36,988,450</u>
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 the Institute.

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

	Note	2013 Rupees	2012 Rupees
6. RECEIVABLE AGAINST TRAINING PROGRAMS UNSECURED			
Associated undertaking			
SBP Banking Services Corporation		21,565,871	6,432,598
State Bank of Pakistan		5,850,430	7,617,216
		27,416,301	14,049,814
Others			
Considered good		5,291,243	16,873,817
Considered doubtful		1,435,340	2,510,140
		6,726,583	19,383,957
Provision for doubtful receivables	6.1	(1,435,340)	(2,510,140)
		5,291,243	16,873,817
		32,707,544	30,923,631

6.1 Provision for doubtful receivables

Opening balance	2,510,140	1,553,150
Additions during the year	-	956,990
Reversal during the year	(1,074,800)	-
	1,435,340	2,510,140

7. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

Advances to staff - unsecured, considered good	385,480	251,460
Prepayments	1,391,100	1,341,078
Advance to suppliers	-	589,199
	1,776,580	1,592,538

8. SHORT TERM INVESTMENTS**Investment held to maturity**

Government Treasury Bills			
Cost	8.1	229,414,121	204,808,043
Accrued profits		8,025,732	9,375,861
		<u>237,439,853</u>	<u>214,183,904</u>

8.1 These investments are for a period 12 months or less and are shown at amortized cost using effective rate of interest which ranges from 8.93% to 11.89% per annum (2012: 11.87% to 13.87% 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. i.e. July 1, 2011.

	Note	2013 Rupees	2012 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	<u>29,260,840</u>	<u>29,260,840</u>

- 9.1** State Bank of Pakistan hold 2,926,083 (2012: 2,926,083) ordinary shares and Governor of State Bank of Pakistan holds 1 (2012: 1) share of the Institute as at the balance sheet date.

	2013 Rupees	2012 Rupees
10. ENDOWMENT FUND / CAPITAL GRANT		
Endowment fund		
Opening balance	67,280,645	-
Transferred from capital grant	-	59,429,900
Interest income on investments	<u>7,209,345</u>	<u>7,850,745</u>
Closing balance	<u>74,489,990</u>	<u>67,280,645</u>

This represented capital grant amounting to US dollar one million received by the Institute in January 2005 from State Bank of Pakistan (Parent entity) 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. 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.

	2013 Rupees	2012 Rupees
11. CREDITORS, ACCRUED EXPENSES AND OTHER PAYABLES		
Creditors	2,721,418	2,761,030
Traveling and training cost	212,000	376,500
Accrued expenses	3,872,832	5,067,510
Retention money/deposits	<u>2,987,958</u>	<u>5,546,685</u>
	<u>9,794,208</u>	<u>13,751,725</u>

12. DUE TO STATE BANK OF PAKISTAN (PARENT ENTITY)

State Bank of Pakistan (Parent entity)	<u>175,399,243</u>	<u>151,566,510</u>
Opening balance	151,566,510	104,996,873
Received during the year	107,319,777	103,000,397
Deficit allocated	<u>(83,487,044)</u>	<u>(56,430,760)</u>
Closing balance	<u>175,399,243</u>	<u>151,566,510</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. 4.7 million (2012: Rs. 6.1 million).

	Note	2013 Rupees	2012 Rupees
14. HOSTEL AND TRAINING HALLS INCOME			
Rental income		20,029,960	23,922,800
Service charges		1,886,604	2,016,868
Food and beverages		11,457,180	9,307,048
		<u>33,373,744</u>	<u>35,246,716</u>
15. TRAINING AND EDUCATION FEE			
International courses		5,958,794	19,100,179
Domestic courses		26,433,888	16,950,475
Islamic banking courses		4,180,000	8,021,675
		<u>36,572,682</u>	<u>44,072,329</u>
16. OTHER INCOME			
Interest on investments		16,046,605	17,141,632
Gain on disposal on vehicles and furniture and fixtures		-	3,624,730
Reversal of provision for doubtful receivable		1,074,800	-
Miscellaneous income		920,031	757,253
		<u>18,041,436</u>	<u>21,523,615</u>
17. OPERATING, ADMINISTRATIVE AND GENERAL EXPENSES			
Salaries, wages and other benefits		76,768,690	66,327,406
Training costs		12,399,463	14,596,035
Repairs and maintenance		12,749,037	9,683,925
Lodging, catering and allied services		13,631,160	15,871,900
Traveling and conveyance		6,925,271	6,275,527
Printing and stationery		2,425,035	2,819,590
Medical		1,022,109	1,093,296
Electricity, gas and water		24,798,224	21,734,051
Telephone and fax		1,070,901	964,197
Vehicles running and maintenance		1,319,479	1,725,612
General consumables		251,750	448,505
Security charges		1,521,750	1,348,675
Insurance		1,227,524	1,345,255
Newspapers, books and periodicals		109,513	96,480
Postage and courier		184,012	210,670
Entertainment		528,141	487,633
Auditors' remuneration		170,000	150,000
Rent, rates and taxes		728,000	721,000
Legal and professional		144,500	60,510
Depreciation	5.2	13,123,828	9,814,396
Provision for doubtful receivables	6	-	956,990
Other		376,519	541,767
		<u>171,474,906</u>	<u>157,273,420</u>

	2013 Rupees	2012 Rupees
18. TAXATION		

The income of the Institute is exempt from tax under Income Tax Ordinance 2001. The Institute has obtained an exemption certificate from taxation authorities against application of section 113 of the said Ordinance relating to turnover tax.

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.

	2013 Rupees	2012 Rupees
Deposit	953,497	953,497
Receivable against training programs	32,707,544	30,923,631
Advances, short term deposits and other receivables	385,480	840,659
Short term investments	237,439,853	214,183,904
	<u>271,486,374</u>	<u>246,901,691</u>

The receivable against training programs includes Rs. 27.4 million (2011: Rs. 14 million) due from the Parent entity and one of its subsidiary which are not significantly exposed to credit risk.

	2013 Rupees	2012 Rupees
19.2 Impairment losses		

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

Domestic	32,707,544	22,549,206
Other regions	-	8,374,425
	<u>32,707,544</u>	<u>30,923,631</u>

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

	2013 ----- Rupees -----		2012 ----- Rupees -----	
	Gross	Provision	Gross	Provision
Not past due	31,622,906	-	19,914,523	-
Past due 0-30 days	551,370	-	5,780,129	-
Past due 31-90 days	240,000	-	268,400	-
Past due 90-180 days	90,000	-	283,880	-
Past due 180-365 days	-	-	2,667,860	-
More than one year	1,638,608	1,435,340	4,518,979	2,510,140
	<u>34,142,884</u>	<u>1,435,340</u>	<u>33,433,771</u>	<u>2,510,140</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 2013						
Trade and other payables	9,794,208	9,794,208	6,806,250	2,987,958	-	-
Due to State Bank of Pakistan (Parent Entity) *	175,399,243	175,399,243	87,699,622	87,699,622	-	-
	185,193,451	185,193,451	94,505,872	90,687,580	-	-
30 June 2012						
Trade and other payables	13,751,725	13,751,725	8,205,040	5,546,685	-	-
Due to State Bank of Pakistan (Parent Entity) *	151,566,510	151,566,510	75,783,255	75,783,255	-	-
	165,318,235	165,318,235	83,988,295	81,329,940	-	-

* The analysis of the financial liabilities aging is based on the management best estimate.

19.4 Market risk

The Institute is not exposed to any 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 (Parent entity) 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:

	2013 Rupees	2012 Rupees
State Bank of Pakistan (Parent entity)		
Balances at the year end		
Short term investments	237,439,853	214,183,904
Receivable against training programs	5,850,430	4,148,652
Due to the Parent entity	175,399,243	151,566,510
Transactions during the year		
Investments purchased / matured and re-invested	229,285,000	204,808,043
Value of assets transferred at net book value	-	2,008,607
Allocation of deficit	83,487,044	56,430,760
Associated undertaking - SBP - Banking Services Corporation (Subsidiary of parent entity)		
Balances at the year end		
Receivable against training programs	21,565,871	6,432,598
Transactions during the year		
Revenue charged	27,956,729	16,157,095
Receipts	12,823,456	11,356,830
Remuneration to Chief Executive Officer and Key Management Personnel		
Transactions during the year		
Salaries, wages and other benefits to:		
- Chief executive officer	12,505,678	11,134,103
- Key management personnel	27,019,252	24,125,610
- No. of persons	10	10

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. NUMBER OF EMPLOYEES

The average number of employees for the year ended June 30, 2013 were 28 (2012: 30) and number of employees as at June 30, 2013 were 28 (2012: 27).

23. GENERAL

Figures have been rounded off to the nearest rupee.

24. DATE OF APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on **October 23, 2013** by the board of directors of the Institute.

MANAGING DIRECTOR

DIRECTOR

Annexure

- A **Chronology of Policy Announcements**
 - A-1 **Banking Policy & Regulation Group**
 - A-2 **Development Finance Group**
 - A-3 **Financial Market/Reserve Management Group**
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- C **Organizational Chart**
- D **Management Directory**

A Chronology of Policy Announcements

A-1 Banking Policy & Regulation Group

Circular/Circular Letter No. and Date	Policy Decision
BPRD Circular No. 2 September 13, 2012	<p>Anti-money Laundering and Countering the Financing of Terrorism (AML/CFT) Regulations</p> <p>The previous AML Regulations M-1 to M-5 of Prudential Regulations on Corporate/ Commercial Banking were replaced with new “AML/CFT Regulations”. The revised AML/CFT Regulations inter alia require record retention for 10 years, Risk assessment of new products and services, extended category of identity documents, enhancing controls on online transfers, expanding due diligence requirement on close associates or family members of Politically Exposed Persons, clear responsibilities of respective institutions in wire transfers/correspondent banking, linking Customers’ profiles with automated transaction monitoring systems. The regulations require Due Diligence at the time of hiring employees and require banks to provide adequate training to employees including Online Training and Tests. Moreover, stringent requirements for the accounts of NGOs/NPOs and Charities have been introduced.</p> <p>AML/CFT Guidelines on Risk Based Approach (RBA)</p> <p>Banks/DFIs are also required to improve their Risk Based Approach (RBA) as per “AML/CFT Guidelines on Risk Based Approach” within six months from issuance of subject circular. The salient features of the Guidelines are as under:</p> <ul style="list-style-type: none"> • General requirements on conducting internal risk assessment of banks through quantification of risk using risk matrix, risk registers and taking into account controls and residual risk. • Requirement of risk profiling of customers. • Specific high risk elements in the local context and triggers for enhanced due diligence (EDD). • General high risk scenarios/factors as per international standards. • General low risk scenarios/factors and examples of simplified due diligence.
BPRD Circular No. 3 October 4, 2012	<p>Increasing the Coverage Ratio of ATMs in Pakistan</p> <p>Banks were advised that effective from CY- 2013 onwards, all banks shall add one ATM in their network against each new branch to be opened in a CY. Further, the banks having less than 1:1 ATM per branch ratio were also advised to cover their existing gap in 5 years starting from CY-2013 @ 20% each year.</p>

BSD Circular No. 3 December 24, 2012	Internal Capital Adequacy Assessment Process (ICAAP)- Reporting Template State Bank of Pakistan (SBP) issued broad guidelines on Internal Capital Adequacy Assessment Process (ICAAP) through BSD Circular No. 17 of 2008. The SBP required the banks and DFIs to have effective and sound processes for assessing their overall capital adequacy. However, the first ICAAP documents submitted by the banks had varied length and format which necessitated the development of a standardized ICAAP reporting template. In view of the above, the BSD (now BPRD) issued this circular on standardized ICAAP-Reporting Template. The use of standardized ICAAP reporting template would not only make the Supervisory Review and Evaluation Process (SREP) more efficient for both the bank and SBP, it would also enhance the comparability of respective ICAAPs across different banks having similar business and risk profiles.
BSD Circular No. 1 January 02, 2013	Internal Credit Risk Rating System – Retail Portfolio Banks shall develop an application and behavioral scorecards for their retail borrowers including consumer portfolio. The banks should review and update the assigned scores at regular intervals, which may range from one month to a maximum of one year.
BPRD Circular Letter No. 3 March 12, 2013	Acceptance of Pakistan Smart National Identity Card (SNIC) issued by NADRA In pursuance of Ministry of Interior’s notification, Smart National Identity Card (SNIC) was allowed to be treated as identity document for account opening/banking transactions in lieu of CNIC wherever required in AML/CFT Regulations, Branchless Banking Regulations and other instructions.
BPRD Circular No. 1 March 15, 2013	Minimum Rate of Return on Saving Deposits Banks were advised to pay profit to depositors on average monthly balances.
BPRD Circular No. 4 May 16, 2013	Treatment for Investment in the units of Mutual Fund and AMCs for CAR Purposes The circular contains instructions applicable on banks’/ DFIs’ investment in units of open-ended as well as closed-ended mutual funds and Asset Management Companies for the calculation of Capital Adequacy Ratio (CAR). Moreover, the circular also elaborates treatment for Investment in the units of Mutual Funds and AMCs for CAR Purposes.

A-2 Development Finance Group

Circular/Circular Letter No	Policy decision
IH&SMEFD Circular Letter No. 10	SBP Allowed Finance for Soda Ash Plant and Machinery under LTFF The State Bank of Pakistan (SBP) has allowed banks/ Development Finance Institutions (DFIs) to provide financing facilities for new imported and

July 19, 2012	locally manufactured plant, machinery & equipment to be used by the Export Oriented Projects for producing Soda Ash under the Long Term Financing Facility (LTFF) for Plant & Machinery.
IH&SMEFD Circular Letter No.11 July 30, 2012	SBP Enhanced Scope of Scheme for Financing Power Plants Using Renewable Energy SBP has allowed procurement of plant & machinery to be used in new Renewable Power Projects with a Capacity of up-to 20MW. The maximum financing limit to a single renewable power project under the Scheme has also been fixed at Rs 3 billion to accommodate larger number of borrowers. SBP has also extended expiry date of said Scheme from June 30, 2012 to June 30, 2014 vide Circular Letter No 6 / 2013.
IH&SMEFD Circular Letter No.12 August 06, 2012	SBP Allowed Further Relaxations to Exporters under Export Finance Scheme The State Bank of Pakistan (SBP) has allowed further relaxations to exporters under EFS Part-II to include the export proceeds realized up to August 31, 2012 for entitlement of limit in the EE-1 statement for the year FY13. This relaxation was given to the exporters having shortfall in required performance under EFS Part-II for the monitoring year FY12. Further, limits sanctioned by banks under Part-II of the Scheme for FY12 to the exporters intending to avail this facility were continued up to October 31, 2012.
IH&SMEFD Circular No. 3 August 30, 2012	Technology Up-gradation Fund (TUF) Federal Government had announced TUF Scheme under Textile Policy 2009-14 for Textile Sector to support investment for upgrading textiles machinery and technology. SBP issued necessary instructions to banks/DFIs regarding implementation of said Scheme of the Government. Under the Scheme Federal Government will provide two types of financial support to the investors of Textile Industry [viz. (i) Mark up Support up-to 5 percent p.a. for importing machinery and technology; & (ii) Investment Support to the extent of (a) 5 percent p.a. to Non-SMEs against equity investment in machinery and technology; and (b) 20 percent p.a. of the capital cost for SMEs on account of investment in new Plant and Machinery.
IH&SMEFD Circular Letter Nos. 13,15,16,17 & 18 December 03 & 05 2012	One Year Extension of Time in Expiry Period of Certain Refinance Schemes SBP has extended the expiry date of the Refinance Facility for Modernization of Small & Medium Enterprises (SMEs), Refinance Scheme for Revitalization of SMEs in Khyber Pakhtunkhwa (KPK), Gilgit-Baltistan (GB) and the Federally Administered Tribal Area (FATA), Financing Facility for Storage of Agricultural Produce (FFSAP), and Agri. Loans Refinancing & Guarantee Scheme for War Affected Areas of KPK and FATA by one year. These facilities / schemes will now remain valid up to December 31, 2013. SBP has also extended the validity period of Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas from November 2012 to November 2013.
IH&SMEFD Circular No.2, 3 &	Rationalization of Rates of Service Charges The markup rates of EFS and LTFF & Scheme for Financing Power Plants using Renewable Energy were rationalized keeping in view movement in

7 January 01 & March 29, 2013	Weighted Average Yields of 6month T-bills and PIBs of relevant tenors.
IH&SMEFD Circular No.4 January 03, 2013	SBP Launched New Export Finance Facility for Locally Manufacturing Machinery (EFF-LMM) SBP launched Export Finance Facility for Locally Manufactured Machinery (EFF-LMM) with a view to promoting the export of Locally Manufactured Plant & Machinery in January 03, 2013. The exporters can avail long term financing facilities through banks for export of eligible Plant & Machinery and Engineering Goods under the Facility. Under the Facility long term financing facilities up-to the period of five years is available both at pre-shipment and post-shipment stages.
IH&SMEFD Circular Letter No. 1 February 08, 2013	Impact of Change Rate on Islamic Export Refinance Scheme (IERS) SBP advised that for Murabaha, Salam, Istisna agreements etc executed by Islamic Banking Institutions (IBIs) under IERS before issuance of IH&SMEFD Circular No.01 dated January 01, 2013, the price/rate of profit may not be changed. Similarly for all such transactions the profit distribution mechanism ratio between SBP and IBI would also remain unchanged.
IH&SMEFD Circular Letter No. 2 & 3 March 14 & May 6, 2013	Payments of Export Finance Mark-up Rate Facility, and Mark-up Rate Support for Textile Sector against Long Term Loans On budgetary allocation for FY13 by Ministry of Textile Industry, SBP announced to release 22 percent Export Finance Mark-up Rate Facility for the period from March 1 to August 31, 2010; and 100 percent Mark-up Rate Support on Long Term Loans to the beneficiaries of Textile Sector for the period from 1st September, 2010 to 28th February, 2011.
IH&SMEFD Circular Letter No. 4 May 10, 2013	Credit Guarantee Scheme for Small and Rural Enterprises Extension of Tenor In order to facilitate eligible farmer's maximum tenor of loans, for purchase of tractors and other agri. Implements, has been raised from 3 to 5 years. However, in order to avoid portfolio concentration in the same, the aggregate financing under this category shall not exceed 20% of the total allocated guarantee limit of the bank.
IH&SMEFD Circular Letter No.5 May 22, 2013	Islamic Export Refinance Scheme (IERS) Eligibility of Government of Pakistan (GOP) Ijara Sukuk in Musharaka Pool (MP) In order to facilitate banks to increase financing under Islamic Export Refinance Scheme, SBP allowed un-encumbered GoP Ijara Sukuk to include in the Musharaka Pool (MP) created under IERS.
IH&SMEFD Circular Letter No.6 June 21, 2013	Export Finance Scheme (EFS)/Islamic Export Refinance Scheme (IERS)-Extension in Limit The limits under export refinance scheme expire on 30-06-2013 and exporters are required to submit EE-1 statement for FY12 duly verified by Foreign Exchange Operations Department, SBP BSC latest by August 31, 2013. Banks would therefore not be in a position to work out revised entitlement of limits for each exporter under Part-II of the Scheme for the year FY14. In order to ensure that the financing facilities are available to exporters till finalization of their new limits under Part-II of Scheme, the limits sanctioned by banks to individual exporters under Part-II of the Scheme for FY13 would continue up to August 31, 2013, to enable

	exporters to avail financing facilities under the Scheme pending preparation of EE-1 statements, their verification by the Foreign Exchange Operations Department, SBP BSC and submission of the same to the Refinance Units of the concerned office of SBP BSC.
IH&SMEFD Circular Letter No.7 June 21, 2013	Long Term Financing Facility (LTFE)-Extension in Limit In order to ensure that financing facilities are available to borrowers till finalization of new limits under LTFF for FY14, it was decided to continue with the existing limit until fresh limits for FY14 are notified.
IH&SMEFD Circular No.9 August 20, 2013	Long Term Financing Facility for the Services Sector SBP introduced Long Term Financing Facility for the Services Sector (LTFF-SS) to promote the exports of Services Sector. LTFF-SS will provide necessary finance to the exporters of services sector for adoption of new technologies and enhance their capacities to perform better services in line with the international competitive environment.

A-3 Financial Market/Reserve Management Group

Circular/Circular Letter No	Policy Decision
Circular Letter No. 1 February 19, 2013	Forward Cover Facilities against Imports Instructions on the forward cover facility provided by Authorized Dealers against imports have been further clarified as under: <ol style="list-style-type: none"> 1. In all cases the maturity of the forward contract against import should coincide with the maturity of the underlying letter of credit. In case of a usance L/C which requires payment to be made after a given number of days of shipment and the shipment date has been determined on or before the L/C expiry date, the forward contract can be rolled over on forward maturity date to coincide with L/C payment date, subject to the condition that the roll over is not for less than one month. In case the shipment period is not determined on the L/C expiry date, forward cover cannot be rolled over and has to be closed out at the prevailing exchange rate on the L/C expiry date. 2. Where L/C payment is due before L/C expiry/forward maturity, forward contract would have to be taken up on the date when the payment is due for delivery to the customer. 3. Even in cases where partial shipments are allowed, the forward contract against import should coincide with the maturity of the underlying letter of credit. In case of partial payment prior to the L/C expiry date, the forward contract can be taken up to the extent of the partial payment. In case of partial payments after the L/C expiry date please refer to our clarification at S. No.1 above.
Circular Letter No.3 February 27, 2013	Operations of Private Foreign Currency Accounts Authorized Dealers have been advised to strictly observe the following in respect of foreign currency accounts, which may be opened with them without prior approval of the State Bank as per the applicable SBP rules and regulations:

	<ul style="list-style-type: none"> a) All applicable SBP instructions including Prudential Regulations regarding AML/KYC should be strictly followed. b) As already advised in Para 1(iii), Chapter VI of FE Manual, the Corporate Bodies/Legal entities cannot generate funds from the kerb market for deposit in their foreign currency accounts. c) It is reiterated that personal foreign currency accounts of any nature should not be used for commercial and business purposes. d) Further, in case of any deposit of foreign currency notes of more than USD 10,000 (or equivalent in other currencies) in a single day, the account holder shall be required to present the original receipt of acquisition. The Authorized Dealer shall keep on record the copy of such receipt.
FE-1 February 12, 2013	<p>Allowed Buying/Selling Spread for Major Foreign Currencies</p> <p>In order to protect customers from exploitation, it was decided that the maximum spread allowed between the buying and selling rates of foreign currencies must not exceed twenty-five (25) paisas, at any given time.</p>
FE-3 June 3, 2013	<p>Network Expansion Policy of Exchange Companies</p> <p>With a view to simplify the procedure of network expansion of Exchange Companies and to consolidate existing instructions on network expansion, the following policy guidelines were issued.</p> <p>The criteria to consider network expansion requests from exchange companies includes capital adequacy, compliance rating, financial health, corporate governance, anti money laundering issues and future earnings prospects of the company.</p> <p>It has been made mandatory for all Exchange companies that the companies which do not fulfill the paid-up capital requirement in relation to their existing network must fulfill the capital requirement by 31st December 2014.</p>
DMMD Circular No. 12 July 03, 2012	<p>Master Circular-Rules Governing Primary Dealer System</p> <p>In order to streamline and further strengthen the Primary Dealer system, few amendments have been made in the rules governing this system. Purpose of these amendments has been to create a balance between privileges and obligations of Primary Dealers (PDs) to achieve the objective i.e. development of debt market in Pakistan. In addition to the above, instructions issued from time to time on the subject have also been consolidated in this master circular.</p> <p>A- Selection Criteria</p> <p>The applicant for the status of Primary Dealer (PD) must be a Bank / DFI / Investment Bank / Listed Brokerage House.</p> <p>As a measure of financial stability, the Banks/DFIs applying for Primary Dealership must have met the minimum paid-up capital requirement of State Bank of Pakistan as of last financial year end. All other applicant should have minimum equity (net of provisions and capitalized losses if any) of PKR 1,000 million.</p> <p>As an indication of strong managerial /trading capabilities, applicant's treasury operations have to be fully computerized. All applicants must also</p>

	<p>be equipped with standard treasury equipment including:</p> <ol style="list-style-type: none"> Dealing Terminals including Reuters and Bloomberg, Phone Recording Systems, Broker's Hotlines, Telex/Swift, Fax machines, Telephone recording equipment with records retained for a period of 90 days. <p>To ensure competent and knowledgeable staff, a minimum of five years of relevant professional experience would be required for main treasury / front office and back office personnel.</p> <p>Applicant must have adequate risk management systems to measure, manage and provide for the risks emanating from the PD activity.</p> <p>All PDs will have to adhere to quoting obligations as specified by State Bank of Pakistan from time to time. To secure the status of PD, the applicant has to be a "PRICE MAKER", quoting two-way price keeping trading desk open throughout the day for marketable Government securities.</p> <p>Applicants' level of participation in the secondary market for the last one year would also be a criterion for selection as PD.</p> <p>An applicant applying for PD status must display complete information regarding process, methodologies, charges and forms required for investment in Government securities, on their official website.</p> <p>Charges imposed by the applicant on Investor's Portfolio of Securities Account should be reasonable and in line with SBP's objective to broaden the investor base of Government securities.</p> <p>At the time of scrutinizing the application for PDs, State Bank of Pakistan may conduct on-site inspection to ensure compliance of aforesaid requirements.</p> <p>B- Selection Process:</p> <p>Applications for appointment of Primary Dealers will be invited by State Bank of Pakistan each year vide a circular. All applicants including existing PDs shall submit an application for appointment as a Primary dealer and shall be accompanied by the documents referred to in the circular. It will be binding for each applicant to furnish to the SBP any such information as the SBP may consider necessary for the purpose of considering the suitability of the applicant to be appointed as a Primary Dealer.</p> <p>Each new applicant will be evaluated in the light of the selection criteria. However, performance of existing PDs will be measured against performance benchmarks defined in these rules.</p>
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	<p>After an applicant is found fit by the State Bank of Pakistan, a letter would be issued for its appointment as Primary Dealer for a period of one year. However, State Bank of Pakistan may also grant an applicant provisional/conditional status of Primary Dealer subject to periodic review.</p> <p>The market would be intimated about Primary Dealer(s) appointment for next financial year through a circular prior to their formal functioning as a Primary Dealer.</p> <p>At any time during the financial year, if a Primary Dealer is found involved in activities not worthy of PD's status or its performance has been found below minimum benchmark levels, the State Bank of Pakistan may serve it with a show cause notice. In case, the explanation offered by the Primary Dealer is found unsatisfactory, primary dealership could be terminated with a 30-days notice period.</p> <p>Appointment or termination of a Primary Dealer would be the sole discretion of the State Bank of Pakistan.</p> <p>C- Role of Primary Dealers: Primary Dealers are required to: Actively participate in the primary market by bidding in the auctions of Government securities as conducted by State Bank of Pakistan from time to time.</p> <p>Distribute Government securities to non-PD banks and other retail/institutional clients.</p> <p>Play an active role in secondary market development to enhance liquidity and turnover, and to widen the investor base of Government securities by creating awareness among investors.</p> <p>Act as a market maker in Government securities by quoting two-way prices in the market.</p> <p>Continuously upgrade its infrastructure in terms of both physical equipment and skilled manpower for efficient participation in primary auctions and secondary market trading.</p> <p>Provide efficient custody services to its customers (Investors Portfolio of Securities Accounts) for Government securities holding, collection and, payment of profits & maturity proceeds.</p> <p>D- Primary Dealer's Privileges Only designated PDs would be eligible to participate in the auctions of Government Securities. The requirement of other banks and institutional/retail investors would be covered from these PDs or from other secondary market players.</p>
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	<p>PDs will be allowed to entertain Pass-through bids, but such volumes will not be counted towards secondary market performance evaluation of the respective PD. However, PDs have to submit detail of accepted pass-through bids to State Bank of Pakistan after every auction of Government securities.</p> <p>The State Bank of Pakistan would announce the auction date and tenor wise auction target of GoP's long term paper 14 days prior to the auction date. PDs would be allowed to carry out "When issued" trading in that paper during the interim period of auction announcement and auction time.</p> <p>The PD will not be allowed to short sell a particular issue more than 5% of the total target amount, during the "When issued" period. Short selling will be allowed only up to the time of auction and will be available only if the auction is accepted.</p> <p>In case a PD is unable to square its short position, PD will be required to cover the short position from the market. However, dependent on the liquidity position of the particular issue State Bank of Pakistan, at its discretion, would help using various options depending upon the situation. Decision of the State Bank of Pakistan in this regard shall be binding.</p> <p>Only PDs would be allowed to carry a short position in securities managing it through repos up to a maximum of three consecutive months for bonds and two weeks for MTBs. However, they would be required to mark-to-market their short positions on daily basis.</p> <p>PDs will be allowed to submit Non-competitive Bids (NCBs) for both MTBs and PIBs. Non-competitive bids will be accepted as 15% of the pre-announced auction target by the State Bank of Pakistan for investors other than banks (both scheduled and specialized)/ DFIs/ Investment Banks through PDs. However, for non-competitive bidding, the ceiling for one investor will be linked with pre-auction target i.e. 0.25% of the auction target or PKR 25.0million, whichever is higher, subject to a maximum of PKR 250 million. In case of breach of this limit through submission of multiple bids in one tenor, all such bids would be treated as void.</p> <p>PDs will have access to SBP Overnight Repo/Reverse-Repo Facility as per rules governing the operations of interest rate corridor.</p> <p>Each PD shall be eligible to claim underwriting commission, to the extent of minimum underwriting target (as explained in rule E-3) or the bid amount accepted, whichever is less, in respect of auction of Long Term securities. The claim for underwriting commission shall be lodged by PD after the settlement date however, commission will be paid annually.</p> <p>The underwriting commission shall be paid to PD at the rate of paisa 5 per Rs. 100 irrespective of maturities in long term government securities sold in</p>
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	<p>auctions.</p> <p>PDs shall also be eligible to claim commission on NCBs @ 10 paisa per Rs. 100 applicable only on accepted NCBs of Individuals/Employee, Provident & Pension Funds/Corporate except AMCs, Mutual Funds, Insurance, Modaraba and Leasing companies, in MTB and PIB auctions. The claim for the commission shall be lodged by the PD after the settlement date however, commission will be paid annually.</p> <p>Top three performing PDs (based on their performance against benchmarks defined in these rules) will be announced by State Bank of Pakistan at the end of each year (July-June).</p> <p>Since PDs would be the main source of market information for the regulators, State Bank of Pakistan may consult them in periodical meetings as and when required. It will be mandatory for PDs to provide information/feedback/data to SBP on any particular issue to the best of their knowledge.</p> <p>E- Primary Dealers' Quoting and other Obligations</p> <p>PDs must actively participate in all auctions of tradable Government securities. The State Bank of Pakistan would announce pre-auction target amount in short-term as well as in long-term government securities.</p> <p>An important responsibility of the PD will be to underwrite the auctions of Long-term paper offered by the State Bank of Pakistan. To avoid any out of market quotes the bid price for long-term paper would be confined to a range of ± 50 basis points from the respective tenor prices appearing on Reuters PKRV page on the last working day prior to bidding.</p> <p>Each PD shall be required to ensure compliance of minimum underwriting target of 3.5% to be applied on the Pre-auction target or the issued amount, whichever is lower, for respective tenors of PIBs (July - June) and compliance to this shall not be restricted on each auction basis. The non-compliance for underwriting requirements by PD may affect renewal of its primary dealership for next year.</p> <p>If a PD fails to meet its underwriting commitment in respect of long term paper, fully or partially during the prescribed period it shall be liable to pay fee of 25 paisa for Rs. 100 of face value for the quantum of delinquency. It shall be determined immediately after the settlement date of the last auction of the respective fiscal year. The rate of fee shall be reviewed after evaluating behavior of market participants. The frequent non-compliance for underwriting requirements by PD may affect renewal of its primary dealership for next term.</p> <p>It would be compulsory for all the PDs to quote two-way prices to other PDs, Non-PDs, and institutional investors etc. as per instructions contained in rule E-6, subject to availability of limit.</p>
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	<p>In secondary market, all PDs may quote in terms of yield rather than price. In case of PIBs, the maximum bid/offer spread will be 15bps for on the run issues up to 10 years tenor bonds. In case MTBs, the maximum bid/offer spread for on the run issues will be 25bps.</p> <p>PDs have to ensure two-ways prices in secondary market within above defined maximum bid/offer spreads for marketable lot-size for both MTBs and PIBs. The marketable lot-size for MTBs will be in range of PKR 100.0mln - 300.0mln (multiples of PKR 100.0mln). The marketable lot-size for PIBs will be in range of PKR 50.0mln - PKR 200.0mln (multiples of PKR 50.0mln).</p> <p>On-the-run issues defined for above obligation would represent last the two issues in the market. These instructions will also be applicable on PDs for quoting two-way prices on Electronic Bond Trading System (EBND) for MTBs/PIBs.</p> <p>PDs will be responsible for displaying the prices of Government securities on Reuters/Bloomberg/EBND and in branches. Quoting obligations must be strictly adhered to.</p> <p>At any given day, a PD's holding in a particular issue with days to maturity greater than 1-year will not exceed 30.0% of the total issued amount or PKR 1.5billion, whichever is higher in each tenor. However for Non-PDs the limit will be 15.0% or PKR 1.5 billion, whichever is higher, in each tenor. The PDs issue-wise holding limit of 30.0% will run-down to 15.0% of the issued amount on expiry of 90 days from the last auction date of that particular issue. This revised limit would apply only on issues sold during FY'08 and onward</p> <p>Compliance to above instructions on current holding as on date of this circular by PDs, be effectively met by 30Sep2012.</p> <p>PDs shall segregate the Government securities of its customers from its own securities. In case of listed brokerage house, they shall maintain a firewall between their brokerage and PD business.</p> <p>F- Performance Criteria</p> <p>Each PD should be required to ensure compliance of minimum underwriting target of 3.5% to be applied on the Pre-auction target or the issued amount, whichever is lower, for respective tenors of PIBs (July-June).</p> <p>Each Primary Dealer should short-sell a minimum of 1.0% of auction target of long term paper during a year.</p> <p>Each PD should bring a minimum of 5.0% of the NCB target of MTBs and PIBs during a fiscal year.</p>
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	<p>Each Primary Dealer's turnover in secondary market should be minimum 5.0% of overall market turnover (for PIBs and MTBs separately during the year). Out of the minimum turnover of 5%, at least 1% (for PIBs and MTBs separately) of total turnover should be with non-banks. For the purpose of this rule non-bank means other than Schedule Banks and Primary Dealers.</p> <p>Further, to ensure that each PD is performing its obligation as price maker on both sides, i.e., buying and selling of MTBs and PIBs, out of the above minimum turnover; PDs should ensure a minimum of 25:75 on either side.</p> <p>Each PD will ensure that at least 50% of its trading with other PDs should be through Electronic Bond Trading System (EBND). This would not include transactions inputted via voice trade reporting mode (VTR).</p> <p>Non-compliance of performance criteria by PD may affect its selection as Primary Dealer for the next year.</p>
DMMD Circular No. 17 September 04, 2012	<p>Competitive Auctions of Turkish Lira loan facility</p> <p>Please refer to the FE regulations governing Trade Loans against FE25 deposits; and the Currency Swap Arrangement executed between State Bank of Pakistan (SBP) and the Central Bank of Republic of Turkey (CBRT) on 01Nov2011. In this regard, following instructions are issued with immediate effect:</p> <ol style="list-style-type: none"> 1. All commercial banks will be allowed to take FE25 deposits and extend FE25 loans in Turkish Lira (TRY) for financing of Imports / Exports in accordance with our prevailing instructions on FE25 loans / deposits. 2. In order to provide TRY funding to scheduled banks, so that they can on-lend the TRY to importers / exporters with underlying Trade documents in TRY, SBP will conduct competitive auctions of Turkish Lira loan facility using proceeds of the currency swap transaction with CBRT. 3. SBP will conduct 'uniform price' competitive TRY auctions in 3 and 6 month tenors. Only scheduled banks will be eligible to participate in these auctions 4. SBP's lending to scheduled banks in TRY will be on execution of a Promissory Note by the scheduled bank in favor of SBP and backed by an L/C or a firm trade contract. 5. Participation in auctions will be dependent on the submission of documentary evidence of: <ol style="list-style-type: none"> a- Underlying Export or Import bills denominated in TRY b- Tenor of the Trade documents should be equal or more than the tenor of the TRY loan request from SBP. 6. On the maturity date of the TRY loan, bank will be liable to repay the loan to SBP. 7. Pricing of the TRY loan auction will be benchmarked to the 'reference rate' which will be announced by SBP along with the auction details. Participation in TRY loan auction will be based on

	<p>spread over / under the 'reference rate'. Minimum participation amount will be TRY 5 million and in multiples thereof.</p> <ol style="list-style-type: none"> 8. In order to provide sufficient time for banks to arrange on-lending of funds to importers / exporters, TRY auctions will be announced at least 14 days in advance and will be settled on T+2 basis. 9. Details of auction dates, announcement of the auction results, settlement dates and corresponding cut off timings will be announced on Reuters pages SBPK21 and SBPK22. 10. In case of pre-payments from the customer, banks will be liable to repay TRY to SBP within 2 working days from the pre-payment from the customer. There will be no penalty charged by SBP for pre-payment. Accrued interest will be charged by SBP. 11. TRY borrowings from SBP, as described above, will not be subject to maintenance of CRR in Cash Reserve Account (CRA) and Special Cash Reserve Account (SCRA).
DMMD Circular No. 18 September 28, 2012	<p>Held to Maturity Securities (HTM) Given the liquidity position of the market, it has been decided that securities classified under Held to Maturity category cannot be used for borrowing from SBP in OMOs / reverse repo facility.</p> <p>These instructions will be effective from 19th October, 2012. All other instructions on subject remain unchanged.</p>
DMMD Circular No. 21 October 05, 2012	<p>Maintenance of Cash Reserve Requirements (CRR) In order to facilitate banks in context of their liquidity management, following amendments are being introduced in maintenance of Cash Reserve Requirement (CRR):</p> <ol style="list-style-type: none"> 1. The reserve maintenance period will now be of two weeks starting from Friday and ending on Thursday of subsequent week. 2. Time and Demand Liabilities (TDL) as of close of business on Friday (first day of reserve maintenance period) will be taken into account for determination of required CRR. If Friday is a holiday then TDL as of close of business on preceding working day will be taken into account. 3. All banks (including Islamic Banks/Branches) have to maintain CRR at an average of 5.0% of total demand liabilities (including time deposits with tenor of less than 1 year) during the reserve maintenance period, however daily minimum requirement is being decreased to 3.0%. Time liabilities (including time deposits with tenor of 1 year and above) will continue to be exempt from cash reserves. 4. DFIs will continue to maintain CRR at 1.0% of their time and demand liabilities during the reserve maintenance period. <p>The above instructions will be effective from October 12, 2012. The TDL to be used for CRR maintenance period starting from October 12, 2012 and ending on October 25, 2012 would be as of October 12, 2012.</p>
DMMD Circular No. 22 October 05, 2012	<p>Maintenance of Statutory Liquidity Requirements (SLR) It has been decided that, for the purpose of maintaining SLR during the fortnight starting from Friday and ending on Thursday of subsequent week,</p>

	<p>Time and Demand Liabilities (TDL) as of close of business on Friday (first day of the fortnight) will be taken into account for determination of required SLR. If Friday is a holiday then TDL as of close of business on preceding working day will be taken into account.</p> <p>The above instructions will be effective from October 12, 2012. The TDL to be used for SLR maintenance during fortnight starting from October 12, 2012 and ending on October 25, 2012 would be as of October 12, 2012.</p>
<p>DMMD Circular No. 3 February 14, 2013</p>	<p>Online Auction of Market Treasury Bills and Pakistan Investment Bonds</p> <p>In order to bring more efficiency, State Bank of Pakistan has decided to automate the auction process of Market Treasury Bills and Pakistan Investment Bonds through Bloomberg auction module. Auction of MTBs and PIBs will be conducted online under Bloomberg ticker AUPD according to following instructions and guidelines:</p> <p>1. Competitive Auctions</p> <ol style="list-style-type: none"> Effective February 20, 2013, the manual process of submitting the sealed auction bid letters will be discontinued. Primary Dealers will be required to submit bids through online auction system during the stipulated time period. The auction module is integrated with SBP systems; therefore, the entire auction process, from bidding to settlement, has been fully automated. The online auction module, along with the integration, has been extensively tested with PDs in parallel with manual auctions. <p>2. Non Competitive Bids</p> <ol style="list-style-type: none"> Effective February 19, 2013, Non Competitive Bids shall also be submitted online one day before the competitive auction day during the stipulated time period. PDs must input client name in Block Letters in Account fields available in online auction system. The PDs will continue to submit the copies of clients' letters, along with their original covering letters, at SBP counter within one hour after close of online NCB bidding. <p>3. Other Auction Details</p> <ol style="list-style-type: none"> SBP, two days before the competitive auction day, w.e.f February 18, 2013, will setup the Auction page on AUPD for both the Competitive Auction and the Non Competitive Auction, which will include all the relevant details. No change in Bids will be allowed after the closure of bidding time. Primary Dealers are required to keep a high speed internet connection as backup in case the primary internet connection is not available for Bloomberg services due to technical or any other reason. In case, the backup internet also fails. Primary Dealer shall

	<p>approach SBP, before auction close time, with sealed bid letters, along with an authority letter, requesting SBP to incorporate bids in the competitive auction.</p> <p>e. If there is a city/country wide internet connectivity issue, SBP at its discretion may cancel online submission of bids and require PDs to submit sealed bid letters at SBP counter. In this regard, all PDs will be informed accordingly on Reuter's page SBPK23 and Bloomberg's page 14 of SBPK1.</p> <p>f. Bid report of auction will be available on SBP website after announcement of auction result.</p>
DMMD Circular No. 7 April 11, 2013	<p>Foreign Exchange Exposure Limit (FEEL)</p> <p>It has been decided to increase the maximum cap on aggregate Foreign Exchange Exposure Limit (FEEL) of Authorized Dealers to PKR 3,500 million effective from April 15, 2013. Based on the review of the annual audited accounts, the FEEL of each Authorized Dealer was advised separately.</p>
DMMD Circular No. 9 May 07, 2013	<p>Competitive Auctions of Chinese Yuan Loan Facility</p> <p>Please refer to the FE regulations governing Trade Loans against FE25 deposits; and the Currency Swap Arrangement executed between State Bank of Pakistan (SBP) and the People's Bank of China (PBoC) on 23Dec2011. In this regard, following instructions are issued with immediate effect:</p> <p>All Authorized Dealers are allowed to take FE25 deposits and extend FE25 loans in Chinese Yuan (CNY) for financing of Imports / Exports in accordance with our prevailing instructions on FE25 loans / deposits vide FE Circular No.4 dated 04Sep2012.</p> <p>In order to provide CNY funding to scheduled banks, so that they can on-lend the CNY to importers / exporters with underlying Trade documents in CNY, SBP will conduct competitive auctions of Chinese Yuan loan facility using proceeds of the Currency Swap Arrangement with PBoC.</p> <p>SBP will conduct 'uniform price' competitive CNY auctions in 3 and 6 month tenors. Only Scheduled Banks (Authorized Dealers) will be eligible to participate in these auctions.</p> <p>SBP's lending to banks in CNY will be on execution of a Demand Promissory Note by the bank in favor of SBP and backed by an L/C or a firm trade contract denominated in CNY.</p> <p>This demand promissory note will be signed each time a lending transaction is executed with a bank. An agreement will also be executed once with each bank, which will define the overall broad terms and conditions governing the lending transaction and the execution of the promissory note. Standard Formats of the Demand Promissory note and the Agreement will be issued separately.</p> <p>Participation in auctions will be dependent on the submission of</p>

	<p>documentary evidence of:</p> <ol style="list-style-type: none"> Underlying Import or Export bills denominated in CNY. Tenor of the Trade documents should be equal or more than the tenor of the CNY loan request from SBP. <p>On the maturity date of the CNY loan, bank will be liable to repay the loan to SBP.</p> <p>Pricing of the CNY loan auction will be benchmarked to the 'reference rate' which will be announced by SBP along with the auction details. Participation in CNY loan auction will be based on spread over / under the 'reference rate'. Minimum participation amount will be CNY 25 million and in multiples thereof.</p> <p>Details of auction dates, announcement of the auction results, settlement dates and corresponding cut off timings will be announced on Reuters pages SBPK24 and SBPK25. Tender form will be issued separately.</p> <p>In case of pre-payments from the customer, banks will be liable to repay CNY to SBP within 2 working days from the pre-payment from the customer. There will be no penalty charged by SBP for pre-payment. Accrued interest will be charged by SBP.</p> <p>CNY borrowings from SBP, as described above, will not be subject to maintenance of CRR in Cash Reserve Account (CRA) and Special Cash Reserve Account (SCRA).</p>
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A-4 Operations Group

Circular/Circular Letter No	Policy Decision
FD Circular No. 1 August 10, 2012	<p>Issuance of Fresh Banknotes SBP Banking Services Corporation (Bank) has made arrangements for issuance of fresh notes to commercial banks for onward issuance to the general public on the occasion of Eid-ul-Fitr-2012, for which a press release was also issued on July 30, 2012.</p> <p>Banks are advised not to issue bundles of small denominations (Rs.10 to Rs.100) of fresh banknotes as these tend to be sold in the market on premium, if such bundles/packets are found on sale in the market, the bank to which they were issued will be penalized at the rate of Rs. 100,000/- per bundle found in the market and Rs.50,000/- for 5 packets found in serial.</p> <p>Verification teams of SBP BSC will monitor compliance with the above mentioned instructions by visiting bank branches and their vaults, as per the procedure defined by SBP/SBP BSC.</p> <p>All banks are advised to ensure strict compliance of the above mentioned instructions as any violation thereof would attract punitive action under the</p>

	<p>relevant provisions of the banking Companies Ordinance, 1962.</p> <p>SBP to Facilitate General Public in Obtaining Fresh Currency Notes during Ramazan-ul-Mubarak</p> <p>The State Bank of Pakistan (SBP) has decided to fully utilize the large network of over 10,000 branches of commercial banks for distribution of fresh currency notes to the general public during the holy month of Ramazan-ul-Mubarak, 2012.</p> <p>For this purpose, the SBP Banking Services Corporation (SBP BSC) has made elaborate arrangements for the supply of adequate quantity of fresh currency notes particularly of small denominations (Rs.10/- to Rs.100/) to commercial banks depending upon their branch network.</p> <p>The branches of commercial banks will issue only one packet each of Rs. 10/- and Rs. 20/- per person to the visiting general public / account holders from 1st August, 2012 till the last working day before Eid-ul-Fitr 2012 (or until the stock ends) on presentation of original Computerized National Identity Card along-with the photocopy of it for record. Banks' branches, however, may also issue a maximum of 5 packets each of Rs.10/- & Rs.20/- denomination fresh notes to their corporate clients on receipt of request on the company's letter head duly signed by the authorized representative.</p> <p>With the view to redressing the grievances of general public, if any, in obtaining fresh currency notes from commercial banks, the SBP BSC has established a Help Desk which may be contacted at the telephone numbers 021-32455470 and 021-32455454. Complaints may also be lodged at the following email address: freshnotes@sbp.org.pk or with the Chief Spokesperson, State Bank of Pakistan, at his email address: syed.wasimuddin@sbp.org.pk</p> <p>The SBP BSC has put in place a mechanism for penalizing the banks in case any irregularity is committed by them in issuance of fresh currency notes. Penalty will also be imposed on banks found violating SBP instructions with regard to issuance of notes to the general public during the holy month of Ramazan-ul-Mubarak, 2012.</p>
<p>CSD/392/7/ (Demo-500) /2012 September 26, 2012</p>	<p>Exchange of Demonetized Rs. 500 Old Design Banknote</p> <p>In order to exchange of demonetized Rs 500 old design banknote by banks, all banks is invited to the instructions issued on the subject vide our Circular Letter No.CSD/288/7-2012 dated June 26, 2012, copy of which is attached.</p> <p>To this end, we would like to re-emphasize the implementation and strict compliance of steps outlined for exchange of Rs 500 old design banknotes (bigger size) by the branches of banks/ NBP Chests/Sub-Chests, whose last date of exchange is October 1, 2012.</p> <p>Further, kindly convey to all your branches to ensure facilitating the</p>

	<p>general public for receipt of these banknotes. Please also ensure that posters provided by SBP BSC for acceptance of demonetized Rs 500 old design banknotes are placed at visible places in and outside the branches.</p>
<p>CSD/507/7 (Demo-5)-2012 December 11, 2012</p>	<p>Exchanging/Reporting/Surrendering of Demonetized Rs. 5 Banknote As per the Federal Government Gazette Notification No.3(8)IF-IV/2009 dated December 15, 2011 public has been facilitated to exchange demonetized Rs.5 banknote from all banks and SBP BSC Field Offices till December 31, 2012. Consequently, following schedule/steps for exchange of demonetized Rs 5 banknote are advised:</p> <p>A. Collection of Demonetized Rs 5 Banknotes (i) Branches of all banks/ NBP Chests/Sub-Chests should ensure to surrender their stock of Rs. 5 banknotes (collected till December 10, 2012) by December 21, 2012 to the nearest SBP BSC Field Office. (ii) Branches of all banks/NBP Chests/Sub-Chests will collect the demonetized Rs. 5 banknotes until close of banking hours on December 31, 2012.</p> <p>B. Reporting of Rs. 5 Banknotes (i) Branches of all banks/NBP Chests/Sub-Chests will report the collected balances of demonetized Rs. 5 banknotes to their regional head and regional head will acknowledge receipt thereof by January 02, 2013. (ii) The regional heads of all banks/NBP Chest/Sub-Chests will report the reported branch-wise balances to the nearest SBP BSC field office and endorse copies thereof to their concerned head office through fax/email by January 3, 2013. (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 by January 7, 2013 as per contact details provided at Para 3 below. (iv) The SBP BSC field offices will acknowledge receipt of the reported balances by regional offices of the banks and CMD, SBP BSC, Head Office, Karachi will acknowledge receipt to the Head Offices of the banks by January 8, 2013. For any queries, write to CMD, SBP BSC, Head Office, Karachi. (v) 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. (vi) SBP BSC field office shall credit the value of only those surrendered banknotes, which have been reported to them within stipulated time, to the account of the banks maintained with them. Misreporting or overstated balances, by the banks/NBP Chests/Sub-Chests, will be penalized under the powers of Banking Companies Ordinance, 1962.</p> <p>C. Surrender of Rs. 5 Banknotes (i) Branches of all banks/NBP Chests/Sub-Chests will surrender the reported (Para 2-B above) stock of Rs. 5 banknotes to their nearest SBP BSC field office until February 4, 2013. (ii) You are requested to issue the necessary instructions to your respective</p>

	<p>branches to ensure meticulous compliance of the times lines.</p> <p>D. Public Awareness & Exchange of Value of Rs. 5 Banknotes Branches of all banks/NBP Chests/Sub-Chests should ensure to display posters/banners regarding date for exchange of demonetized Rs. 5 banknotes, at public counters and other visible places in and outside their branches.</p>
FD Circular No. 2 May 3, 2013	<p>Currency Management – Monitoring Following instructions and penalty scales were issued in order to promote better currency management practices. In this regard banks are advised to implement the following instructions, any violation / non-compliance shall continue to be penalized by SBP under the Banking Companies Ordinance 1962 and other relevant laws of SBP as per the scale mentioned against each instruction:</p> <ul style="list-style-type: none"> • Banks shall accept all the legal tender coins (Re.1, Rs.2 and Rs.5 etc.) and shall provide banknotes-coins exchange facility to all the customers and general public. (Penalty on violence: Rs. 2,000/- per instance). • Banks shall strictly ensure that the forged notes are not dispensed through ATMs. (Penalty on violence: Rs. 10,000/ -- per note plus value of banknote). • Banks shall avoid repetition of any irregularity pointed out in the previous report. Repetition of any irregularity will attract additional penalty besides fine on routine violation. (Penalty on violence: Rs. 10,000/- per instance).

B-1 Business Continuity Management

Business Continuity Management (BCM) is a key contributor to effective corporate governance as it allows stakeholders to ask searching questions such as organization's business and operating model, key dependencies, critical assets and processes, succession planning, importance of backups, evidence that the continuity plans will work in practice etc. The successful application of BCM contributes to sustainable corporate performance by increasing organization's resilience to some shocks.

The ability to perform under critical situations is the hallmark of smart, organized and professionally managed institutions. In case of State Bank of Pakistan (SBP), the inherent capacity to operate under any business circumstances is critical. Maintenance of a high state of readiness to cope with exigencies, provision of mission-critical and time sensitive services and seamless transition from usual to unusual operations, determines the robustness of the financial system, builds confidence amongst the stakeholders and contributes towards the stability of the financial system. The decision to develop a Business Continuation Plan (BCP) for the SBP was made primarily to ensure continuity of critical functions in all kinds of situations.

The size, complexity and geographically dispersed nature of operations made the task even more challenging. SBP has improved its level of readiness to an unprecedented level in recent past. However, even this level has to be further improved in order to reach the degree of preparedness acceptable under current international best practices. Our goal is to reach that level of preparedness, which would require regular testing to validate our readiness and at the same time revisit the plan itself for upgrading and striving for successively higher level of assurance. Pro-active Business Continuity Management plays a significant role in ensuring that the central bank is able to continue its critical and time sensitive operations even during a disaster situation.

BCP Governance Structure at SBP

In order to establish controls and minimize the chances of disaster and disruption of critical functions of SBP, the BCP contains a governance structure in the form of various Committees, Groups, Centers and Teams which reflects senior management's commitment towards BCP. It also defines management's roles and responsibilities in the event of a disaster (both man-made and natural). With respect to the BCP governance structure, the BCP Committee is the apex steering body for all BCP related activities. The BCP Committee chaired by Deputy Governor (Operations) comprises of members of senior management drawn from the critical areas of SBP. The committee coordinates all policy aspects of BCP including the oversight, initiation, planning, approval, testing of the BCP of SBP and SBP-BSC. In order to ensure that necessary measures are available to effectively deal with crisis situations on ground, an Emergency Support Group led by Head IBSD coordinates with local Disaster Recovery Support Team and Business Continuation Support Team available at all locations (SBP as well as SBP-BSC field offices).

BCP Implementation at SBP

The Business Continuity Plan of the State Bank of Pakistan ensures continuity of critical functions of SBP & 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 - like fire, civil strife, sabotage - or an act of war. The SBP has strengthened its level of preparedness and readiness by establishing a state of the art Disaster Recovery Center and a fully equipped dedicated BCP Backup Site for

continuing its critical time sensitive functions. To further enhance the state of readiness under Business Continuity Programme of SBP, the following initiatives were taken during the year:

Establishment of Command & Control Center

In order to manage critical functions in an effective manner in case of a disaster; the BCP manual envisages that a Command and Control Center (C&CC) would manage all logistical, administrative and security functions during the disaster period. The Command & Control Center is a place where information and resources can be coordinated, managed and documented to ensure effective and efficient response. In case of a disaster situation at the primary site i.e. SBP main buildings, the HODs of critical support service departments i.e Chief Information Officer, Director Human Resources Department, Chief Spokesman/Director ERD of SBP; and Director Personal Management Department, Director General Services Department, Head Internal Bank Security Department and Head Engineering of SBP-BSC will be housed at the C&CC to coordinate all emergency arrangements during crisis situations. During the year, major civil and electrical works at the C&CC has been completed while in order to make it operational IT and Office equipments are expected to be installed during FY14.

Landmark Achievement - Availability of IT applications at backup sites of field offices

One of the major challenges for the BCP team was to ensure availability of IT applications at the backup sites of field offices as over a period of time, most of the critical functions and processes have been automated and require availability of relevant IT applications as the staff and users are now not used to run all the operations manually. In February 2013, a landmark achievement was accomplished where the backup site of one of the field offices of SBP-BSC became the first backup site outside SBP premises where IT applications were made available. The BCP Team and the Office BCP Coordinator/Critical officers of the said Office were able to successfully access the required IT applications from the backup site during the mock exercise. This successful testing has now paved way for replicating the same at backup sites of other field offices which will ensure that required IT applications are available at the backup sites of field offices; and the offices would be able to conduct critical functions during crisis situations from the backup sites in the same environment as available to them during normal days.

Business Continuity Management (BCM) Workshops

The most effective approach in 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. The most common problems that organizations face in implementing effective Business Continuity Management is embedding BCM in the organizational culture/ Corporate DNA. In order to embed Business Continuity in the organization's culture, two workshops on "Business Continuity Management for Central Banks" were organized which were attended by the departmental/office BCP coordinators, members of Emergency Support Group, Disaster Recovery Support Team and Business Continuation Support Team. Besides formal workshops, several BCP awareness sessions were organized at the field offices at the time of their mock exercises.

SOPs/ Guidelines for accommodation in crisis situations

In order to streamline the boarding and lodging arrangements during crisis situations by critical departments and to ensure that every support departments is aware of their responsibilities, Standard Operating Procedures/Guidelines were issued vide SPD circular no.2 dated March 05, 2013.

Special Arrangements during Elections 2013

In view of the possible disruption due to deteriorating law and order situation during the General Elections 2013, special arrangements were made in coordination with the critical support departments. A BCP alert was issued to all the offices and critical departments to take necessary measures as outlined in the BCP. Special standby and backup arrangements were also made to deal with any possible disruption.

Combined Staff Relocation Exercises of Critical (Time Sensitive) Departments

As mentioned earlier, BCM capability cannot be considered reliable until it has been exercised. Exercising the organization's 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. In order to stress test the reliability of networks, equipments, services and other allied facilities at the dedicated BCP backup site, four combined exercises were successfully conducted by the critical (time sensitive) departments. Approximately 50 persons from 7 critical (time sensitive) departments participated in the combined exercises on each occasion. Apart from the routine testing of the backup site, scenario-based testing was also conducted 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.

Monitoring the Testing of Business Continuity Plan

As a part of the overall BCM, there is a continual need to prove plans and strategies by testing to bring credibility and to encourage ownership across the organization. The purpose of testing is to achieve organizational acceptance that the business continuity solution satisfies the organization's recovery requirements. 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, a BCP Annual Test Plan (ATP) for FY13 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. Effective monitoring of tests under ATP was also ensured by the BCP team.

Going forward, developing and implementing a successful BCM programme would require managing a number of related projects and coordination activities. The key elements in implementing BCM at SBP would require awareness raising, planning, mitigation measures and exercising the continuity plans as BCM is an iterative process which needs to be actively managed. The initial aim was to successfully complete an implementation of the BCM lifecycle, but the long term goal of BCM programme management is to improve the organization's BCM capability and its operational resilience with successive iterations.

B-2 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 and 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 post event audit of SBP operations on annual basis.

Internal Audit Charter, approved by the Committee of the Central Board on Audit, mandates the independence and authority of IA&CD and in order to maintain impartiality in role and responsibilities of IA&CD, Head of IA&CD functionally reports to Committee of the Central Board on Audit and administrative matters are overseen by the Honorable Governor SBP.

Four Financial & Operational and one Information Technology (IT) audit teams conducts risk-based internal auditing. Further, a Quality Assurance (QA) Unit in IA&CD undertakes the quality assurance of audit activities and ensures that these activities conform to the Institute of Internal Auditors (IIA) and the Information System Audit and Control Association (ISACA) Standards. Moreover, a Compliance Unit of IA&CD carries out follow up and obtains status of audit recommendations on quarterly basis, in order to ensure compliance of outstanding audit recommendations previously agreed by the auditee departments (of SBP).

The following milestones were achieved by IA&CD during FY13.

- Subsequent to amendments in Audit Charter of IA&CD, duly approved by the Central Board of SBP, Head of IA&CD now functionally reports to Committee of the Central Board on Audit.
- As required by Audit Charter of IA&CD, the Committee of the Central Board on Audit recommended an external assessment of IA&CD for FY13 that was carried out by E&Y Chartered Accountants and KPMG Chartered Accountants. A similar type of assessment was also carried out in 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 27 audit assignments of the Audit Plan FY13 successfully. IA&CD also carried out 17 special audit assignments on the advice of Audit Committee and higher management of SBP.
- In order to bring the concept of Self Risk Assessment by business departments, IA&CD is facilitating different departments of the Bank in developing their risk registers. In this regard, two more such registers were developed in FY13, making a total of 15 risk registers. Further,

continuous improvements were made in Risk Registers already developed by the departments during audit engagements in FY13.

- New enhancement (email integration, enhanced workflow mechanism, multiple assignments etc.) were introduced in the AuditWare Application; a tailor made application developed by IT Audit Division of IA&CD in last year. This Division also developed Compliance module, for automation of compliance follow up related activities.
- The staff of IA&CD was provided 15 job related and soft skill trainings during the period under review.

Close coordination with External and Government Auditors were made and Audit Reports of various Departments duly audited by IA&CD were reviewed by both of them.

B-3 Legal Services Department

At State Bank of Pakistan, the Legal Services Department (LSD) has been undertaking day to day and medium to long term operations to enhance stakeholder value of working with core and non-core departments of SBP, SBP-BSC and NIBAF.

During FY13, LSD endeavored for realization of Bank's goals through opinions, advices, litigation, and appearance before the various Courts of Law of the country. It also helped the respective departments of the Bank in drafting of regulations, writing contracts and vetting the letters, memos in response to the notices issued directly or indirectly by various Courts of Law of the country. This department also helped in deciding the appeals addressed to the honorable Governor through the Consumer Protection Department by various banks and financial institutions against the decisions given by the Banking Ombudsman. Together with these developments, this department also managed to attend various proceedings of the litigations at Supreme Court, High Courts and other lower Courts of Law throughout the country during the year.

During FY13, LSD received around 3000 references from various departments of SBP, SBP-BSC and NIBAF. Of these references 54 percent were interconnected with opinion, 22 percent to notices, 14 percent to house building advance and the remaining 12 percent were associated with the other departmental affairs. Keeping in view the SBP policies in vogue, all these references were disposed off accordingly.

Cases under Litigation

Monthly progressive status of the cases under litigation was collected from various departments of SBP, SBP-BSC and NIBAF by this department during FY13. On the basis of the data received, it has been observed that 783 cases have been under litigation in various Courts of Law throughout the country. Of these, 658 cases under litigation are associated with the SBP and the remaining 125 cases are interrelated with the subsidiaries of the Bank. Further break-up of the cases revealed that 83 percent cases under litigation are associated with the core banking and the remaining 17 percent cases under litigation are interrelated with SBP Human Resources matters. Moreover, 7 cases have been disposed off in various Courts of Law during the year.

Management of Events

A training session on Banking Recovery Law was arranged for the development of officers of SBP. For this purpose, the services of a prominent advocate were hired to deliver the subject training (presentation) to 20 officers from various (concerned) departments of the Bank.

B-4 Library Services

During FY13, Library kept on contributing with its supportive role towards research promotion, knowledge based policy formulation & management at SBP besides improving financial literacy among the masses through its quality information dissemination services.

In the collection development area, print resources were enriched with 2,314 new books and 140 journals subscription. Electronic resources were augmented with 2 new databases, namely 'Business Core eBooks', and 'Emerald Management e-Journals'. Previous year's subscription to 17 databases was also renewed.

Library catalogue was loaded with 8,611 bibliographic records comprising of 2,401 books, 2,649 periodical issues and 3,561 journal articles. All bibliographic management operations, like accessioning, classification, cataloguing, indexing, etc. were processed timely yet with utmost care to ensure accuracy in information and efficiency in retrieval. In order to update library users with new acquisitions, publishing monthly 'Fresh Arrivals Bulletin' and 'Current Contents Bulletin' on SBP website and Electronic Board continued as a regular feature.

A significant increase in library usage was witnessed during FY13 whereby 240 new members were registered and 28,799 books were lent as compared to previous years' respective figures of 229 and 18,787. **Table B-4.1** shows five year's performance of the Library against major operational areas.

Table B-4.1: Library Performance

Numbers

Operational Areas		FY09	FY10	FY11	FY12	FY13
Procurement (Books)	Purchased	1,893	2,093	1,821	2,124	2,061
	Received as donations	531	402	405	192	253
Periodical	Issues acquired	5,667	4,402	3,598	3,291	2,649
Technical processing	Books catalogued	2,352	2,497	2,183	2,460	2,401
	Articles indexed	8,543	8,455	8,047	4,697	3,561
Circulation	SBP employees	19,210	26,049	27,139	16,612	26,653
	Others	3,266	2,620	2,242	2,175	2,146
Membership	SBP employees	115	104	125	45	60
	Others	330	273	160	184	180
Visitation	SBP employees	15,010	14,915	17,522	17,874	17,703
	Others	15,229	12,129	9,007	8,873	7,619

Apart from usage of print resources reflected against circulation and visitation areas in **Table B-4.1**, usage statistics of online databases also turned up healthy indicating increased level of user's familiarity with online resources. **Table B-4.2** presents monthly 'full-text downloads' from various online databases, subscribed by SBP Library, during FY13.

Due consideration was also given to improve physical environment of Library. Library signage was completely redesigned with attractive and convenient floor plans, way-finding indicators, shelf guides, instructional/informative signs, and promotional banners. The new signage helped library to

educate users more effectively about its general rules of conduct and to make them independent learners.

Table B-4.2: Monthly Full-Text Downloads FY13

(numbers)

Database Name	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Business Source Premier/Complete	566	190	102	78	60	74	829	82	19	56	38	52	2,146
Business Core e-Books ¹	--	--	--	--	--	--	--	--	--	--	58	8	66
EconLit with Full-Text	41	80	18	56	28	48	40	15	20	80	13	27	466
Emerald Management e-Journals ²	0	0	5	5	9	5	7	0	1	81	39	38	190
IMF e-Library Data	28	36	32	22	52	42	29	8	27	61	20	29	386
JSTOR	242	268	1,056	348	220	263	72	53	71	69	14	89	2,765
Palgrave Dictionary of Economics	32	128	37	24	6	0	3	1	50	82	14	1	378
Oxford English Dictionary	1,345	812	999	713	619	721	651	525	475	770	495	778	8,903
Science Direct	116	129	120	178	129	182	54	110	231	155	165	151	1,720
Taylor and Francis Journals	29	9	117	36	28	119	22	16	4	27	17	37	461
World Bank e-Library	0	1	5	4	4	4	6	2	0	4	3	3	36
Totals	2,399	1,653	2,491	1,464	1,155	1,458	1,713	812	898	1,385	876	1,213	17,517

1: Subscription of Business Core eBooks started in May 2013.

2: Full Subscription of Emerald Management e-Journals Database started in April 2013. Figures prior to April represent downloads under Print+Online subscription package of individual Emerald journals.

Numerous queries of library visitors were answered at the reference services desk. Remote users were entertained through *Online Reference and Document Delivery Service* under which 3,218 articles and datasets were dispatched to remote users, either through email or courier, across the country. The growing number of information queries of the remote users reflects their confidence in SBP Library services. SBP Library is also committed to make this service bond even stronger in future with its dependable, efficient, friendly and innovative services.

B-5 External Relations Department

External Relations Department (ERD) of the State Bank of Pakistan communicates and disseminates SBP's policies, regulations, directives, initiatives, future strategies, data, and other information/announcements to the public and other stakeholders through media. This department maintains warm and active relations with the media. ERD performs these tasks by issuing press releases/circulars, issuing tickers to television channels, holding press conferences, running awareness campaign, and distributing Bank's various publications/reports to the stakeholders. Various SBP publications and circulars are edited, where necessary. ERD also translates SBP's annual and quarterly reports on the state of Pakistan's economy, and other important reports/press releases in Urdu; and ensures that these are disseminated concurrently with such reports/releases in English.

Moreover, the department monitors coverage/feedback regarding Bank's policies, directives, initiatives, reported in newspapers and television channels on daily basis and submits this to the higher management. ERD maintains the record of news clippings from main Urdu/English newspapers about the matters important for the Bank. The major projects accomplished by this department in FY13, are discussed in **Box B-5.1**.

Box B-5.1: Projects Initiated By ERD in FY13

Media Campaign for Demonetization of Old Banknotes

The State Bank of Pakistan had introduced new designed banknotes with added security features, durability and aesthetic quality, and the process of issuance of new designed banknotes was completed in 2008. Therefore, it was decided by the Government to phase out Rs 500 old banknotes. Further as per the Federal Government's notification the Rs 5 banknote was to be ceased as legal tender with effect from 1st January 2012. In order to create awareness among masses, the captioned public awareness campaign was entrusted to ERD by Finance Department of the Bank in collaboration with SBP-BSC and SBP Printing Press.

For apprising general public of demonetization of large sized Rs 500 banknote, advertisements were published in 36 local dailies, as well as aired on TV channels. In another public awareness campaign when the Rs 5 banknote was demonetized by the Government, 28 local newspapers carried relevant advertisement, while 10 TV channel telecasted it.

Media Campaign for Marketing of Government Debt Instruments

The federal Ministry of Finance assigned SBP the task of designing and launching of a campaign in print and electronic media for awareness of small investors, both local and foreign, of government's debt instruments. The campaign's objective was to inform general public and investment institutions about features and benefits of government securities, and the procedure of investment. ERD, in collaboration with DMMD, executed the project successfully. For this purpose, 12 advertisements were published in 25 newspapers.

General Public Awareness Campaign

In this regard, ERD accomplished various projects including highlighting pensioners' grievances (one advertisement in 7 dailies) and warning general public of a) fraudulent prize schemes (one advertisement in 2 dailies); b) theft frauds (one advertisement in 4 dailies); and c) skimming frauds (one advertisement in 7 dailies). For general public awareness on unclaimed commercial bank deposits, SBP published three advertisements in 8 local newspapers. Advertisements and high profile surveys/Expressions of Interest were also published in 2 international business magazines and in 2 newspapers.

Within SBP, this department prepares, publishes and circulates monthly SBP News in addition to a fortnightly e-Bulletin. It publishes Bank Directory for use by officers and management of the Bank. It keeps record of Bank's various activities in the form of news clippings and photographs. ERD is entrusted with the responsibility of publishing/running Bank's advertisements/campaign in the

media¹. ERD also provides professional guidance and assistance in media related issues to other departments of SBP. During FY13 ERD helped IBD, AC&MFD, RD and MPD (of the State Bank of Pakistan) via consultation/designing on/of advertisements/posters and banners pertaining to their campaigns/activities. During the period under review, a total of 186 publications, from different departments of the Bank, were sent by ERD to the SBP Printing Press. ERD manages the Bank's Bookshop which put up for sale SBP's various publications. During FY13 the Bookshop sold 427 publications.

A survey², carried out in 2013 by Pakistan's most popular financial daily, of treasury bosses at banks and brokerage houses, showed that SBP's communication is ranked at an average of 6 on a scale of 1-10. It is improved, over the past (2007) perception, as a result of detailed monetary policy statements, data compendiums and higher frequency of policy decisions. Importantly, this improvement was achieved over the period when communication skills of central banks of some developed countries deteriorated in the eyes of the international financial markets, according to another survey released³.

¹ The department sends monthly report to finance division, Ministry of Finance about Bank's advertisements (and their expenditures) published in local newspapers. Quarterly report is submitted to the Ministry of Information regarding Bank's advertisements published in foreign editions of Pakistani newspapers.

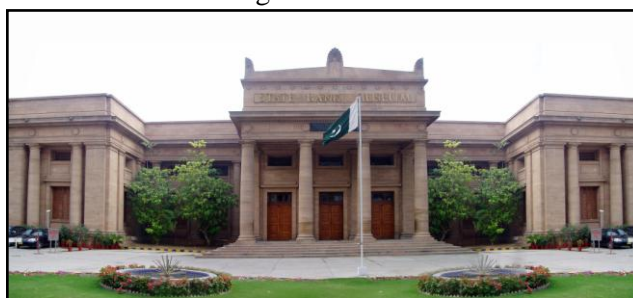
² <http://www.brecorder.com/br-research/999:all/3707:a-message-for-sbp-bring-back-the-minutes/?date=2013-09-25>

³ <http://www.ft.com/cms/s/0/f2e6f9e0-1c7c-11e3-8894-00144feab7de.html>

B-6 Museum & Art Gallery

Overview

Monetary and Archives Museums are necessary adjuncts of central banks in the world, for educational activities and outreach programme for the general public, and especially for the students/children. Pakistan is one of the very few places in the world where the currency developed from its very rudimentary form to advanced level of coinage. To document this interesting history, an important idea of establishment of a Money Museum developed in the SBP. For materialization of this idea, the former SBP Governor, Mr. Hasnie, in early 1960s assigned this task to the then Director (Public Relations) to visit Bank of England (BOE) to learn/study about the Museum of the BOE. Subsequently, an Archives Museum was established at 5th Floor of the main SBP building (on I.I. Chundrigar Road, Karachi). On account of renovation and restructuring of the main SBP building, this Museum was wound up in September, 2002 to establish a new and larger Museum in 2004 in a historic (pink Jodhpuri stone) building⁴, within the premises of the SBP, with extensive displays of currency, coins, photographs, artwork and other objects of public and the Bank's interest.



The Inaugural Ceremony of the Museum was held on 1st July, 2011 (that is on Banks' own birthday). The establishment of Money Museum is not only appreciated at national level, but also got high remarks from international scholars and visitors.

It is because of its high standard that SBP Museum got membership of International Council of Museums (ICOM) in 2012, and is now requested (by ICOM) to form a National Committee along with other museums of the country.⁵

SBP Museum and Art Gallery (M&AG) comprises Coin Galleries, Stamp Gallery, Currency Gallery, History of State Bank, Governors' Gallery, and an Art Gallery. The Coin Galleries depict coinage from its evolution till contemporary period. Stamp Gallery has stamps which were used as currency in the interim period between coinage and currency. Currency Gallery records history from very early time period to present Polymer Notes. History of SBP is depicting the history of Bank since its establishment in 1948. Governors' Gallery presents brief profiles of the former Governors with their photographs. The Art Gallery is one of the most attractive part of the Museum, displaying Sadequain's 4 huge murals and collages of metal and wood. One mural of Zahoore-ul-Ikhlaq is displayed in Contemporary Art Gallery, where temporary exhibitions of young artists are held on quarterly basis.

From working and administration point of view, M&AG is divided into various sections as follows.

Archives Section is dealing with the acquisition of Archival Material related to historical manuscripts, History of Pakistan, Art, Historical Books etc. **Technical Section** consists of

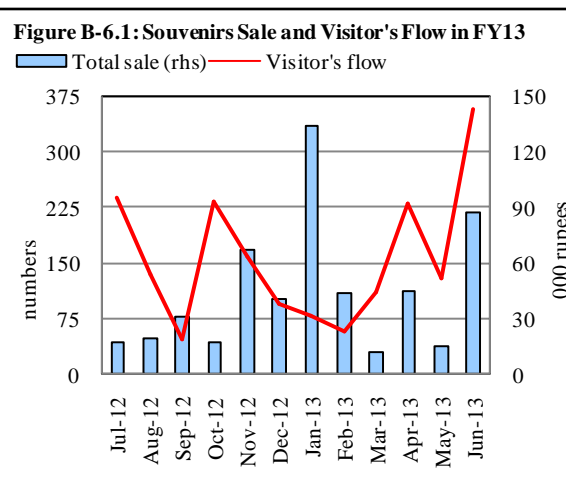
⁴ This building was built in 1920's. Initially it housed the then Judicial Commissioner and later the Imperial Bank of India (IBI). After the independence, it was taken over by Pakistan but continued to serve as IBI for some time. After IBI, SBP's Foreign Exchange Department was housed in it. Before SBP M&AG, this building was used as Library of the State Bank of Pakistan.

⁵ SBP Museum is the first Pakistani Museum to get ICOM membership.

Conservation Lab, **Modeling Section**, which is responsible for conservation of coins, archival materials, etc. for their preservation and consolidation. **Replica Section** is unique and of its own kind. It is responsible for preparing replicas/models as souvenirs for the visitors. The objective of this section is to replicate the antiquities for the education and discourage the smuggling of original ones. The souvenir shops are the main attraction of the Museums and are a reason for visits/revisits. The Souvenir Shop has been established in the SBP Museum to promote cultural heritage, historical educational material, chronological sequences of art work and coins. It is used to convey public service messages which present a socially conscious image of the Bank that can be attained by promoting the usage of recycled materials and eco-awareness messages. The Souvenir Shop includes replicas of the materials and some size specific products, publications and interactive videos and demonstrations. The literature available also serves its educational purpose. **Research Section** is dealing with publications, and souvenirs research. This section is publishing the catalogues, monographs, brochures, captions and labels prepared from the research work carried out by the officers of the SBP Museum. The main objective of this section is to digitize the collection, preserve it, and make it available for publication. The souvenirs for souvenir shop are selected for preparation purpose after a thorough research with a brief description of the object tagged with the souvenir for creating awareness about our history and culture.

Visitors Flow and Souvenir Shop

As per available data, around 1849 visitors were recorded in FY13. The special occasions also provided a chance to a large numbers of visitors to visit the SBP Museum. In overall, 5528 people visited the Museum since its inauguration on July 1, 2011. A total sale of about Rs 500,000 was recorded on non-profit basis till June, 2013 (**Figure B-6.1**).



Mural on Permanent Loan

First time in the history of Pakistani Museums, a huge mural (8ft X 45ft) was handed over on permanent loan by any person or institution to a museum. An agreement was made on 3rd February, 2012 between Ms. Ava Ardeshir Cowasjee d/o Ardeshir Rustom Cowasjee and SBP Museum for permanent loaning of a painting having 3 panels (each measuring 8ft X 15ft) to the SBP Museum from her personal collection, entitled **“Freedom Fighters.”** It was painted by Zahoor-ul-Akhlaq.



After arrival of the mural, it was decided that its conservation may be undertaken. World renowned conservationist (Director, Heritage Conservator (Pvt) Ltd.) agreed upon our request to advice SBP Museum conservationist through electronic media, for its conservation on complementary basis and as a friendly gesture. SBP Museum conservationist (Mr. Saeed Ahmed) and artists (Messrs. Abbas Kaskheli and Zubair) carried out the necessary work (as per international standards) after training/guidance from Ms. Namita Jaspal. Now the painting is ready to be launched, soon after its

brochure is written by Ms. Nazish Attaullah, former Principal of National College of Arts, Lahore and a famous artist.

Painting Conservation

A Painting installed on 3rd Floor of SBP Main Building (Karachi), was found to be diseased and showing signs of fading, was also treated by SBP Museum conservationist with the guidance from Ms. Namita Jaspal. The painting, after conservation and reframing, is installed on the 3rd Floor again.



Publication

Bank Notes of Pakistan in the State Bank Museum Collection (1948-2012) is a complete coloured catalogue on bank notes of Pakistan, stating their technical & descriptive features and details about the historical monuments printed on them.

Educational and Awareness Activities

To support the Museum's mission of the education/awareness of youth and general public, different activities were arranged in SBP Museum during FY13 as follows.

Model Making Workshop

A 3-D Model Making Workshop titled as “Buildings on Pakistani Banknotes” for 10 to 15 years age children of the SBP and SBP-BSC employees was held from 21st December to 31st December, 2012 in the SBP Museum to spread awareness about the buildings, printed on Pakistani Bank Notes. In this workshop the participating children learned the techniques of making 3-D models from the technical staff of the Museum and prepared the models of Miner-e-Pakistan, Badshahi Mosque, SBP Main Building (Karachi), and Khyber Pass. At the concluding day of this Workshop, certificates and gifts were distributed by Mr. Kazi Abdul Muktadir, Deputy Governor, SBP to the participants. He encouraged them to attend such kind of workshops in future as well.



International Women's Day

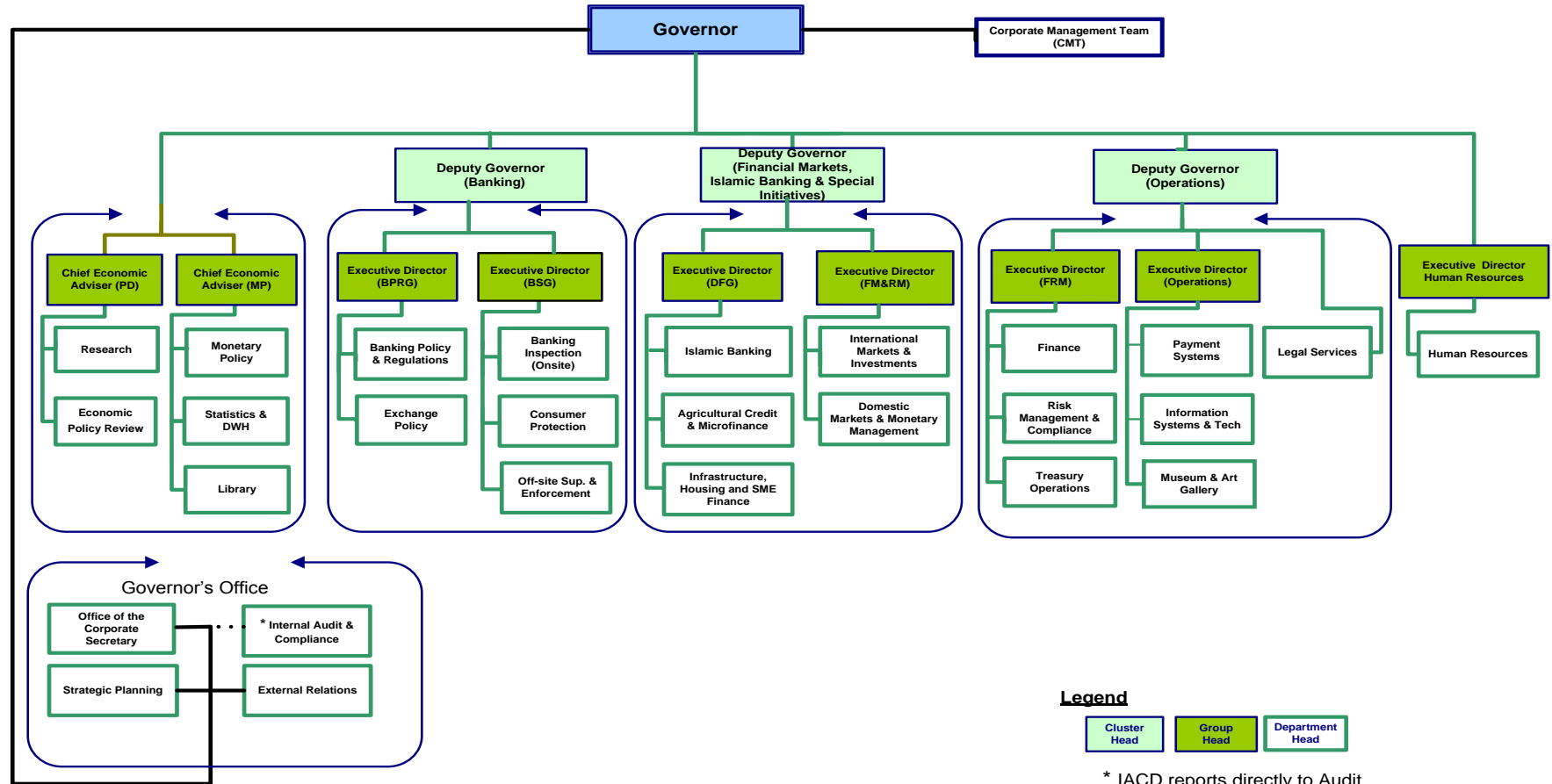
International Women's Day is celebrated globally on 8th March, every year. The same was also celebrated in the SBP Museum on March 8, 2013. A good number of lady officers of SBP and SBP-BSC participated to show solidarity with the women of the world as well as our country. At this occasion, an event “Clay Pot Painting” was held in the Museum. It was heartening to know that there was a lot of hidden talent of art in the Bank. These ladies painted clay pots beautifully. Their art was well appreciated by the Director, M&AG and others. At the close of the event souvenirs along with certificates were distributed to the participants for their encouragement and as a memory.

Summer Camp

This programme is a permanent feature of the SBP Museum and is getting refined as well as popular every year, among the children of the employees of SBP and SBP-BSC. This not only creates a soft image of the Museum but also plays an important role for the ownership and sense of belonging in SBP employees. This year the Summer Camp started with the theme of “Bringing the Youngest to the Museum”. It started in early June, 2013 from the children (of SBP employees) in the Day Care Centre of the Bank in the age group of 3-6 years. The children who attended this Summer Camp last year were really excited and already owned the Museum. Their observations were very interesting and so were their suggestions. These suggestions were noted for compliance/incorporation in future. In this summer camp, participating children were involved in different activities such as, paintings, drawing and (small scale) model making.

C Organizational Chart

Organogram- State Bank of Pakistan



Legend



* IACD reports directly to Audit Committee

D Management Directory

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Banking Cluster			
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Banking Policy & Regulations Group			
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Mr. Mohsin Rasheed	Director - CPD	mohsin.rasheed@sbp.org.pk	021-99212432

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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.)