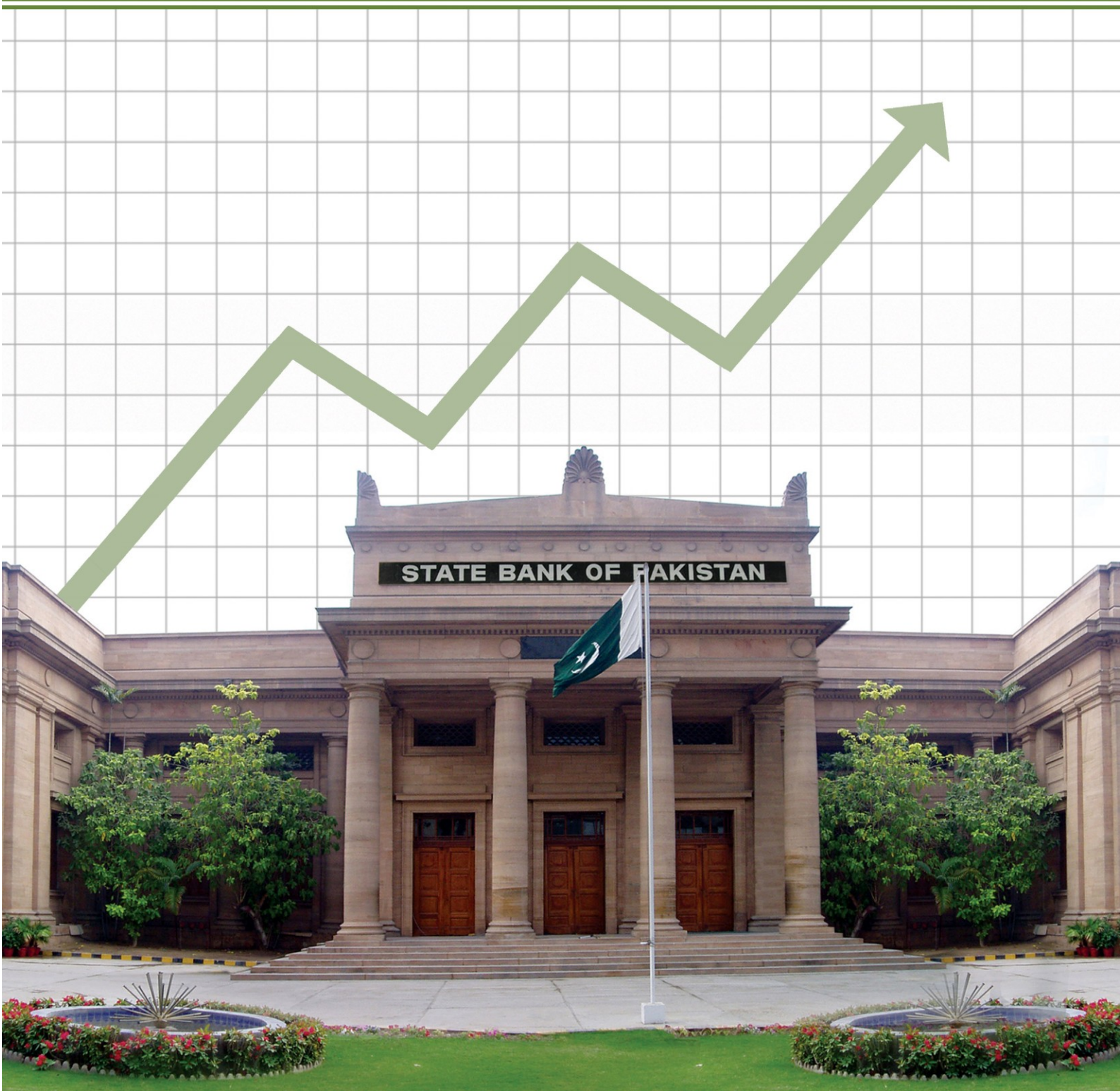




STATE BANK OF PAKISTAN

2013-2014

ANNUAL PERFORMANCE REVIEW 2013-2014



STATE BANK OF PAKISTAN ANNUAL PERFORMANCE REVIEW FY2013-14

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.

The Team

Mr. Umar Siddique

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State Bank of Pakistan
KARACHI

ASHRAF M. WATHRA
GOVERNOR

LETTER OF TRANSMITTAL

October 30, 2014

Honorable Federal Minister Dar Sahib,

As required by Section 40(2) of the State Bank of Pakistan Act, 1956, the financial statements of the Bank and auditors' report are dispatched to the Government separately.

I am pleased to enclose the Annual Performance Review of the Bank for the year ended June 30, 2014.

With kind regards,

Yours sincerely,



(ASHRAF M. WATHRA)

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

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Governor's Review

State Bank of Pakistan (SBP), being a statutory body and central bank of the country, is entrusted with number of policy, regulatory, and fiduciary responsibilities that primarily aim at ensuring monetary and financial stability and supporting growth in the best national interest of the country. During the year under review, the State Bank made headways to achieve its objectives. Following is a summary of key developments and initiatives taken by the Bank during the year:

After monetary easing in the last two fiscal years that witnessed policy rate going down from 14.0 percent to 9.0 percent, SBP changed its policy stance in September 2013. This was primarily based on growing inflation concerns and external sector vulnerabilities; although a healthy expansion in credit to private sector was recorded after nearly four years of slow growth. Thus, during H1-FY14, SBP increased its policy rate to 10.0 percent and since then, SBP has kept the policy rate unchanged. This policy stance proved conducive in keeping inflation close to the target for FY14, providing stability in foreign exchange market and anchoring inflation expectations.

During the year, Central Board of Directors of SBP proposed critical amendments to SBP Act, 1956, with the objective of bringing it in conformity with international best practices of a modern central bank. These amendments include constituting an independent monetary policy committee with external experts, enabling SBP to establish depositor's protection fund in future and allowing SBP to hold properties for the purposes of use of Shariah compliant instrument. These amendments have already been tabled in parliament and their legislation will further enhance the autonomy of State Bank.

IMF Safeguard Mission visited SBP in September 2013 for getting assurance on the adequacy of SBP's controls, accounting, reporting and auditing systems and to ensure integrity of operations. Pursuant to IMF mission's recommendation, the Bank decided to adopt IFRS as its financial reporting framework. Bank's financial statements for FY14 are fully compliant with IFRS, making SBP amongst the selected few in the Central Banks which have achieved this status.

SBP's reserve management strategy for FY14 was shaped to ensure the security and liquidity of foreign exchange reserves. This helped SBP manage its debt obligations despite a sharp deterioration of reserve position at the start of FY14. Foreign exchange reserves have bounced back from the middle of the year and are expected to improve further in FY15. SBP continued to invest in the Chinese domestic bond market, after its agreement with the People's Bank of China in FY13. Foreign exchange reserves yielded a gross return of more than 1.3 percent during FY14, which is quite high under the prevailing zero yield levels in the global financial markets.

During FY14, the bank took a number of initiatives to further strengthen the banking supervision, which adequately complies with internationally recognized Core Principles. After due assessment and modifications for local environment, Basel-III as developed by Basel Committee on Banking Supervision, was issued for implementation in Pakistan over 2013-2019. Moreover, the Prudential Regulations were revised to address emergent risks and assist institutions in better addressing their

unique risks by allowing more discretion in business decisions. To bring improvements in industry's risk management practices, the bank issued guidelines for operational risk management and incentivized the large borrowers to get them externally rated. Further, to ensure the integrity of the banking system against Money Laundering and Terrorist Financing, AML/CFT regulations were further strengthened.

Pakistan has seen substantial progress in financial inclusion, marked by supportive policy framework, a consistent positive growth in microfinance and branchless banking, greater private investment, development of vibrant market infrastructure, and increased use of innovative technologies. During FY14, SBP revised prudential regulations and guidelines for agricultural, micro and housing finance, and continued implementation of market development initiatives including risk sharing guarantees for SMEs and microfinance sectors, encouraging innovation in agri and rural financing, livestock loan insurance scheme, capacity building and awareness programs for banks and consumers. FY14 also witnessed deepening of our relationship and collaboration with international development partners. SBP initiated formulation of a National Financial Inclusion Strategy in collaboration with the World Bank to address financial exclusion in a structured and well coordinated manner.

To foster a viable alternate banking system, Islamic Banking remained a top priority for the central bank. A medium term strategic plan for Islamic Banking was launched during the year. Other key initiatives include issuance of Shariah Governance Framework, adoption of Shariah Standard on Investment Sukuk and issuance of instructions for free-of-cost priority banking services to harmonize Islamic banking industry.

Over the past 5 years, consistent growth has been witnessed in both Large Value and Retail Payment Systems owing to the increase in economic and financial activities, changing market dynamics and the proactive efforts of SBP. SBP, as current Secretariat of SAARC Payment Council (SPC), is playing an active role in developing and promoting cooperation among member countries and reforming their national Payment and Settlement Systems (PSS). A number of policy initiatives are in pipeline to improve the Financial Market Infrastructure.

State Bank continued its efforts to inculcate a culture of treating customers fairly and took a number of initiatives to strengthen the consumer protection regime. Moreover, to assist the social welfare initiatives of the government, due regulatory guidance and support was extended to facilitate disbursement of financial assistance to affectees of natural disasters and Internally Displaced Persons (IDPs).

The National Institute of Banking and Finance (NIBAF), being the training wing of the Bank, imparted training and development programs of 115 weeks of course work that were attended by 2,823 participants from local and foreign institutions during FY14. NIBAF continued to offer regional and international programs in the areas of central banking and commercial banking.

The SBP Banking Services Corporation (SBP-BSC), established in 2002 as an operational arm of the SBP, continued to perform various operational activities assigned to it, albeit there is a need to realign some of the operational activities with the changing market trends. It continued to manage currency operations, acted as banker to the Government and scheduled banks, implemented various policies on behalf of the development finance group of the State Bank and managed foreign exchange operations and adjudication. It witnessed a large number of attrition in its work force mainly due to early retirement scheme. The Management of BSC, therefore, embarked upon a major initiative to induct entry-level batches, not only to fill the HR gap in terms of head count but also to improve the skill

mix of its work force. It is in the process of gearing itself to meet the emerging challenges especially in the areas of automated handling of currency and e-banking to provide better quality services to its stakeholders besides substantially improving internal controls.

Subsequent to year end, certain significant developments have taken place which requires a brief mention. The Bank has now constituted an advisory committee on monetary policy to strengthen the process of monetary policy formulation. The Bank has also been able to resolve a longstanding issue of restructuring of Zarai Taraqiati Bank Limited and House Building Finance Company Limited, the implementation of which is underway.

At the end, I am pleased to report that twelve meetings of the Central Board were held during FY14, out of which five meetings were to decide the Monetary Policy stance. During the year, I took charge as Governor, SBP subsequent to the resignation of Mr. Yaseen Anwar, ex-Governor on January 31, 2014. Further, Mr. Saeed Ahmad was also appointed as a Deputy Governor, to join the existing DG Mr. Kazi Abdul Muktadir.

To conclude, I acknowledge the support extended by SBP's Central Board of Directors to address the challenges entrusted to me as Governor. I am confident that with competent and dedicated human resource, the Bank will be able to capitalize on the successes gained in the areas of monetary management, financial stability, and governance. I also expect that the employees of the Bank will continue to uphold the traditions of hard work, dignity, and professionalism towards achieving the strategic goals of the Bank.

Ashraf Mahmood Wathra
Governor
State Bank of Pakistan.

Dated: 25-10-2014

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 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. The current composition of the Board brings a diverse range of professional expertise adding value to the deliberations. Brief profiles of the members of the Board are given on pages 8-9. Twelve meetings of the Central Board were held during FY14 out of which five meetings were convened to decide the monetary policy stance.

The Governor

The Governor of the State Bank of Pakistan is appointed by the President of Pakistan for a term of three years which is renewable once. Mr. Ashraf Mahmood Wathra was appointed as Governor, SBP with effect from April 29, 2014, for a period of 3 years. Prior to assuming charge as the Governor SBP, he was appointed as Deputy Governor (Banking) on March 11, 2013. He was also appointed as Acting Governor on January 31, 2014 subsequent to the resignation of Mr. Yaseen Anwar, ex-Governor, SBP. Mr. Wathra is an MBA with major in Finance. He has vast relevant experience in domestic and international markets. He has worked in eight regulatory regimes in South East Asia & Far Eastern countries, and carries valuable skills and knowledge in Banking, Business, and financial affairs of economies.

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

Deputy Governors

During FY14, Mr. Saeed Ahmad was appointed as a Deputy Governor with effect from January 21, 2014 while Mr. Kazi Abdul Muktadir was already working as Deputy Governor since July 6, 2012.

Central Board of Directors¹



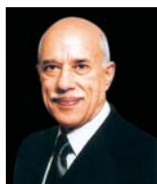
Mr. Ashraf Mahmood Wathra, Governor/Chairman

Governor and Chairman since April 29, 2014² Mr. Wathra brings 35 years of commercial and investment banking experience to the Bank. He has worked in eight regulatory regimes in South East and Far East Asia including Singapore, Hong Kong, and Australia. He has also served on Board of Director of several Financial Institutions.



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

Secretary, Finance Division, Government of Pakistan. He has also served as Special Secretary to the Prime Minister, Secretary, Economic Affairs Division, and Additional Secretary, Prime Minister's Secretariat. Prior to his current term, he has 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 (Wolfson College) and former Member of the Board of the National School of Public Policy, Pakistan. He has served as Ambassador to Italy, Secretary Commerce, Government of Pakistan, Chief Secretary Baluchistan, and Chairman/CEO of Pakistan Steel Mills Limited. He has also been the President, WFP Executive Board and Director, IFAD Executive Board.



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

Former Managing Director, Pakistan International Airlines. He has served at key positions in the leading public and private enterprises. He is serving on the Board of Directors of leading organizations. He is also Fellow of Chartered Institute of Transport, UK, Royal Aeronautical Society, UK, and has been Chairman of Chartered Institute of Logistics and Transport, Pakistan.



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

A chartered accountant by profession and founding member of Anjum Asim Shahid Rahman (AASR). He has rendered a diverse range of advisory 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, 2014.

² He has also remained Acting Governor/Chairman of the Board from January 31 to April 28, 2014.



Mr. Khawaja Iqbal Hassan (Member, SBP Board since February 26, 2013)
A seasoned banker who established a commercial bank and a leading investment banking firm. He is serving on the Board of Directors of prominent public and private enterprises. He has also served on many Task Forces established by the Government of Pakistan. Mr. Hassan was awarded the Sitara-i-Imtiaz for his meritorious contribution to the national interests.



Mr. Mehmood Mandviwalla (Member, SBP Board since February 26, 2013)
Founding and Senior Partner of the law firm Mandviwalla and Zafar. Having a professional experience of over 30 years in the field of banking and finance; privatisation; mergers and acquisitions and capital markets; he has contributed in drafting various statutes and regulatory frameworks of the country. He is also a founder and past President of SAARCLAW and is currently serving as a member of its Executive Council.



Mr. Iskander Mohammed Khan (Member, SBP Board since February 26, 2013)
A chartered accountant and Director of Premier Group of Companies. He has served as Chairman of several industrial bodies and was twice elected as Chairman of the Pakistan Sugar Mills Association. He has also served on the Board of Directors of Pakistan State Oil, Oil and Gas Development Company, Zarai Taraqiati Bank and Islamabad Stock Exchange.



Mr. Muhammad Hidayatullah (Member, SBP Board since March 15, 2013)
A chartered accountant by profession and a Senior Partner of M. Hidayatullah & Company (MHCO). He has an extensive experience of 34 years in providing consultancy services for privatization, dis-investment, merger and acquisitions of top-notch public and private sector institutions involving local and overseas clientele.



Mr. Zafar Masud (Member, SBP Board since March 16, 2013)
Director and Co-Founder of Burj Capital, a leading private equity firm. He has served at several senior level positions with international financial institutions in their domestic and international operations and served on their key management committees. Presently he is serving on the Board of Directors of leading public sector organizations.

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 management. The Corporate Secretary is responsible for recording the proceedings of the 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 the responsibilities of organizing meetings of the Central Board and its Committees, the Corporate Secretary 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 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 fourteen times during the year.

Committee on Audit is chaired by Mr. Muhammad Hidayatullah with Messieurs Mirza Qamar Beg, Khawaja Iqbal Hassan, Iskander M. Khan and Shahid Ahmed Khan as members.

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.

Committee on Investment is chaired by Mr. Ashraf Mahmood Wathra with Messieurs Waqar Masood Khan, Khawaja Iqbal Hassan, Iskander M. Khan and Zafar Masud as members.

Committee on Human Resources

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

Committee on Human Resources is chaired by Mr. Mirza Qamar Beg with Messieurs M. Nawaz Tiwana, Mehmood Mandviwalla and Zafar Masud as members.

Publication Review Committee

Publication Review Committee of the Board was constituted on December 17, 2013 to assist the Central Board in the review and approval of the Annual and Quarterly Reports on the State of the Economy. The Committee deliberates on the draft reports and reviews them for the consideration and final approval of the Board. The Committee met five times during the year.

Publication Review committee is chaired by Mr. Zafar Masud with Messieurs Mirza Qamar Beg and Muhammad Hidayatullah as members.

Enterprise Risk Management Committee

The Committee was constituted on March 15, 2014 to assist the Central Board in fulfilling its oversight responsibilities with respect to risk management in the Bank by ensuring the establishment of an Enterprise Risk Management Framework that identifies, assesses, monitors and mitigates to the best extent possible identifiable risks for the Bank. The Committee also coordinates with ERM Committee of Management and, as required, other Committees of the Board. The Committee is also mandated to oversee risks emerging from the subsidiaries i.e. SBP-BSC and NIBAF until such time that the subsidiaries set up their own ERM structures and committees. The Committee met three times during the year.

Enterprise Risk Management Committee is chaired by Khawaja Iqbal Hassan with Messieurs Mirza Qamar Beg, Shahid Ahmed Khan and Muhammad Hidayatullah as members.

SBP Act Review Committee (task based)

The Committee was constituted on February 15, 2014 with a task to review the proposed amendments in the SBP Act and to submit its recommendations to the Board. The Committee convened three meetings to complete the review process and ceased to exist on April 1, 2014 when the recommendations in the SBP Act were submitted to the Parliament.

SBP Act Review Committee is chaired by Mehmood Mandviwalla with Messieurs Mirza Qamar Beg, Khawaja Iqbal Hassan, Muhammad Hidayatullah, and Zafar Masud as members.

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 Team³



Mr. Ashraf Mahmood Wathra, Governor



Mr. Kazi Abdul Muktaadir
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 (BPRG)



Mr. Qasim Nawaz
MD SBP-BSC



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



Syed Samar Hasnain
Executive Director (DFG)



Syed Irfan Ali
Executive Director (BSG)



Ms. Sahar Z. Babar
Director OCS / Corporate Secretary

³ CMT Composition is as of June 30, 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
- Internal Monetary Policy Committee
- 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
- Business Continuity Management Committee

SBP Subsidiaries

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

SBP-BSC

Established under the SBP-BSC Ordinance 2001, SBP-BSC is a fully owned subsidiary of SBP and is entrusted to perform tasks such as handling of currency and credit management, facilitating the inter-bank settlement system, and sale/purchase of savings instruments of the Government on behalf of 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.

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.

1 Formulation and Effectiveness of Monetary Policy

1.1 Monetary Policy Formulation

After monetary easing in the last two fiscal years that witnessed policy rate going down from 14.0 percent to 9.0 percent, SBP changed its policy stance in September 2013. The change was primarily based on growing inflation concerns and external sector vulnerabilities; although a healthy growth in credit to private sector was recorded after nearly four years of sagging rates. During H1-FY14, SBP increased its policy rate by a cumulative 100 basis points (bps) to 10.0 percent; 50 bps each in September and November 2013.

During H2-FY14, sentiments of the economy improved due to positive developments in headline variables. More specifically, receipt of foreign inflows under Pakistan Development Fund, successful issuance of Eurobonds, inflows from auction of 3G/4G spectrum and loans from multilateral agencies all added to a surplus in the capital and financial accounts. Further, relatively low IMF repayments also eased some of the pressures on SBP reserves in H2-FY14. Since then, SBP has kept the policy rate unchanged as vigilance was required to ensure sustainability and improvement in key economic indicators. Indeed, this policy stance has yielded positive results as in addition to broadly accomplishing the inflation target for FY14, foreign exchange market remained stable.

With the objective of stimulating discussions on contemporary macroeconomic issues, SBP released nine working papers during FY14. Applying various methodologies and econometric techniques, the papers focused on different aspects of Pakistan economy. These include, among others, stability of money demand function, external debt, economic growth, measures of core inflation, interbank liquidity, and transmission mechanism of monetary policy.

1.2 Research

Micro level research continued during the year with the objective to facilitate the management in forward-looking policy decision making. Consumer confidence and inflation expectations surveys were conducted regularly. And its results were used for analysis of economic conditions in the country and monetary policy deliberations. Work on a customized small open economy Dynamic Stochastic General Equilibrium (DSGE) model for Pakistan was initiated and a report on “changing trends in labor markets of Pakistan” completed during the year.

To assess behavior of demand and supply of corporate and SME business loans in Pakistan, a credit assessment survey was launched through selected senior officers of all domestic and foreign banks across the country. This survey is still in progress. And to understand supply and demand dynamics of agriculture credit in Pakistan, SBP initiated an agriculture credit experiment to study agriculture credit trends. During the year, the scope of the survey was expanded in terms of number of farmers and credit size. Preliminary results from the survey were shared with the senior management of the Bank. Detailed report will be shared with all the stakeholders in due course.

In April 2014, the State Bank of Pakistan published a study on Monetary Policy Framework in SAARC region. The study provides a comprehensive analysis of existing monetary policy framework in the SAARC countries. The diversity in the implementation and formulation of monetary policy practices in SAARC countries provides an opportunity to learn from each other’s experiences and for increased cooperation in mutually beneficial areas. The study also provides a good starting point in

having an assessment of where SARRC, as a group, stands today and what are the gaps from global best practices that needs to be filled.

During the year under review, SBP organized a seminar on "Risk Management Framework in Banks under the aegis of SAARCFINANCE - the Network of SAARC central bank governors and finance secretaries. The Seminar was aimed at sharing knowledge and experience of SAARC member central banks in the areas of risk management and resolution of specific issues in their respective jurisdictions. The delegates from member countries presented their Country Papers on the subject issue.

1.3 Economic Analysis and Publications

SBP evaluates performance of different sectors of the economy, as well as prevailing economic policies under a broader framework. Economic analysis is disseminated through SBP's flagship publications, i.e., the Annual and Quarterly Reports. During the year, the bank produced and published an Annual Report, and three quarterly reports on state of the economy. These reports were submitted to both Houses of the Parliament as required by SBP Act.

As usual, the reports generated informed debate on economic performance of Pakistan among academia and in the press/media. The Annual Report for FY13, presented in-depth assessment of various sectors of the economy including, real sector, energy, inflation, monetary policy, fiscal operations, public debt, and external sector. Moreover, it also included a number of boxes and special sections focusing on topical issues. SBP's quarterly reports captured the changing trend of macroeconomic indicators and sentiments about the economy during FY14.

SBP produces various other publications that provide macroeconomics and financial stability analysis, in addition to disseminating detailed statistical information on various sectors of the economy. Notable among these publications are "Financial Stability Review" (bi-annual), "Monetary Policy Statement" (every other month), "Inflation Monitor" (monthly), "Islamic Banking Bulletin" (yearly), "Branchless Banking Newsletter" (quarterly) and "Development Finance Review" (annual).

Financial Stability Review (FSR) serves as an important tool for assessment of financial stability and is considered an effective device for a macroprudential policy toolkit. The FSR provides comprehensive coverage of financial sector encompassing analysis of banks, DFIs, insurance sector, Non Banks Financial Institutions, financial markets, payment and settlement systems. It aims at highlighting key risks and vulnerabilities to policy makers, market participants, and the public at large. The recent FSRs for the year 2013 highlighted impact of various issues like energy crises and circular debt on banking balance sheet, increasing exposures of the Government on financial sector and limited credit flow to private sector, high stock of NPLs, frictions in financial markets, solvency issues, developments in Islamic banking and payment system. The stability analysis also indicated the reasons behind improvement in operating performance and solvency of the financial system, while highlighting impediments in effectiveness of intermediation and risks facing the financial system.

Two of SBP's activities are noteworthy from academic research point of view. First is the SBP working paper series, which release quality research articles on SBP website that are internal peer reviewed. Second is the SBP Research Bulletin (annual) which is an academic journal listed in American Journal of Economic Literature. SBP also regularly publishes several statistical publications that include "Statistical Bulletin" (monthly) "Statistics on Scheduled banks in Pakistan" (half yearly), "Banking Statistics of Pakistan" (Annual), "International Investment Position of Pakistan" (annual) and "Financial Statement Analysis of Financial Sector" among others.

1.4 Data Management

At SBP, the business processes of data compilation are mainly automated. The International Transactions Reporting System for online data acquisition of monthly foreign exchange returns from banks through data warehouse underpins the compilation of BOP and other statistics relating to external sector.

The statistics are compiled in line with the international compilation and dissemination standards. IMF's Manual on Balance of Payments and International Investment Position, 6th edition (BPM6), External Debt Statistics Guide of Compilers and Users, Monetary and Financial Statistics Manual 2000 (MFSM) and United Nations Manual of Statistics of International Trade in Services-2010 (MSITS 2010) are broadly followed as guidelines for the compilation of Statistics. State Bank of Pakistan is committed to produce quality statistics with high degree of reliability, timeliness, and follows General Data Dissemination System (GDDS) of the IMF. The Bank also fulfils the requirements of Special Data Dissemination Standard (SDDS) of the IMF.

Box 1.1: Major Steps taken for Improvements in Data Management System

SBP's notable achievements in data compilation, dissemination procedures and adopting international standards include:

- Implementation of IMF's Manual on Balance of Payments and International Investment Position (BPM6) for compilation of Balance of Payments and International Investment Position
- Compilation of quarterly External Debt Statistics broadly in lines with External Debt Statistics Guide for Compilers and Users -2013
- Compilation of international trade in services in line with the Manual of Statistics of International Trade in Services-2010 (MSITS 2010) classification consistent with Extended Balance of Payments Services - EBOPS (classification)
- Compilation of Coordinated Portfolio Investment Survey (CPIS) on semi-annual basis
- Development and dissemination of data archive on SBP web to facilitate users in undertaking statistical and

2 Payment Systems

2.1 Payment and Settlement Systems

Payment and Settlement Systems being an important component of financial infrastructure play an instrumental role in the financial stability of the country; and their smooth, safe, reliable and efficient functioning promotes economic activities by boosting consumers' confidence on these systems.

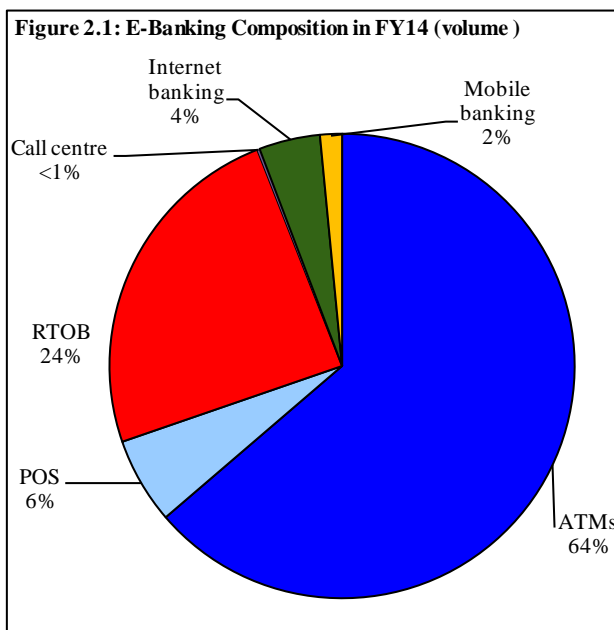
In Pakistan, Payment Systems infrastructure is gradually transforming from traditional paper-based mechanisms to electronic modes through channels like ATMs, Real Time Online Banking (RTOB), Mobile Banking, Call Centers and Internet Banking. Moreover, settlement of Large Value Payments through Pakistan Real-time Interbank Settlement Mechanism (PRISM) - the Real Time Gross Settlement (RTGS) system of Pakistan, managed by SBP, has greatly facilitated financial markets in reducing the settlement and systemic risks.

2.2 Retail Payment Systems

Retail Payments are generally consumer payments of relatively lower value conducted either through paper-based instruments (cheques, pay orders, demand drafts, telegraphic and money transfers etc.) and / or electronic channels like ATMs, Point of Sale (POS), Internet Banking, Real Time Online Banking (RTOB) etc. **Fig. 2.1** shows the composition of banking transactions carried out through electronic channels referred here as e-banking in which ATM remains the most preferred mode of conducting payments (64 percent) followed by RTOB (24 percent).

Over the past 5 years, e-Banking transactions have witnessed a significant growth in the country. Compared to FY09, the volume and value of such transactions have increased by 154 percent and 134 percent respectively. Compared to FY13, the volume and the value of e-banking transactions increased by 26 percent and 13 percent respectively during FY14. However, number of transactions through Call Centre & IVR Banking have decreased from 0.9 million in FY10 to 0.7 in FY14. The reason for this decline was due to significant shift of consumers towards other more convenient electronic channels such as Mobile Banking, Internet Banking, ATMs etc.

As public in Pakistan heavily relies on ATMs for cash withdrawals especially during festive occasions like Eid, SBP has been focusing on improving the availability of ATM related services in the country. Specific instructions and guidelines have been issued to commercial banks from time to time to ensure maximum availability of ATM services round the clock and their performance is continuously being monitored by oversight desks.



Number of Points of Sale (POS) / Merchants offering goods & services on credit & debit cards has considerably decreased from 52,000 in FY10 to around 33,748 till FY13. Negative viability of the POS for acquirers has mainly attributed to the above decrease. Number of Credit Cards has also declined from 1.7 million in FY10 to around 1.2 million till FY13. The main reason attributed to this decline is a shift of consumers to Debit Cards that are equally useable at ATMs and POSs.

SBP has undertaken a major initiative of standardizing the Financial Articles in the country. In its first phase, the industry wide implementation of International Bank Account Number (IBAN) based on ISO 13616 was achieved. IBAN will reduce transcription errors as well as facilitate smooth integration of various payment systems. During FY14, after extensive consultation with the banking industry, SBP issued a new standard for standardizing the layout, sizing, stamping and security features of customers' cheques. The new standard is derived from best international practices and also includes IBAN in place of regular account number. Banks have been advised to start issuing cheque books to their customers as per the new format latest by 1st January 2015. Adoption of new standard by the banking industry will significantly increase the speed and overall efficiency of cheque clearing system, reduce the processing costs in the longer run and minimize chances of errors and forgeries.

2.3 Large Value Payment System

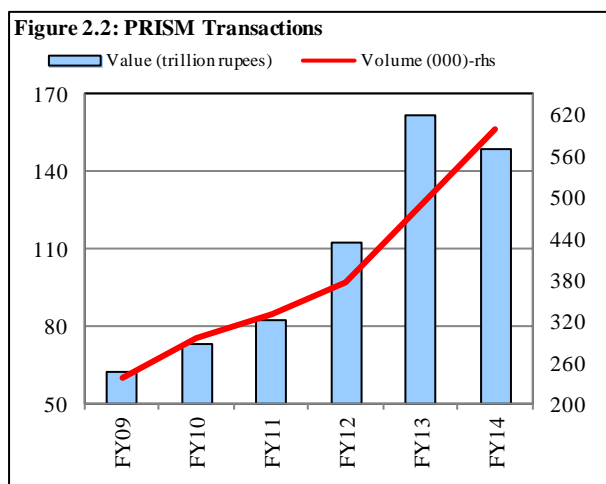
PRISM System provides real time settlement of government securities, interbank fund transfers, other inter-bank obligations arising from clearing of paper based instruments and payments of individual consumers and corporate customers of the banks over certain limits. Currently, PRISM has 45 direct participants consisting of Commercial Banks, Development Finance Institutions (DFIs), Microfinance Bank and Central Depository Company (CDC).

In FY14, the volume and value of transactions processed by PRISM system crossed 600 thousand and Rs.149 trillion respectively as compared to 236 thousand and Rs.62.2 trillion in FY09 (**Figure2.2**) This indicates an increase of 154 percent in volume and 140 percent in terms of value.

Further, during FY14 the PRISM system settled Rs. 75 trillion (50.3 percent) worth of government securities, Rs. 61.5 trillion (41.2 percent) worth of interbank bank settlements and Rs. 12.7 trillion (8.5 percent) worth of paper based instruments were cleared through NIFT.

2.4 Regional / International Payments

State Bank of Pakistan is currently managing the Secretariat for SAARC Payment Council (SPC). SPC is a forum of Central Banks of SAARC countries to collectively develop strategies for the improvement of payment systems in the SAARC region. The Secretariat is playing an active role in developing and promoting cooperation among member countries and reforming their national Payment and Settlement Systems (PSS) to facilitate trade and investment flows in the region. The SPC meets bi-annually in one of the member countries on rotation basis.



SBP also realizes that robust payment mechanisms are essential for financial stability and supporting financial inclusion in the country; Payment (Systems) Service Providers (PSPs) and Payment System Operators (PSOs) are also important components of Financial Market Infrastructure (FMI) of the country. There are various applications areas in which these PSPs and PSOs generally operate in the market such as Electronic Payment Gateway Service Providers, E-Commerce Gateway Service Providers, Automated/ Electronic Clearing Houses, Switch Operators, Remittance Gateway Service Providers, Payment Schemes and Point of Sale (POS) Gateway Service Providers. SBP is in the process of finalizing rules for establishing and operating such businesses of PSO and PSP in Pakistan.

Table 2.1 Payment & Settlements Systems

Item		FY09	FY10	FY11	FY12	FY13	FY14 ^P	CAG %
1. Electronic Banking and its Composition								
No. of Transactions	Million	159.8	196.5	234.8	277.4	320.5	405.4	20.5
Value of Transactions	Trillion Rs.	14.4	17.3	22.1	26	29.7	33.7	18.5
2. Real-time Online Banking (RTOB) Transactions								
No. of Transactions	Million	47.3	60.6	74.4	83.1	89.1	98.5	15.8
Value of Transactions	Trillion Rs.	13.5	16.2	20.7	24	27.1	30.2	17.5
3. Automated Teller Machines (ATMs)								
No. of Transactions	Million	91.1	115.7	137.7	166.2	199.8	258.5	23.2
Value of Transactions	Trillion Rs.	0.7	0.9	1.2	1.6	2	2.6	30.0
4. Point of Sale (POS)								
No. of Transactions	Million	18.3	15.7	14.3	17.4	17.3	24.3	5.8
Value of Transactions	Billion Rs.	90	75	70	80	87	124.6	6.7
5. Internet Banking								
No. of Transactions	Million	2.1	3	4.4	6.9	9.6	17.3	52.5
Value of Transactions	Billion Rs.	68	141	209	365	498.8	684.1	58.7
6. Mobile Banking								
No. of Transactions	Million	0.1	0.6	3.3	3.1	4.2	6.2	128.3
Value of Transactions	Billion Rs.	0.2	2.2	8	12	27	67.4	220.3
7. Call Center & IVR Banking								
No. of Transactions	Million	0.9	1	0.8	0.7	0.6	0.7	(4.9)
Value of Transactions	Billion Rs.	9	7	7	7	8.1	9.5	1.1
8. Numbers of:								
i. Online Branches		6,040	6,671	7,416	9,291	10,013	10,640	12.0
ii. ATM		3,999	4,465	5,200	5,745	6,757	8,240	15.6
iii. Credit Cards (in Million)		1.7	1.6	1.4	1.2	1.2	1.3	(4.9)
iv. Debit Cards (in Million)		6.4	8.2	12	16	20.2	23.1	29.7
v. Point of Sale (POS)		49,715	52,049	37,232	34,879	33,748	34,428	(7.1)

P - Provisional as on 30th June 2014, CAG - Compound Annual Growth

3 Ensuring Soundness and Efficiency of Financial System

One of the core responsibilities of the State Bank is to regulate and supervise the financial system⁴ to ensure its soundness and stability for the realization of broader objective of economic growth and development. The Bank makes efforts to promote financial stability, efficiency, consumer confidence, and market discipline in the banking industry. It is important to note that the State Bank's supervisory framework adequately complies with the internationally recognized Core Principles of Effective Banking Supervision. However, the bank continually endeavors to further strengthen this framework and make it compatible with dynamic global and local environment to ward off any risks to the financial stability. In this regard, the bank took the following leading measures during FY14.

3.1 Regulatory Initiatives for Enhancing Financial Stability and Efficiency

3.1.1 Strengthening the Solvency and Liquidity Standards- Implementation of Basel-III

The Basel Committee on Banking Supervision (BCBS) issued a new capital accord commonly known as Basel III in 2010, to be implemented in a phased manner over 2013 to 2019. The salient features of the framework include changes in the capital structure, introduction of capital buffers, liquidity ratios (Net Stable Funding Ratio and Liquidity Coverage Ratio) and a leverage ratio. To align its regulatory framework with international best practices, the State Bank conducted a series of extensive Quantitative Impact Studies (QIS) and deliberations to assess the impact of new Basel Standard on Pakistani banking system. After detailed assessment, SBP issued guidelines on Basel-III in August 2013, with an implementation timeline of 2013 to 2019.

3.1.2 Revision of Prudential Regulations

During the year under review, revised prudential regulations for the corporate and commercial banking were issued to align the existing regulatory framework of the SBP with the changing business environment and the best international practices. Key objective of the revised regulations is to help the banks and DFIs to address their unique risk factors and dynamic environment in a better way by allowing them more discretion in business decisions. These regulations also identify minimum prudential benchmarks in critical risk areas to balance the consideration of financial stability vis-à-vis diversity and innovation. In line with emerging trends and risks, the revised regulations introduced prudential limits on exposures to related party, large borrowing concentration, and real estate.

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

The State Bank has been taking measures since long to prevent the use of banking channels for the purposes of money laundering (ML) and terrorist financing (TF). The AML/CFT Regulations were further strengthened to cover all important aspects of preventive measures as per international standards including customer due diligence, correspondent banking, wire transfers requirements for sending and receiving funds, reporting of suspicious transactions, keeping records of banking transactions for ten years, risk-based approach as per internal risk assessments and other requirements on internal controls, policies, compliance, audit and training.

⁴ Financial system under the SBP regulation and supervision comprises banks, Development Finance Institutions (DFIs), Microfinance banks, and Exchange Companies.

3.1.4 Guidelines on Operational Risk

To facilitate the institutions in strengthening their operational risk management systems and move towards advance approaches for the measurement of operational risk, the State Bank outlined Principles for Sound Management of Operational Risk and minimum standards for operational risk/loss data collection and implementation by the banks. Banks are allowed to make enhancements in the standards in the light of their own experiences and requirements while adopting these instructions.

3.1.4 Promotion of Rating Culture in Pakistan

To promote rating culture in Pakistan and strengthen the risk management practices, risk based capital adequacy rules in respect of large unrated borrowers have been changed to encourage them for getting themselves rated. Resultantly, banks' internal credit risk assessment will be strengthened, leading to capital savings for banks and rationalization of cost of borrowing for the rated entities. In this regard, the risk weight has been increased from 100 percent to 125 percent (effective from December 31, 2014) for all unrated private sector borrowers who have aggregate outstanding exposure from financial institutions of Rs3 billion or above.

3.2 Improvements in Surveillance Framework

Since global financial crisis, several areas have been identified as crucial for increased regulatory oversight. These include consolidated supervision, stress testing, risks concentrations, and early interventions tools for resolution of distressed banks. In line with global supervisory landscape, the State Bank took the following initiatives to strengthen surveillance of the institutions under its supervisory ambit:

3.2.1 Assessment of Institutions' Resilience towards Shocks - Stress Testing

The central banks across the globe are making increasing use of macro-stress testing for the assessment of financial stability. The State Bank currently focuses on the credit risk assessment of banking industry's loan portfolio against shocks in major macro-economic risk factors. To further strengthen the framework, SBP received Technical Assistance from IMF. The mission appreciated significant progress in the overall stress testing framework of SBP. A cross cluster team has been formed for developing consistent macro scenario that involves the complex process of identifying potential risks, ascertaining possible channels of transmission and reasoning about feedback effects from the financial sector back to the real economy. The process is expected to further strengthen the SBP's macro stress testing framework.

3.2.2 Monitoring of Large Exposure

One of the key risks to financial sector stability is build up of systemic risk mainly from concentration of credit. In line with international best practices, the SBP laid down an extensive mechanism for monitoring of large exposures by clearly defining large exposures and assigning specific concentration limits on party/group, instruments (debt, equity), currency, clean exposure, related party exposure, etc.

3.2.3 Consolidated Supervision Framework

Over the last couple of years, the State Bank has established a framework for consolidated supervision of banks and financial conglomerates. Under this framework, the State Bank identifies the group structures of banking groups and constantly monitors them to identify and manage the risks posed by the conglomeration. For this purpose, a joint task force of the State Bank and the Securities and Exchange Commission of Pakistan (SECP) has also been formed to share information and coordinate their supervisory efforts. Besides surveillance of banking groups during the year, the supervisory

system and coordination mechanism with the SECP was further strengthened by developing early warning signals for the monitoring of financial conglomerates.

3.2.4. Strengthening of Supervisory Processes

To further improve supervisory processes, following major improvements in on-site inspection and off-site supervision processes were made during the year:

- Operations and Foreign Exchange & Treasury Inspection manuals have been revised with extended scope to cover financial derivatives.
- A separate off-site surveillance framework for exchange companies has been formulated. This framework comprises six components namely; corporate governance(C), Operations (O), System and controls (S), AML/CFT measures and approach (A), Returns and statements (R) and Financial statements (F). This framework will enhance the effectiveness of supervision of exchange companies.
- The rating parameters were realigned to ensure uniformity in assessment of CAELS and CAMELS assessments.

3.3 Developments in Supervision

The State Bank's supervision system comprises both on-site and off-site supervision of its regulated entities. The on-site supervision of banks, DFIs and MFBs is based on CAMELS framework (Capital, Asset Quality, Management, Earnings, Liquidity, and System & Controls) while off-site surveillance is based on CAELS (Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Other Risks) framework. The supervisory process focuses on the overall risk assessment of institutions and effectiveness of their policies and procedures, control environment, and compliance with laws, regulations and supervisory directives. Necessary enforcement actions and follow up are conducted to alleviate the regulatory concerns as observed during the supervisory process.

During FY14, SBP carried out inspection of a number of Banks, DFIs, MFBs and Exchange Companies. The inspection teams recorded observations on different regulatory issues that were highlighted in the inspection reports for corrective action and followed up by the State Bank for the enforcement of these actions. Besides the regular supervision, a number of special investigations and thematic inspections were conducted to address specific issues and risks.

3.3.1 The State Bank's Representation on FSB-RCG-Asia

Being a member of Financial Stability Board's Regional Consultative Group for Asia, the State Bank has effectively participated and contributed in the deliberations of the forum. FSB-RCG Asia formed two working groups for conducting studies on *Impact of the SIFI Framework on the Asian Region and Measures in Response* and *Shadow Baking in Asia*. The SBP provided its detailed input to these working groups. The reports of both these groups were published by FSB in August 2014. The bank also participated in an informal study group on *Long-Term Investment (LTI)*, to assess the current state of long-term investment finance and identify important factors for promoting supply of long-term investment and financial stability in Asian context.

3.4 Increase in Domestic and Global Outreach of banks/MFBs:

3.4.1 Opening of New Branches: Banks/MFBs were allowed to open 791 new branches⁵ which included 485 conventional banking branches, 245 Islamic banking branches and 61 microfinance branches. Accordingly, total number of bank branches in the country rose to 12,465 in June 2014.

3.4.2 Overseas Expansion: Presently, eight Pakistani banks are operating in 37 countries of the world in different modes (branches, representative offices and subsidiaries). During FY14, SBP allowed Pakistani banks to further expand their overseas operations in Ireland, Sri Lanka, United Arab Emirates, Bangladesh, Kenya, Malaysia and Seychelles.

3.5 Facilitation of Government Initiatives

3.5.1 Promotion of Social Welfare Initiatives

The State Bank has been facilitating the Government of Pakistan (GoP) in its various initiatives for social welfare. Necessary regulatory instructions and guidelines were issued to support the disbursement of financial assistance to affectees of natural disasters and Internally Displaced Persons (IDPs) due to war on terror. During FY14, the bank continued its support by facilitating Benazir Income Support Program for disbursement of funds to the beneficiaries through smart cards.

3.5.2 Privatization of Public Sector Shareholding in a Bank

The State Bank extended required support to Privatization Commission for divestment of 19.8 percent shareholding in United Bank Ltd. The said privatization transaction generated a gross proceed of Rs38.2 billion (around US\$ 387 million, including foreign portfolio investment of US\$310 million) 81.4 percent of which was subscribed by foreign investors.

3.6 Consumer Protection

The State Bank has been endeavoring to inculcate a culture of treating customers fairly and strengthen the Conduct Supervision. The regulated institutions are advised to improve their consumer grievance redressal mechanisms. The Consumer Protection Department (CPD) redressed a total of 4,830 instant issues during FY14. Moreover, a total of 5,676 e-CIB related complaints were resolved mostly within three to seven days.

In order to strengthen consumer protection regime, the CPD took a number of initiatives during FY14 including: a)- Introduction of 'Enhanced Security Features for Cheques', b)- Development of 'Accessible Banking Infrastructure for Special Persons', c)- Introduction of Credit Card Summary Box to secure the financial consumers from unfair sale practices and to clarify terms and conditions to consumers d)- Grievances of the age pensioners were alleviated by developing on-site surveillance for effective monitoring of pensions disbursement and provision of "Direct Credit of Pensions in the Account" facility, e)- holding consumer education and awareness programs for different segments of the society and dissemination of consumer protection related information and instructions through print media.

⁵ Include sub-branches as well.

4 Broadening Access to Financial Services

4.1 Development finance for priority sectors

During FY14, SBP further accelerated momentum for development finance in the areas of Agriculture, Microfinance, SMEs, Housing and Infrastructure. Regulatory framework for financing to these priority sectors has been strengthened by issuance of new prudential regulations or relevant guidelines in line with international best practices. SBP also provided its full support for market development through credit risk sharing mechanism for promoting development finance in Pakistan. Capacity building programs for the banks and grass root awareness events were held across the country. SBP is collaborating with the World Bank to develop National Financial Inclusion Strategy for the country to address massive financial exclusion issue in a structured and well coordinated manner. Sector-wise details of initiatives taken by SBP are as under:

4.2 Promotion of Agricultural Credit

SBP has taken a number of initiatives to increase farmers' access to formal sources of credit during FY14. These include revisions in Prudential Regulations for Agriculture Financing, enhancement of indicative credit limits, revisions in list of eligible items, capacity building and awareness creation programs for banks and farmers, pilot projects for diversification of agri. credit and one window operations (**Box 4.1**).

Box 4.1: SBP's Initiatives for Promotion of Agricultural Credit during FY 14

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

- 1) Revision of PRs for Agriculture Financing:** SBP has revised Prudential Regulations (PRs) for Agriculture Financing to strengthen prudent lending practices, enhance credit discipline and promote product diversification.
- 2) Report on Indicative Credit Limits & List of Eligible Items for Agri Financing:** This report has been revised in order to expand the scope of agri. financing and align the cost of production in view of prevailing inflationary pressures. The revisions are expected to facilitate in diversification of farming activities and increasing the loan size.
- 3) Pilot Projects:** SBP has launched a series of pilot projects promoting formal lending in underserved agri. intensive districts of the country. The pilots have been successful in meeting 99 percent of the disbursement target and 88 percent of fresh borrowers target.
- 4) Livestock Insurance Scheme for Borrowers:** SBP has launched Livestock Insurance Scheme which would mitigate the default risk of borrowers in case of loss of animals. This has encouraged banks to increase lending to this sector.
- 5) Farmers' Financial Literacy & Awareness Program (FFLP):** SBP is conducting a series of Farmers Financial Literacy and Awareness programs on agri. financing throughout the country. The objective is to create awareness among the farmers and educate them regarding the availability and usage of financial services and their rights.
- 6) Capacity Building of Banks:** SBP is conducting a series of training programs for capacity building of the agri. field officers of banks benefitting more than 400 officers in 17 iterations.

SBP's continuous follow up and initiatives resulted in increase in financing to Agriculture by 16.4% i.e. from Rs.336 billion in 2012-13 to Rs.391 billion in 2013-14.

4.3 Microfinance

The Microfinance sector has continued its positive long-term growth as a result of greater private investment, supportive policy environment, vibrant market infrastructure, and increased use of innovative technologies. Current performance of microfinance is marked by growth in all key areas including outreach, loan portfolio, deposit base, profitability, and equities. Importantly, the microfinance banking sector has started to benchmark itself with peers in banking system, in all key performance areas.

During FY14, due to fresh equity injections in some of the Microfinance Banks (MFBs), the overall equity base of MFBs has jumped to Rs 13.5 billion as of end June, 2014, experiencing 12.5 percent YoY growth from Rs 12 billion last year. Deposits of MFBs have also shown a healthy growth of 29 percent during the year to reach all time high of Rs 36.9 billion as of June, 2014 compared to Rs 28.6 billion in the preceding year. Microfinance banking assets have also shown a growth of 21 percent during the period under review and reached Rs 62.4 billion. The gross loan portfolio (GLP) of MFBs has increased by Rs 8.1 billion (32 percent) during the year to reach Rs 33.5 billion. The number of MFBs' depositors has reached 4.3 million at end June, 2014 registering a staggering growth of 87 percent from 2.3 million depositors last year. 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 2.1 percent to 1.5 percent during the year.

The branchless banking (BB) network is also expanding with persistent double-digit growth, spread out across more than 90 per cent of the country's districts. The combined network of 168,615 agents of eight BB players as of June 2014 is serving as an easy-to-access distributional channel for offering basic banking services to millions of unbanked population. The number of BB transactions has increased significantly to 245.7 million with value of transactions worth Rs 1.06 trillion as of June 2014, experiencing growth of 61 percent and 67 percent, respectively, from last year.

Important initiatives undertaken by SBP during the year are given in **Box 4.2**:

Box 4.2: Initiatives and Developments for Promotion of Microfinance Initiatives

- SBP has issued revised Prudential Regulations (PRs) for Microfinance Banks on June 10, 2014 in view of the changing dynamics of the microfinance sector in Pakistan.
- After Tameer MFB, five other MFBs including Advans Pakistan MFB, Khushhali Bank Ltd., APNA MFB, FINCA MFB, and First Microfinance Bank Ltd. have also been allowed to undertake microenterprise lending on a pilot basis. The development came after SBP allowed higher loan limits to MFBs for undertaking microenterprise lending in March, 2012 with prior approval of SBP.
- The Consultative Group to Assist the Poor (CGAP) and SBP have jointly completed an I-SIP research in Pakistan to study the linkages between financial inclusion (I) and central banks' traditionally core objectives of Financial Stability (S), Financial Integrity (I), and Consumer Protection (P). Sharing the findings of I-SIP research, the CGAP testified in a workshop held at SBP in December, 2013 that SBP's policy framework for BB and financial inclusion is in sync with the best approaches for optimally managing linkages between financial inclusion and central banks' traditionally core objectives of financial stability, financial integrity, and consumer protection.
- APNA Microfinance Bank, a Karachi-based district MFB, has been converted into a provincial MFB.
- Three new players i.e. U-paisa by U MFB, Mobile-paisa by Alfalah, and MCB-lite by MCB Bank Ltd. have commenced their branchless banking operations.
- A four member delegation of Bank of Zambia (BoZ) visited SBP in September, 2013 to learn about innovative approaches of Pakistan for financial identification system. A four member Turkish delegation also visited SBP on 25-26 February, 2014 for an exposure visit to learn primarily about our approach and experiences in the legal and regulatory framework for microfinance.

4.4 Donor Funded Programs-based SBP's initiatives

SBP has been managing donor and government funded programs to enhance credit risk of the borrowers, capacity of market players, innovations and market information and infrastructure. Progress on funded initiatives during the period is as follows:

Credit Enhancement Facilities

- **Microfinance Credit Guarantee Facility (MCGF)**, is a £15 million facility to cover partial risks against the loans extended to microfinance providers by the commercial banks. So far, 32 guarantees have been issued under MCGF which has mobilized Rs.10.325 billion from commercial banks and capital markets/ retail investors for onward lending to more than 500,000 micro borrowers.
- **Credit Guarantee Scheme (CGS)**, is a £13 million facility to facilitate credit to small and rural businesses for greater outreach. The facility has mobilized loans of Rs 6,328 million to

9,823 borrowers, representing a highly encouraging utilization of 97 percent of the Risk Coverage Limits.

Smart Grants for Institutional Development and Financial Innovations

- **Institutional Strengthening Fund (ISF)**, a £6 million facility has provided grants of Rs. 808 million to 26 projects from 15 microfinance institutions (MFIs) and banks (MFBs) representing more than 60 percent of the microfinance sector. The grant will help develop and implement strategies for mobilization of savings, strengthen governance and internal controls functions, and launch branchless banking initiatives.
- **Financial Innovation Challenge Fund (FICF)**, a £10 million facility, was launched by SBP in May 2011 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. Two specialized challenge rounds focusing on Financially Inclusive Government to Persons (G2P) payments and Innovative Agricultural and Rural Financing have been held under the fund.

Support to Cross Cutting Themes to enhance capacity and bridge market information & infrastructure gaps

- **Nationwide Financial Literacy program (NFLP)**: The pilot of NFLP focused on disseminating basic education about financial concepts, products and services to masses focusing on budgeting, savings, investments, banking products and services, debt management and consumer right and responsibilities, etc. Currently the pilot assessment has been completed and it is being reviewed to further scale up the program to reach out to more than 500,000 poor and low income people.
- **Grass-root level Training Program for MFBs and SME finance under the IAFSF**: The program was completed by conducting training programs at different locations across the country in which around 1,000 microfinance loan and field officers and 500 SME credit officers were trained.
- **Establishment of Nationwide Microfinance Credit Information Bureau**: SBP is supporting the MF-CIB with the objective to store all past and present credit transactions of all microfinance borrowers, minimize the instances of over-indebtedness, bring financial discipline in microfinance sector and improve loan portfolio quality of MFPs
- **Surveys, Studies and Assessments**: SBP has also supported a number of surveys and studies under FIP such as Client Protection (CP) Monitoring and Pricing Transparency Initiatives, Islamic finance survey, SME cluster surveys, Hybrid Value Chain financing study, Branchless Banking survey, 2nd Access to Finance survey, Agriculture Finance Study, etc.
- **Capacity building of SBP officers**: SBP has 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.

4.5 Small and Medium Enterprise Finance

Financial sector penetration in general remains very low in Pakistan and SMEs are no different. The key reason for this includes banks' hesitance to lend to SMEs. A number of factors contribute to this reluctance, including a high risk perception and high transaction cost of lending. Equally important are the demand side issues which result in low financial usage by SMEs. These issues are related to; low level of financial literacy; high transaction costs associated with accessing finance; inappropriate

products that do not match business needs; and limited capacity to undertake appropriate strategic planning & transparency.

However, the declining trend in SME Financing of banks and DFIs which started five years ago started waning in the wake of improvement in major economic indicators during the last year, and issuance of revised Prudential Regulations on SME Financing in May, 2013. State Bank, therefore, took initiatives during the year to improve SME financing and transform it into a growth trend primarily through improvement in regulatory regime, capacity building of banks, and market interventions. As a result of these initiatives SME financing has witnessed a growth of 8.2 percent i.e from Rs.233.55 billion as of June 30, 2013 to Rs.252.73 billion as of June 2014. The key interventions of State Bank are summarized below:

Prime Minister Youth Business Loans (PMYBL) Programme: On December 7, the Prime Minister Youth Business Loan Programme was launched, to provide loans to unemployed youth for establishing or extending business enterprises. The programme is currently being implemented through National Bank of Pakistan (NBP) and First Women Bank Limited (FWBL). State Bank has also advised other private banks to gear up their systems for participation in PMYBL.

Credit Guarantee Scheme for Small and Rural Enterprises: SBP is operating a Credit Guarantee Scheme (CGS) for Small and Rural Enterprises, which allows banks to develop a portfolio of fresh borrowers who do not fit into their usual credit parameters. State Bank allocated credit exposure limits of Rs 6.56 billion with its guarantee coverage limit of Rs 2.62 billion uptill December 2013 to 10 banks selected as Participating Financial Institutions (PFIs). The scheme has been well received by banks. Net utilization of the guarantee limits by the banks as of December 2013 was 64 percent with sanctioned loans of Rs 4.19 billion to 6,268 borrowers. The scheme is also a successful initiative in terms of helping the participating banks to develop viable financing portfolios, reaching out to a vast number of small & rural borrowers, in different sectors in 75 districts across the country. At the same time, these banks have managed to keep their delinquency ratios to only 3.4percent, which is much lower than the SME and Agri-financing NPL ratios of 32 percent and 11percent respectively as of December 2013.

4.6 Housing Finance

Housing is a basic need of life. It is of such an importance that, in some countries, it is equated to human right. Furthermore, construction and housing sectors have forward and backward linkages with almost 40-50 industries and a large percentage of the unskilled labor is linked with these sectors. An increase in spending towards housing sector has a multiplier effect and has the capacity to generate earnings as high as five times of the expenditure incurred⁶. Outstanding housing finance increased from Rs.52.24 billion as on June 30, 2013 to Rs.52.70 as on June 30, 2014. Following initiatives were taken by SBP in FY14 to promote housing finance in Pakistan:

Guidelines for Financing to Housing Builders/Developers: SBP issued guidelines for financing to house builders/developers. Keeping in view the peculiar nature of the financing requirements of builders/ developers, a financing model was developed in light of the mechanisms being adopted by central banks and regulatory authorities in the region.

Mortgage Refinance Company (MRC): The creation of a mortgage liquidity facility is being incorporated which would address the long term funding constraints. MRC would serve as a secured

⁶ Nenova, T. (2010). *Expanding Housing Finance to Underserved in South Asia*. Washington: WorldBank.

source of long-term funding at attractive rates. MRC would be a public-private partnership company with government equity of Rs. 1.2 billion.

4.7 Infrastructure Finance

Infrastructure is critical to improve national productivity and economic growth. However, across a range of measures, development of infrastructure in the country is not keeping pace with either current or projected demand. In FY14, SBP took many steps for the development of infrastructure finance in the country. The major initiatives were as follow:

Infrastructure Finance Consultative Group (IFCG): SBP has established this group with a broad membership from federal/provincial Government, Banks/DFIs, private sector and Multi-lateral Agencies.

Study on Islamic Project Finance: A brief study on the potential of Islamic Project Financing in the country has been prepared on the basis of data/information collected from the banks & DFIs.

Infrastructure financing stood at Rs.276.1 billion as of June 30, 2014 showing a growth of 3.4 percent compared to the last year.

4.8 SBP Refinance Facilities

To encourage and support SME sector, SBP introduced certain changes in existing mechanism of Export Finance Scheme (EFS) to incentivize export financing for SMEs. During the fiscal year under review, SBP introduced Long Term Financing Facility for the Services Sector (LTFF-SS) to promote exports of services sector. Financing is provided for adoption of new technologies and for enhancing sector's capacities to perform better services in line with the international competitive environment. To facilitate long term investment in SMEs and to encourage private sector to establish silos, warehouses & cold storages for storing agricultural produce, SBP extended the expiry dates of the Refinance Facility for Modernization of SMEs (RFM-SME) and Financing Facility for Storage of Agricultural Produce (FFSAP).

4.9 Training and Awareness Programs for broadening access to finance

- **Grass Root Training Programs:** During FY14, SBP organized programs for branch level bankers at various cities, with the purpose to educate credit officers about different tools and techniques on dealing with Agriculture and SME customers.
- **Awareness Programs for the Prime Minister's Youth Business Loans Program (PMYBL):** State Bank arranged a series of training workshops on PMYBL during December 2013 - January 2014 to educate field staff of banks on the structure of the programme and to motivate bankers to actively participate in identification and evaluation of viable business proposals from the prospective borrowers. These workshops were held in 12 major locations (Karachi, Lahore, Sialkot, Gujranwala, Quetta, Peshawar, Faisalabad, Sargodha, Jhang, Gujrat, Jhelum and Mirpur) in which more than 450 field officials (regional managers, branch managers and credit officers) participated.
- **A two-day seminar on Infrastructure Project Financing** was held at SBP-BSC, Lahore on May 19-20, 2014. The programme covered topics like Introduction to Project Finance, SBP Guidelines/Regulatory Framework, Project Feasibility, Credit Evaluation, Risk Allocation, Documentation, Public Private Partnership (PPP) and case studies.

- **A full day workshop on ‘Risk Allocation & Documentation in Infrastructure Project Finance’** was conducted on February 10, 2014 to enhance the knowledge and understanding of the participants in the area of infrastructure project finance.
- **Eight different workshops/training programs** were conducted in FY14 including a comprehensive five days training module on housing finance.

5 Islamic Banking

Islamic Banking

Islamic Banking industry of Pakistan expanded briskly during the last decade and the trend continued in FY14. From June 2013 to June 2014, total assets of the industry recorded a phenomenal growth of 20.5 percent. As of June 2014, the industry's asset base reached above Rs 1 trillion and constituted nearly 10 percent of the overall banking industry. Deposits of Islamic banking industry increased to reach Rs. 932 billion having a share of 10.6 percent in overall banking industry deposits (see **Table 5.1**). Similarly, the outreach of Islamic banking institutions (IBIs) witnessed considerable expansion and presently a network of 1335 branches across Pakistan (see **Table 5.2**). Three conventional banks started Islamic banking operations through opening Islamic banking branches (IBBs) during FY14. State Bank of Pakistan as its strategic objective played a key role in the expansion and promotion of Islamic banking industry in the country.

To support the performance of the industry, following key initiatives were taken during the year under review.

Strategic Plan for Islamic Banking 2014-2018

SBP prepared a strategic plan in consultation with internal and external stakeholders to improve public perception of Islamic banking and to make the industry a distinct and viable alternative financial system capable to address the demand for financial services of the public in general and business community in particular. The strategic plan comprises vision, mission, values, strategies and the action plans for the next five years. The main strategies are following:

- Strengthening legal, regulatory, supervisory, liquidity management, financial accounting & reporting structure and coordination with FBR to resolve taxation issues.
- Improving *Shariah* governance and compliance through standardization and harmonization of *Shariah* practices, as well as facilitating the creation of distinct Islamic banking products and services.
- Enhancing coordination and collaboration amongst internal and external stakeholders to increase awareness about Islamic finance and capacity building of the stakeholders.
- Market development by means of increasing product diversification and financial inclusion.

Table 5.1: Industry Progress and market share (Rupees in billions)

	Industry Progress		% Growth (YoY)		% Share in Industry	
	June-13	June-14	June-13	June-14	June-13	June-14
Total Assets	903	1089	27	20.5	9	9.8
Deposits	771	932	28	20.9	9.9	10.6
Net Financing & Investment	700	682	28.9	-2.5	8.8	7.8
Total Islamic Banking Institutions	19	22	—	—	—	—
Total No. of Branches*	1115	1335	—	—	—	—

Source: Quarterly Unaudited Accounts

*number includes sub-branches

Table 5.2: Region Wise Branch Network (June 2014)

Region	Total Number	Share (%)
Punjab	590	44.2
Sindh	446	33.4
Khyber Pakhtoonkhawa	148	11.1
Baluchistan	55	4.1
Gilgit Baltistan	5	0.4
FATA	4	0.3
Federal Capital	72	5.4
AJK	15	1.1
Total	1,335	100

Regulatory Initiatives and Shariah Governance

To reinforce the regulatory framework and to address issues of the Shariah Governance in Islamic banking industry, SBP reviews existing regulations as well as issues new directives to perform its supervisory role. Major initiatives during the year included:

- **Shariah Governance Framework:** A comprehensive *Shariah* Governance Framework was issued by SBP to strengthen the overall *Shariah* compliance environment in Islamic banking institutions. The framework aims at institutionalizing the *Shariah* compliance function in IBIs. It explicitly defines the roles and responsibilities of all organs of IBIs including Board of Directors, executive management, *Shariah* board, *Shariah* compliance department and internal and external auditors towards *Shariah* compliance. The framework requires IBIs to constitute *Shariah* Boards comprising at least three *Shariah* scholars meeting SBP fit and proper criteria.
- To address the issues of capacity building, level playing field, and reputational risk and to promote more disciplined and well thought out expansion of Islamic Banking Windows (IBWs) of the banks, the regulatory framework for IBWs was strengthened. To achieve standardization in *Shariah* practices, SBP adopted *Shariah* Standard No. 17 on 'Investment *Sukuk* issued by Accounting and Auditing Organization for Islamic Financial Institutions' with certain clarifications/amendments.
- SBP also issued instructions regarding provision of free-of-cost priority banking services to harmonize the Islamic banking industry practices. It was prescribed that priority banking services can be provided to both current and saving account holders. However provision of the same to current account holders only is not permissible. Further, instructions require Islamic Banking Institutions (IBIs) to explicitly mention in their promotional activities that such free-of-cost priority banking services are offered on bank's sole discretion to both current and saving account holders. The instructions further mention that IBIs may prescribe a certain level of minimum balance for current and saving account holders to avail priority banking services.
- To streamline *Shariah* practices of Islamic banking institutions regarding foreign bill discounting, SBP advised the IBIs interested in undertaking *Salam* of foreign currency to execute the same at the market rate of the day as defined in IBD Circular Letter No.2 of 2014. Further, in case of '*Qard-e-Hasanah cum Wakalah*' model, the IBIs shall ensure that the agency fee charged for collecting the proceeds of the bill is based on '*Ujratul Mithl* (market fee)' and is not linked to the bill amount and the tenor, etc. Moreover, IBIs may also use *Murabaha*, *Musawama*, *Salam*, *Istisna-cum-Wakalah*, etc. to meet financing needs of their customers independent of foreign bill.

Coordination with International Standard Setting Bodies and Other Institutions

SBP is among the pioneers in Islamic banking and has developed different procedures and manuals for Islamic banking operations. During the last year, SBP provided technical assistance to Bosna Bank International (BBI) – Bosnia Herzegovina by conducting a 7-day Islamic Banking Training Course in collaboration with NIBAF.

SBP also conducted a session on Islamic Finance during D-8 Countries' Central Banks Experts Meeting at NIBAF, in Islamabad on April 21, 2014. A separate session on Islamic finance was scheduled wherein the experts from the member countries shared their experiences regarding growth of Islamic finance. The session was concluded by emphasizing the need for more concerted and coordinated efforts towards the enhanced cooperation among D-8 countries at government and regulatory bodies.'

Capacity Building and Awareness Campaign

Awareness creation and capacity building has remained a vital component of SBP strategy for future development of the industry. During FY 14, SBP conducted awareness seminars in various cities including Bahawalpur, Quetta, Rawalpindi, and Sukkur. Further, a workshop on Islamic banking and finance, exclusively for journalists, was conducted at Learning Resource Centre, Karachi. Similarly, Phase-I of a specialized training course on “Fundamentals of Financial Accounting” for Shariah Advisors of Islamic Banking Institutions was organized.

Redmoney, a Malaysian based group, organized an Islamic Finance News (IFN) Roadshow in Pakistan, with support of SBP. The central bank also launched the Mass Media Campaign in Ramadan 1434AH (July FY13) with focus on improving the visibility of Islamic banking and improving the financial literacy of the masses. Banking Industry consulted with other stakeholders to plan the next phase of the campaign with more focus on the education, awareness and improving the understanding of Islamic banking and finance. Similarly, presentations on financial intermediation and monetary transmission were made in international financial and educational institutions namely, IMF, Central Bank of Turkey, and New York University.

Market Research Findings

To assess demand for the Islamic banking in Pakistan, SBP has completed a survey-based study on “Knowledge, Attitude and Practices of Islamic Finance in Pakistan”. The study is based on first hand information collected through a survey from both banked (Islamic and conventional) and un-banked sectors of the country with a sample of 10,000 household (retail) and corporate respondents.

According to the study there is an overwhelming demand for Islamic banking in Pakistan in both retail and corporate sectors.

Developments Regarding Promotion of Islamic Banking Industry

- **Taxation Issues of Islamic Banking**
Ensuring a level playing field is one of the key challenges in development of Islamic banking industry as an alternative banking system in Pakistan. In this connection, proposals prepared by SBP in consultation with Pakistan Banks’ Association Sub-Committee for Islamic Banking to address the long outstanding taxation issues of Islamic Banking industry were forwarded to Federal Board of Revenue (FBR) through Ministry of Finance for their consideration and resolution.
- **Permission for Three New Islamic Banking Institutions**
Summit Bank, Allied Bank, and Sindh Bank were permitted to start Islamic banking operations through Islamic banking branches in 2014. It is pertinent to mention that Summit Bank has also announced to convert the bank into full fledged Islamic Bank in next 3-5 years.
- **Establishment of First Islamic Banking Subsidiary- MCB Islamic Bank**
MCB Bank has been granted license by SBP for establishing of first Islamic Banking subsidiary (IBS) in the country with the name of “MCB Islamic Bank Ltd.”. It is expected that other larger conventional banks having IBs will also follow this path and more IBS will be formed.
- **Approval for NRSP to start Islamic Microfinance operations**
SBP granted an approval to NRSP to establish an Islamic Microfinance branch in Bahawalpur. NRSP is going to be the first Microfinance Bank to start Islamic Microfinance operations in Pakistan.

6 Exchange Markets and Reserve Management

6.1 Money and Debt Market

Improving the depth, liquidity, and efficiency of the money and debt markets in Pakistan is one of the prime strategic objectives of the State Bank. SBP took various initiatives, during the year, to further develop the marketable government securities debt market in Pakistan with special focus on broadening the investor base. Moreover, SBP's management of market liquidity and sentiments helped effectively implementing monetary policy stance and anchoring inflation expectations. It also helped ensuring smooth functioning of these markets complemented with increased trade volumes, and improving maturity profile of government domestic debt.

Pakistan Investment Bonds

Debt Management Strategy of the Government of Pakistan, supplemented with an appropriate monetary policy stance and its implementation, has facilitated a shift in market's interest from Treasury Bills (T-bills) to Pakistan Investment Bonds (PIBs). During FY14, the government raised Rs. 2,037.0 billion against the offered and targeted amount of Rs. 2,232.5 billion and Rs 780 billion, respectively. With this shift in market interest towards longer tenor government securities, maturity profile of the government debt has improved and roll-over risk for the government has reduced. Share of PIBs in overall domestic debt of government has increased from 13.9 percent at end-June 2013 to 29.6 percent by end-June 2014.

Ijara Sukuk

In coordination with SBP, Government of Pakistan successfully issued GOP Ijara Sukuk (GIS) in the domestic market in June 2014, after a gap of around fifteen months. Market's aggressive participation in GIS auction helped the government raise Rs.49.5 billion at 200 bps below the benchmark rate. The issuance of Ijara Sukuk has helped Islamic Banks/Islamic Bank Branches to invest a part of their surplus liquidity. As of June 30, 2014, total outstanding amount of GIS was PKR 326.36 billion, out of which, GIS worth PKR 290.4 billion are held by Islamic Banks/Branches.

Introduction of International Securities Identification Numbers (ISIN) for Government Securities

To facilitate international investors and to further broaden the investor base of Government securities, the State Bank of Pakistan has started issuing International Securities Identification Number (ISIN), from April 24, 2014, to all outstanding Government Securities; including Market Treasury Bills, Pakistan Investment Bonds, Government Ijara Sukuk and treasury bills issued through Outright OMO Sale. The issuance of ISIN for government securities will harmonize the Pakistan debt market with international debt markets through availability of information on these securities in line with the international standards.

Code of Conduct for Treasuries of Banks, DFIs, and Primary Dealers (PDs)

In January 2014, State Bank of Pakistan issued "Code of Conduct" for the treasuries of Banks, DFIs and PDs with the objective to foster high standard of business conduct, adopt professional market practices, and ensure equitable and healthy relationships among market participants. It will promote ethical behavior and standards of conduct; affirming the use of sound dealing practices and procedures; supporting robust and efficient front and back office operations; and mitigating risks from the point of execution to settlement. All Banks, DFIs and PDs have been advised to implement this Code of Conduct in their treasuries and ensure its compliance. Further, Risk and Compliance

Department of the each bank/DFI/PD, has been advised to submit a quarterly report to their senior management regarding compliance to this ‘Code of Conduct’, which should be discussed and documented along with all exceptions and breaches.

Trading of Government Securities on the Stock Exchanges

To further broaden the investor base, State Bank of Pakistan decided, to allow trading of Government Securities (Market Treasury Bills, Pakistan Investment Bonds & GOP Ijara Sukuk) on the Stock Exchanges in January 2014. SBP has also allowed all Primary Dealers (PDs) of Government securities for proprietary trading of Government Securities on the stock exchanges. However, the current OTC market of Government Securities and all its associated platforms will continue to work as usual.

6.2 Foreign Exchange Market

During the year under review, SBP focused on enhancing capacity of the domestic foreign exchange market to manage large trade volumes, ensuring smooth functioning of the market, and building foreign exchange reserves of the central bank. Considering the rising external trade volumes, SBP further increased overall Foreign Exchange Exposure Limit (FEEL) of the market by 2.4 percent in FY14; enabling the market to better manage larger flows without having any undue impact on volatility in exchange rate. Moreover, the maximum cap on FEEL of an Authorized Dealer has been increased from PKR 2,500 million to PKR 3,500 million.

Improved balance of payment position, especially during second half of FY14, helped SBP to accumulate foreign exchange reserves; which increased to US\$9.1 billion by the end of FY14 from US\$ 6.0 billion at end-June 2013. PKR-US\$ parity, though showed significant volatility, recorded an appreciation of 0.9 percent during the year (see **Table 6.1**).

However, during most of the first half of the year, Pakistan’s balance of payment position remained weak, foreign exchange reserves continued to fall, and the exchange rate depreciated by 5.4 percent. Weak capital and financial inflows that were insufficient to finance even a relatively low current account deficit and large debt repayments primarily related to repayment of IMF-SBA facility resulted in a drain in the foreign exchange

Table 6.1: Pak Rupee per US Dollar Interbank Trends

	High	Low	Close	Average	Volatility C/C ²
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
FY14	110.5	95.75	98.80	102.88	4.07

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

reserves and had fueled the negative sentiments of the market reflecting depreciation of the exchange rate. SBP adopted cautious policy and closely managed the domestic foreign exchange markets to ensure its smooth functioning. Further, to quell any speculative tendencies and calm the sentiments in the foreign exchange markets, Governor SBP along with the Finance Minister held meetings with financial sector players, corporate leaders, and representatives of exchange companies to take them into confidence on the measures taken and improved outlook of the overall economy in general and Pakistan’s external sector in particular.

During second half of the fiscal year, overall balance of payment improved significantly. While the external current account deficit remained low, increased inflows in the form of CSF money, 3G license fee, receipts of Euro bonds and loans and grants from multilateral and bilateral sources considerably turned the balance of payment position into surplus and helped SBP build its foreign exchange reserves (see **Table 6.2**). SBP remained vigilant and kept a check on the excessive volatility in the exchange rate.

6.3 Foreign Exchange Reserve Management

Reserve Management Strategy

FY14 was a mixed year for major financial markets due to uncertain interest rate outlook. The easing bias of the major central banks in FY13 ensured that interest rates remained depressed throughout the major economies. The gradual shifting of the easing stance with the US tapering announcement in FY14 led to considerable uncertainty in the markets regarding the future direction of interest rates. The priority of the central banks in such an uncertain scenario remained safety, closely

followed by liquidity. SBP's reserve management strategy for FY14 was also shaped around this view, ensuring the security and liquidity of Foreign Exchange Reserves. The approach helped SBP in managing its debt obligations despite sharp deterioration of reserve position at the start of FY14. Foreign Exchange Reserves have bounced back from the middle of the year and are expected to improve further in FY15.

Table 6.2: Month-wise Foreign Exchange Reserves

(in million US\$)

Month end	SBP	Banks	Total
Jul-13	5,203.8	5,082.9	10,286.7
Aug-13	4,824.1	5,170.7	9,994.8
Sep, 13	4,693.5	5,123.5	9,817.0
Oct, 13	4,229.7	5,295.1	9,524.8
Nov, 13	3,048.2	5,198.6	8,246.8
Dec, 13	3,479.3	4,834.2	8,313.5
Jan, 14	3,180.3	4,808.0	7,988.3
Feb, 14	3,918.6	4,825.0	8,743.6
Mar, 14	5,364.6	4,709.7	10,074.3
Apr, 14	7,414.2	4,768.6	12,182.8
May, 14	8,682.9	4,782.9	13,465.8
Jun, 14	9,095.7	5,043.6	14,139.3

The world economy has continued on its moderate recovery path in FY14. The US economy and the UK economy are fast approaching their pre-financial crisis levels. The recovery in EU remains slow, but it is expected to gain momentum in FY15. SBP has continued to invest in the Chinese domestic bond market after its agreement with the People's Bank of China in FY13. The access to the Chinese bond market has been a vital source of diversification for SBP and has become an important part of SBP's reserve management strategy. With substantial increase in reserves, diversification into new instruments and asset classes will come under consideration subject to suitable global environment. Foreign exchange reserves yielded a gross return of more than 1.3 percent during FY-14 which is considerably high under the prevailing zero yield levels in the global financial markets.

6.4 Meeting of Standing Technical Committee of Asian Clearing Union (ACU)

State Bank of Pakistan hosted a meeting of Standing Technical Committee (STC) of Asian Clearing Union (ACU) in April 2014. Senior officials and experts from central banks of Bangladesh, Bhutan, India, Iran, Nepal, Myanmar and Sri Lanka represented their countries. The meeting was held in continuation of the efforts to enhance intra regional trade among ACU member countries and to bring efficiency in the existing payments and settlement processes under ACU.

6.5 Exchange Companies

To strengthen AML/KYC, new instructions were introduced; all sale and outward transactions of US\$ 35,000 or above (or equivalent in other currencies) are required to be conducted by the exchange companies through crossed cheque/DD/PO issued from the personal account of the customer and instrument number and issuing bank's name would be mentioned on the transaction receipt along with CNIC number of the customer. Further, exchange companies are required to get and retain copy of the identification document of all transactions of US\$ 2,500 or above (or equivalent in other currencies); the earlier threshold level was US\$ 5,000 (or equivalent in other currencies). Minimum paid-up capital requirement of all new and existing exchange companies has been enhanced from Rs. 100 million to Rs. 200 million; the companies are required to maintain 25 percent of paid up capital as SLR with SBP.

6.6 Pakistan Remittance Initiative (PRI)

State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance launched this joint initiative in April 2009. The establishment of PRI has contributed positively in enhancing the flow of remittances to Pakistan. Home remittances rose to US\$ 15.83 billion in FY14, witnessing a growth of 13.7 percent compared with US\$ 13.92 billion in FY13. This rise is mainly attributed to: (i) a record number of workers went abroad in the preceding year, (ii) Interbank Fund Transfer (IBFT) facility in home remittances increased efficiency in the delivery channels and convenience for the beneficiaries; and (iii) release of a record amount of Rs. 10.46 billion by the Government on account of TT charges on home remittances. The latter was particularly instrumental to ease capital position of overseas tie-ups and thus motivate them to undertake marketing campaigns for Pakistani corridor.

6.7 Treasury Operations

Nostro operations, SWIFT business side and other related functions such as accounting and reporting of outsourced reserves portfolio entrusted to foreign fund managers and execution of FCY payments of SBP & GOP; reserves management and financial stability were handled efficiently. Accurate and timely processing and settlement of trades, recording and reporting of traditional as well as advanced treasury products and execution of FCY payments in automated environment were ensured. Further, to broaden the foreign investment avenues and diversify the currency mix, SBP opened a new offshore RMB Nostro account in Hong Kong.

6.8 Risk Management and Compliance

SBP has strengthened its risk monitoring framework through designing and implementing credit and market risk frameworks covering all reserve management operations. Such a framework has enabled SBP to actively monitor the health of bank's foreign exchange portfolio on daily basis and under various scenarios. In addition, the Bank has taken several initiatives in collaboration with relevant stakeholders to review existing risk management policies/framework to bring them in conformity with the changing dynamics of the financial markets and associated risks and to support SBP reserve management operations to comply with its broader objectives of safety, liquidity, and return while conducting reserve management activities.

On operational risk front, SBP has introduced various controls at policy and operational levels to minimize the operational risk in SBP reserve management activities. Some of the key tasks that were completed during the year are: Implementation of credit and market risk framework for in-house and outsourced reserve management activities; further harmonization of internal and external data sources of in-house and outsourced portfolios to address issues related to data validation and authenticity; laying down the necessary infrastructure for tactical investment in fixed income portfolio management.

7 Institutional Strengthening

7.1 HR profile

During FY14 major policy reviews were initiated in the areas of Recruitment and Selection, Career Development, Communication, Job Rotation and Employee Exit along with development of new policies such as Whistle Blowing, Code of Conduct, and Succession Planning. This review will culminate in adoption of HR policies aligned with best practices and geared toward the specific needs of State Bank.

Significant developments took place in the areas of ‘recruitment & selection, ‘career development’, HR policies and ‘training & development’ of SBP staff. In line with the traditional HR Strategy of SBP, employees were mainly inducted in the Bank at entry level, OG-2 position. To fulfill the HR gap, induction of fresh graduates from HEC recognized universities was completed through the State Bank Officers Training Scheme (SBOTs) Batch -18 and Statistical Officers Training Program (SOTP), Batch – 5. 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 SBOT’s Batch-19 and SOTP’s Batch -5.

7.1.1 Career Development

A backlog of officers’ eligible for promotions was accumulated due to freeze on Career Development Policy in the previous years. Career development process was assigned top priority to raise the overall morale of employees, who were stagnant in their positions for a long time. HRD initiated bank-wide promotion process under the Career Development Policy 2009-10, with a view to enhance employee engagement level and optimally utilize the potential of employees. Accordingly, 136 officers were promoted in various grades, subsequent to interviews of 1102 candidates. Promotions of 55 positions are in process. The interviews for these positions are likely to be completed soon.

7.1.2 Training and Development

To gauge training needs of the organization, bank wide TNA (Training Need Assessment) was exercised as done annually. In light of this exercise and as per the departments’ requests, 101 Bank employees participated in 35 local/institutional trainings. Similarly 164 Bank employees participated in foreign trainings at different institutions (**Table 7.1**).

Table: 7.1. Foreign Training FY14
(numbers)

Organization/Institute	Participants
International Monetary Fund	42
Boulder Institute of Microfinance	04
European Central Bank	03
Asian Development Bank	03
Deutsche Bundesbank	03
IRTI	03
FSI-SEANZA	03
Asia-Pacific Rural and Agricultural Credit Association (APRACA)	02
SEACEN	1
Others	100
Total	164

7.2 National Institute of Banking and Finance (NIBAF)

NIBAF, a training arm of SBP undertook various training and development interventions during the year. A total of 44 weeks of training was delivered to the SBP officers, 10percent more than the last year. A number of new programs were launched in the area of Leadership, Managerial Skills, and Business Writing, etc. The flagship program to enhance the Leadership capacity were also launched

with Grid International, USA delivered by Grid Pakistan titled “Leadership Grid Seminar”. Two iterations were offered attended by 54 senior managers/directors from SBP and BSC. Moreover, four iterations of the IFRS were offered in collaboration with M/S Eanest Young Ford Rohds, Sidat Haider, Pakistan. During FY-14 NIBAF has successfully launched training program for the Young Professional Induction Program (YPIP-3).

International training programs are conducted at NIBAF under the joint aegis of SBP and Economic Affairs Division (EAD), Government of Pakistan, as part of Pakistan Technical Assistance Program (PTAP). During FY14, 13 countries participated in the NIBAF’s 8-weeks trainings including Pakistan (**Table 7.2**). During FY14, NIBAF continued to offer some customised/need based programs for its international stakeholders including organising the Banking Leadership Program Batch-2 for the Afghanistan International Bank. Moreover in collaboration with Islamic Banking Department (IBD) SBP, NIBAF organized a customized program on Islamic Banking & Operations for Bosna Bank International at Sarajevo, Bosnia Herzegovina.

Table 7.2 Participants in international trainings

Countries	Participation
Tajikistan	1
Maldives	3
Gambia	2
Kenya	1
Liberia	1
Sri Lanka	11
Sierra Leone	3
Cambodia	4
Mauritius	2
Rwanda	1
Pakistan	6
Vietnam	1
Afghanistan	23

Regarding impact of these trainings, it is pertinent to mention here that SBP engaged the Pakistan Microfinance Network (PMN) to undertake an independent “Impact Assessment Study” by assessing the effectiveness of the quality and impact of the training programs that were delivered by NIBAF as part of offering Grass Roots Training programs for the officers working at Microfinance Banks and Institutions. The PMN Report on GRT program draws attention to the fact that with the increase in the number of participants from the microfinance providers (MFPs), the capacity of the human resource has increased which may have directly or indirectly triggered the increase in portfolio. By looking at the trends provided in this report, the number of active borrowers has increased as well as the gross loan portfolio (GLP) has gone up with high impact on overall growth & performance of MF sector.

While expanding its customer base, NIBAF also offered various need-based and specialized programs to different financial institutions including 1-week Capacity Building Program for Pak-China Investment Company, 4-weeks MTOs Training Program for BAJK Bank, beside Management Development Programs for Branch Managers of Khushhali, etc. during FY14.

With a view to transform NIBAF into a Regional Center of Research and Academic Excellence, a Research Study “Who is the “Arthi”: Understanding the Commission Agent’s Role in the Agriculture Supply Chain, was carried out jointly in collaboration with Microfinance Network (PMN). Going forward, based on its research findings, NIBAF plans to collaborate with major Financial Institutions to transform its vision into a reality as we believe that this shall allow our Agriculture Sector to significantly enhance its productivity, increase its contribution towards growth of the economy, provide our banks a venue for contribution towards overall development in a sustainable manner and help reduce the economic inequalities.

7.3 SBP Banking Services Corporation (SBP-BSC)

The SBP Banking Services Corporation (SBP-BSC), established in 2002 as an operational arm of the SBP, continued to perform various operational activities assigned to it, albeit there is a need to realign some of the operational activities with the changing market trends. The main work undertaken by it included management of currency operations, bankers to the governments which include receipt and payment on behalf of the federal and provincial government, bankers to the bank, implementation as

also dissemination of various policies on behalf of the development finance group of the State Bank, management of foreign exchange operations and adjudication. The number of transactions in management of currency, receipt and payment on behalf of government were executed despite a large number of attrition in its work force of the BSC.

The Management of BSC also embarked upon a major initiative to induct entry-level batches, not only to fill the HR gap in terms of head count but also to improve the skill mix of its work force. It is in the process of gearing itself to meet the emerging challenges especially in the areas of automated handling of currency and e-banking to provide better quality services to its stakeholders besides substantially improving internal controls.

Box 7.1: Major Achievements SBP BSC during FY14

- Number of export overdue cases reduced to 4,397 till June 2014 from 10,643 as of July 2013. In terms of value, respective over dues decreased to equivalent of US\$ 160 million from US\$ 539 million.
- About Rs 1.93 billion were paid on account of Drawback of Local Taxes and Levies against around 20,000 claims.
- Permission for export of raw cotton was allowed to 1,663 applicants in FY14.
- Around 491,000 entries of EE/EF statements submitted by exporters were verified for the purpose of Export Finance Scheme.
- 7385 cases relating to approvals sought by Bank i.e., authorized dealers (ADs) for matters not covered by existing instructions, were settled during FY14 as against 7,216 cases in the FY13.
- Stuck up export proceeds equivalent to US\$ 49.4 million were realized; of which, the stuck up proceeds of US\$ 31.2 million have been realized by four Adjudicating Courts at Karachi.
- A total of 6,521 complaints of delinquent exporters on a country wide basis were processed, out of which 2,099 complaints were disposed of.
- FER Complaints Management System for issuance of consolidated Show Cause Notices and maintenance of FER Complaints Database is in the process.
- Organized 65 Focus Group meetings viz. 18 on Agri finance, 16 on SME finance, 13 on Microfinance, 14 on Islamic Banking, and 4 joint sessions.
- Out of 112 programs, 43 awareness sessions, 02 exhibition & conference, 23 seminars & workshops and 45 capacity building programs have been arranged by the DFSD's field units, while participated in 13 similar activities organized by the other stakeholders.
- Out of 45 capacity building programs, 44 were arranged by the AFUs which included 35 programs for the credit officers of commercial banks/ financial institutions, 6 Joint Session, 2 for BSC officers & 1 for chamber/ traders.
- 11 on-site visits/ meetings held with the faculty members of the educational institutions in different part of the country.
- Arranged 8 in-house meetings and 18 onsite visits/ meetings with Government functionaries and other relevant stakeholders.
- Prepared/ Published:
 - Monthly Development Finance Newsletter
 - Monthly Development Finance Compendium
- Facilitated AC&MFD-SBP through conducting;
 - Thirty five (35) in-house/on-site visits/ review meetings for monitoring against indicative target of Rs.380 billion and the banks disbursed Rs.284.4 billion (July 2013 to April 2014), which is approximately 75percent of the target for FY14 and is 11.2percent higher than the disbursements of Rs. 259.1 billion during the corresponding period last year.
 - 1,582 on-site/ off-site activities for monitoring of "Farmers' Financial Literacy Program (FFLP) on Agricultural financing" from July-March, 2014.
- Conduct of Promotion Focused fast track Trainings for OG-1 to OG-4 officers.
- Conduct of Organization Wide PMS Appraisal Focused Workshops.
- Design and conduct of Recruitment-driven training/ orientation programs for new hires.
- Exploring and utilization of training opportunities at different local institutions.
- Developed a post training evaluation mechanism.
- Successfully initiated special internship program for under privileged areas of Baluchistan.

8 Annual Financial Performance Review

8.1 Overview

For the financial year ended June 30, 2014, surplus profit of the Bank stood at Rs 268,634 million, showing 14 percent increase compared to the profit of Rs 235,892 million in the preceding year. The increase is mainly attributable to higher discount, interest/markup and/or return earned and increases in other operating income partly offset by the accumulated loss on re-measurement of defined retirement benefits (due to revision in International Accounting Standard 19 - Employee Benefit).

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY14 and FY13.

Description	2014	2013
Income		
Discount / interest /markup and/or return earned	306,035	250,755
Less: Interest/mark-up expense	15,338	7,705
Net discount / interest /markup and/or return income	290,697	243,050
Commission income	1,727	1,759
Exchange gain – net	14,112	6,703
Dividend Income	12,128	16,481
Other operating income/(loss) – net	28,502	(1,020)
Other income – net	120	173
Gross income	347,286	267,146
Expenditure		
Bank notes printing charges	6,146	5,635
Agency commission	6,463	6,344
General administrative and other expenses	22,978	20,197
(Reversal of Provisions) / Provisions - net	(116)	(922)
Less: Total expenditure- net of reversal of provisions	35,471	31,254
Profit for the year	311,815	235,892
Less: Loss on re-measurement of defined retirement benefits	43,181*	-
Surplus Profit for the year after charge of re-measurement of defined retirement benefits	268,634	235,892

*The impact of loss on re-measurement of retirement benefits due to revision in International Accounting Standards 19 (Employee Benefits)

8.2 Income

8.2.1 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.

Table 8.2: Interest/Discount/Return Income on Foreign and Domestic Assets

(million rupees)		
Description	2014	2013
Interest/discount income on domestic assets	298,585	243,386
Interest/discount income on foreign assets	7,450	7,369
Total	306,035	250,755

The gross income under the head increased by Rs. 55,280 million, posting an increase of 22 percent compared to the last year. The increase is mainly attributable to increase in quantum of lending as given in the **Table 8.2** and **Table 8.3**.

Interest/markup expenses are incurred on borrowings from International Monetary Fund, deposits of international organizations and foreign central banks and payable currency swap arrangement. Expenditure under the head increased by 100 percent as compared to previous year due to increases in borrowings under currency swap arrangements and expense on securities sold under agreement to repurchase. This increase is partly offset by decrease in expense on IMF borrowings.

Table 8.3: Lending to Government, Banks and Financial Institutions

(million rupees)		
Description	2014	2013
Government securities	2,937,404	2,323,578
Overdraft /loans to Governments	4,068	24,715
Banks and financial institutions	292,797	308,397
Total	3,234,269	2,656,690
Yield on Treasury Bills	8.92% to 10%	8.92% to 11.94%

8.2.2 Commission Income

The Bank derives commission income from management of instruments of public debt, Market treasury bills, prize bonds, national saving schemes and government securities as well as issuance of drafts and payment orders. The commission income during FY14 decreased by 2 percent and stood at Rs 1,727 million compared to Rs 1,759 million during the previous financial year.

Table 8.4: Foreign Currency Reserves

(million rupees)		
Description	2014	2013
At fair value through Profit or Loss	170,982	284,637
Unrealized gain / (loss) on -derivative financial instruments	4,334	2,311
Held to maturity	105,807	104,421
Loans and receivables		
Deposit accounts	29,599	31,716
Current accounts	52,399	45,973
Securities purchased under agreement to resale	269,905	80,296
Money market placements	330,655	92,604
Total	963,681	641,958

8.2.3 Exchange Gain – Net

The net exchange gain / (loss) arise from Bank's foreign currency assets and liabilities. The exchange gain mainly arises due to depreciation of PKR vis-à-vis foreign currencies particularly US\$ and SDR. Specifically, the foreign currency assets of the Bank are mainly denominated in US\$ whereas the foreign currency liability exposure is mainly denominated in SDRs. Accordingly, the depreciation of PKR vis-à-vis US\$ 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. 14,112 million during the FY 2013-14 as against the income of Rs 6,703 million during the previous financial year marking increase of Rs. 7,409 million. The increase was mainly due to decline

Table 8.5 Breakup of the Exchange Account

(million rupees)		
Description	2014	2013
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	21,876	25,856
Forward covers under Exchange Risk Coverage	(15)	6
Payable to the IMF	(5,914)	(16,233)
Special Drawing Rights of the IMF	(1,920)	(3,020)
Exchange risk fee income	85	94
Total	14,112	6,703

in exchange loss payable to IMF amounting to Rs. 10,319 million and SDR amounting to Rs. 1,100 million due to strengthening of PKR vis-à-vis SDR. However, this is partly offset by decrease in exchange gain from foreign currency placements, deposits and other assets amount to Rs. 3,980 million, forward covers under Exchange Risk Coverage to Rs. 21 million during the current year from previous year again due to strengthening of PKR.(see **Table 8.5**).

8.2.4 Dividend Income

The State Bank holds the equity investments in banks and financial institutions. The breakup of dividend income on Bank's listed and unlisted equity investments as of June 30, 2014 are given in **Table 8.6**. The dividend income of the Bank decreased by Rs 4,353 million during the current financial year which is 26 percent lower than the income in the previous financial year.

Table 8.6: Dividend Income on Investments in Shares of Banks and Financial Institutions

(million rupees)		
Description	2014	2013
Listed	11,790	16,256
Unlisted	338	225
Total	12,128	16,481

8.2.5 Other Operating Income / (loss) - net

During the year under review, the gain of Rs 28,502 million was recorded under this head against the loss of Rs 1,020 million in the previous financial year. The main reason for increase in Bank's net other operating income in the current year as compared to previous year is the gain on sale of shares of UBL i.e. Rs. 31,186 million.

8.2.6 Other Income - net

The net income under this head was recorded amounting Rs. 120 million against the amount of Rs. 173 million as compared with the previous year resulting a decrease of 31 percent.

8.3 Expenditure

The total expenditure (including reversal of provisions against impaired assets) amounted to Rs. 35,471 million as against the expenditure of Rs 31,254 million during corresponding year; an increase 4,217 million. An analysis of main elements of Bank's expenditure is given as under;

8.3.1 Bank Notes Printing Charges

During FY14, expense under this head stood at Rs 6,146 million compared to the expense of Rs 5,635 million during the previous year ; an increase of 9 percent.

8.3.2 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 6,463 million as against the expenditure of Rs 6,344 million posting an increase of 2 percent over the previous year.

8.3.3 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

Table 8.7: General administrative and other expenses

(million rupee)		
Description	2014	2013
Salaries and other benefits	8,856	7,638
Retirement benefits and employees' compensated absences	10,025	8,606
Other Expenses	4,097	3,953
Total	22,978	20,197

and maintenance, legal and professional charges, travelling, postage and telephone charges, etc. A summary of the general administrative and other expenses of the Bank is presented in **Table 8.7**.

8.3.4 (Reversal of Provision) / Provision:

During the FY 2013-14, the provisions amounting Rs. 116 million against impaired assets were reversed on net basis as compared net reversal of Rs. 922 million during previous financial year.

Table 8.8: Distribution of profit

(million rupees)		
Description	2014	2013
Net profit for the year	311,815	235,892
Less: Loss on re-measurement of defined retirement benefits	43,181	-
Total distributable profit	268,634	235,892
Breakup of above:		
Dividend	10	10
Surplus profit transferable to the Federal Government	268,624	235,882
Total	268,634	235,892

8.4 Distributable Profit

A summary of the distributable profits of the Bank is presented in **Table 8.8**.

9 Consolidated Financial Statement 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, 2014, 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 International Financial Reporting Standards, 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 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 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, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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, 2014

STATE BANK OF PAKISTAN
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2014

	Note	2014	2013	July 1, 2012
		----- (Rupees in '000) -----		
ASSETS				
Gold reserves held by the Bank	5	269,307,930	246,096,839	313,077,419
Local currency - coins	6	417,880	924,997	1,814,196
Foreign currency accounts and investments	7	963,680,793	641,958,085	1,035,234,657
Earmarked foreign currency balances	8	7,453,502	3,849,637	4,994,808
Special Drawing Rights of the International Monetary Fund	9	82,057,077	85,246,487	91,334,177
Reserve tranche with the International Monetary Fund				
under quota arrangements	10	18,194	17,755	17,104
Securities purchased under agreement to resell	11	-	198,787,435	112,898,648
Current accounts of Governments	20.2	802,315	5,990,933	12,812,270
Investments - local	12	3,154,126,304	2,490,745,139	1,939,697,329
Securities given as collateral under repurchase agreements	12	18,064,500	-	12,993,000
Loans, advances and bills of exchange	13	308,552,175	339,614,960	344,356,441
Assets held with the Reserve Bank of India	14	5,866,879	5,460,117	6,536,007
Balances due from the Governments of India and				
Bangladesh (former East Pakistan)	15	7,957,658	7,397,038	6,875,933
Property and equipment	16	21,453,644	22,341,050	23,450,893
Intangible assets	17	8,927	16,241	30,882
Other assets	18	1,683,168	889,131	873,831
Total assets		4,841,450,946	4,049,335,844	3,906,997,595
LIABILITIES				
Bank notes in circulation	19	2,309,127,023	2,041,361,303	1,776,962,388
Bills payable		642,102	603,922	587,542
Current accounts of Governments	20.1	531,806,543	133,309,762	148,533,697
Securities sold under agreement to repurchase	21	17,194,695	-	12,243,686
Payable under bilateral currency swap agreement	22	105,248,797	81,614,727	-
Deposits of banks and financial institutions	23	530,746,356	475,647,801	396,172,467
Other deposits and accounts	24	145,772,707	156,443,109	154,699,923
Payable to the International Monetary Fund	25	384,994,742	431,794,003	657,579,421
Other liabilities	26	62,568,694	112,293,670	101,745,012
		4,088,101,659	3,433,068,297	3,248,524,136
Deferred liability - unfunded staff retirement benefits	27	64,437,052	51,764,122	45,637,713
Endowment fund		81,711	74,490	67,281
Total liabilities		4,152,620,422	3,484,906,909	3,294,229,130
Net assets		688,830,524	564,428,935	612,768,465
REPRESENTED BY				
Share capital	28	100,000	100,000	100,000
Reserves	29	175,944,238	175,944,238	175,944,238
Loss on remeasurements of staff retirement defined benefit plans				
due to revision of IAS 19		-	(27,791,420)	(24,180,634)
Unrealised appreciation on gold reserves held by the Bank	30	265,639,648	242,568,983	309,565,438
Unrealised appreciation on remeasurement of investments - local	12.5	221,168,234	147,628,730	125,361,019
Surplus on revaluation of property and equipment		25,978,404	25,978,404	25,978,404
Total equity		688,830,524	564,428,935	612,768,465

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 50 form an integral part of these consolidated financial statements.

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktedir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2014

	<i>Note</i>	2014 ----- (Rupees in '000) -----	2013 -----
Discount, interest / mark-up and / or return earned	32	306,034,451	250,755,679
Less: interest / mark-up expense	33	(15,337,891)	(7,705,506)
		290,696,560	243,050,173
Commission income	34	1,727,194	1,758,625
Exchange gain - net	35	14,112,316	6,703,415
Dividend income		12,127,927	16,480,789
Other operating income / (loss) - net	36	28,502,353	(1,020,311)
Other income - net	37	119,460	173,019
		347,285,810	267,145,710
Less: Operating expenses			
- Bank notes printing charges	38	6,146,145	5,634,372
- Agency commission	39	6,463,352	6,344,354
- General administrative and other expenses	40	22,977,834	20,197,236
Provision for / (reversal of provision against):			
- loans and advances	13.4	(685)	(1,059,387)
- claims	26.3.2	1,489	(550,880)
- diminution in value of investments - local - net	12.3	(150,000)	677,892
- other doubtful assets	26.3.1.1	32,835	10,303
		(116,361)	(922,072)
		35,470,970	31,253,890
Profit for the year		311,814,840	235,891,820

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktabdir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2014

	<i>Note</i>	2014 ----- (Rupees in '000) -----	2013 -----
Profit for the year		311,814,840	235,891,820
Other comprehensive income			
Items that may be reclassified subsequently to the consolidated profit and loss account:			
Unrealised appreciation on remeasurement of investments - local	12.5	73,539,504	22,267,711
Unrealised appreciation / (diminution) on gold reserves held by the Bank	5	23,070,665	(66,996,455)
		96,610,169	(44,728,744)
Items that will not be reclassified subsequently to the consolidated profit and loss account:			
Remeasurements of staff retirement defined benefit plans	40.3.3.1	(15,389,901)	(5,720,577)
Total comprehensive income for the year		<u>393,035,108</u>	<u>185,442,499</u>

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktadir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

Share capital	Reserves						Loss on remeasurements of staff retirement defined benefit plans due to revision of IAS 19	Unrealised appreciation on gold reserves held by the Bank	Unrealised appreciation on remeasurement of investments - local	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, 2012	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	(24,180,634)	309,565,438	125,361,019	25,978,404	612,768,465
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	235,891,820	-	-	-	235,891,820
Other comprehensive income												
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	(5,720,577)	-	-	-	(5,720,577)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	22,267,711	-	22,267,711
Unrealised diminution on gold reserves held by the Bank	-	-	-	-	-	-	-	-	(66,996,455)	-	-	(66,996,455)
	-	-	-	-	-	-	-	230,171,243	(66,996,455)	22,267,711	-	185,442,499
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
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	(27,791,420)	242,568,983	147,628,730	25,978,404	564,428,935
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	311,814,840	-	-	-	311,814,840
Other comprehensive income												
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	(15,389,901)	-	-	-	(15,389,901)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	73,539,504	-	73,539,504
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	23,070,665	-	-	23,070,665
	-	-	-	-	-	-	-	296,424,939	23,070,665	73,539,504	-	393,035,108
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(268,623,519)	-	-	-	(268,623,519)
	-	-	-	-	-	-	-	(268,633,519)	-	-	-	(268,633,519)
Balance as at June 30, 2014	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	265,639,648	221,168,234	25,978,404	688,830,524

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktadir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 ----- (Rupees in '000) -----	2013 -----
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	41	276,806,768	259,834,824
(Increase) / decrease in assets:			
Foreign currency investments and placements		(1,402,874)	(104,448,509)
Reserve tranche with the International Monetary Fund under quota arrangements		(439)	(651)
Securities purchased under agreement to resell		198,787,435	(85,888,787)
Investments - local		(595,761,192)	(529,517,204)
Securities given as collateral under repurchase agreement		(18,064,500)	12,993,000
Payment of retirement benefits and employees' compensated absences		(12,742,113)	(8,200,650)
Loans, advances and bills of exchange		31,063,470	5,800,868
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh (former East Pakistan)		(593,455)	(531,408)
Other assets		(794,037)	(15,300)
		(399,507,705)	(709,808,641)
		(122,700,937)	(449,973,817)
Increase / (decrease) in liabilities:			
Bank notes issued - net		267,765,720	264,398,915
Bills payable		38,180	16,380
Current accounts of Governments		403,544,973	(8,418,473)
Securities sold under agreement to repurchase		17,194,695	(12,243,686)
Payable under bilateral currency swap agreement		23,634,070	81,614,727
Deposits of banks and financial institutions		55,098,555	79,475,334
Other deposits and accounts		(10,670,402)	1,743,186
Other liabilities		7,428,982	(1,596,608)
Endowment fund		7,221	7,209
		764,041,994	404,996,984
Net cash generated from / (used in) operating activities		641,341,057	(44,976,833)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investments		37,688,507	58,937
Dividend received		12,127,927	16,480,789
Capital expenditure		(648,077)	(391,127)
Proceeds from disposal of property and equipment		11,641	11,626
Net cash generated from investing activities		49,179,998	16,160,225
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(326,185,728)	(219,999,994)
Payments made to International Monetary Fund		(46,799,261)	(225,785,418)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(372,994,989)	(445,795,412)
Increase / (decrease) in cash and cash equivalents during the year		317,526,066	(474,612,020)
Cash and cash equivalents at the beginning of the year		626,864,789	1,132,711,931
Effect of exchange gain / (loss) on cash and cash equivalents		2,701,106	(31,235,122)
Cash and cash equivalents at the end of the year	42	947,091,961	626,864,789

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktedir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. STATUS AND NATURE OF OPERATIONS

1.1 The Group comprises of State Bank of Pakistan ("the Bank") and the following subsidiaries:

- SBP Banking Services Corporation
- National Institute of Banking and Finance (Guarantee) Limited

1.1.1 State Bank of Pakistan 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.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements represent the first annual financial statements of the Group prepared in accordance with IFRS. The Group has adopted IFRS as the financial reporting framework in accordance with 'IFRS-1 First time Adoption of International Financial Reporting Standards'. The first date at which IFRS was applied was July 1, 2012 (i.e. "Transition date").

The Group's consolidated financial statements were previously prepared in accordance with approved accounting standards as adopted by the Central Board of the Bank.

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 accounts and investments, certain local 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** The consolidated financial statements ("the financial statements") are presented in Pakistani Rupees (PKR), which is the Group's functional and presentation currency.

3.3 Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS 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 and 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 IFRS and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

3.3.1 Impairment against loans and advances

The Group reviews its loan portfolio to assess recoverability of loans and advances and impairment allowance 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 impairment may require adjustment in case borrowers do not perform according to the expectations.

3.3.2 Impairment of available-for-sale investments

The Group determines that available-for-sale 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.

3.3.3 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 40.3.1 to the consolidated financial statements.

3.3.4 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.

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

There are certain new and amended standards and interpretations that are mandatory for the Group's accounting periods beginning on or after July 1, 2014 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.

3.5 Transition to International Financial Reporting Standards

These consolidated financial statements represent the first annual financial statements of the Group prepared in accordance with IFRS, as issued by the IASB. The Group has adopted IFRS in accordance with 'IFRS-1 First-time Adoption of International Financial Reporting Standards'. The first date at which IFRS was applied was July 1, 2012 (i.e. Transition date). In accordance with IFRS-1 the Group has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented; and
- retrospectively applied all effective IFRSs as at June 30, 2014, as required.

The reconciliation to IFRS from previous financial reporting framework (i.e. approved accounting standards as adopted by the Central Board of the Bank) on consolidated balance sheet, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated statement of cash flows is given below:

3.5.1 Reconciliation of consolidated balance sheet:

	June 30, 2013			July 1, 2012				
	Adjustment			Adjustment				
	Previous financial reporting framework	IAS 19	Others	IFRS Framework	Previous financial reporting framework	IAS 19	Others	IFRS Framework
------(Rupees in '000)-----								
ASSETS								
Gold reserves held by the Bank	246,096,839	-	-	246,096,839	313,077,419	-	-	313,077,419
Local currency - coins	924,997	-	-	924,997	1,814,196	-	-	1,814,196
Foreign currency accounts and investments	641,958,085	-	-	641,958,085	1,035,234,657	-	-	1,035,234,657
Earmarked foreign currency balances	3,849,637	-	-	3,849,637	4,994,808	-	-	4,994,808
Special Drawing Rights of the International Monetary Fund	85,246,487	-	-	85,246,487	91,334,177	-	-	91,334,177
Reserve tranche with the International Monetary Fund under quota arrangements	17,755	-	-	17,755	17,104	-	-	17,104
Securities purchased under agreement to resell	198,787,435	-	-	198,787,435	112,898,648	-	-	112,898,648
Current accounts of Governments *	5,932,762	-	58,171	5,990,933	12,744,407	-	67,863	12,812,270
Investments - local **	2,490,745,139	-	-	2,490,745,139	1,952,690,329	-	(12,993,000)	1,939,697,329
Securities given as collateral under repurchase agreements **	-	-	-	-	-	-	12,993,000	12,993,000
Loans, advances and bills of exchange *	335,779,029	-	3,835,931	339,614,960	339,967,525	-	4,388,916	344,356,441
Assets held with the Reserve Bank of India	5,460,117	-	-	5,460,117	6,536,007	-	-	6,536,007
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,397,038	-	-	7,397,038	6,875,933	-	-	6,875,933
Property and equipment	22,341,050	-	-	22,341,050	23,450,893	-	-	23,450,893
Intangible assets	16,241	-	-	16,241	30,882	-	-	30,882
Other assets *	4,865,957	-	(3,976,826)	889,131	5,612,820	-	(4,738,989)	873,831
Total assets	4,049,418,568	-	(82,724)	4,049,335,844	3,907,279,805	-	(282,210)	3,906,997,595
LIABILITIES								
Bank notes in circulation	2,041,361,303	-	-	2,041,361,303	1,776,962,388	-	-	1,776,962,388
Bills payable	603,922	-	-	603,922	587,542	-	-	587,542
Current accounts of Governments *	133,392,486	-	(82,724)	133,309,762	148,815,907	-	(282,210)	148,533,697
Securities sold under agreement to repurchase ***	-	-	-	-	12,240,388	-	3,298	12,243,686
Payable under bilateral currency swap agreement	81,614,727	-	-	81,614,727	-	-	-	-
Deposits of banks and financial institutions	475,647,801	-	-	475,647,801	396,172,467	-	-	396,172,467
Other deposits and accounts ***	156,193,349	-	249,760	156,443,109	153,534,625	-	1,165,298	154,699,923
Payable to the International Monetary Fund ***	431,229,449	-	564,554	431,794,003	656,185,305	-	1,394,116	657,579,421
Other liabilities **	113,107,984	-	(814,314)	112,293,670	104,307,724	-	(2,562,712)	101,745,012
	3,433,151,021	-	(82,724)	3,433,068,297	3,248,806,346	-	(282,210)	3,248,524,136
Deferred liability - unfunded staff retirement benefits (note 3.5.2)	23,972,702	27,791,420	-	51,764,122	21,457,079	24,180,634	-	45,637,713
Capital grant rural finance resource centre	-	-	-	-	-	-	-	-
Endowment fund	74,490	-	-	74,490	67,281	-	-	67,281
Total liabilities	3,457,198,213	27,791,420	(82,724)	3,484,906,909	3,270,330,706	24,180,634	(282,210)	3,294,229,130
Net assets	592,220,355	(27,791,420)	-	564,428,935	636,949,099	(24,180,634)	-	612,768,465
REPRESENTED BY								
Share capital	100,000	-	-	100,000	100,000	-	-	100,000
Reserves	175,944,238	-	-	175,944,238	175,944,238	-	-	175,944,238
Loss on remeasurements of staff retirement defined benefit plans due to revision of IAS 19 (note 3.5.2)	-	(27,791,420)	-	(27,791,420)	-	(24,180,634)	-	(24,180,634)
Unrealised appreciation on gold reserves held by the Bank	242,568,983	-	-	242,568,983	309,565,438	-	-	309,565,438
Unrealised appreciation on remeasurement of investments - local	147,628,730	-	-	147,628,730	125,361,019	-	-	125,361,019
Surplus on revaluation of property and equipment	25,978,404	-	-	25,978,404	25,978,404	-	-	25,978,404
Total equity	592,220,355	(27,791,420)	-	564,428,935	636,949,099	(24,180,634)	-	612,768,465

Explanation:

- * In the previous financial reporting framework Rs. 3,976.826 million (2012: Rs 4,738.989 million) was represented in other assets as accrued mark-up income which has now been reclassified to loans, advances and bills of exchange and current accounts of governments in order to represent financial assets at amortised cost.
- ** In the previous financial reporting framework Rs. 12,993 million securities as at July 1, 2012 were represented in investments - local although held as collateral under repurchase agreement. In order to comply with IFRS these securities have now been reclassified separately as securities given as collateral under repurchase agreements.
- *** In the previous financial reporting framework Rs 814.314 million (2012: Rs 2,562.712 million) was represented in other liabilities as accrued mark-up expense which has now been reclassified to other deposits and account, securities sold under agreement to repurchase and payable to the international monetary fund so as to represent financial liabilities at amortised cost as required under IFRS.

3.5.2 Change in accounting policy**Employee future benefits**

Under the previous financial reporting framework, the Group was also using IAS 19 - for accounting of its employee benefits. This IAS has been revised and the revised standard became applicable during the year. As the Group has applied IFRS as the financial reporting framework in the current year, the effects of this change in accounting policy are also required to be disclosed as part of transition to IFRS. The change in accounting policy and the related impacts are summarized as follows:

Actuarial gains and losses

Previous financial reporting framework: Actuarial gains and losses were recognised in the consolidated profit and loss account over the future expected average remaining working lives of the employee to the extent of the greater of 10% of the present value of the defined benefit obligation (at the end of previous reporting period) and 10% of the fair value of plan assets (at the end of previous reporting period).

IFRS: The IFRS requires immediate recognition of past service costs and also requires recognition of net interest cost based on net defined benefit asset or liability by using the discount rate at the beginning of the year. Further, term remeasurement is used. This is made up of actuarial gains and losses and the difference between the actual investment returns and the returns implied by the net interest cost. The "remeasurements" are required to be recognised in the "consolidated balance sheet" immediately with the charge or credit to "other comprehensive income" in the periods in which they occur.

The effects on the consolidated balance sheet, consolidated profit and loss account, consolidated statement of comprehensive income and consolidated statement of changes in equity are summarised below:

	June 30, 2013 (Rupees in '000)	July 1, 2012 (Rupees in '000)
Impact on consolidated balance sheet		
Increase in deferred liability - unfunded staff retirement benefits	27,791,420	24,180,634
Loss on remeasurements of staff retirement defined benefit plans due to revision of IAS 19	(27,791,420)	(24,180,634)
	For the year ended June 30, 2013	For the year ended June 30, 2012
	(Rupees in '000)	
Impact on consolidated profit and loss account		
Decrease in general administrative and other expenses / Increase in profit	2,109,791	1,326,658
Impact on consolidated statement of comprehensive income		
Remeasurement of defined benefit plan	(5,720,577)	-
Impact on consolidated statement of changes in equity		
Decrease in retained earnings		
- Cumulative effect - prior years	(27,791,420)	(24,180,634)
- Impact for the year	(3,610,786)	-

3.5.3 Adjustments to other statements:

The transition from previous financial reporting framework (i.e. approved accounting standards as adopted by the Central Board of the Bank) to IFRS had no significant impact on the consolidated profit and loss account, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows except for the effects as disclosed in note 3.5.2.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**4.1 Basis of consolidation**

Subsidiaries are entities controlled by the Bank. The Bank controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to effect these returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when 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.

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 consolidated 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 Financial assets and financial liabilities

Financial instruments carried on the consolidated balance sheet include local currency coins, foreign currency accounts and investments, investments - local, loans and advances, assets held with Reserve Bank of India (other than gold held by Reserve Bank of India), balances due from the governments of India and Bangladesh, notes in circulation, bills payable, deposits of banks and financial institutions, balances and securities 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.

All financial assets and financial liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instruments. This includes purchases or sale of financial assets that require delivery of asset within the time frame generally established by regulations in market conventions.

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the consolidated profit and loss account.

The management determines the appropriate classification of its financial instruments at the time of initial recognition in the following categories:

4.3.1 Financial assets and financial liabilities at 'fair value through profit or loss'

These assets and liabilities are either acquired / assumed 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 are initially recognised at fair value and transaction costs associated with the instrument are taken directly to the consolidated profit and loss account. 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 directly. Derivatives are also categorised as financial assets and financial liabilities at 'fair value through profit or loss'.

4.3.2 Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold till maturity. After initial measurement, held-to-maturity investment are subsequently measured at amortised cost using effective interest rate, less impairment losses, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The effective interest rate method is a method of calculating the amortised cost of a financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period in the consolidated profit and loss account. The losses arising from impairment of such investments are recognised in the consolidated profit and loss account.

4.3.3 Loans and receivables

These are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. 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 becomes uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited in the consolidated profit and loss account.

4.3.4 Available-for-sale financial assets

These are the non-derivative financial assets which are either designated in this category or which do not fall in any of the other categories. Subsequent to initial recognition, these securities are measured at fair value, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost. 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, when cumulative gain or loss is reclassified to the consolidated profit and loss account.

4.3.5 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits from banks and financial institution, other deposits, securities sold under repurchase agreement, payable under bilateral currency swap agreement, payable to the IMF, notes in circulation and bills payable.

4.4 Derecognition of financial asset and financial liabilities**a) Financial assets**

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the consolidated profit and loss account.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability, and the difference in the respective carrying amount is recognised in the consolidated profit and loss account.

4.5 Fair value measurement principles

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market prices or dealer price quotation without any deduction for transaction costs. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arms length transaction, discounted cash flow analysis and other revaluation techniques commonly used by market participants. Investments in securities of which the fair value cannot be determined reliably are carried at cost.

4.6 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred 'loss event') and that loss event (or events) has an impact on estimated future cash flow of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indication that the borrower or group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payment and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with defaults, if any.

a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated profit and loss account. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated profit and loss account.

b) Available - for - sale financial assets

For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is an objective evidence that an investment is impaired. In case of equity investment classified as available-for-sale, significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exist for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated profit and loss account, is reclassified from other comprehensive income and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the income statement.

4.7 Offsetting

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

4.8 Derivative financial instruments

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

4.9 Collateralised borrowing / lending

4.9.1 Reverse repurchase and repurchase agreements

Securities sold subject to a commitment to repurchase them at a pre-determined price, are retained on the consolidated 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 recognised on the consolidated balance sheet and an asset is recorded in respect of the consideration paid as "Securities purchased under agreement to resell". The difference between the sale and repurchase price in the repurchase transaction and the purchase price and resell price in reverse repurchase transaction represents expense and income respectively, and is 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.

4.9.2 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 31.2.1. The actual use of facility by the Group / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Group and interest is charged / earned at agreed rates to the consolidated profit and loss account on time proportion basis from the date of actual use.

4.10 Gold reserves

Gold is recorded at the cost, which is the prevailing market rate, at initial recognition. Subsequent to initial measurement, it is revalued at the closing market rate fixed by the London Bullion Market Association on the last working day of the year (which is also as per the requirements of State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No.42(vi)). 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 consolidated 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 Group subject to final settlement between the Governments of Pakistan and India. Instead it is shown in "other liabilities" as provision for other doubtful assets.

4.11 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 less accumulated impairment losses, if any 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.

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.

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

4.12 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.

4.13 Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. The recoverable amount is higher of an asset's fair value less cost to sell and value in use. In assessing the value in use, estimated future cash flows is discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. 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. 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 that asset.

4.14 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.

4.15 Staff retirement benefits

The Group operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined the Group prior to 1975 and opted to remain under the old scheme. The Group 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 Group 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 Group after 1975 and those employees who had joined prior to 1975 but opted for this scheme. Under this scheme contribution is made by the employee 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 Group after 1975 and are entitled only to pension scheme benefits;
- a funded Employees Gratuity Fund (EGF) was introduced by the Group 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 Group 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 consolidated profit and loss account as and when incurred.

Annual provisions are made by the Group 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, 2014. As more fully stated in note 3.5.2, the amount arising as a result of remeasurements are recognised in the consolidated balance sheet immediately, with a change or credit to Other Comprehensive Income in the period in which they occur.

The above staff retirement benefits are payable on completion of prescribed qualifying period of service.

4.16 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.

4.17 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 is recognised 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 trade date.
- Training, education and hostel services are charged on accrual basis.
- All other revenues are recognised on a time proportion basis.

4.18 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 an accrual basis.

4.19 Taxation

The income of the Group is exempt from tax under applicable laws.

4.20 Foreign currency translation

Transactions denominated in foreign currencies are translated to PKR at the foreign exchange rate prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into PKR 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 4.21, 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 profit and loss account on an 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 PKR terms at the closing rate of exchange prevailing at the balance sheet date.

4.21 Transactions and balances with the International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on following basis:

- the Government's contribution for quota with the IMF is recorded by the Group as depository of the Government.
- 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.
- 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;
- exchange gain or loss; and
- return on holdings of SDRs.

4.22 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 economic 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.

4.23 Cash and Cash Equivalents

Cash and cash equivalents include cash, foreign currency accounts and investments (other than held to maturity investments), 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.

4.24 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 realisable value. Provision is made for items which are not used for a considerable period of time.

4.25 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.

4.26 Trade and other payables

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

	Note	Net content in troy	2014	2013	July 1, 2012
			------(Rupees in '000)-----		
5. GOLD RESERVES HELD BY THE BANK					
Opening balance		2,071,626	246,096,839	313,077,419	267,969,374
Additions during the year		1,122	140,426	15,875	145,604
Appreciation / (diminution) for the year due to revaluation	30		23,070,665	(66,996,455)	44,962,441
	19.1	<u>2,072,748</u>	<u>269,307,930</u>	<u>246,096,839</u>	<u>313,077,419</u>
6. LOCAL CURRENCY - COINS	Note				
Bank notes held by the Banking Department			110,890	143,300	160,156
Coins held as an asset of the Issue Department	6.1 & 19.1		417,880	924,997	1,814,196
			<u>528,770</u>	<u>1,068,297</u>	<u>1,974,352</u>
Less: bank notes held by the Banking Department	19		(110,890)	(143,300)	(160,156)
			<u>417,880</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 ACCOUNTS AND INVESTMENTS					
They essentially represent foreign currency reserves held by the Group, the details of which are as follows:					
	Note		2014	2013	July 1, 2012
			------(Rupees in '000)-----		
At fair value through profit or loss - held-for-trading					
- Investments	7.1		170,981,568	284,636,358	288,832,726
- Unrealised gain / (loss) on derivative financial instruments	7.2		4,334,378	2,311,274	(3,839,654)
Held to maturity investment	7.3		105,806,667	104,421,331	-
Loans and receivables					
- Deposit accounts			29,599,275	31,715,899	95,991,183
- Current accounts			52,399,468	45,973,289	96,828,883
- Securities purchased under agreement to resell	7.4		269,904,526	80,295,659	197,465,169
- Money market placements	7.5		330,654,911	92,604,275	359,956,350
			<u>963,680,793</u>	<u>641,958,085</u>	<u>1,035,234,657</u>
The above foreign currency accounts and investments are held as follows:					
Issue Department	19.1		330,654,911	92,604,275	359,956,350
Banking Department			633,025,882	549,353,810	675,278,307
			<u>963,680,793</u>	<u>641,958,085</u>	<u>1,035,234,657</u>
7.1	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 as on June 30, 2014 is USD 1,948.24 million (2013: USD 2,366.04 million); and				
-	Short Term Investments Funds. Market value of these investments is nil (2013: USD 490 million).				
7.2	This represents unrealised gain on foreign currency swaps, futures and forward contracts entered into with various counterparties.				
7.3	This represents investment in sovereign bonds and treasury bills of a foreign country carrying yield ranging from 2.80% to 3.74% per annum and having maturities from July 4, 2014 to June 12, 2015 (2013: 2.62% to 5.70% per annum and having maturities from July 16, 2013 to June 4, 2014).				
7.4	These represent lending under repurchase agreements and carry mark-up in USD at 0.07 % per annum and having maturities on July 01, 2014 (2013: 0.10% per annum and having maturities on July 1, 2013).				
7.5	The balance includes money market placements carrying interest at various rates ranging between 0.04% to 2.81% per annum and having maturities from July 1, 2014 to September 30, 2014 (2013: 0.11% to 3.12% per annum and having maturities from July 1, 2013 to September 26, 2013).				
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 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, 2014. 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.					

	Note	2014	2013	July 1, 2012
SDRs are held as follows:		-----	(Rupees in '000)	-----
- By the Issue Department	19.1	7,625,850	7,437,650	7,146,000
- By the Banking Department		74,431,227	77,808,837	84,188,177
		<u>82,057,077</u>	<u>85,246,487</u>	<u>91,334,177</u>
10. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS				
Quota allocated by the International Monetary Fund		157,895,380	154,086,949	148,440,350
Liability under quota arrangements		(157,877,186)	(154,069,194)	(148,423,246)
		<u>18,194</u>	<u>17,755</u>	<u>17,104</u>
11. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL				
This represents lendings under repurchase agreements extended to various financial institutions. There is no outstanding balance as on June 30, 2014 (2013: 8.99% to 9.20% per annum, maturing on July 5, 2013). The securities collateralised with the Group have fair value of nil as on June 30, 2014 (2013: Rs. 199,869 million).				
12. INVESTMENTS - LOCAL	Note	2014	2013	July 1, 2012
		-----	(Rupees in '000)	-----
Loans and receivables				
Government securities				
Market Related Treasury Bills (MRTBs)		2,934,617,430	2,320,403,202	1,803,874,716
Federal Government scrips		2,740,000	2,781,100	2,781,100
	12.1	<u>2,937,357,430</u>	<u>2,323,184,302</u>	<u>1,806,655,816</u>
Less: securities given as collateral under repurchase agreements		(18,064,500)	-	(12,993,000)
		<u>2,919,292,930</u>	<u>2,323,184,302</u>	<u>1,793,662,816</u>
Available - for - sale investments				
Investments in banks and other financial institutions				
Ordinary shares				
- Listed		230,812,492	163,192,519	140,924,808
- Unlisted		4,712,706	4,862,706	4,919,706
	12.2	<u>235,525,198</u>	<u>168,055,225</u>	<u>145,844,514</u>
Term Finance Certificates		84,722	84,722	127,082
Certificates of Deposits		33,705	33,705	50,558
		<u>235,643,625</u>	<u>168,173,652</u>	<u>146,022,154</u>
Provision against diminution in value of investments				
- local - net	12.3	(856,863)	(1,006,863)	(385,971)
		<u>234,786,762</u>	<u>167,166,789</u>	<u>145,636,183</u>
Held to Maturity				
Pakistan Investment Bonds	12.4	46,612	394,048	398,330
		<u>3,154,126,304</u>	<u>2,490,745,139</u>	<u>1,939,697,329</u>
The above investments are held as follows:				
Issue Department - MRTBs	19.1	1,695,364,463	1,688,902,225	1,088,514,072
Banking Department		1,458,761,841	801,842,914	851,183,257
		<u>3,154,126,304</u>	<u>2,490,745,139</u>	<u>1,939,697,329</u>
12.1 These represent investments guaranteed / issued by the Government. The profile of return on securities is as follows:				
		2014	2013	
		(% per annum)		
Market Related Treasury Bills		8.92 to 10	8.92 to 11.94	
Federal Government scrips		3	3	
These include:				
- MRTBs are created for a period of six months whereas Federal Government scrips are of perpetual nature.				
- Treasury bills held by the subsidiaries have maturities upto June 2015 (2013: June 2014)				

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

	Note	2014	2013 % of holding	July 1, 2012	2014	2013 (Rupees in '000)	July 1, 2012
Listed							
- National Bank of Pakistan	12.2.2	75.20	75.20	75.20	99,558,400	65,785,656	60,571,550
- United Bank Limited	12.2.3	-	19.49	19.49	-	25,665,079	18,698,911
- Allied Bank Limited	12.2.4	10.07	10.07	10.07	15,839,242	7,182,365	6,114,070
- Habib Bank Limited	12.2.5	40.60	40.60	40.60	115,414,850	64,559,419	55,540,277
					<u>230,812,492</u>	<u>163,192,519</u>	<u>140,924,808</u>
Unlisted							
- Federal Bank for Cooperatives		-	75.00	75.00	-	150,000	150,000
Other investments with holding less than or equal to 50%					<u>4,712,706</u>	<u>4,712,706</u>	<u>4,769,706</u>
					<u>235,525,198</u>	<u>168,055,225</u>	<u>145,844,514</u>

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 Group neither exercises significant influence nor has 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, 2014 amounted to Rs. 1,100.8 million (2013: Rs. 1,100.8 million).

12.2.3 Cost of the Group's investment in the shares of United Bank of Pakistan at June 30, 2014 is Nil (2013: Rs. 5,919.5 million).

12.2.4 Cost of the Group's investment in the shares of Allied Bank Limited at June 30, 2014 amounted to Rs. 350.6 million (2013: Rs. 350.6 million).

12.2.5 Cost of the Group's investment in the shares of Habib Bank Limited at June 30, 2014 amounted to Rs. 8,192.8 million (2013: Rs. 8,192.8 million).

	Note	2014	2013	July 1, 2012
12.3 Provision against diminution in value of investments - local - net				
Opening balance		1,006,863	385,971	445,183
Provision during the year		-	737,104	-
Reversal during the year	12.3.1	(150,000)	(59,212)	(59,212)
		<u>(150,000)</u>	<u>677,892</u>	<u>(59,212)</u>
Write-off during the year		-	(57,000)	-
Closing balance		<u>856,863</u>	<u>1,006,863</u>	<u>385,971</u>

12.3.1 This represents reversal of provision against equity investment in Federal Bank for Cooperatives on account of winding up proceeds.

12.4 Pakistan Investment Bond carry mark-up at the rate of 9.6% per annum (2013: 8.0% to 9.6% per annum) and is due to mature by 2016 (2013: June 2016).

	Note	2014	2013	July 1, 2012
12.5 Unrealised appreciation on remeasurement of investments - local				
Opening balance		147,628,730	125,361,019	120,458,857
Surplus arising during the year		93,285,053	22,267,711	4,902,162
Surplus reclassified to the consolidated profit and loss account	12.5.1	(19,745,549)	-	-
		<u>73,539,504</u>	<u>22,267,711</u>	<u>4,902,162</u>
Closing balance		<u>221,168,234</u>	<u>147,628,730</u>	<u>125,361,019</u>

12.5.1 This represents amount of surplus reclassified to the consolidated profit and loss account as a result of disposal of shares of United Bank Limited. The gain arising on disposal of United Bank Limited shares amounted to Rs. 31,185.73 million.

		2014	2013	July 1, 2012
13. LOANS, ADVANCES AND BILLS OF EXCHANGE				
Governments	13.1	3,266,166	18,724,135	36,318,424
Government owned / controlled financial institutions	13.2	100,795,810	99,271,667	100,061,350
Private sector financial institutions	13.3	192,001,193	209,125,191	197,427,839
		<u>292,797,003</u>	<u>308,396,858</u>	<u>297,489,189</u>
Employees		17,838,852	17,844,498	16,958,746
		<u>313,902,021</u>	<u>344,965,491</u>	<u>350,766,359</u>
Provision against doubtful balances	13.4	(5,349,846)	(5,350,531)	(6,409,918)
		<u>308,552,175</u>	<u>339,614,960</u>	<u>344,356,441</u>

13.1 Loans and advances to the Governments

Provincial Government - Punjab		-	11,622,050	25,696,890
Provincial Government - Baluchistan	13.1.2	2,113,244	5,183,244	8,183,244
Provincial Government - Khyber Pakhtunkhwa	13.1.3	1,152,922	1,918,841	2,438,290
	13.1.1	<u>3,266,166</u>	<u>18,724,135</u>	<u>36,318,424</u>

- 13.1.1** During the year, mark-up on above balances due from the Provincial Governments was charged at various rates ranging between 9.03% to 9.98% (2013: 9.21% to 11.93%) per annum.
- 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, 2014, the principal outstanding balance of this loan amounts to Rs.1,125 million (2013: Rs 1,875 million). The loan is secured by the guarantee of Federal Government.

13.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks			Other financial institutions			Total		
	2014	2013	July 1, 2012	2014	2013	July 1, 2012	2014	2013	July 1, 2012
	----- (Rupees in '000) -----								
Agricultural sector (13.2.1)	50,526,831	50,668,119	50,799,596	-	-	-	50,526,831	50,668,119	50,799,596
Industrial sector (13.2.1 & 13.2.3)	6,661,817	6,790,643	7,679,797	-	-	-	6,661,817	6,790,643	7,679,797
Export sector (13.3.1)	15,421,989	13,627,732	13,396,784	3,567	3,567	3,567	15,425,556	13,631,299	13,400,351
Housing sector (13.2.2)	-	-	-	11,242,300	11,242,300	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	16,939,306	16,939,306
	89,549,943	88,025,800	88,815,483	11,245,867	11,245,867	11,245,867	100,795,810	99,271,667	100,061,350

- 13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2013: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2013: 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 (2013: Rs. 3,204 million) classified in other loans and advances. The entire exposure has been overdue since 2002.

In a tripartite meeting held on July 11, 2014 between Ministry of Finance (MoF), ZTBL and the Bank, it was decided that the total outstanding amount of Rs. 89,490 million, including suspended mark-up of Rs. 35,029 million, will be converted to an equity investment of the Group in ZTBL. This is subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. Pending completion of the conversion process, these balances are secured through sovereign guarantee of the Government of Pakistan.

- 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, 2014, all of these credit lines are overdue since 2006 amounting to Rs. 11,242 million (2013: Rs. 11,242 million). These credit lines are secured by the guarantee from the Federal Government.

It was decided in a tripartite meeting among MoF, HBFCL and the Bank held on July 11, 2014 that the total outstanding amount of Rs. 15,690 million, including suspended mark-up / share of profit / loss of Rs. 4,448 million, after immediate cash payment of Rs. 2,000 million i.e. Rs. 13,690 million will be converted to an equity investment of the Group in HBFCL. This is subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. Pending completion of the conversion process, these balances are secured through sovereign guarantee of the Government of Pakistan.

- 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 (2013: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2013: 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 vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. The entire exposure has become overdue since 2001. In line with the Federal Cabinet decision of winding up, the bank has closed all of its branches except two branches operating in Karachi and Lahore as at June 30, 2014.

- 13.2.4** These balances include Rs. 423 million (2013: 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 Loans and advances to private sector financial institutions

	Scheduled banks			Other financial institutions			Total		
	2014	2013	July 1, 2012	2014	2013	July 1, 2012	2014	2013	July 1, 2012
	----- (Rupees in '000) -----								
Agricultural sector	1,379,816	1,654,860	1,378,592	121,999	132,777	160,416	1,501,815	1,787,637	1,539,008
Industrial sector	38,080,588	36,010,495	36,516,523	4,391,844	4,315,772	4,714,480	42,472,432	40,326,267	41,231,003
Export sector (13.3.1)	148,001,464	166,985,805	154,632,346	-	-	-	148,001,464	166,985,805	154,632,346
Others	25,482	25,482	25,482	-	-	-	25,482	25,482	25,482
	187,487,350	204,676,642	192,552,943	4,513,843	4,448,549	4,874,896	192,001,193	209,125,191	197,427,839

- 13.3.1** Export sector loans are fully secured against demand promissory notes.

	2014	2013	July 1, 2012
	------(Rupees in '000)-----		
13.4 Provision against doubtful assets			
Opening balance	5,350,531	6,409,918	6,397,908
Charge / (reversal) during the year	(685)	(1,059,387)	12,010
Closing balance	<u>5,349,846</u>	<u>5,350,531</u>	<u>6,409,918</u>

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

	2014	2013
	(% per annum)	
Government owned / controlled and private sector financial institutions	0 to 11	0 to 11
Employees loans	10	10

	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
14. ASSETS HELD WITH THE RESERVE BANK OF INDIA				
Gold reserves				
- Opening balance		3,989,634	5,075,827	4,346,524
- Appreciation / (diminution) for the year due to revaluation	26.3.1.1	<u>373,927</u>	<u>(1,086,193)</u>	<u>729,303</u>
		<u>4,363,561</u>	<u>3,989,634</u>	<u>5,075,827</u>
Sterling securities		555,687	501,657	486,977
Government of India securities		235,177	240,439	241,525
Rupee coins		<u>4,835</u>	<u>4,938</u>	<u>4,959</u>
	14.1	<u>5,159,260</u>	<u>4,736,668</u>	<u>5,809,288</u>
Indian notes representing assets receivable from the Reserve Bank of India	14.2	<u>707,619</u>	<u>723,449</u>	<u>726,719</u>
	19.1	<u>5,866,879</u>	<u>5,460,117</u>	<u>6,536,007</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 Group is subject to final settlement between the Governments of Pakistan and India (also refer note 26.3.1).

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 26.3.1).

	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
15. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)				
India				
Advance against printing of notes		39,616	39,616	39,616
Receivable from the Reserve Bank of India		<u>837</u>	<u>837</u>	<u>837</u>
		<u>40,453</u>	<u>40,453</u>	<u>40,453</u>
Bangladesh (former East Pakistan)				
Inter office balances		819,924	819,924	819,924
Loans, advances and commercial papers	15.1	<u>7,097,281</u>	<u>6,536,661</u>	<u>6,015,556</u>
		<u>7,917,205</u>	<u>7,356,585</u>	<u>6,835,480</u>
	15.2	<u>7,957,658</u>	<u>7,397,038</u>	<u>6,875,933</u>

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

15.2 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Government of Bangladesh (former East Pakistan) and India (also refer notes 26.1, 26.2 and 26.3.1).

	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
16. PROPERTY AND EQUIPMENT				
Operating fixed assets	16.1	20,792,537	21,835,143	23,086,639
Capital work-in-progress	16.3	<u>661,107</u>	<u>505,907</u>	<u>364,254</u>
		<u>21,453,644</u>	<u>22,341,050</u>	<u>23,450,893</u>

16.1 Operating fixed assets

	2014							
	Cost / revalued amount at July 1, 2013	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2014	Accumulated depreciation at July 1, 2013	Depreciation for the year/ (deletions)	Accumulated depreciation at June 30, 2014	Net book value at June 30, 2014	Useful life / Rate of depreciation
	(Rupees in '000)							
Freehold land *	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land *	16,811,005	-	16,811,005	1,179,568	589,889	1,769,457	15,041,548	30-150 years
Buildings on freehold land *	1,067,512	10,999	1,078,511	414,199	216,587	630,786	447,725	20 years
Buildings on leasehold land *	1,957,526	57,484	2,015,010	748,172	410,322	1,158,494	856,516	20 years
Furniture and fixtures	231,777	17,547 (8,069)	241,255	167,473	15,532 (8,016)	174,989	66,266	10%
Office equipment	1,547,459	140,971 (10,126)	1,678,304	1,267,908	127,067 (9,882)	1,385,093	293,211	20%
EDP equipment	1,631,339	159,131 (40,213)	1,750,257	1,575,491	60,469 (20,907)	1,615,053	135,204	33.33%
Motor vehicles	402,121	99,178 (33,810)	467,489	252,443	78,675 (24,038)	307,080	160,409	20%
	27,440,397	485,310 (92,218)	27,833,489	5,605,254	1,498,541 (62,843)	7,040,952	20,792,537	
	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	Useful life / 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	30-150 years
Buildings on freehold land *	1,041,145	26,367	1,067,512	203,807	210,392	414,199	653,313	20 years
Buildings on leasehold land *	1,916,988	40,538	1,957,526	368,691	379,481	748,172	1,209,354	20 years
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	

* These represent revalued assets.

	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	Useful life / 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	30-150 years
Buildings on freehold land *	1,019,194	21,951	1,041,145	-	203,807	203,807	837,338	20 years
Buildings on leasehold land *	1,878,950	38,038	1,916,988	-	368,691	368,691	1,548,297	20 years
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) 25	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) 65	4,184,313	23,086,639	

* These represent revalued assets.

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

	2014	2013	July 1, 2012
	(Rupees in '000)		
Freehold land	39,124	39,124	39,124
Leasehold land	86,955	89,305	87,038
Buildings on freehold land	324,708	330,799	321,842
Buildings on leasehold land	580,258	553,314	541,898
	<u>1,031,045</u>	<u>1,012,542</u>	<u>989,902</u>
16.3 Capital work-in-progress			
Buildings on freehold land	85,730	14,641	8,016
Buildings on leasehold land	410,749	402,567	309,301
Furniture and fixtures	-	181	-
Office equipment	143,589	57,091	46,559
EDP equipment	21,039	31,427	378
	<u>661,107</u>	<u>505,907</u>	<u>364,254</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 2014	601,880	7,567	609,447	585,639	14,881	600,520	8,927	33.33
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

	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
18. OTHER ASSETS				
Medical, stationery consumables and stamps on hand		125,774	120,404	117,963
Other advances, deposits and prepayments		584,390	640,791	607,323
Commission receivable and others		973,004	127,936	148,545
		<u>1,683,168</u>	<u>889,131</u>	<u>873,831</u>
19. BANK NOTES IN CIRCULATION				
Total bank notes issued	19.1	2,309,237,913	2,041,504,603	1,777,122,544
Notes held with the Banking Department	6	(110,890)	(143,300)	(160,156)
Notes in circulation		<u>2,309,127,023</u>	<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 consolidated 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	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
Gold reserves held by the Bank	5	269,307,930	246,096,839	313,077,419
Coins	6	417,880	924,997	1,814,196
Foreign currency accounts and investments	7	330,654,911	92,604,275	359,956,350
Special Drawing Rights of the International Monetary Fund	9	7,625,850	7,437,650	7,146,000
Investments - local	12	1,695,364,463	1,688,902,225	1,088,514,072
Commercial papers held in Bangladesh (former East Pakistan)		-	78,500	78,500
Assets held with the Reserve Bank of India	14	5,866,879	5,460,117	6,536,007
		<u>2,309,237,913</u>	<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	364,978,120	75,614,619	95,381,342
Provincial Governments				
- Punjab	20.4	70,067,226	7,312,358	16,196,041
- Sindh	20.5	11,043,372	-	-
- Khyber Pakhtunkhwa	20.6	51,663,856	27,939,475	28,601,808
- Baluchistan	20.7	30,356,035	19,788,639	8,354,506
Gilgit - Baltistan Administration Authority	20.8	3,697,934	2,654,671	-
		<u>166,828,423</u>	<u>57,695,143</u>	<u>53,152,355</u>
		<u>531,806,543</u>	<u>133,309,762</u>	<u>148,533,697</u>
20.2 Current accounts of Governments - receivable balances				
Provincial Government of Sindh	20.5	-	3,595,992	9,533,682
Gilgit - Baltistan Administration Authority	20.8	-	-	602,969
Government of Azad Jammu and Kashmir	20.9	802,315	2,394,941	2,675,619
		<u>802,315</u>	<u>5,990,933</u>	<u>12,812,270</u>
20.3 Federal Government				
Non-food account		235,195,428	105,372,208	126,141,484
Zakat fund accounts		4,825,613	4,057,267	3,956,688
Railways accounts	20.10	(36,345,798)	(37,915,421)	(38,806,766)
Other accounts		161,302,877	4,100,565	4,089,936
		<u>364,978,120</u>	<u>75,614,619</u>	<u>95,381,342</u>
20.4 Provincial Government - Punjab				
Non-food account		7,240,314	(43,178,664)	(35,207,201)
Zakat fund account		815,949	1,136,322	2,373,632
Other accounts		62,010,963	49,354,700	49,029,610
		<u>70,067,226</u>	<u>7,312,358</u>	<u>16,196,041</u>

	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
20.5 Provincial Government - Sindh				
Non-food account		8,781,880	(6,225,940)	(12,192,742)
Zakat fund account		2,055,788	2,529,730	2,434,119
Other accounts		205,704	100,218	224,941
		<u>11,043,372</u>	<u>(3,595,992)</u>	<u>(9,533,682)</u>
Classified as receivable balance	20.10	-	3,595,992	9,533,682
		<u>11,043,372</u>	<u>-</u>	<u>-</u>
20.6 Provincial Government - Khyber Pakhtunkhwa				
Non-food account		46,142,712	7,455,660	15,426,567
Zakat fund account		1,446,912	1,012,133	1,168,535
Other accounts		4,074,232	19,471,682	12,006,706
		<u>51,663,856</u>	<u>27,939,475</u>	<u>28,601,808</u>
20.7 Provincial Government - Baluchistan				
Non-food account		29,639,920	19,244,506	7,769,687
Zakat fund account		589,366	417,194	357,606
Other accounts		126,749	126,939	227,213
		<u>30,356,035</u>	<u>19,788,639</u>	<u>8,354,506</u>
20.8 Gilgit - Baltistan Administration Authority		3,697,934	2,654,671	(602,969)
Classified as receivable balance		-	-	602,969
		<u>3,697,934</u>	<u>2,654,671</u>	<u>-</u>
20.9 Government of Azad Jammu and Kashmir		(802,315)	(2,394,941)	(2,675,619)
Classified as receivable balance	20.10	802,315	2,394,941	2,675,619
		<u>-</u>	<u>-</u>	<u>-</u>
20.10	These balances carry mark-up at the rate ranging from 9.98% to 12.15% per annum (2013: 9.35% to 12.35% per annum).			

21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents borrowings under repurchase agreement maturing on July 2, 2014 and carry markup rate of 7.5% per annum (2013: nil). Securities pledged as collateral against these borrowings have been disclosed in note 12 to these consolidated financial statements and on the consolidated balance sheet as "Securities given as collateral under repurchase agreements".

22. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT**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 1,500 million, CNY 3,500 million and CNY 1,500 million against PKR during the year with maturity buckets of one year, six months and six months respectively, which have been fully utilized as on June 30, 2014 and the same amounts are outstanding as on June 30, 2014. Interest is charged on outstanding balance at agreed rates. As at June 30, 2014, the Group's commitment under this agreement is PKR 140,000 million (2013: 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 1,800 million in respective currencies. Till June 30, 2014, there has been no request from either of the two central banks to activate this agreement. As at June 30, 2014, the Group's commitment under this agreement is PKR 86,300 million (2013: PKR 86,300 million).

23.	DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	Note	2014	2013	July 1, 2012
			----- (Rupees in '000) -----		
	Foreign currency				
	Scheduled banks		23,305,097	23,420,232	23,115,145
	Held under Cash Reserve Requirement		136,200,819	117,681,704	104,970,918
			159,505,916	141,101,936	128,086,063
	Local currency				
	Scheduled banks		368,623,750	331,626,659	266,657,312
	Financial institutions		2,546,620	2,852,018	1,366,081
	Others		70,070	67,188	63,011
			371,240,440	334,545,865	268,086,404
			530,746,356	475,647,801	396,172,467
24.	OTHER DEPOSITS AND ACCOUNTS				
	Foreign currency				
	Foreign central banks		44,483,210	44,870,494	42,572,864
	International organisations	24.2	24,902,682	35,633,270	43,320,520
	Others		13,712,458	15,320,982	16,008,153
		24.1	83,098,350	95,824,746	101,901,537
	Local currency				
	Special debt repayment	24.3	24,074,660	24,074,660	23,914,674
	Government	24.4	17,850,348	19,130,988	19,130,988
	Foreign central banks		1,904	1,848	-
	International organisations		6,330,362	6,099,056	-
	Others		14,417,083	11,311,811	9,752,724
			62,674,357	60,618,363	52,798,386
			145,772,707	156,443,109	154,699,923
24.1	The interest rate profile of the interest bearing deposits is as follows:			2014 (% per annum)	2013
	Foreign central banks			0.32 to 0.57	0.36 to 0.61
	International organisations			1.35 to 2.47	1.42 to 2.51
	Others			0.03 to 0.12	0 to 0.17
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 2014) and June 2012 (rolled-over in June 2014) 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 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 China in June 2008 carrying interest at six months LIBOR plus 100 bps, payable semi-annually. There is no outstanding balance of this deposit as on June 30, 2014 (2013: USD 100 million).				
24.3	These are interest free 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	Note	2014	2013	July 1, 2012
			----- (Rupees in '000) -----		
	Borrowings under:				
	- Fund facilities	25.1 & 25.4	231,569,547	274,475,129	489,178,999
	- Other credit schemes	25.2 & 25.4	2,627,563	10,250,867	27,084,483
	- Allocation of SDRs	25.3	150,797,597	147,067,973	141,315,906
			384,994,707	431,793,969	657,579,388
	Current account for administrative charges		35	34	33
			384,994,742	431,794,003	657,579,421

- 25.1** IMF provides financing to its member countries from General Resources Account (GRA) held in its General Department. GRA credit is normally governed by the IMF's general lending policies (also known as "credit tranche" policies, which provide financing for Balance of Payments [BoP] needs).

Under GRA financing, IMF granted Stand By Arrangement Facility (SBAF) amounting to SDR 5,168.50 million in FY 2008-09, having repayment period of 3¼–5 years, with repayments in eight equal quarterly installments. 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 (BoP) share in the disbursement was SDR 3,984.94 million. The repayment of the facility has commenced from February 2012 and would continue up to May 2015. Upto June 30, 2014 out of Bank's (BoP) share an amount of SDR 3,551.83 million has been repaid (2013: SDR 2,147.28 million). Outstanding balance as on June 30, 2014 is SDR 433.10 million (2013: SDR 1,837.65 million).

Further, another 36-month extended arrangement under GRA financing i.e. Extended Fund Facility (EFF) was granted by IMF in FY 2013-14; the total facility amounts to SDR 4,393 million having repayment period of 4½–10 years, with repayments in twelve equal semi-annual installments. A total amount of SDR 1,080 million has been disbursed under three (3) tranches of EFF up to June 30, 2014. The repayments under this facility would start in March 2018 and would continue till March 2024.

- 25.2** IMF provides concessional financial assistance to low-income members from Special Disbursement Account (SDA) held in its General Department. Under IMF's lending to Low Income Countries (LICs) from SDA resources 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, 2014 an amount of SDR 844.19 million has been repaid (2013: SDR 792.51 million) and outstanding balance amounted to SDR 17.23 million as at June 30, 2014 (2013: SDR 68.91 million). The facility has been fully repaid in July 2014.

- 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 amount payable to the IMF is as under:

	Note	2014 (% per annum)	2013
Fund facilities	25.4.1	1.06 to 1.14	1.04 to 1.12
Other credit schemes	25.4.2	Nil	Nil

- 25.4.1** The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding. Interest rates are determined by the IMF on weekly basis. Charges are, however, payable on a quarterly basis.

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

	Note	2014	2013	July 1, 2012
26. OTHER LIABILITIES		----- (Rupees in '000) -----		
Local currency				
Overdue mark-up and return	26.1	6,703,128	6,142,508	5,621,403
Remittance clearance account		1,377,735	1,652,084	1,556,814
Exchange loss payable under exchange risk coverage scheme		214,485	226,436	228,556
Balance profit payable to the Government of Pakistan		18,910,705	76,472,914	62,700,879
Dividend payable	26.4	10,000	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		1,377,691	2,407,129	2,407,129
Other accruals and provisions	26.3	26,522,174	24,066,802	25,279,308
Others	26.2	7,452,776	1,315,797	3,940,923
		62,568,694	112,293,670	101,745,012

- 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** This includes liability maintained against balances due from Government of Bangladesh (Former East Pakistan) amounting to Rs 778.399 million (2013: Rs 778.399 million).

	Note	2014	2013	July 1, 2012	
26.3 Other accruals and provisions		----- (Rupees in '000) -----			
Agency commission		8,691,248	8,761,090	7,144,581	
Provision for employees' compensated absences	40.3.9	7,540,394	5,475,932	4,881,805	
Provision for other doubtful assets	26.3.1	6,766,237	6,359,475	7,435,365	
Other provisions	26.3.2	2,850,422	2,848,933	4,981,171	
Others		673,873	621,372	836,386	
		<u>26,522,174</u>	<u>24,066,802</u>	<u>25,279,308</u>	
26.3.1 Provision for other doubtful assets					
Provision against assets held with / receivable from					
Government of India and the Reserve Bank of India					
- Issue Department		5,866,879	5,460,117	6,536,007	
- Banking Department		40,483	40,483	40,483	
		<u>5,907,362</u>	<u>5,500,600</u>	<u>6,576,490</u>	
Provision against assets receivable from Government of					
Bangladesh (Former East Pakistan)					
- Issue Department		-	78,500	78,500	
- Banking Department		858,875	780,375	780,375	
		<u>858,875</u>	<u>858,875</u>	<u>858,875</u>	
	26.3.1.1	<u>6,766,237</u>	<u>6,359,475</u>	<u>7,435,365</u>	
26.3.1.1 Movement of provisions for other doubtful assets					
Opening balance		6,359,475	7,435,365	2,463,856	
Charge during the year		32,835	10,303	5,073,924	
Appreciation / (diminution) relating to gold reserves held by the					
Reserve Bank of India		373,927	(1,086,193)	(102,415)	
Closing balance		<u>6,766,237</u>	<u>6,359,475</u>	<u>7,435,365</u>	
26.3.2 Movement of other provisions					
Opening balance		2,848,933	4,981,171	3,110,055	
Charge / (reversal) during the year		1,489	(550,880)	1,885,143	
Payment during the year		-	(1,581,358)	(14,027)	
Closing balance		<u>2,850,422</u>	<u>2,848,933</u>	<u>4,981,171</u>	
	Home remittance	Agriculture loan	Specific claims (note 26.3.2.2)	Others (note 26.3.2.1)	Total
	----- (Rupees in '000) -----				
Balance as at July 1, 2012	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)
Balance as at June 30, 2013	<u>260,363</u>	<u>-</u>	<u>1,600,000</u>	<u>988,570</u>	<u>2,848,933</u>
Charge during the year	-	-	-	1,489	1,489
Reversal during the year	-	-	-	-	-
Payment during the year	-	-	-	-	-
Balance as at June 30, 2014	<u>260,363</u>	<u>-</u>	<u>1,600,000</u>	<u>990,059</u>	<u>2,850,422</u>

26.3.2.1 This represents provision made in respect of various litigations and claims against the Group.

26.3.2.2 This represents provision made against a claim under arbitration.

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

27. DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
Pension		46,802,418	38,982,073	33,929,015
Gratuity scheme		19,040	36,761	36,286
Post retirement medical benefits		14,903,244	8,914,110	8,270,382
Benevolent fund scheme		1,301,936	2,410,117	2,115,859
Six months post retirement facility		322,618	218,306	-
	40.3.3	63,349,256	50,561,367	44,351,542
Provident fund scheme		1,087,796	1,202,755	1,286,171
		64,437,052	51,764,122	45,637,713

28. SHARE CAPITAL

2014	2013	July 1, 2012		2014	2013	July 1, 2012
----- (Number of shares) -----				----- (Rupees in '000) -----		
Authorised share capital						
<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid-up capital						
<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

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 State Bank of Pakistan 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 State Bank of Pakistan for certain specified purposes in accordance with the provisions of the State Bank of Pakistan Act, 1956.

30. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
Opening balance		242,568,983	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)
Appreciation / (diminution) for the year due to revaluation	5	23,070,665	(66,996,455)	44,962,441
		265,639,648	242,568,983	309,565,438

31. CONTINGENCIES AND COMMITMENTS

31.1 Contingencies

a) Contingent liability in respect of guarantees given on behalf of:				
Federal Government		23,710,102	36,033,835	44,051,938
Federal Government owned / controlled bodies and authorities		7,961,328	8,307,650	8,187,802
		31,671,430	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 amounting to Rs. 157 million approximately. 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 Honorable 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 Honorable 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.				
		<i>Note</i>	2014	2013	July 1, 2012
			----- (Rupees in '000) -----		
c)	Other claims against the Group not acknowledged as debts	31.1.1	588,500	622,003	853,293
31.1.1	These represent various claims filed against the Bank's role as a regulator and certain other cases.				
31.2	Commitments		2014	2013	July 1, 2012
			----- (Rupees in '000) -----		
	Foreign currency forward and swap contracts - sale		371,895,229	420,921,081	412,632,541
	Foreign currency forward and swap contracts - purchase		201,199,235	423,161,966	390,848,354
	Futures - sale		15,854,429	14,044,952	15,877,206
	Futures - purchase		10,826,777	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. 77.39 million (2013: Rs. 34.63 million).				
32.	DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED		<i>Note</i>	2014	2013
				----- (Rupees in '000) -----	
	Discount, interest / mark-up on:				
	- Government Market Related Treasury Bills	32.1		267,881,777	177,947,714
	- Federal Government Scrips			81,401	82,200
	- Loans and advances to and current accounts of Governments	32.2		961,322	3,329,965
	Securities purchased under agreement to resell			10,586,285	43,747,253
	Share of profit on finances under profit and loss sharing arrangements			17,916,861	18,151,189
	Foreign currency deposits			1,038,950	2,321,670
	Foreign currency securities			6,411,353	5,046,804
	Others			1,156,502	128,884
				306,034,451	250,755,679
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:			2014	2013
				(% per annum)	
	Mark-up on facility			9.03 to 9.98	9.21 to 11.93
	Additional mark-up (where ways and means facility limit is exceeded)			4	4

	Note	2014 ------(Rupees in '000)-----	2013
33. INTEREST / MARK-UP EXPENSE			
Deposits		11,627,200	7,336,801
Securities sold under agreement to repurchase		3,544,415	231,486
Charges on allocation of Special Drawing Rights of the IMF		156,918	112,769
Others		9,358	24,450
		<u>15,337,891</u>	<u>7,705,506</u>
34. COMMISSION INCOME			
Market Treasury Bills	34.1	664,242	528,351
Draft / payment orders		149,338	178,055
Prize Bonds and National Saving Certificates	34.1	363,208	337,409
Management of public debts	34.1	550,359	347,218
Others		47	367,592
		<u>1,727,194</u>	<u>1,758,625</u>
34.1	These represent commission income earned from services provided to the Federal Government.		
35. EXCHANGE GAIN - NET		2014 ------(Rupees in '000)-----	2013
Gain / (loss) on:			
- Foreign currency placements, deposits, securities and other accounts - net		21,875,653	25,856,535
- Forward covers under Exchange Risk Coverage Scheme		(14,686)	5,728
- IMF Fund Facilities		(5,913,842)	(16,233,145)
- Special Drawing Rights of the IMF		(1,920,242)	(3,019,610)
		<u>14,026,883</u>	<u>6,609,508</u>
Exchange risk fee income		85,433	93,907
		<u>14,112,316</u>	<u>6,703,415</u>
36. OTHER OPERATING INCOME / (LOSS) - NET			
Penalties levied on banks and financial institutions		755,735	904,330
License / Credit Information Bureau fee recovered		607,743	182,314
Gain / (loss) on sale of investment:			
Local - available-for-sale		31,618,976	(276)
Foreign - 'at fair value through profit or loss'		(39,630)	1,625,362
		<u>31,579,346</u>	<u>1,625,086</u>
Loss on remeasurement of securities classified as 'fair value through profit or loss'		(3,699,100)	(3,748,949)
Others		(741,371)	16,908
		<u>28,502,353</u>	<u>(1,020,311)</u>
37. OTHER INCOME - NET			
Loss on disposal of property and equipment		(17,734)	(617)
Liabilities and provisions written back - net		340	777
Grant income under foreign assistance program		9,976	26,292
Others		126,878	146,567
		<u>119,460</u>	<u>173,019</u>
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 under an agreement at the rate of 0.12% (2013: 0.13%) of the total amount of collections and payments handled by NBP.			

	Note	2014 ------(Rupees in '000)-----	2013
40. GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		8,855,874	7,637,669
Retirement benefits and employees' compensated absences	40.1	10,025,142	8,606,482
Rent and taxes		36,118	38,052
Insurance		28,451	28,415
Electricity, gas and water		363,456	300,401
Depreciation	16.1	1,498,541	1,488,422
Amortisation of intangible assets	17	14,881	14,946
Repairs and maintenance		473,640	443,371
Auditors' remuneration	40.2	12,200	12,170
Legal and professional		412,977	455,671
Travelling expenses		399,471	338,235
Daily expenses		60,869	64,499
Fuel		56,727	53,448
Conveyance		20,713	24,059
Postages, telegram / telex and telephone		198,205	163,633
Training		53,804	57,264
Stationery		24,320	25,097
Remittance of treasure		69,190	49,870
Books and newspapers		28,170	30,874
Advertisement		13,588	35,617
Uniforms		19,550	25,625
Others		311,947	303,416
		22,977,834	20,197,236

40.1 This includes an amount relating to defined contribution plan amounting to Rs. 140.606 million (2013: Rs. 119.192 million).

40.2 Auditors' remuneration	2014				2013			
	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	M. Yousuf Adil Saleem & Co.	Total	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	M. Yousuf Adil Saleem &Co.	Total
	------(Rupees in '000)-----							
State Bank of Pakistan								
Audit fee	2,610	2,610	-	5,220	2,610	2,610	-	5,220
Out of pocket expenses	415	415	-	830	415	415	-	830
	3,025	3,025	-	6,050	3,025	3,025	-	6,050
SBP Banking Services Corporation								
Audit fee	2,090	2,090	-	4,180	2,090	2,090	-	4,180
Out of pocket expenses	885	885	-	1,770	885	885	-	1,770
	2,975	2,975	-	5,950	2,975	2,975	-	5,950
NIBAF								
Audit fee	-	-	200	200	-	-	170	170
	6,000	6,000	200	12,200	6,000	6,000	170	12,170

40.3 Staff retirement benefits

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

	2014	2013
- Discount rate for year end obligation	13.25% - 13.50% p.a.*	11.5% p.a.
- Salary increase rate	13.25% - 13.50% p.a. **	11.5% p.a.
- Pension indexation rate	10.75% p.a.	9% p.a.
- Medical cost increase rate	13% p.a.	8% p.a.
- Personnel turnover	2.1%-2.6% p.a.	3% p.a.
- Normal retirement age	60 Years	60 Years

* 13.5% has been used for post retirement medical benefits and gratuity scheme. For all other benefits rate of 13.25 % has been used.

** 13.5% has been used for gratuity scheme. For all other benefits rate of 13.25 % has been used.

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with 1 year setback.

40.3.2 Through its defined benefit plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Discount rate risk

The risk of changes in discount rate, since discount rate is based on corporate / government bonds, any decrease in bond yields will increase plan liabilities.

Salary increase / inflation risk

The risk that the actual salary increase are higher than the expected salary increase, where benefits are linked with final salary at the time of cessation of service.

Mortality risk

The risk that the actual mortality experience is different than that of expected i.e. the actual life expectancy is longer than assumed.

Withdrawal risk

The risk of actual withdrawals experience is different from assumed.

Medical inflation risk

The risk of actual medical inflation experience is different from assumed.

40.3.3 Change in present value of defined benefit obligation

	2014				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in 000				
Present value of defined benefit obligation July 1, 2013	38,982,073	36,761	8,914,110	2,410,117	218,306
Current service cost	988,881	2,060	325,843	107,774	14,849
Interest cost on defined benefit obligation	4,017,894	2,513	983,826	184,527	24,279
Benefits Paid	(8,087,740)	(29,823)	(718,204)	(404,318)	(14,373)
Remeasurements:					
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(920,535)	-
Experience adjustments	10,901,310	7,529	5,397,669	(75,629)	79,557
Present value of defined benefit obligation as on June 30, 2014	46,802,418	19,040	14,903,244	1,301,936	322,618
	2013				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in 000				
Present value of defined benefit obligation as on July 1, 2012	33,929,015	36,286	8,270,382	2,115,859	-
Current service cost	993,951	2,280	178,860	96,000	-
Past service cost	-	-	-	-	218,306
Interest cost on defined benefit obligation	4,069,091	4,061	1,101,048	277,000	-
Benefits paid	(5,734,542)	(7,221)	(549,014)	(160,572)	-
Remeasurements:					
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	-	-
Experience adjustments	5,724,558	1,355	(87,166)	81,830	-
Present value of defined benefit obligation as on June 30, 2013	38,982,073	36,761	8,914,110	2,410,117	218,306

40.3.3.1 The break-up of remeasurements recognised during the period in 'consolidated statement of comprehensive income' are as follows:

	2014	2013
	-----(Rupees in '000)----	
- Actuarial gains / (losses) from changes in financial assumptions	920,535	-
- Experience adjustments	(16,310,436)	(5,720,577)
	(15,389,901)	(5,720,577)

40.3.4 Amount recognised in the consolidated profit and loss account

	2014				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in 000				
Current service cost	988,881	2,060	325,843	107,774	14,849
Interest cost on defined benefit obligation	4,017,894	2,513	577,533	590,820	24,279
Contribution made by Employees	-	-	-	(22,121)	-
	5,006,775	4,573	903,376	676,473	39,128

	2013				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in '000'				
Current service cost	993,951	2,280	178,860	96,000	-
Past service cost	-	-	-	-	218,306
Interest cost on defined benefit obligation	4,069,091	4,061	1,101,048	277,000	-
Contribution made by Employees	-	-	-	(3,846)	-
	5,063,042	6,341	1,279,908	369,154	218,306

40.3.5 Movement of present value of defined benefit obligation

	2014				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in '000'				
Net recognised liabilities at July 1, 2013	38,982,073	36,761	8,914,110	2,410,117	218,306
Amount recognised in the consolidated profit and loss account	5,006,775	4,573	1,309,669	270,180	39,128
Remeasurements	10,901,310	7,529	5,397,669	(996,164)	79,557
Benefits paid during the year	(8,087,740)	(29,823)	(718,204)	(404,318)	(14,373)
Employees contribution / amount transferred	-	-	-	22,121	-
Net recognised liabilities at June 30, 2014	46,802,418	19,040	14,903,244	1,301,936	322,618

	2013				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in '000'				
Net recognised liabilities at July 1, 2012	33,929,015	36,286	8,270,382	2,115,859	-
Amount recognised in the consolidated profit and loss account	5,063,042	6,341	1,279,908	369,154	218,306
Remeasurements	5,724,558	1,355	(87,166)	81,830	-
Benefits paid during the year	(5,734,542)	(7,221)	(549,014)	(160,572)	-
Employees contribution / amount transferred	-	-	-	3,846	-
Net recognised liabilities at June 30, 2013	38,982,073	36,761	8,914,110	2,410,117	218,306

40.3.6 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	(Rupees in '000)		
Pension			
Discount rate	1%	(3,622,630)	4,573,815
Future salary increase	1%	1,805,771	(1,676,890)
Future pension increase	1%	2,751,521	(2,363,901)
Expected mortality rates	1 Year	(705,397)	697,532
Gratuity			
Discount rate	1%	(2,737)	3,311
Future salary increase	1%	3,279	(2,759)
Post retirement medical benefit scheme			
Discount rate	1%	(1,954,542)	2,458,623
Future medical cost increase	1%	2,452,314	(1,982,900)
Expected mortality rates	1 Year	(378,326)	380,762
Benevolent			
Discount rate	1%	(65,710)	72,079
Contribution/Grant increase	1%	79,923	-
Expected mortality rates	1 Year	(3,627)	3,475
Six months post retirement facility			
Discount rate	1%	(25,537)	29,058
Future salary increase	1%	28,786	(25,750)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability of all schemes recognised within the balance sheet.

40.3.7 Duration of defined benefit obligation

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
The weighted average duration of the defined benefit obligation is	8-9 Years	8-16 Years	12-16 Years	5 Years	6-9 Years

40.3.8 Estimated expenses to be charged to consolidated profit and loss account for the year ending June 30, 2015

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2015 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	-----Rupees in '000'-----					
Current service cost	1,232,677	4,643	345,396	62,241	24,235	1,669,192
Contributions by employees	-	-	-	(3,850)	-	(3,850)
Interest cost on defined benefit obligation	6,201,630	2,567	2,012,000	172,506	42,747	8,431,450
Amount chargeable to the consolidated profit and loss account	7,434,307	7,210	2,357,396	230,897	66,982	10,096,792

40.3.9 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. 7,540.39 million (2013 : Rs. 5,475.93 million). An amount of Rs. 3,259.53 million (2013: Rs. 1,399.22 million) has been charged to the consolidated profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2015 would be Rs 1,369.73 . The benefits paid during the year amounted to Rs 1,195.07 (2013: Rs 805.09)

	2014	2013
	------(Rupees in '000)-----	
41. PROFIT FOR THE YEAR AFTER NON-CASH AND OTHER ITEMS		
Profit for the year	311,814,840	235,891,820
Adjustments for:		
Depreciation	1,498,541	1,488,422
Amortisation of intangible assets	14,881	14,946
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	10,025,142	8,606,482
- loans and advances	(685)	(1,059,387)
- claims	1,489	(550,880)
- other doubtful assets	32,835	10,303
- diminution in value of investments	(150,000)	677,892
Loss on disposal of property, and equipment	17,734	617
(Gain) / loss on disposal of investments	(31,618,976)	276
Effect of exchange (gain) / loss on cash and cash equivalents	(2,701,106)	31,235,122
Dividend income	(12,127,927)	(16,480,789)
	<u>276,806,768</u>	<u>259,834,824</u>
42. CASH AND CASH EQUIVALENTS		
Local currency	417,880	924,997
Foreign currency accounts and investments	857,163,502	536,843,668
Earmarked foreign currency balances	7,453,502	3,849,637
Special Drawing Rights of the IMF	82,057,077	85,246,487
	<u>947,091,961</u>	<u>626,864,789</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:

	2014	2013
	------(Rupees in '000)-----	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>6,162,939,603</u>	<u>3,882,294,001</u>
- Retirement / rollover of MRTBs	<u>5,585,849,001</u>	<u>3,366,761,383</u>
- Investment purchased / matured and re-invested	<u>252,597</u>	<u>229,285</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).		

43.2 Remuneration to key management personnel

Key management personnel of the Group include members of the Central Board of Directors of the Bank, Governor of the Bank, Deputy Governors of the Bank 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 State Bank of Pakistan 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 are as follows:

	2014	2013
	------(Rupees in '000)-----	
Short-term employee benefit	194,413	166,273
Post-employment benefit	64,227	91,685
Loans disbursed during the year	30,221	35,948
Loans repaid during the year	27,253	26,615
Directors' fees	9,854	3,345

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 44.10. 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 Groups 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 Concentrations of risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly effected by changes in economic, political or other conditions. The Group's significant concentrations arising from financial instruments at the balance sheet date without taking any collateral held or other credit enhancements is shown below:

44.2.1 Geographical analysis

	2014						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(Rupees in '000)						
Financial assets							
Local currency - coins	417,880	-	-	-	-	-	417,880
Foreign currency accounts and investments	44,292,746	222,323,208	414,828,024	252,786,760	29,450,055	-	963,680,793
Earmarked foreign currency balance	7,453,502	-	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	18,194	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	802,315
Investments - local	3,154,126,304	-	-	-	-	-	3,154,126,304
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	308,552,175	-	-	-	-	-	308,552,175
Assets held with the Reserve Bank of India	-	1,503,318	-	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	7,957,658	-	-	-	-	7,957,658
Other assets	1,388,895	5,510	13,483	43,804	4,256	16,025	1,471,973
Total financial assets	3,535,098,317	231,789,694	496,916,778	252,830,564	29,454,311	16,025	4,546,105,689
	2013						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(Rupees in '000)						
Financial assets							
Local currency - coins	924,997	-	-	-	-	-	924,997
Foreign currency accounts and investments	782,995	197,942,095	290,536,516	143,656,828	9,039,651	-	641,958,085
Earmarked foreign currency balance	3,849,637	-	-	-	-	-	3,849,637
Special Drawing Rights of International Monetary Fund	-	-	85,246,487	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	17,755	-	-	-	17,755
Securities purchased under agreement to resell	198,787,435	-	-	-	-	-	198,787,435
Current accounts of Governments	5,990,933	-	-	-	-	-	5,990,933
Investments - local	2,490,745,139	-	-	-	-	-	2,490,745,139
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	339,614,960	-	-	-	-	-	339,614,960
Assets held with the Reserve Bank of India	-	1,470,483	-	-	-	-	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	7,397,038	-	-	-	-	7,397,038
Other assets	567,384	-	-	-	-	-	567,384
Total financial assets	3,041,263,480	206,809,616	375,800,758	143,656,828	9,039,651	-	3,776,570,333

44.2.2 Industrial analysis

2014							
	Sovereign	Supranational	Public Sector Entities	Corporate	Banks & Financial Institutions	Others	Grand Total
----- (Rupees in '000) -----							
Financial assets							
Local currency - coins	417,880	-	-	-	-	-	417,880
Foreign currency accounts and investments	436,112,912	209,576,041	1,243,310	-	303,930,872	12,817,658	963,680,793
Earmarked foreign currency balance	7,453,502	-	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	82,057,077	-	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	18,194	-	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	802,315
Investments - local	2,919,339,542	-	-	-	234,786,762	-	3,154,126,304
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	3,266,166	-	96,518,615	-	190,937,563	17,829,831	308,552,175
Assets held with the Reserve Bank of India	1,503,318	-	-	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	-	-	-	-	-	7,957,658
Other assets	649,500	29,986	4	680	55,158	736,645	1,471,973
Total financial assets	3,395,567,293	291,681,298	97,761,929	680	729,710,355	31,384,134	4,546,105,689
----- (Rupees in '000) -----							
2013							
	Sovereign	Supranational	Public Sector Entities	Corporate	Banks & Financial Institutions	Others	Grand Total
----- (Rupees in '000) -----							
Financial assets							
Local currency - coins	924,997	-	-	-	-	-	924,997
Foreign currency accounts and investments	423,591,489	15,045,390	1,965,963	-	198,197,466	3,157,777	641,958,085
Earmarked foreign currency balance	3,849,637	-	-	-	-	-	3,849,637
Special Drawing Rights of International Monetary Fund	-	85,246,487	-	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,755	-	-	-	-	17,755
Securities purchased under agreement to resell	-	-	-	-	198,787,435	-	198,787,435
Current accounts of Governments	5,990,933	-	-	-	-	-	5,990,933
Investments - local	2,323,578,350	-	-	-	167,166,789	-	2,490,745,139
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	18,724,135	-	101,437,983	-	201,618,050	17,834,792	339,614,960
Assets held with the Reserve Bank of India	1,470,483	-	-	-	-	-	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,397,038	-	-	-	-	-	7,397,038
Other assets	20,411	-	-	-	-	546,973	567,384
Total financial assets	2,785,547,473	100,309,632	103,403,946	-	765,769,740	21,539,542	3,776,570,333

44.3 CREDIT EXPOSURE BY CREDIT RATING

The credit quality of financial assets is managed by the Group using external credit ratings. The table below shows the credit quality by class of assets for all financial assets that are neither past due nor impaired as at the reporting date and are exposed to credit risk, based on the rating of external rating agencies. The Group uses lower of the credit rating of Moody's, Standard & Poor's and Fitch to categorise its financial assets in foreign currency accounts and investments. For domestic financial assets, credit rating of JCR-VIS and PACRA are used.

	2014						
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated
	(Rupees in '000)						
Financial assets							
Local currency - coins	417,880	-	-	-	-	-	417,880
Foreign currency accounts and investments	-	133,455,201	535,253,368	244,924,046	8,996,992	39,377,607	963,680,793
Earmarked foreign currency balance	-	-	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	802,315
Investments - local	2,919,339,542	215,297,625	17,839,242	75,000	-	-	3,154,126,304
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	3,266,166	104,898,677	137,060,183	29,929,057	1,899,528	-	308,552,175
Assets held with the Reserve Bank of India	-	-	-	-	1,503,318	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	7,957,658	-	7,957,658
Other assets	-	18,391	25,445	27,647	-	-	1,400,490
Total financial assets	2,941,890,403	453,669,894	690,178,238	274,955,750	20,357,496	39,377,607	4,546,105,689
	2013						
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated
	(Rupees in '000)						
Financial assets							
Local currency - coins	924,997	-	-	-	-	-	924,997
Foreign currency accounts and investments	-	96,757,175	324,637,666	177,966,556	3,356,803	38,524,639	641,958,085
Earmarked foreign currency balance	-	-	-	-	-	-	3,849,637
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,755
Securities purchased under agreement to resell	-	173,342,118	-	24,555,780	293,701	-	595,836
Current accounts of Governments	5,990,933	-	-	-	-	-	5,990,933
Investments - local	2,323,578,350	130,669,450	34,847,444	75,000	-	-	2,490,745,139
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	18,724,135	26,526,663	173,562,975	86,830,141	2,493,809	-	339,614,960
Assets held with the Reserve Bank of India	-	-	-	-	1,470,483	-	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	7,397,038	-	7,397,038
Other assets	-	-	-	-	-	-	567,384
Total financial assets	2,349,218,415	427,295,406	533,048,085	289,427,477	15,011,834	38,524,639	3,776,570,333

44.3.1 Government securities and balances are rated as sovereign. The international rating of Pakistan is B- (as per Fitch).

44.3.2 The collateral held as security against financial assets to cover the credit risk are disclosed in the respective notes.

44.4 Details of financial assets impaired and provision recorded there against:

	Gross Amount		Impairment Provision	
	2014	2013	2014	2013
	(Rupees in '000)			
Available for sale investment - unlisted	4,712,706	4,862,706	856,863	1,006,863
Loans and advances - agriculture sector	18,587	18,587	18,587	18,587
Loans and advances - industrial sector	1,054,285	1,054,285	1,054,285	1,054,285
Loans and advances - others	4,276,974	4,277,659	4,276,974	4,277,659
Assets held with the Reserve Bank of India	1,503,318	1,470,483	1,503,318	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,380,885	7,820,265	8,380,885	7,820,265

44.5 LIQUIDITY ANALYSIS WITH INTEREST / MARK-UP RATE RISK

44.5.1 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.

	2014						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
(Rupees in '000)							
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	417,880	-	417,880	417,880
Foreign currency accounts and investments	744,917,914	162,525,387	907,443,301	51,903,114	-	51,903,114	959,346,415
Earmarked foreign currency balance	-	-	-	7,453,502	-	7,453,502	7,453,502
Special Drawing Rights of International Monetary Fund	82,057,077	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	18,194	-	18,194	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,100	-	802,100	215	-	215	802,315
Investments - local	2,835,033,836	2,786,087	2,837,819,923	81,519,619	234,786,762	316,306,381	3,154,126,304
Securities given as collateral under repurchase agreements	17,500,000	-	17,500,000	564,500	-	564,500	18,064,500
Loans, advances and bills of exchange	217,042,795	61,455,154	278,497,949	14,564,912	15,489,314	30,054,226	308,552,175
Assets held with the Reserve Bank of India	-	-	-	1,503,318	-	1,503,318	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,097,281	-	7,097,281	860,377	-	860,377	7,957,658
Other assets	-	1,620	1,620	1,464,542	5,811	1,470,353	1,471,973
	3,904,451,003	226,768,248	4,131,219,251	160,270,173	250,281,887	410,552,060	4,541,771,311
Derivatives assets							
Foreign currency accounts and investments	-	-	-	4,383,623	-	4,383,623	4,383,623
Grand Total	3,904,451,003	226,768,248	4,131,219,251	164,653,796	250,281,887	414,935,683	4,546,154,934
Financial liabilities							
Bank notes issued	-	-	-	2,309,127,023	-	2,309,127,023	2,309,127,023
Bills payable	-	-	-	642,102	-	642,102	642,102
Current accounts of the Government *	(12,705,375) [†]	-	(12,705,375)	544,511,918	-	544,511,918	531,806,543
Securities sold under an agreement to repurchase	17,194,695	-	17,194,695	-	-	-	17,194,695
Payable under bilateral currency swaps agreement	105,248,797	-	105,248,797	-	-	-	105,248,797
Deposits of banks and financial institutions	10,807	-	10,807	530,735,549	-	530,735,549	530,746,356
Other deposits and accounts	48,293,741	34,581,610	82,875,351	62,897,356	-	62,897,356	145,772,707
Payable to International Monetary Fund	66,155,064	315,740,456	381,895,520	3,099,222	-	3,099,222	384,994,742
Other liabilities	-	-	-	55,793,974	-	55,793,974	55,793,974
	224,197,729	350,322,066	574,519,795	3,506,807,144	-	3,506,807,144	4,081,326,939
Derivatives liabilities							
Foreign currency accounts and investments	49,245	-	49,245	-	-	-	49,245
	224,246,974	350,322,066	574,569,040	3,506,807,144	-	3,506,807,144	4,081,376,184
On balance sheet gap (a)	3,680,204,029	(123,553,818)	3,556,650,211	(3,342,153,348)	250,281,887	(3,091,871,461)	464,778,750
Foreign currency forward and swap contracts - sal	-	-	-	(371,895,229)	-	(371,895,229)	(371,895,229)
Foreign currency forward and swap contracts - purchase	-	-	-	201,199,235	-	201,199,235	201,199,235
Futures - sale	-	-	-	(15,854,429)	-	(15,854,429)	(15,854,429)
Futures - purchase	-	-	-	10,826,777	-	10,826,777	10,826,777
Capital Commitment	-	-	-	(77,390)	-	(77,390)	(77,390)
Off balance sheet gap	-	-	-	(175,801,036)	-	(175,801,036)	(175,801,036)
Total yield / interest risk sensitivity gap	3,680,204,029	(123,553,818)	3,556,650,211	(3,166,352,312)	250,281,887	(2,916,070,425)	640,579,786
Cumulative yield / interest risk sensitivity gap	3,680,204,029	3,556,650,211	7,113,300,422	3,946,948,110	4,197,229,997	1,281,159,572	1,281,159,572
Contingent liabilities in respect of guarantees give	-	-	-	-	31,671,430	31,671,430	31,671,430

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

* The Group has the contractual right and intention to offset these balances against their respective non-interest bearing deposit balances. Mark-up on these balances is charged only when these balances are in debit

	2013						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
(Rupees in '000)							
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	924,997	-	924,997	924,997
Foreign currency accounts and investments	341,867,648	195,822,140	537,689,788	101,957,023	-	101,957,023	639,646,811
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 resell	198,787,435	-	198,787,435	-	-	-	198,787,435
Current account of the Government	5,932,762	-	5,932,762	58,171	-	58,171	5,990,933
Investments - local	2,275,762,134	2,785,921	2,278,548,055	45,030,295	167,166,789	212,197,084	2,490,745,139
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	262,958,492	45,448,026	308,406,518	15,693,761	15,514,681	31,208,442	339,614,960
Assets held with the Reserve Bank of India	-	-	-	1,470,483	-	1,470,483	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	6,536,661	-	6,536,661	860,377	-	860,377	7,397,038
Other assets	-	953	953	560,684	5,747	566,431	567,384
	3,177,091,619	244,057,040	3,421,148,659	170,423,183	182,687,217	353,110,400	3,774,259,059
Derivatives assets							
Foreign currency accounts and investments	1,181,385	-	1,181,385	1,129,889	-	1,129,889	2,311,274
Grand Total	3,178,273,004	244,057,040	3,422,330,044	171,553,072	182,687,217	354,240,289	3,776,570,333
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 Governments *	(22,878,933) [§]	-	(22,878,933)	156,188,695	-	156,188,695	133,309,762
Securities sold under an agreement to repurchase	-	-	-	-	-	-	-
Payable under bilateral currency swap agreement	81,614,727	-	81,614,727	-	-	-	81,614,727
Deposits of banks and financial institutions	10,807	-	10,807	475,636,994	-	475,636,994	475,647,801
Other deposits and accounts	50,200,749	45,374,237	95,574,986	60,868,123	-	60,868,123	156,443,109
Payable to International Monetary Fund	209,367,032	211,611,516	420,978,548	8,247,380	2,568,075	10,815,455	431,794,003
Other liabilities	-	-	-	84,610,129	-	84,610,129	84,610,129
	318,314,382	256,985,753	575,300,135	2,827,516,546	2,568,075	2,830,084,621	3,405,384,756
On balance sheet gap (a)	2,859,958,622	(12,928,713)	2,847,029,909	(2,655,963,474)	180,119,142	(2,475,844,332)	371,185,577
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
Capital Commitment	-	-	-	(29,931)	-	(29,931)	(29,931)
Off balance sheet gap	-	-	-	3,972,826	-	3,972,826	3,972,826
Total yield / interest risk sensitivity gap	2,859,958,622	(12,928,713)	2,847,029,909	(2,659,936,300)	180,119,142	(2,479,817,158)	367,212,751
Cumulative yield / interest risk sensitivity gap	2,859,958,622	2,847,029,909	5,694,059,818	3,034,123,518	3,214,242,660	734,425,502	734,425,502
Contingent liabilities in respect of guarantees given	-	-	-	-	44,341,485	44,341,485	44,341,485

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

* The Group has the contractual right and intention to offset these balances against their respective non-interest bearing deposit balances. Mark-up on these balances is charged only when these balances are in debit

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

44.6 Interest rate risk

44.6.1 Cash flow interest rate risk

Cash flow interest rate risk is the risk of loss arising from changes in variable interest rates. The sensitivity analysis below have been determined based on the exposure to interest rates for floating rate assets and liabilities, the analysis is prepared assuming the amount of average assets and liabilities outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 10 basis points higher/ lower and all other variables were held constant, the Group's profit for the year ended June 30, 2014 would increase / decrease by Rs 375.09 million (2013: Rs. 483.41 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments.

The Group does not keep a sizable portion of its foreign currency accounts and investments in floating rate securities, therefore the profit / loss attributable to the Group's exposure to interest rate on its variable rate instruments is negligible.

44.6.2 Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk on its fixed income securities classified as 'financial assets at fair value through profit or loss'. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 44.10.

As at June 30, 2014, a 10 basis points shift in market value, mainly as a result of change in interest rates with all other variables held constant, would result in consolidated profit for the year to increase by Rs 334.71 million (2013: Rs 1,359.80 million) or decrease by Rs 333 million (2013: Rs 1,372.79 million) mainly as a result of a increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

44.7 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.

The sensitivity analyses calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the consolidated profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Group had significant exposure as at June 30, 2014 with all other variables constant profit for the year would have been Rs. 3,203.62 million higher / lower (2013: 187.36 million). Net foreign currency exposure of the Group is as follows:

	2014	2013
	------(Rupees in '000)-----	
US Dollars	393,850,571	12,434,047
Pound	(23,123,079)	(11,027,854)
Chinese Yuan	704,551	24,426,608
EURO	(100,923,398)	(107,895,687)
Japanese Yen	8,045,452	(10,772,307)
Arab Emirates Dirham	11,999,698	16,298,429
Australian Dollar	19,458,036	41,037,259
Canadian Dollar	8,570,318	12,692,821
Others	1,779,613	4,070,697
	<u>320,361,762</u>	<u>(18,735,987)</u>

Net exposure in Special Drawing Rights (SDR) is allocated to its four basket currencies i.e. USD, GBP, EURO and JPY in the ratio of their percentage allocated by IMF for SDR basket.

The composition of the Group's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 44.6 and 44.7 prepared as of June 30, 2014 are not necessarily indicative of the effects on the Group's profit and loss of future movements in different variables.

44.8 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity securities price risk because of investment in listed equity securities by the Group classified as available-for-sale. These investments are held as per 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. Accordingly, price risk on listed equity securities can not be managed by the Group.

In case of 5% increase or decrease in KSE 100 index on June 30, 2014, other comprehensive income would increase or decrease by Rs 2,393.87 million (2013: Rs. 1,579.94 million) and equity of the Group would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Group's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Group's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the effect on the Group's equity of future movements in the level of KSE 100 index.

44.9 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. The maturity profile of Group's financial assets and financial liabilities is given in note 44.5.1.

44.10 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 customised 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 are reconciled with the portfolio managers, and recorded accordingly.

45. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, and is usually determined by the quoted market price. The following tables summarises the carrying amounts and fair values of financial assets and liabilities.

	Carrying Value		Fair value	
	2014	2013	2014	2013
	----- (Rupees in '000) -----			
Financial assets				
Local currency - coins	417,880	924,997	417,880	924,997
Foreign currency accounts and investments	963,680,793	641,958,085	963,680,793	641,958,085
Earmarked foreign currency balances	7,453,502	3,849,637	7,453,502	3,849,637
Special Drawing Rights of the International Monetary Fund	82,057,077	85,246,487	82,057,077	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	18,194	17,755	18,194	17,755
Securities purchased under agreement to resell	-	198,787,435	-	198,787,435
Current accounts of Governments	802,315	5,990,933	802,315	5,990,933
Investments - local	3,154,126,304	2,490,745,139	3,154,126,304	2,490,745,139
Securities given as collateral under repurchase agreement	18,064,500	-	18,064,500	-
Loans, advances and bills of exchange	308,552,175	339,614,960	308,552,175	339,614,960
Assets held with the Reserve Bank of India	1,503,318	1,470,483	1,503,318	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	7,397,038	7,957,658	7,397,038
Other assets	1,471,973	567,384	1,471,973	567,384

	Carrying Value		Fair value	
	2014	2013	2014	2013
	----- (Rupees in '000) -----			
Financial Liability				
Bank notes in circulation	2,309,127,023	2,041,361,303	2,309,127,023	2,041,361,303
Bills payable	642,102	603,922	642,102	603,922
Current accounts of Governments	531,806,543	133,309,762	531,806,543	133,309,762
Securities sold under agreement to repurchase	17,194,695	-	17,194,695	-
Payable under bilateral currency swap agreement	105,248,797	81,614,727	105,248,797	81,614,727
Deposits of banks and financial institutions	530,746,356	475,647,801	530,746,356	475,647,801
Other deposits and accounts	145,772,707	156,443,109	145,772,707	156,443,109
Payable to the International Monetary Fund	384,994,742	431,794,003	384,994,742	431,794,003
Other liabilities	55,793,974	84,610,129	55,793,974	84,610,129

45.1 The table below analyses financial and non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs e.g. estimated future cash flows) (Level 3).

	2014			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	175,315,946	-	-	175,315,946
Investments - local	230,812,492	-	-	230,812,492
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	20,137,447	-	20,137,447
Gold reserves held by the Bank	269,307,930	-	-	269,307,930
	<u>675,436,368</u>	<u>20,137,447</u>	<u>-</u>	<u>695,573,815</u>
	2013			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	286,947,632	-	-	286,947,632
Investments - local	163,192,519	-	-	163,192,519
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	21,285,762	-	21,285,762
Gold reserves held by the Bank	246,096,839	-	-	246,096,839
	<u>696,236,990</u>	<u>21,285,762</u>	<u>-</u>	<u>717,522,752</u>

The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of financial assets in note 7.1 related to Foreign currency accounts and investments and investment in listed shares in note 12.2 classified as available-for-sale.

(b) Financial instruments in level 2

Currently, no financial instruments are classified in level 2.

(c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

45.2 Valuation techniques used in determination of fair values within level 2

Item	Valuation approach and input used
Operating fixed assets (Land and building)	The fair value of land and building are derived using the sale comparison approach. The sales value is determined by physically analysing the condition of land and building and by ascertaining the current market value of similar land, which is selling in near vicinity. Moreover, for buildings, the valuer has also considered prevailing current cost of construction for relevant type of civil work carried out thereon, where ever required. Please refer note 16.2 highlighting the year of valuation and external valuer name.

46. Classification of financial instruments

	2014				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	------(Rupees in '000)-----				
Financial assets					
Local currency - coins	417,880	-	-	-	417,880
Foreign currency accounts and investments	682,558,180	175,315,946	105,806,667	-	963,680,793
Earmarked foreign currency balances	7,453,502	-	-	-	7,453,502
Special Drawing Rights of the International Monetary Fund	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund					
under quota arrangements	18,194	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	802,315
Investments - local	2,919,292,930	-	46,612	234,786,762	3,154,126,304
Securities given as collateral under repurchase agreement	18,064,500	-	-	-	18,064,500
Loans, advances and bills of exchange	308,552,175	-	-	-	308,552,175
Assets held with the Reserve Bank of India	1,503,318	-	-	-	1,503,318
Balances due from the Governments of India and					
Bangladesh (former East Pakistan)	7,957,658	-	-	-	7,957,658
Other assets	1,471,973	-	-	-	1,471,973
	2013				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	------(Rupees in '000)-----				
Financial assets					
Local currency - coins	924,997	-	-	-	924,997
Foreign currency accounts and investments	250,589,122	286,947,632	104,421,331	-	641,958,085
Earmarked foreign currency balances	3,849,637	-	-	-	3,849,637
Special Drawing Rights of the International Monetary Fund	85,246,487	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund					
under quota arrangements	17,755	-	-	-	17,755
Securities purchased under agreement to resell	198,787,435	-	-	-	198,787,435
Current accounts of Governments	5,990,933	-	-	-	5,990,933
Investments - local	2,323,184,302	-	394,048	167,166,789	2,490,745,139
Securities given as collateral under repurchase agreement	-	-	-	-	-
Loans, advances and bills of exchange	339,614,960	-	-	-	339,614,960
Assets held with the Reserve Bank of India	1,470,483	-	-	-	1,470,483
Balances due from the Governments of India and					
Bangladesh (former East Pakistan)	7,397,038	-	-	-	7,397,038
Other assets	567,384	-	-	-	567,384

	2014		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Financial liabilities			
Bank notes in circulation	2,309,127,023	-	2,309,127,023
Bills payable	642,102	-	642,102
Current accounts of Governments	531,806,543	-	531,806,543
Securities sold under agreement to repurchase	17,194,695	-	17,194,695
Payable under bilateral currency swap agreement	105,248,797	-	105,248,797
Deposits of banks and financial institutions	530,746,356	-	530,746,356
Other deposits and accounts	145,772,707	-	145,772,707
Payable to the International Monetary Fund	384,994,742	-	384,994,742
Other liabilities	55,793,974	-	55,793,974

	2013		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Financial liabilities			
Bank notes in circulation	2,041,361,303	-	2,041,361,303
Bills payable	603,922	-	603,922
Current accounts of Governments	133,309,762	-	133,309,762
Securities sold under agreement to repurchase	-	-	-
Payable under bilateral currency swap agreement	81,614,727	-	81,614,727
Deposits of banks and financial institutions	475,647,801	-	475,647,801
Other deposits and accounts	156,443,109	-	156,443,109
Payable to the International Monetary Fund	431,794,003	-	431,794,003
Other liabilities	84,610,129	-	84,610,129

47. SUBSEQUENT EVENT

The subsequent events regarding sovereign guaranteed loans to ZTBL and HBFCL are disclosed in note 13.2.1 and 13.2.2 respectively.

48. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on October 25, 2014 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. No significant reclassifications have been made during the current year except for the changes as mentioned in note 3.5.1.

50. GENERAL

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktedir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

10 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, 2014, 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 unconsolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards, 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 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 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, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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, 2014

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2014

	Note	2014	2013	July 1, 2012
		------(Rupees in '000)-----		
ASSETS				
Gold reserves held by the Bank	5	269,307,930	246,096,839	313,077,419
Local currency - coins	6	417,880	924,997	1,814,196
Foreign currency accounts and investments	7	963,680,793	641,958,085	1,035,234,657
Earmarked foreign currency balances	8	7,453,502	3,849,637	4,994,808
Special Drawing Rights of the International Monetary Fund	9	82,057,077	85,246,487	91,334,177
Reserve tranche with the International Monetary Fund				
under quota arrangements	10	18,194	17,755	17,104
Securities purchased under agreement to resell	11	-	198,787,435	112,898,648
Current accounts of Governments	20.2	802,315	5,990,933	12,812,270
Current account with National Institute of Banking				
and Finance (Guarantee) Limited - a subsidiary		167,001	175,399	151,567
Investments - local	12	3,154,326,379	2,490,610,318	1,939,574,984
Securities given as collateral under repurchase agreements	12	18,064,500	-	12,993,000
Loans, advances and bills of exchange	13	297,974,259	328,590,310	333,384,878
Assets held with the Reserve Bank of India	14	5,866,879	5,460,117	6,536,007
Balances due from the Governments of India and				
Bangladesh (former East Pakistan)	15	7,957,658	7,397,038	6,875,933
Property and equipment	16	21,176,911	22,103,505	23,169,202
Intangible assets	17	8,927	16,241	30,882
Other assets	18	1,517,547	724,743	696,627
Total assets		4,830,797,752	4,037,949,839	3,895,596,359
LIABILITIES				
Bank notes in circulation	19	2,309,127,023	2,041,361,303	1,776,962,388
Bills payable		642,102	603,922	587,542
Current accounts of Governments	20.1	531,806,543	133,309,762	148,533,697
Current account with SBP Banking Services Corporation - a subsidiary		37,876,846	25,984,493	22,259,608
Securities sold under agreement to repurchase	21	17,194,695	-	12,243,686
Payable under bilateral currency swap agreement	22	105,248,797	81,614,727	-
Deposits of banks and financial institutions	23	530,746,356	475,647,801	396,172,467
Other deposits and accounts	24	145,409,982	155,842,256	154,022,021
Payable to the International Monetary Fund	25	384,994,742	431,794,003	657,579,421
Other liabilities	26	57,026,308	108,372,005	98,024,081
		4,120,073,394	3,454,530,272	3,266,384,911
Deferred liability - unfunded staff retirement benefits	27	21,918,201	19,014,999	16,467,350
Total liabilities		4,141,991,595	3,473,545,271	3,282,852,261
Net assets		688,806,157	564,404,568	612,744,098
REPRESENTED BY				
Share capital	28	100,000	100,000	100,000
Reserves	29	175,919,871	175,919,871	175,919,871
Loss on remeasurements of staff retirement defined benefit plans				
due to revision of IAS 19		-	(27,791,420)	(24,180,634)
Unrealised appreciation on gold reserves held by the Bank	30	265,639,648	242,568,983	309,565,438
Unrealised appreciation on remeasurement of investments - local	12.4	221,168,234	147,628,730	125,361,019
Surplus on revaluation of property and equipment		25,978,404	25,978,404	25,978,404
Total equity		688,806,157	564,404,568	612,744,098

CONTINGENCIES AND COMMITMENTS

31

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.

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktedir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
Discount, interest / mark-up and / or return earned	32	305,970,468	250,681,600
Less: interest / mark-up expense	33	(15,337,891)	(7,705,506)
		<u>290,632,577</u>	<u>242,976,094</u>
Commission income	34	1,727,194	1,758,625
Exchange gain - net	35	14,112,316	6,703,415
Dividend income		12,127,927	16,480,789
Other operating income / (loss) - net	36	28,502,353	(1,020,311)
Other income - net	37	200,130	277,359
		<u>347,302,497</u>	<u>267,175,971</u>
Less: Operating expenses			
- Bank notes printing charges	38	6,146,145	5,634,372
- Agency commission	39	6,463,352	6,344,354
- General administrative and other expenses	40	22,993,836	20,225,193
Provision for / (reversal of provision against):			
- loans and advances	13.4	-	(1,057,083)
- claims	26.3.2	1,489	(550,880)
- diminution in value of investments - local - net	12.3	(150,000)	677,892
- other doubtful assets	26.3.1.1	32,835	10,303
		<u>(115,676)</u>	<u>(919,768)</u>
		35,487,657	31,284,151
Profit for the year		<u><u>311,814,840</u></u>	<u><u>235,891,820</u></u>

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktedir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2014

	<i>Note</i>	2014	2013
		----- (Rupees in '000) -----	
Profit for the year		311,814,840	235,891,820
Other comprehensive income			
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised appreciation on remeasurement of investments - local	<i>12.4</i>	73,539,504	22,267,711
Unrealised appreciation / (diminution) on gold reserves held by the Bank	<i>5</i>	23,070,665	(66,996,455)
		96,610,169	(44,728,744)
Items that will not be reclassified subsequently to the profit and loss account:			
Remeasurements of staff retirement defined benefit plans - SBP	<i>40.6.3.1</i>	(2,417,425)	(1,682,396)
Remeasurements of staff retirement defined benefit plans allocated by - SBP			
Banking Services Corporation - a subsidiary	<i>40.6.3.1</i>	(12,972,476)	(4,038,181)
		(15,389,901)	(5,720,577)
Total comprehensive income for the year		393,035,108	185,442,499

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktadir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

Share capital	-----Reserves-----						Loss on remeasurements of staff retirement defined benefit plans due to revision of IAS 19	Unrealised appreciation on gold reserves held by the Bank	Unrealised appreciation on remeasurement of investments - local	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, 2012	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	(24,180,634)	309,565,438	125,361,019	25,978,404	612,744,098
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	235,891,820	-	-	-	235,891,820
Other comprehensive income												
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	(1,682,396)	-	-	-	(1,682,396)
Remeasurements of staff retirement defined benefit plans allocated by - SBP												
Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	-	-	-	-	-	-	(4,038,181)	-	-	-	(4,038,181)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	22,267,711	-	22,267,711
Unrealised diminution on gold reserves held by the Bank	-	-	-	-	-	-	-	-	(66,996,455)	-	-	(66,996,455)
	-	-	-	-	-	-	-	230,171,243	(66,996,455)	22,267,711	-	185,442,499
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
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	(27,791,420)	242,568,983	147,628,730	25,978,404	564,404,568
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	311,814,840	-	-	-	311,814,840
Other comprehensive income												
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	(2,417,425)	-	-	-	(2,417,425)
Remeasurements of staff retirement defined benefit plans allocated by - SBP												
Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	-	-	-	-	-	-	(12,972,476)	-	-	-	(12,972,476)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	73,539,504	-	73,539,504
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	23,070,665	-	-	23,070,665
	-	-	-	-	-	-	-	296,424,939	23,070,665	73,539,504	-	393,035,108
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(268,623,519)	-	-	-	(268,623,519)
	-	-	-	-	-	-	-	(268,633,519)	-	-	-	(268,633,519)
Balance as at June 30, 2014	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	265,639,648	221,168,234	25,978,404	688,806,157

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktadir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014 (Rupees in '000)	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	41	269,904,892	253,944,896
(Increase) / decrease in assets:			
Foreign currency investments and placements		(1,402,874)	(104,448,509)
Reserve tranche with the International Monetary Fund under quota arrangements		(439)	(651)
Securities purchased under agreement to resell		198,787,435	(85,888,787)
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		8,398	(23,832)
Investments - local		(596,096,088)	(529,504,728)
Securities given as collateral under repurchase agreement		(18,064,500)	12,993,000
Payment of retirement benefits and employees' compensated absences		(2,734,479)	(1,957,933)
Loans, advances and bills of exchange		30,616,051	5,851,651
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh (former East Pakistan)		(593,455)	(531,408)
Other assets		(792,804)	(28,116)
		(390,272,755)	(703,539,313)
		(120,367,863)	(449,594,417)
Increase / (decrease) in liabilities:			
Bank notes issued - net		267,765,720	264,398,915
Bills payable		38,180	16,380
Current accounts of Governments		403,544,973	(8,418,473)
Current account with SBP Banking Services Corporation - a subsidiary		(1,080,123)	(313,296)
Securities sold under agreement to repurchase		17,194,695	(12,243,686)
Payable under bilateral currency swap agreement		23,634,070	81,614,727
Deposits of banks and financial institutions		55,098,555	79,475,334
Other deposits and accounts		(10,432,274)	1,820,235
Other liabilities		5,808,261	(1,797,342)
		761,572,057	404,552,794
Net cash generated from / (used in) operating activities		641,204,194	(45,041,623)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investments		37,688,507	58,937
Dividend received		12,127,927	16,480,789
Capital expenditure		(505,804)	(322,851)
Proceeds from disposal of property and equipment		6,231	8,140
Net cash generated from investing activities		49,316,861	16,225,015
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(326,185,728)	(219,999,994)
Payments made to International Monetary Fund		(46,799,261)	(225,785,418)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(372,994,989)	(445,795,412)
Increase / (decrease) in cash and cash equivalents during the year		317,526,066	(474,612,020)
Cash and cash equivalents at the beginning of the year		626,864,789	1,132,711,931
Effect of exchange gain / (loss) on cash and cash equivalents		2,701,106	(31,235,122)
Cash and cash equivalents at the end of the year	42	947,091,961	626,864,789

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktaadir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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 carried at cost. The consolidated financial statements of the Bank and its subsidiaries are presented separately.

2. STATEMENT OF COMPLIANCE

These unconsolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

These unconsolidated financial statements represent the first annual financial statements of the Bank prepared in accordance with IFRS. The Bank has adopted IFRS as the financial reporting framework in accordance with 'IFRS-1 First time Adoption of International Financial Reporting Standards'. The first date at which IFRS was applied was July 1, 2012 (i.e. "Transition date").

The Bank's unconsolidated financial statements were previously prepared in accordance with approved accounting standards as adopted by the Central Board of the Bank.

3. BASIS OF MEASUREMENT

3.1 These unconsolidated financial statements have been prepared under the historical cost convention, except that gold reserves, certain foreign currency accounts and investments, certain local 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 The unconsolidated financial statements ("the financial statements") are presented in Pakistani Rupees (PKR), which is the Bank's functional and presentation currency.

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS 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 and 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 IFRS and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

3.3.1 Impairment against loans and advances

The Bank reviews its loan portfolio to assess recoverability of loans and advances and impairment allowance 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 impairment may require adjustment in case borrowers do not perform according to the expectations.

3.3.2 Impairment of available-for-sale investments

The Bank determines that available-for-sale 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.

3.3.3 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 40.6.1 to these financial statements.

3.3.4 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.

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

There are certain new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after July 1, 2014 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.

3.5 Transition to International Financial Reporting Standards

These unconsolidated financial statements represent the first annual financial statements of the Bank prepared in accordance with IFRS, as issued by the IASB. The Bank has adopted IFRS in accordance with 'IFRS-1 First-time Adoption of International Financial Reporting Standards'. The first date at which IFRS was applied was July 1, 2012 (i.e. Transition date). In accordance with IFRS-1 the Bank has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented; and
- retrospectively applied all effective IFRSs as at June 30, 2014, as required.

The reconciliation to IFRS from previous financial reporting framework (i.e. approved accounting standards as adopted by the Central Board of the Bank) on balance sheet, profit and loss account, statement of comprehensive income and statement of cash flows is given below:

3.5.1 Reconciliation of balance sheet:

	June 30, 2013			July 1, 2012				
	Adjustment			Adjustment				
	Previous financial reporting framework	IAS 19	Others	IFRS framework	Previous financial reporting framework	IAS 19	Others	IFRS framework
	------(Rupees in '000)-----							
ASSETS								
Gold reserves held by the Bank	246,096,839	-	-	246,096,839	313,077,419	-	-	313,077,419
Local currency - coins	924,997	-	-	924,997	1,814,196	-	-	1,814,196
Foreign currency accounts and investments	641,958,085	-	-	641,958,085	1,035,234,657	-	-	1,035,234,657
Earmarked foreign currency balances	3,849,637	-	-	3,849,637	4,994,808	-	-	4,994,808
Special Drawing Rights of the International Monetary Fund	85,246,487	-	-	85,246,487	91,334,177	-	-	91,334,177
Reserve tranche with the International Monetary Fund under quota arrangements	17,755	-	-	17,755	17,104	-	-	17,104
Securities purchased under agreement to resell	198,787,435	-	-	198,787,435	112,898,648	-	-	112,898,648
Current accounts of Governments *	5,932,762	-	58,171	5,990,933	12,744,407	-	67,863	12,812,270
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	175,399	-	-	175,399	151,567	-	-	151,567
Investments - local **	2,490,610,318	-	-	2,490,610,318	1,952,567,984	-	(12,993,000)	1,939,574,984
Securities given as collateral under repurchase agreements **	-	-	-	-	-	-	12,993,000	12,993,000
Loans, advances and bills of exchange *	324,754,379	-	3,835,931	328,590,310	328,995,962	-	4,388,916	333,384,878
Assets held with the Reserve Bank of India	5,460,117	-	-	5,460,117	6,536,007	-	-	6,536,007
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,397,038	-	-	7,397,038	6,875,933	-	-	6,875,933
Property and equipment	22,103,505	-	-	22,103,505	23,169,202	-	-	23,169,202
Intangible assets	16,241	-	-	16,241	30,882	-	-	30,882
Other assets *	4,701,569	-	(3,976,826)	724,743	5,435,616	-	(4,738,989)	696,627
Total assets	4,038,032,563	-	(82,724)	4,037,949,839	3,895,878,569	-	(282,210)	3,895,596,359
LIABILITIES								
Bank notes in circulation	2,041,361,303	-	-	2,041,361,303	1,776,962,388	-	-	1,776,962,388
Bills payable	603,922	-	-	603,922	587,542	-	-	587,542
Current accounts of Governments *	133,392,486	-	(82,724)	133,309,762	148,815,907	-	(282,210)	148,533,697
Current account with SBP Banking Services Corporation - a subsidiary (note 3.5.2)	8,475,848	17,508,645	-	25,984,493	7,453,254	14,806,354	-	22,259,608
Securities sold under agreement to repurchase ***	-	-	-	-	12,240,388	-	3,298	12,243,686
Payable under bilateral currency swap agreement	81,614,727	-	-	81,614,727	-	-	-	-
Deposits of banks and financial institutions	475,647,801	-	-	475,647,801	396,172,467	-	-	396,172,467
Other deposits and accounts ***	155,592,496	-	249,760	155,842,256	152,856,723	-	1,165,298	154,022,021
Payable to the International Monetary Fund ***	431,229,449	-	564,554	431,794,003	656,185,305	-	1,394,116	657,579,421
Other liabilities ***	109,186,319	-	(814,314)	108,372,005	100,586,793	-	(2,562,712)	98,024,081
	3,437,104,351	17,508,645	(82,724)	3,454,530,272	3,251,860,767	14,806,354	(282,210)	3,266,384,911
Deferred liability - unfunded staff retirement benefits (note 3.5.2)	8,732,224	10,282,775	-	19,014,999	7,093,070	9,374,280	-	16,467,350
Total liabilities	3,445,836,575	27,791,420	(82,724)	3,473,545,271	3,258,953,837	24,180,634	(282,210)	3,282,852,261
Net assets	592,195,988	(27,791,420)	-	564,404,568	636,924,732	(24,180,634)	-	612,744,098
REPRESENTED BY								
Share capital	100,000	-	-	100,000	100,000	-	-	100,000
Reserves	175,919,871	-	-	175,919,871	175,919,871	-	-	175,919,871
Loss on remeasurements of staff retirement defined benefit plans due to revision of IAS 19 (note 3.5.2)	-	(27,791,420)	-	(27,791,420)	-	(24,180,634)	-	(24,180,634)
Unrealised appreciation on gold reserves held by the Bank	242,568,983	-	-	242,568,983	309,565,438	-	-	309,565,438
Unrealised appreciation on remeasurement of investments - local	147,628,730	-	-	147,628,730	125,361,019	-	-	125,361,019
Surplus on revaluation of property and equipment	25,978,404	-	-	25,978,404	25,978,404	-	-	25,978,404
Total equity	592,195,988	(27,791,420)	-	564,404,568	636,924,732	(24,180,634)	-	612,744,098

Explanation:

- * In the previous financial reporting framework Rs. 3,976.826 million (2012: Rs 4,738.989 million) was represented in other assets as accrued mark-up income which has now been reclassified to loans, advances and bills of exchange and current accounts of governments in order to represent financial assets at amortised cost.
- ** In the previous financial reporting framework Rs. 12,993 million securities as at July 1, 2012 were represented in investments - local although held as collateral under repurchase agreement. In order to comply with IFRS these securities have now been reclassified separately as securities given as collateral under repurchase agreements.
- *** In the previous financial reporting framework Rs 814.314 million (2012: Rs 2,562.712 million) was represented in other liabilities as accrued mark-up expense which has now been reclassified to other deposits and account, securities sold under agreement to repurchase and payable to the international monetary fund so as to represent financial liabilities at amortised cost as required under IFRS.

3.5.2 Change in accounting policy

Employee future benefits

Under the previous financial reporting framework, the Bank was also using IAS 19 - for accounting of its employee benefits. This IAS has been revised and the revised standard became applicable during the year. As the Bank has applied IFRS as the financial reporting framework in the current year, the effects of this change in accounting policy are also required to be disclosed as part of transition to IFRS. The change in accounting policy and the related impacts are summarised as follows:

Actuarial gains and losses

Previous financial reporting framework: Actuarial gains and losses were recognised in the profit and loss account over the future expected average remaining working lives of the employee to the extent of the greater of 10% of the present value of the defined benefit obligation (at the end of previous reporting period) and 10% of the fair value of plan assets (at the end of previous reporting period).

IFRS: The IFRS requires immediate recognition of past service costs and also requires recognition of net interest cost based on net defined benefit asset or liability by using the discount rate at the beginning of the year. Further, term remeasurement is used. This is made up of actuarial gains and losses and the difference between the actual investment returns and the returns implied by the net interest cost. The "remeasurements" are required to be recognised in the "balance sheet" immediately with the charge or credit to "other comprehensive income" in the periods in which they occur.

The effects on the unconsolidated balance sheet, unconsolidated profit and loss account, unconsolidated statement of comprehensive income and unconsolidated statement of changes in equity are summarised below:

	June 30, 2013	July 1, 2012
	(Rupees in '000)	
Impact on unconsolidated balance sheet		
Increase in deferred liability - unfunded staff retirement benefits	10,282,775	9,374,280
Increase in current account with SBP Banking Services Corporation - a subsidiary	17,508,645	14,806,354
Loss on remeasurements of staff retirement defined benefit plans due to revision of IAS 19	(27,791,420)	(24,180,634)
	For the year ended June 30, 2013	For the year ended June 30, 2012
	(Rupees in '000)	
Impact on unconsolidated profit and loss account		
Decrease in general administrative and other expenses / Increase in profit	2,109,791	1,326,658
Impact on unconsolidated statement of comprehensive income		
Remeasurement of defined benefit plan - SBP	(1,682,396)	-
Remeasurement of defined benefit plan allocated by SBP-BSC	(4,038,181)	-
Impact on statement of changes in equity		
Decrease in retained earnings		
- Cumulative effect - prior years	(27,791,420)	(24,180,634)
- Impact for the year	(3,610,786)	-

3.5.3 Adjustments to other statements:

The transition from previous financial reporting framework (i.e. approved accounting standards as adopted by the Central Board of the Bank) to IFRS had no significant impact on the profit and loss account, statement of other comprehensive income, statement of changes in equity and statement of cash flows except for the effects as disclosed in note 3.5.2.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Bank notes and coins

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956, is stated at 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.

4.2 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include local currency coins, foreign currency accounts and investments, investments - local, loans and advances, current account with subsidiaries, assets held with Reserve Bank of India (other than gold held by Reserve Bank of India), balances due from the governments of India and Bangladesh, notes in circulation, bills payable, deposits of banks and financial institutions, balances and securities 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.

All financial assets and financial liabilities are initially recognised on the trade date, i.e. the date that the Bank becomes a party to the contractual provisions of the instruments. This includes purchases or sale of financial assets that require delivery of asset within the time frame generally established by regulations in market conventions.

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the profit and loss account.

The management determines the appropriate classification of its financial instruments at the time of initial recognition in the following categories:

4.2.1 Financial assets and financial liabilities at 'fair value through profit or loss'

These assets and liabilities are either acquired / assumed 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 are initially recognised at fair value and transaction costs associated with the instrument are taken directly to the profit and loss account. 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 directly. Derivatives are also categorised as financial assets and financial liabilities at 'fair value through profit or loss'.

4.2.2 Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold till maturity. After initial measurement, held-to-maturity investment are subsequently measured at amortised cost using effective interest rate, less impairment losses, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The effective interest rate method is a method of calculating the amortised cost of a financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period in the profit and loss account. The losses arising from impairment of such investments are recognised in the profit and loss account.

4.2.3 Loans and receivables

These are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. 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 becomes uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited in the profit and loss account.

4.2.4 Available-for-sale financial assets

These are the non-derivative financial assets which are either designated in this category or which do not fall in any of the other categories. Subsequent to initial recognition, these securities are measured at fair value, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost. 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, when cumulative gain or loss is re-classified to profit and loss account.

4.2.5 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits from banks and financial institution, other deposits, securities sold under repurchase agreement, payable under bilateral currency swap agreement, payable to the IMF, notes in circulation and bills payable.

4.3 Derecognition of financial asset and financial liabilities

a) Financial assets

The Bank derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit and loss account.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability, and the difference in the respective carrying amount is recognised in the profit and loss account.

4.4 Fair value measurement principles

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market prices or dealer price quotation without any deduction for transaction costs. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arms length transaction, discounted cash flow analysis and other revaluation techniques commonly used by market participants. Investments in securities of which the fair value cannot be determined reliably are carried at cost.

4.5 Impairment of financial assets

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred 'loss event') and that loss event (or events) has an impact on estimated future cash flow of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indication that the borrower or group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payment and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic condition that correlate with defaults, if any.

a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial assets, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through profit and loss account.

b) Available - for - sale financial assets

For available-for-sale financial assets, the Bank assesses at each balance sheet date whether there is an objective evidence that an investment is impaired. In case of equity investment classified as available-for-sale, significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exist for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss account, is reclassified from other comprehensive income and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the income statement.

4.6 Offsetting

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

4.7 Derivative financial instruments

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

4.8 Collateralised borrowing / lending

4.8.1 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 recognised on the balance sheet and an asset is recorded in respect of the consideration paid as "Securities purchased under agreement to resell". The difference between the sale and repurchase price in the repurchase transaction and the purchase price and resell price in reverse repurchase transaction represents expense and income respectively, and is 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.

4.8.2 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 31.2.1. 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.

4.9 Gold reserves

Gold is recorded at the cost, which is the prevailing market rate, at initial recognition. Subsequent to initial measurement, it is revalued at the closing market rate fixed by the London Bullion Market Association on the last working day of the year (which is also as per the requirements of State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No.42(vi)). 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.

4.10 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 less accumulated impairment losses, if any 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.

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.

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.

4.11 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.

4.12 Impairment of non-financial assets

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 higher of an asset's fair value less cost to sell and value in use. In assessing the value in use, estimated future cash flows is discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. 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. 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 that asset.

4.13 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.

4.14 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 this scheme. Under this scheme contribution is made by the employee 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, 2014. As more fully stated in note 3.5.2, the amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a change or credit to Other Comprehensive Income in which they occur.

The above staff retirement benefits are payable on completion of prescribed qualifying period of service.

4.15 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.

4.16 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 is recognised 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 a time proportion basis.

4.17 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 an accrual basis.

4.18 Taxation

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

4.19 Foreign currency translation

Transactions denominated in foreign currencies are translated to PKR at the foreign exchange rate prevailing at the date of transaction. Monetary assets and liabilities in foreign currencies are translated into PKR 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 4.20, 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 profit and loss account on an 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 PKR terms at the closing rate of exchange prevailing at the balance sheet date.

4.20 Transactions and balances with the International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on following basis:

- the Government's contribution for quota with the IMF is recorded by the Bank as depository of the Government.
- 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.
- 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;
- exchange gain or loss; and
- return on holdings of SDRs.

4.21 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 economic 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.

4.22 Cash and cash equivalents

Cash and cash equivalents include cash, foreign currency accounts and investments (other than held to maturity investments), 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.

	Note	Net content in troy	2014	2013	July 1, 2012
			-----	(Rupees in '000)	-----
5. GOLD RESERVES HELD BY THE BANK					
Opening balance		2,071,626	246,096,839	313,077,419	267,969,374
Additions during the year		1,122	140,426	15,875	145,604
Appreciation / (diminution) for the year due to revaluation	30		23,070,665	(66,996,455)	44,962,441
	19.1	<u>2,072,748</u>	<u>269,307,930</u>	<u>246,096,839</u>	<u>313,077,419</u>
6. LOCAL CURRENCY - COINS	Note				
Bank notes held by the Banking Department			110,890	143,300	160,156
Coins held as an asset of the Issue Department	6.1 & 19.1		417,880	924,997	1,814,196
			<u>528,770</u>	1,068,297	1,974,352
Less: bank notes held by the Banking Department	19		(110,890)	(143,300)	(160,156)
			<u>417,880</u>	<u>924,997</u>	<u>1,814,196</u>

6.1 As mentioned in note 4.1, the Bank is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of unissued coins held by the Bank at the year end (also refer note 19.1).

7. FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

They essentially represent foreign currency reserves held by the Bank, the details of which are as follows:

	Note	2014	2013	July 1, 2012
		-----	(Rupees in '000)	-----
At fair value through profit or loss - held-for-trading				
- Investments	7.1	170,981,568	284,636,358	288,832,726
- Unrealised gain / (loss) on derivative financial instruments	7.2	4,334,378	2,311,274	(3,839,654)
Held to maturity investment	7.3	105,806,667	104,421,331	-
Loans and receivables				
- Deposit accounts		29,599,275	31,715,899	95,991,183
- Current accounts		52,399,468	45,973,289	96,828,883
- Securities purchased under agreement to resell	7.4	269,904,526	80,295,659	197,465,169
- Money market placements	7.5	330,654,911	92,604,275	359,956,350
		<u>963,680,793</u>	<u>641,958,085</u>	<u>1,035,234,657</u>
The above foreign currency accounts and investments are held as follows:				
Issue Department	19.1	330,654,911	92,604,275	359,956,350
Banking Department		633,025,882	549,353,810	675,278,307
		<u>963,680,793</u>	<u>641,958,085</u>	<u>1,035,234,657</u>

7.1 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 as on June 30, 2014 is USD 1,948.24 millions (2013: USD 2,366.04 million).
- Short Term Investments Funds. Market value of these investments is nil (2013: USD 490 million).

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

7.3 This represents investment in sovereign bonds and treasury bills of a foreign country carrying yield ranging from 2.80% to 3.74% per annum and having maturities from July 04, 2014 to June 12, 2015 (2013: 2.62% to 5.70% per annum and having maturities from July 16, 2013 to June 4, 2014).

7.4 These represent lending under repurchase agreements and carry mark-up in USD at 0.07 % per annum and having maturities on July 01, 2014 (2013: 0.10% per annum and having maturities on July 1, 2013).

7.5 The balance includes money market placements carrying interest at various rates ranging between 0.04% to 2.81% per annum and having maturities from July 1, 2014 to September 30, 2014 (2013: 0.11% to 3.12% per annum and having maturities from July 1, 2013 to September 26, 2013).

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 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 as at June 30, 2014. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

	Note	2014	2013	July 1, 2012
		----- (Rupees in '000) -----		
SDRs are held as follows:				
- By the Issue Department	19.1	7,625,850	7,437,650	7,146,000
- By the Banking Department		74,431,227	77,808,837	84,188,177
		<u>82,057,077</u>	<u>85,246,487</u>	<u>91,334,177</u>
10. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS				
Quota allocated by the International Monetary Fund		157,895,380	154,086,949	148,440,350
Liability under quota arrangements		(157,877,186)	(154,069,194)	(148,423,246)
		<u>18,194</u>	<u>17,755</u>	<u>17,104</u>
11. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL				
This represents lendings under repurchase agreements extended to various financial institutions. There is no outstanding balance as on June 30, 2014 (2013: 8.99% to 9.20% per annum, maturing on July 5, 2013). The securities collateralised with the Bank have fair value of nil as on June 30, 2014 (2013: Rs. 199,869 million).				
12. INVESTMENTS - LOCAL				
	Note	2014	2013	July 1, 2012
		----- (Rupees in '000) -----		
Loans and receivables originated by the Bank				
Government securities				
Market Related Treasury Bills (MRTBs)		2,933,834,857	2,319,633,169	1,803,121,441
Federal Government scrips		2,740,000	2,781,100	2,781,100
	12.1	<u>2,936,574,857</u>	<u>2,322,414,269</u>	<u>1,805,902,541</u>
Less: securities given as collateral under repurchase agreements		(18,064,500)	-	(12,993,000)
		<u>2,918,510,357</u>	<u>2,322,414,269</u>	<u>1,792,909,541</u>
Available - for - sale investments				
Investments in banks and other financial institutions				
Ordinary shares				
- Listed		230,812,492	163,192,519	140,924,808
- Unlisted		4,712,706	4,862,706	4,919,706
	12.2	<u>235,525,198</u>	<u>168,055,225</u>	<u>145,844,514</u>
Term Finance Certificates		84,722	84,722	127,082
Certificates of Deposits		33,705	33,705	50,558
		<u>235,643,625</u>	<u>168,173,652</u>	<u>146,022,154</u>
Provision against diminution in value of investments				
- local - net	12.3	(856,863)	(1,006,863)	(385,971)
		<u>234,786,762</u>	<u>167,166,789</u>	<u>145,636,183</u>
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) Limited - NIBAF		29,260	29,260	29,260
		<u>1,029,260</u>	<u>1,029,260</u>	<u>1,029,260</u>
		<u>3,154,326,379</u>	<u>2,490,610,318</u>	<u>1,939,574,984</u>
The above investments are held as follows:				
Issue Department - MRTBs	19.1	1,695,364,463	1,688,902,225	1,088,514,072
Banking Department		1,458,961,916	801,708,093	851,060,912
		<u>3,154,326,379</u>	<u>2,490,610,318</u>	<u>1,939,574,984</u>
12.1 These represent investments guaranteed / issued by the Government. The profile of return on securities is as follows:				
		2014	2013	
		(% per annum)		
Market Related Treasury Bills		8.92 to 9.98	8.92 to 11.94	
Federal Government scrips		3	3	

MRTBs are created for a period of six months whereas Federal Government scrips are of perpetual nature.

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

	Note	2014	2013	July 1, 2012	2014	2013	July 1, 2012
			% of holding		----- (Rupees in '000) -----		
Listed							
- National Bank of Pakistan	12.2.2	75.20	75.20	75.20	99,558,400	65,785,656	60,571,550
- United Bank Limited	12.2.3	-	19.49	19.49	-	25,665,079	18,698,911
- Allied Bank Limited	12.2.4	10.07	10.07	10.07	15,839,242	7,182,365	6,114,070
- Habib Bank Limited	12.2.5	40.60	40.60	40.60	115,414,850	64,559,419	55,540,277
					<u>230,812,492</u>	<u>163,192,519</u>	<u>140,924,808</u>
Unlisted							
- Federal Bank for Cooperatives		-	75.00	75.00	-	150,000	150,000
Other investments with holding less than or equal to 50%					4,712,706	4,712,706	4,769,706
					<u>235,525,198</u>	<u>168,055,225</u>	<u>145,844,514</u>

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 Bank neither exercises significant influence nor has 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, 2014 amounted to Rs. 1,100.8 million (2013: Rs. 1,100.8 million).

12.2.3 Cost of the Bank's investment in the shares of United Bank of Pakistan at June 30, 2014 is Nil (2013: Rs. 5,919.5 million).

12.2.4 Cost of the Bank's investment in the shares of Allied Bank Limited at June 30, 2014 amounted to Rs. 350.6 million (2013: Rs. 350.6 million).

12.2.5 Cost of the Bank's investment in the shares of Habib Bank Limited at June 30, 2014 amounted to Rs. 8,192.8 million (2013: Rs. 8,192.8 million).

	Note	2014	2013	July 1, 2012
12.3 Provision against diminution in value of investments - local - net		----- (Rupees in '000) -----		
Opening balance		1,006,863	385,971	445,183
Provision during the year		-	737,104	-
Reversal during the year	12.3.1	(150,000)	(59,212)	(59,212)
		(150,000)	677,892	(59,212)
Write-off during the year		-	(57,000)	-
Closing balance		<u>856,863</u>	<u>1,006,863</u>	<u>385,971</u>

12.3.1 This represents reversal of provision against equity investment in Federal Bank for Cooperatives on account of winding up proceeds.

		2014	2013	July 1, 2012
12.4 Unrealised appreciation on remeasurement of investments - local		----- (Rupees in '000) -----		
Opening balance		147,628,730	125,361,019	120,458,857
Surplus arising during the year		93,285,053	22,267,711	4,902,162
Surplus reclassified to the profit and loss account	12.4.1	(19,745,549)	-	-
		73,539,504	22,267,711	4,902,162
Closing balance		<u>221,168,234</u>	<u>147,628,730</u>	<u>125,361,019</u>

12.4.1 This represents amount of surplus reclassified to the profit and loss account as a result of disposal of shares of United Bank Limited. The gain arising on disposal of United Bank Limited shares amounted to Rs. 31,185.73 million.

		2014	2013	July 1, 2012
13. LOANS, ADVANCES AND BILLS OF EXCHANGE		----- (Rupees in '000) -----		
Governments	13.1	3,266,166	18,724,135	36,318,424
Government owned / controlled financial institutions	13.2	100,795,810	99,271,667	100,061,350
Private sector financial institutions	13.3	192,001,193	209,125,191	197,427,839
		292,797,003	308,396,858	297,489,189
Employees		7,251,915	6,810,142	5,975,173
		303,315,084	333,931,135	339,782,786
Provision against doubtful balances	13.4	(5,340,825)	(5,340,825)	(6,397,908)
		<u>297,974,259</u>	<u>328,590,310</u>	<u>333,384,878</u>

13.1 Loans and advances to the Governments

Provincial Government - Punjab		-	11,622,050	25,696,890
Provincial Government - Baluchistan	13.1.2	2,113,244	5,183,244	8,183,244
Provincial Government - Khyber Pakhtunkhwa	13.1.3	1,152,922	1,918,841	2,438,290
	13.1.1	<u>3,266,166</u>	<u>18,724,135</u>	<u>36,318,424</u>

- 13.1.1** During the year, mark-up on above balances due from the Provincial Governments was charged at various rates ranging between 9.03% to 9.98% (2013: 9.21% to 11.93%) per annum.
- 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, 2014, the principal outstanding balance of this loan amounts to Rs.1,125 million (2013: Rs 1,875 million). The loan is secured by the guarantee of Federal Government.

13.2 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks			Other financial institutions			Total		
	2014	2013	July 1, 2012	2014	2013	July 1, 2012	2014	2013	July 1, 2012
	(Rupees in '000)								
Agricultural sector (13.2.1)	50,526,831	50,668,119	50,799,596	-	-	-	50,526,831	50,668,119	50,799,596
Industrial sector (13.2.1 & 13.2.2)	6,661,817	6,790,643	7,679,797	-	-	-	6,661,817	6,790,643	7,679,797
Export sector (13.3.1)	15,421,989	13,627,732	13,396,784	3,567	3,567	3,567	15,425,556	13,631,299	13,400,351
Housing sector (13.2.2)	-	-	-	11,242,300	11,242,300	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	16,939,306	16,939,306
	89,549,943	88,025,800	88,815,483	11,245,867	11,245,867	11,245,867	100,795,810	99,271,667	100,061,350

- 13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2013: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2013: 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 (2013: Rs. 3,204 million) classified in other loans and advances. The entire exposure has been overdue since 2002.

In a tripartite meeting held on July 11, 2014 between Ministry of Finance (MoF), ZTBL and the Bank, it was decided that the total outstanding amount of Rs. 89,490 million, including suspended mark-up of Rs. 35,029 million, will be converted to an equity investment of the Bank in ZTBL. This is subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. Pending completion of the conversion process, these balances are secured through sovereign guarantee of the Government of Pakistan.

- 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, 2014, all of these credit lines are overdue since 2006 amounting to Rs. 11,242 million (2013: Rs. 11,242 million). These credit lines are secured by the guarantee from the Federal Government.

It was decided in a tripartite meeting among MoF, HBFCCL and the Bank held on July 11, 2014 that the total outstanding amount of Rs. 15,690 million, including suspended mark-up / share of profit / loss of Rs. 4,448 million, after immediate cash payment of Rs. 2,000 million i.e. Rs. 13,690 million will be converted to an equity investment of the Bank in HBFCCL. This is subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. Pending completion of the conversion process, these balances are secured through sovereign guarantee of the Government of Pakistan.

- 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 (2013: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2013: 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 vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. The entire exposure has become overdue since 2001. In line with the Federal Cabinet decision of winding up, the bank has closed all of its branches except two branches operating in Karachi and Lahore as at June 30, 2014.
- 13.2.4** These balances include Rs. 423 million (2013: 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 Loans and advances to private sector financial institutions

	Scheduled banks			Other financial institutions			Total		
	2014	2013	July 1, 2012	2014	2013	July 1, 2012	2014	2013	July 1, 2012
	(Rupees in '000)								
Agricultural sector	1,379,816	1,654,860	1,378,592	121,999	132,777	160,416	1,501,815	1,787,637	1,539,008
Industrial sector	38,080,588	36,010,495	36,516,523	4,391,844	4,315,772	4,714,480	42,472,432	40,326,267	41,231,003
Export sector (13.3.1)	148,001,464	166,985,805	154,632,346	-	-	-	148,001,464	166,985,805	154,632,346
Others	25,482	25,482	25,482	-	-	-	25,482	25,482	25,482
	187,487,350	204,676,642	192,552,943	4,513,843	4,448,549	4,874,896	192,001,193	209,125,191	197,427,839

- 13.3.1** Export sector loans are fully secured against demand promissory notes.

		2014	2013	July 1, 2012
		(Rupees in '000)		
13.4 Provision against loans and advances				
Opening balance		5,340,825	6,397,908	6,397,908
Reversal during the year		-	(1,057,083)	-
Closing balance		<u>5,340,825</u>	<u>5,340,825</u>	<u>6,397,908</u>
13.5	The interest / mark-up rate profile of the interest / mark-up bearing loans and advances is as follows:			
		2014	2013	
		(% per annum)		
Government owned / controlled and private sector financial institutions		0 to 11	0 to 11	
Employees loans		10	10	
14. ASSETS HELD WITH THE RESERVE BANK OF INDIA	Note	2014	2013	July 1, 2012
		(Rupees in '000)		
Gold reserves				
- Opening balance		3,989,634	5,075,827	4,346,524
- Appreciation / (diminution) for the year due to revaluation	26.3.1.1	373,927	(1,086,193)	729,303
		<u>4,363,561</u>	<u>3,989,634</u>	<u>5,075,827</u>
Sterling securities		555,687	501,657	486,977
Government of India securities		235,177	240,439	241,525
Rupee coins		4,835	4,938	4,959
	14.1	<u>5,159,260</u>	<u>4,736,668</u>	<u>5,809,288</u>
Indian notes representing assets receivable from the Reserve Bank of India	14.2	707,619	723,449	726,719
	19.1	<u>5,866,879</u>	<u>5,460,117</u>	<u>6,536,007</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 26.3.1).			
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 26.3.1).			
15. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)	Note	2014	2013	July 1, 2012
		(Rupees in '000)		
India				
Advance against printing of notes		39,616	39,616	39,616
Receivable from the Reserve Bank of India		837	837	837
		<u>40,453</u>	<u>40,453</u>	<u>40,453</u>
Bangladesh (former East Pakistan)				
Inter office balances		819,924	819,924	819,924
Loans, advances and commercial papers	15.1	7,097,281	6,536,661	6,015,556
		<u>7,917,205</u>	<u>7,356,585</u>	<u>6,835,480</u>
	15.2	<u>7,957,658</u>	<u>7,397,038</u>	<u>6,875,933</u>
15.1	These represent interest bearing loans and advances (including commercial papers) provided to the Government of Bangladesh (former East Pakistan).			
15.2	The realisability of the above balances is subject to final settlement between the Government of Pakistan and Government of Bangladesh (former East Pakistan) and India (also refer notes 26.1, 26.2 and 26.3.1).			
16. PROPERTY AND EQUIPMENT	Note	2014	2013	July 1, 2012
		(Rupees in '000)		
Operating fixed assets	16.1	20,515,804	21,597,598	22,804,949
Capital work-in-progress	16.3	661,107	505,907	364,253
		<u>21,176,911</u>	<u>22,103,505</u>	<u>23,169,202</u>

16.1 Operating fixed assets

	2014							Useful life / Rate of depreciation
	Cost / revalued amount at July 1, 2013	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2014	Accumulated depreciation at July 1, 2013	Depreciation for the year/ (deletions)	Accumulated depreciation at June 30, 2014	Net book value at June 30, 2014	
----- (Rupees in '000) -----								
Freehold land *	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land *	16,811,005	-	16,811,005	1,179,568	589,889 -	1,769,457	15,041,548	30-99 years
Buildings on freehold land *	1,067,512	10,999	1,078,511	414,199	216,587 -	630,786	447,725	20 years
Buildings on leasehold land *	1,957,526	57,484	2,015,010	748,172	410,322 -	1,158,494	856,516	20 years
Furniture and fixtures	98,021	1,100	99,121	77,613	6,517	84,130	14,991	10%
Office equipment	632,465	60,678 -	693,143	494,059	70,276 -	564,335	128,808	20%
EDP equipment	1,284,282	133,220 (38,201)	1,379,301	1,235,782	50,736 (18,989)	1,267,529	111,772	33.33%
Motor vehicles	273,232	79,556 (25,758)	327,030	168,710	53,978 (18,444)	204,244	122,786	20%
	25,915,701	343,037 (63,959)	26,194,779	4,318,103	1,398,305 (37,433)	5,678,975	20,515,804	
	2013							Useful life / 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)	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	30-99 years
Buildings on freehold land *	1,041,145	26,367	1,067,512	203,807	210,392	414,199	653,313	20 years
Buildings on leasehold land *	1,916,988	40,538	1,957,526	368,691	379,481	748,172	1,209,354	20 years
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	

* These represent revalued assets.

	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)	Accumulated depreciation at June 30, 2012	Net book value at June 30, 2012	Useful life / 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	30-99 years
Buildings on freehold land *	1,019,194	21,951	1,041,145	-	203,807	203,807	837,338	20 years
Buildings on leasehold land *	1,878,950	38,038	1,916,988	-	368,691	368,691	1,548,297	20 years
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			

* These represent revalued assets.

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

	2014	2013	July 1, 2012
	(Rupees in '000)		
Freehold land	39,124	39,124	39,124
Leasehold land	86,955	89,305	87,038
Buildings on freehold land	324,708	330,799	321,842
Buildings on leasehold land	580,258	553,314	541,898
	<u>1,031,045</u>	<u>1,012,542</u>	<u>989,902</u>

16.3 Capital work-in-progress

Buildings on freehold land	85,730	14,641	8,016
Buildings on leasehold land	410,749	402,567	309,301
Furniture and fixtures	-	181	-
Office equipment	143,589	57,091	46,558
EDP equipment	21,039	31,427	378
	<u>661,107</u>	<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	2014	601,880	7,567	609,447	585,639	14,881	600,520	8,927	33.33
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

	Note	2014	2013	July 1, 2012
		----- (Rupees in '000) -----		
18. OTHER ASSETS				
Other advances, deposits and prepayments		555,980	607,478	581,502
Commission receivable and others		961,567	117,265	115,125
		<u>1,517,547</u>	<u>724,743</u>	<u>696,627</u>
19. BANK NOTES IN CIRCULATION				
Total bank notes issued	19.1	2,309,237,913	2,041,504,603	1,777,122,544
Notes held with the Banking Department	6	(110,890)	(143,300)	(160,156)
Notes in circulation		<u>2,309,127,023</u>	<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	2014	2013	July 1, 2012
		----- (Rupees in '000) -----		
Gold reserves held by the Bank	5	269,307,930	246,096,839	313,077,419
Coins	6	417,880	924,997	1,814,196
Foreign currency accounts and investments	7	330,654,911	92,604,275	359,956,350
Special Drawing Rights of the International Monetary Fund	9	7,625,850	7,437,650	7,146,000
Investments - local	12	1,695,364,463	1,688,902,225	1,088,514,072
Commercial papers held in Bangladesh (former East Pakistan)		-	78,500	78,500
Assets held with the Reserve Bank of India	14	5,866,879	5,460,117	6,536,007
		<u>2,309,237,913</u>	<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	364,978,120	75,614,619	95,381,342
Provincial Governments				
- Punjab	20.4	70,067,226	7,312,358	16,196,041
- Sindh	20.5	11,043,372	-	-
- Khyber Pakhtunkhwa	20.6	51,663,856	27,939,475	28,601,808
- Baluchistan	20.7	30,356,035	19,788,639	8,354,506
Gilgit - Baltistan Administration Authority	20.8	3,697,934	2,654,671	-
		<u>166,828,423</u>	<u>57,695,143</u>	<u>53,152,355</u>
		<u>531,806,543</u>	<u>133,309,762</u>	<u>148,533,697</u>
20.2 Current accounts of Governments - receivable balances				
Provincial Government of Sindh	20.5	-	3,595,992	9,533,682
Gilgit - Baltistan Administration Authority	20.8	-	-	602,969
Government of Azad Jammu and Kashmir	20.9	802,315	2,394,941	2,675,619
		<u>802,315</u>	<u>5,990,933</u>	<u>12,812,270</u>
20.3 Federal Government				
Non-food account		235,195,428	105,372,208	126,141,484
Zakat fund accounts		4,825,613	4,057,267	3,956,688
Railways accounts	20.10	(36,345,798)	(37,915,421)	(38,806,766)
Other accounts		161,302,877	4,100,565	4,089,936
		<u>364,978,120</u>	<u>75,614,619</u>	<u>95,381,342</u>
20.4 Provincial Government - Punjab				
Non-food account		7,240,314	(43,178,664)	(35,207,201)
Zakat fund account		815,949	1,136,322	2,373,632
Other accounts		62,010,963	49,354,700	49,029,610
		<u>70,067,226</u>	<u>7,312,358</u>	<u>16,196,041</u>

	Note	2014	2013	July 1, 2012
		----- (Rupees in '000) -----		
20.5 Provincial Government - Sindh				
Non-food account		8,781,880	(6,225,940)	(12,192,742)
Zakat fund account		2,055,788	2,529,730	2,434,119
Other accounts		205,704	100,218	224,941
		11,043,372	(3,595,992)	(9,533,682)
Classified as receivable balance	20.10	-	3,595,992	9,533,682
		11,043,372	-	-
20.6 Provincial Government - Khyber Pakhtunkhwa				
Non-food account		46,142,712	7,455,660	15,426,567
Zakat fund account		1,446,912	1,012,133	1,168,535
Other accounts		4,074,232	19,471,682	12,006,706
		51,663,856	27,939,475	28,601,808
20.7 Provincial Government - Baluchistan				
Non-food account		29,639,920	19,244,506	7,769,687
Zakat fund account		589,366	417,194	357,606
Other accounts		126,749	126,939	227,213
		30,356,035	19,788,639	8,354,506
20.8 Gilgit - Baltistan Administration Authority		3,697,934	2,654,671	(602,969)
Classified as receivable balance		-	-	602,969
		3,697,934	2,654,671	-
20.9 Government of Azad Jammu and Kashmir		(802,315)	(2,394,941)	(2,675,619)
Classified as receivable balance	20.10	802,315	2,394,941	2,675,619
		-	-	-

20.10 These balances carry mark-up at the rate ranging from 9.98% to 12.15% per annum (2013: 9.35% to 12.35% per annum).

21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents borrowings under repurchase agreement maturing on July 2, 2014 and carry markup rate of 7.5% per annum (2013: nil). Securities pledged as collateral against these borrowings have been disclosed in note 12 to these financial statements and on the balance sheet as "Securities given as collateral under repurchase agreements".

22. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

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 1,500 million, CNY 3,500 million and CNY 1,500 million against PKR during the year with maturity buckets of one year, six months and six months respectively, which have been fully utilized as on June 30, 2014 and the same amounts are outstanding as on June 30, 2014. Interest is charged on outstanding balance at agreed rates. As at June 30, 2014, the Bank's commitment under this agreement is PKR 140,000 million (2013: 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 1,800 million in respective currencies. Till June 30, 2014, there has been no request from either of the two central banks to activate this agreement. As at June 30, 2014, the Bank's commitment under this agreement is PKR 86,300 million (2013: PKR 86,300 million).

23.	DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	Note	2014	2013	July 1, 2012
			----- (Rupees in '000) -----		
	Foreign currency				
	Scheduled banks		23,305,097	23,420,232	23,115,145
	Held under Cash Reserve Requirement		136,200,819	117,681,704	104,970,918
			159,505,916	141,101,936	128,086,063
	Local currency				
	Scheduled banks		368,623,750	331,626,659	266,657,312
	Financial institutions		2,546,620	2,852,018	1,366,081
	Others		70,070	67,188	63,011
			371,240,440	334,545,865	268,086,404
			530,746,356	475,647,801	396,172,467
24.	OTHER DEPOSITS AND ACCOUNTS				
	Foreign currency				
	Foreign central banks		44,483,210	44,870,494	42,572,864
	International organisations	24.2	24,902,682	35,633,270	43,320,520
	Others		13,712,458	15,320,982	16,008,153
		24.1	83,098,350	95,824,746	101,901,537
	Local currency				
	Special debt repayment	24.3	24,074,660	24,074,660	23,914,674
	Government	24.4	17,850,348	19,130,988	19,130,988
	Foreign central banks		1,904	1,848	-
	International organisations		6,330,362	6,099,056	-
	Others		14,054,358	10,710,958	9,074,822
			62,311,632	60,017,510	52,120,484
			145,409,982	155,842,256	154,022,021
24.1	The interest rate profile of the interest bearing deposits is as follows:			2014 (% per annum)	2013
	Foreign central banks			0.32 to 0.57	0.36 to 0.61
	International organisations			1.35 to 2.47	1.42 to 2.51
	Others			0.03 to 0.12	0 to 0.17
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 2014) and June 2012 (rolled-over in June 2014) 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 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. There is no outstanding balance of this deposit as on June 30, 2014 (2013: USD 100 million).				
24.3	These are interest free 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	Note	2014	2013	July 1, 2012
			----- (Rupees in '000) -----		
	Borrowings under:				
	- Fund facilities	25.1 & 25.4	231,569,547	274,475,129	489,178,999
	- Other credit schemes	25.2 & 25.4	2,627,563	10,250,867	27,084,483
	- Allocation of SDRs	25.3	150,797,597	147,067,973	141,315,906
			384,994,707	431,793,969	657,579,388
	Current account for administrative charges		35	34	33
			384,994,742	431,794,003	657,579,421

- 25.1** IMF provides financing to its member countries from General Resources Account (GRA) held in its General Department. GRA credit is normally governed by the IMF's general lending policies (also known as "credit tranche" policies, which provide financing for Balance of Payments [BoP] needs).

Under GRA financing, IMF granted Stand By Arrangement Facility (SBAF) amounting to SDR 5,168.50 million in FY 2008-09, having repayment period of 3¼–5 years, with repayments in eight equal quarterly installments. 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 (BoP) share in the disbursement was SDR 3,984.94 million. The repayment of the facility has commenced from February 2012 and would continue up to May 2015. Upto June 30, 2014 out of Bank's (BoP) share an amount of SDR 3,551.83 million has been repaid (2013: SDR 2,147.28 million). Outstanding balance as on June 30, 2014 is SDR 433.10 million (2013: SDR 1,837.65 million).

Further, another 36-month extended arrangement under GRA financing i.e. Extended Fund Facility (EFF) was granted by IMF in FY 2013-14; the total facility amounts to SDR 4,393 million having repayment period of 4½–10 years, with repayments in twelve equal semi-annual installments. A total amount of SDR 1,080 million has been disbursed under three (3) tranches of EFF up to June 30, 2014. The repayments under this facility would start in March 2018 and would continue till March 2024.

- 25.2** IMF provides concessional financial assistance to low-income members from Special Disbursement Account (SDA) held in its General Department. Under IMF's lending to Low Income Countries (LICs) from SDA resources 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, 2014 an amount of SDR 844.19 million has been repaid (2013: SDR 792.51 million) and outstanding balance amounted to SDR 17.23 million as at June 30, 2014 (2013: SDR 68.91 million). The facility has been fully repaid in July 2014.

- 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>	2014	2013
		(% per annum)	
Fund facilities	25.4.1	1.06 to 1.14	1.04 to 1.12
Other credit schemes	25.4.2	Nil	Nil

- 25.4.1** The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding. Interest rates are determined by the IMF on weekly basis. Charges are, however, payable on a quarterly basis.

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

	<i>Note</i>	2014	2013	July 1, 2012
26. OTHER LIABILITIES		----- (Rupees in '000) -----		
Local currency				
Overdue mark-up and return	26.1	6,703,128	6,142,508	5,621,403
Remittance clearance account		1,377,735	1,652,084	1,556,814
Exchange loss payable under exchange risk coverage scheme		214,485	226,436	228,556
Balance profit payable to the Government of Pakistan		18,910,705	76,472,914	62,700,879
Dividend payable	26.4	10,000	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		1,377,691	2,407,129	2,407,129
Other accruals and provisions	26.3	21,119,500	20,223,909	21,693,510
Others	26.2	7,313,064	1,237,025	3,805,790
		<u>57,026,308</u>	<u>108,372,005</u>	<u>98,024,081</u>

- 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** This includes liability maintained against balances due from Government of Bangladesh (former East Pakistan) amounting to Rs. 778.399 million (2013: Rs. 778.399 million).

26.3	Other accruals and provisions	Note	2014	2013	July 1, 2012
			-----	(Rupees in '000)	-----
	Agency commission		8,691,248	8,761,090	7,144,581
	Provision for employees' compensated absences	40.6.9	2,137,720	1,633,039	1,296,007
	Provision for other doubtful assets	26.3.1	6,766,237	6,359,475	7,435,365
	Other provisions	26.3.2	2,850,422	2,848,933	4,981,171
	Others		673,873	621,372	836,386
			21,119,500	20,223,909	21,693,510

26.3.1 Provision for other doubtful assets

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

- Issue Department	5,866,879	5,460,117	6,536,007
- Banking Department	40,483	40,483	40,483
	5,907,362	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	858,875	780,375	780,375
	858,875	858,875	858,875
	6,766,237	6,359,475	7,435,365

26.3.1.1

26.3.1.1 Movement of provisions for other doubtful assets

Opening balance	6,359,475	7,435,365	2,463,856
Charge during the year	32,835	10,303	5,073,924
Appreciation / (diminution) relating to gold reserves held by the Reserve Bank of India	373,927	(1,086,193)	(102,415)
Closing balance	6,766,237	6,359,475	7,435,365

26.3.2 Movement of other provisions

Opening balance	2,848,933	4,981,171	3,110,055
Charge / (reversal) during the year	1,489	(550,880)	1,885,143
Payment during the year	-	(1,581,358)	(14,027)
Closing balance	2,850,422	2,848,933	4,981,171

	Home remittance	Agriculture loan	Specific claims (note 26.3.2.2)	Others (note 26.3.2.1)	Total
	----- (Rupees in '000) -----				
Balance as at July 1, 2012	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)
Balance as at June 30, 2013	260,363	-	1,600,000	988,570	2,848,933
Charge during the year	-	-	-	1,489	1,489
Reversal during the year	-	-	-	-	-
Payment during the year	-	-	-	-	-
Balance as at June 30, 2014	260,363	-	1,600,000	990,059	2,850,422

26.3.2.1 This represents provision made in respect of various litigations and claims against the Bank.

26.3.2.2 This represents provision made against a claim under arbitration.

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

27. DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS	Note	2014	2013	July 1, 2012
		-----	(Rupees in '000)	-----
Pension		16,125,506	13,864,007	11,952,287
Gratuity scheme		17,763	17,754	12,726
Benevolent fund scheme		284,914	621,515	496,484
Post retirement medical benefits		5,020,474	4,139,720	3,786,987
Six months post retirement facility		245,940	159,043	-
	40.6.3	21,694,597	18,802,039	16,248,484
Provident fund scheme		223,604	212,960	218,866
		21,918,201	19,014,999	16,467,350

28. SHARE CAPITAL

2014	2013	July 1, 2012		2014	2013	July 1, 2012
-----	-----	-----		-----	-----	-----
(Number of shares)				(Rupees in '000)		
Authorised share capital						
1,000,000	1,000,000	1,000,000	Ordinary shares of Rs. 100 each	100,000	100,000	100,000
Issued, subscribed and paid-up capital						
1,000,000	1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	100,000	100,000	100,000

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 State Bank of Pakistan 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 State Bank of Pakistan for certain specified purposes in accordance with the provisions of the State Bank of Pakistan Act, 1956.

30. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK	Note	2014	2013	July 1, 2012
		-----	(Rupees in '000)	-----
Opening balance		242,568,983	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)
Appreciation / (diminution) for the year due to revaluation	5	23,070,665	(66,996,455)	44,962,441
		265,639,648	242,568,983	309,565,438

31. CONTINGENCIES AND COMMITMENTS

31.1 Contingencies

a) Contingent liability in respect of guarantees given on behalf of:				
Federal Government		23,710,102	36,033,835	44,051,938
Federal Government owned / controlled bodies and authorities		7,961,328	8,307,650	8,187,802
		31,671,430	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 amounting to Rs. 157 million approximately. 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 Honorable 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 Honorable 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.

	Note	2014 -----	2013 (Rupees in '000)	July 1, 2012 -----
c) Other claims against the Bank not acknowledged as debts	31.1.1	<u>588,500</u>	<u>622,003</u>	<u>853,293</u>

31.1.1 These represent various claims filed against the Bank's role as a regulator and certain other cases.

31.2 Commitments	2014 -----	2013 (Rupees in '000)	July 1, 2012 -----
Foreign currency forward and swap contracts - sale	<u>371,895,229</u>	<u>420,921,081</u>	<u>412,632,541</u>
Foreign currency forward and swap contracts - purchase	<u>201,199,235</u>	<u>423,161,966</u>	<u>390,848,354</u>
Futures - sale	<u>15,854,429</u>	<u>14,044,952</u>	<u>15,877,206</u>
Futures - purchase	<u>10,826,777</u>	<u>15,806,824</u>	<u>13,242,061</u>

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	Note	2014 -----	2013 (Rupees in '000)
Discount, interest / mark-up on:			
- Government Market Related Treasury Bills		<u>267,818,472</u>	<u>177,876,025</u>
- Federal Government Scrips		<u>81,401</u>	<u>82,200</u>
- Loans and advances to and current accounts of Governments	32.1	<u>961,322</u>	<u>3,329,965</u>
Securities purchased under agreement to resell		<u>10,586,285</u>	<u>43,747,253</u>
Share of profit on finances under profit and loss sharing arrangements		<u>17,916,861</u>	<u>18,151,189</u>
Foreign currency deposits		<u>1,038,950</u>	<u>2,321,670</u>
Foreign currency securities		<u>6,411,353</u>	<u>5,046,804</u>
Others		<u>1,155,824</u>	<u>126,494</u>
		<u>305,970,468</u>	<u>250,681,600</u>

32.1 Interest profile on loans and advances to facilities are as under:	2014 (% per annum)	2013
Mark-up on facility	<u>9.03 to 9.98</u>	<u>9.21 to 11.93</u>
Additional mark-up (where ways and means facility limit is exceeded)	<u>4</u>	<u>4</u>

33. INTEREST / MARK-UP EXPENSE	2014 -----	2013 (Rupees in '000)
Deposits	<u>11,627,200</u>	<u>7,336,801</u>
Securities sold under agreement to repurchase	<u>3,544,415</u>	<u>231,486</u>
Charges on allocation of Special Drawing Rights of the IMF	<u>156,918</u>	<u>112,769</u>
Others	<u>9,358</u>	<u>24,450</u>
	<u>15,337,891</u>	<u>7,705,506</u>

	Note	2014 ------(Rupees in '000)-----	2013
34. COMMISSION INCOME			
Market Treasury Bills	34.1	664,242	528,351
Draft / payment orders		149,338	178,055
Prize Bonds and National Saving Certificates	34.1	363,208	337,409
Management of public debts	34.1	550,359	347,218
Others		47	367,592
		<u>1,727,194</u>	<u>1,758,625</u>
34.1	These represent commission income earned from services provided to the Federal Government.		
		2014 ------(Rupees in '000)-----	2013
35. EXCHANGE GAIN - NET			
Gain / (loss) on:			
- Foreign currency placements, deposits, securities and other accounts - net		21,875,653	25,856,535
- Forward covers under Exchange Risk Coverage Scheme		(14,686)	5,728
- IMF Fund Facilities		(5,913,842)	(16,233,145)
- Special Drawing Rights of the IMF		(1,920,242)	(3,019,610)
		<u>14,026,883</u>	<u>6,609,508</u>
Exchange risk fee income		85,433	93,907
		<u>14,112,316</u>	<u>6,703,415</u>
36. OTHER OPERATING INCOME / (LOSS) - NET			
Penalties levied on banks and financial institutions		755,735	904,330
License / Credit Information Bureau fee recovered		607,743	182,314
Gain / (loss) on disposal of investment:			
Local - available-for-sale		31,618,976	(276)
Foreign - 'at fair value through profit or loss'		(39,630)	1,625,362
		<u>31,579,346</u>	<u>1,625,086</u>
Loss on remeasurement of securities classified as 'fair value through profit or loss'		(3,699,100)	(3,748,949)
Others		(741,371)	16,908
		<u>28,502,353</u>	<u>(1,020,311)</u>
37. OTHER INCOME - NET			
(Loss) / gain on disposal of property and equipment		(20,295)	159
Liabilities and provisions written back - net		340	777
Grant income under foreign assistance program		9,976	26,292
Income from subsidiaries	37.1	142,635	147,154
Others		67,474	102,977
		<u>200,130</u>	<u>277,359</u>
37.1 Income from subsidiaries			
SBP Banking Services Corporation		50,109	59,166
National Institute of Banking and Finance (Guarantee) Limited		92,526	87,988
		<u>142,635</u>	<u>147,154</u>

The above represents the income of subsidiaries for the year ended June 30, 2014 transferred to the Bank in accordance with the arrangements mentioned in note 40.4.

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 under an agreement at the rate of 0.12% (2013: 0.13%) of the total amount of collections and payments handled by NBP.

	Note	2014 ------(Rupees in '000)-----	2013
40. GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		2,810,452	2,316,075
Retirement benefits and employees' compensated absences	40.1	3,220,256	2,823,186
Rent and taxes		18,353	25,492
Insurance		21,553	21,783
Electricity, gas and water		36,578	30,850
Depreciation	16.1	1,398,305	1,380,262
Amortisation of intangible assets	17	14,881	14,946
Repairs and maintenance		337,879	358,706
Auditors' remuneration	40.5	6,050	6,050
Legal and professional		410,237	451,404
Travelling expenses		157,527	129,482
Daily expenses		38,803	45,795
Fuel		51,441	48,799
Conveyance		6,656	6,011
Postages, telegram / telex and telephone		178,452	145,581
Training		16,779	30,668
Stationery		9,110	9,043
Books and newspapers		26,712	29,363
Advertisement		2,815	23,599
Uniforms		1,771	1,900
Others		64,127	63,382
		8,828,737	7,962,377
Expenses allocated by:			
SBP Banking Services Corporation	40.2	6,893,244	5,878,332
National Institute of Banking and Finance (Guarantee) Limited		11,878	13,124
		6,905,122	5,891,456
Expenses reimbursed to:			
SBP Banking Services Corporation	40.3	7,086,827	6,213,009
National Institute of Banking and Finance (Guarantee) Limited		173,150	158,351
		7,259,977	6,371,360
		22,993,836	20,225,193

40.1 This includes an amount relating to defined contribution plan amounting to Rs. 77.705 million (2013: Rs. 62.603 million).

	Note	2014 ------(Rupees in '000)-----	2013
40.2 Expenses allocated by SBP Banking Services Corporation			
Retirement benefits and employees' compensated absences		6,804,886	5,783,296
Depreciation		88,358	95,036
		6,893,244	5,878,332

	Note	2014	2013
		----- (Rupees in '000) -----	
40.3 Expenses reimbursed to SBP Banking Services Corporation			
Salaries and other benefits		5,955,069	5,243,803
Rent and taxes		17,142	11,833
Insurance		5,374	5,404
Electricity, gas and water		302,524	244,753
Repairs and maintenance		124,422	71,915
Auditors' remuneration	40.5	5,950	5,950
Legal and professional		2,665	4,122
Travelling expenses		15,791	12,578
Daily expenses		22,066	18,704
Recreation allowance		217,782	189,249
Fuel		3,843	3,329
Conveyance		14,057	18,049
Postage and telephone		18,650	16,797
Training		37,915	42,152
Remittance of treasure		69,190	49,870
Stationery		12,796	13,629
Books and newspapers		1,292	1,402
Advertisement		10,773	12,018
Bank guards		120,676	121,944
Uniforms		17,779	23,725
Others		111,071	101,783
		7,086,827	6,213,009

40.4 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, 2014, as mentioned in note 37.1, 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.

	2014			2013		
	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	Total	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	Total
	----- (Rupees in '000) -----					
State Bank of Pakistan						
Audit fee	2,610	2,610	5,220	2,610	2,610	5,220
Out of pocket expenses	415	415	830	415	415	830
	3,025	3,025	6,050	3,025	3,025	6,050
SBP Banking Services Corporation						
Audit fee	2,090	2,090	4,180	2,090	2,090	4,180
Out of pocket expenses	885	885	1,770	885	885	1,770
	2,975	2,975	5,950	2,975	2,975	5,950
	6,000	6,000	12,000	6,000	6,000	12,000

40.6 Staff retirement benefits

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

	2014	2013
- Discount rate for year end obligation	13.25% - 13.50% p.a.*	11.5% p.a.
- Salary increase rate	13.25% - 13.50% p.a. **	11.5% p.a.
- Pension indexation rate	10.75% p.a.	9% p.a.
- Medical cost increase rate	13% p.a.	8% p.a.
- Personnel turnover	2.6% p.a.	3% p.a.
- Normal retirement age	60 Years	60 Years

* 13.5% has been used for post retirement medical benefits and gratuity scheme. For all other benefits rate of 13.25 % has been used.

** 13.5% has been used for gratuity scheme. For all other benefits rate of 13.25 % has been used.

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with 1 year setback.

40.6.2 Through its defined benefit plan, the Bank is exposed to a number of risks, the most significant of which are detailed below:

Discount rate risk

The risk of changes in discount rate, since discount rate is based on corporate / government bonds, any decrease in bond yields will increase plan liabilities.

Salary increase / inflation risk

The risk that the actual salary increase are higher than the expected salary increase, where benefits are linked with final salary at the time of cessation of service.

Mortality risk

The risk that the actual mortality experience is different than that of expected i.e. the actual life expectancy is longer than assumed.

Withdrawal risk

The risk of actual withdrawals experience is different from assumed.

Medical inflation risk

The risk of actual medical inflation experience is different from assumed.

40.6.3 Change in present value of defined benefit obligation

	2014				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	-----Rupees in 000-----				
Present value of defined benefit obligation July 1, 2013	13,864,007	17,754	4,139,720	621,515	159,043
Current service cost	214,752	1,697	62,237	20,669	11,905
Interest cost on defined benefit obligation	1,505,890	2,042	460,575	67,569	17,501
Benefits Paid	(1,538,631)	-	(269,434)	(67,910)	(13,729)
Remeasurements:					
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(238,732)	-
Experience adjustments	2,079,488	(3,730)	627,376	(118,197)	71,220
Present value of defined benefit obligation as on June 30, 2014	16,125,506	17,763	5,020,474	284,914	245,940
	-----Rupees in 000-----				
	18,802,039	311,260	2,053,577	(1,889,704)	
	2013				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	-----Rupees in 000-----				
Present value of defined benefit obligation as on July 1, 2012	11,952,287	12,726	3,786,987	496,484	-
Current service cost	172,000	1,632	39,992	15,000	-
Past service cost	-	-	-	-	159,043
Interest cost on defined benefit obligation	1,322,000	2,019	473,373	70,000	-
Benefits paid	(1,129,372)	-	(218,792)	(35,736)	-
Remeasurements:					
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	-	-
Experience adjustments	1,547,092	1,377	58,160	75,767	-
Present value of defined benefit obligation as on June 30, 2013	13,864,007	17,754	4,139,720	621,515	159,043
	-----Rupees in 000-----				
	16,125,506	17,763	5,020,474	284,914	245,940

40.6.3.1 The break-up of remeasurements recognised during the period in 'statement of comprehensive income' are as follows:

State Bank of Pakistan	2014	2013
	-----Rupees in '000)-----	
- Actuarial gains / (losses) from changes in financial assumptions	238,732	-
- Experience adjustments	(2,656,157)	(1,682,396)
	(2,417,425)	(1,682,396)
Allocated by SBP Banking Services Corporation - a subsidiary *	(12,972,476)	(4,038,181)

* Under mutually agreed arrangements, the amount has been allocated to the State Bank of Pakistan.

40.6.4 Amount recognised in the profit and loss account

	2014				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	-----Rupees in 000'-----				
Current service cost	214,752	1,697	62,237	20,669	11,905
Interest cost on defined benefit obligation	1,505,890	2,042	460,575	67,569	17,501
Contribution made by Employees	-	-	-	(3,850)	-
	1,720,642	3,739	522,812	84,388	29,406
	-----Rupees in 000'-----				
	2,360,987				

	2013				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in 000'				
Current service cost	172,000	1,632	39,992	15,000	-
Past service cost	-	-	-	-	159,043
Interest cost on defined benefit obligation	1,322,000	2,019	473,373	70,000	-
Contribution made by Employees	-	-	-	(3,846)	-
	1,494,000	3,651	513,365	81,154	159,043
					2,251,213

40.6.5 Movement of present value of defined benefit obligation

	2014				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in 000'				
Net recognised liabilities at July 1, 2013	13,864,007	17,754	4,139,720	621,515	159,043
Amount recognised in the profit and loss account	1,720,642	3,739	522,812	84,388	29,406
Remeasurements	2,079,488	(3,730)	627,376	(356,929)	71,220
Benefits paid during the year	(1,538,631)	-	(269,434)	(67,910)	(13,729)
Employees contribution / amount transferred	-	-	-	3,850	-
Net recognised liabilities at June 30, 2014	16,125,506	17,763	5,020,474	284,914	245,940
					21,694,597

	2013				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Rupees in 000'				
Net recognised liabilities at July 1, 2012	11,952,287	12,726	3,786,987	496,484	-
Amount recognised in the profit and loss account	1,494,000	3,651	513,365	81,154	159,043
Remeasurements	1,547,092	1,377	58,160	75,767	-
Benefits paid during the year	(1,129,372)	-	(218,792)	(35,736)	-
Employees contribution / amount transferred	-	-	-	3,846	-
Net recognised liabilities at June 30, 2013	13,864,007	17,754	4,139,720	621,515	159,043
					18,802,039

40.6.6 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	-----Rupees in '000)-----		
Pension			
Discount rate	1%	(1,260,670)	1,468,290
Future salary increase	1%	392,960	(361,083)
Future pension increase	1%	1,079,060	(944,582)
Expected mortality rates	1 Year	(390,864)	388,947
Gratuity			
Discount rate	1%	(2,637)	3,201
Future salary increase	1%	3,170	(2,658)
Post retirement medical benefit scheme			
Discount rate	1%	(557,767)	690,901
Future medical cost increase	1%	688,988	(565,730)
Expected mortality rates	1 Year	(163,975)	164,134
Benevolent			
Discount rate	1%	(14,488)	16,107
Contribution/Grant increase	1%	17,947	-
Expected mortality rates	1 Year	(2,016)	1,982
Six months post retirement facility			
Discount rate	1%	(21,112)	24,137
Future salary increase	1%	23,911	(21,288)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability of all schemes recognised within the balance sheet.

40.6.7 Duration of defined benefit obligation

	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
The weighted average duration of the defined benefit obligation is	8 Years	16 Years	12 Years	5 Years	9 Years

40.6.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2015

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2015 would be as follows:

	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
-----Rupees in '000'-----						
Current service cost	276,996	4,417	100,183	12,345	19,566	413,507
Contributions by employees	-	-	-	(3,850)	-	(3,850)
Interest cost on defined benefit obligation	2,136,630	2,398	678,000	37,751	32,587	2,887,366
Amount chargeable to profit and loss account	2,413,626	6,815	778,183	46,246	52,153	3,297,023

40.6.9 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. 2,137.72 million (2013 : Rs. 1,633.04 million). An amount of Rs. 644.68 million (2013: Rs. 412.46 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2015 would be Rs 430.06 million. The benefits paid during the year amounted to Rs. 140 million (2013: Rs 75.43 million).

	2014 ------(Rupees in '000)-----	2013
41. PROFIT FOR THE YEAR AFTER NON-CASH AND OTHER ITEMS		
Profit for the year	311,814,840	235,891,820
Adjustments for:		
Depreciation	1,398,305	1,380,262
Amortisation of intangible assets	14,881	14,946
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	3,220,256	2,823,186
- loans and advances	-	(1,057,083)
- claims	1,489	(550,880)
- other doubtful assets	32,835	10,303
- diminution in value of investments	(150,000)	677,892
Loss / (gain) on disposal of property, and equipment	20,295	(159)
(Gain) / loss on disposal of investments	(31,618,976)	276
Effect of exchange (gain) / loss on cash and cash equivalents	(2,701,106)	31,235,122
Dividend income	(12,127,927)	(16,480,789)
	<u>269,904,892</u>	<u>253,944,896</u>
42. CASH AND CASH EQUIVALENTS		
Local currency	417,880	924,997
Foreign currency accounts and investments	857,163,502	536,843,668
Earmarked foreign currency balances	7,453,502	3,849,637
Special Drawing Rights of the IMF	82,057,077	85,246,487
	<u>947,091,961</u>	<u>626,864,789</u>
43. RELATED PARTY TRANSACTIONS		

The Bank enters into transactions with related parties in its normal course of business. Related parties include the Federal Government as 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.

43.1 Governments and related entities

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

	2014	2013
	------(Rupees in '000)-----	
<i>Transactions during the year</i>		
- Creation of MRTBs	6,162,939,603	3,882,294,001
- Retirement / rollover of MRTBs	5,585,849,001	3,366,761,383
- 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 Subsidiaries of the Bank

Material transactions with the subsidiaries have already been disclosed in the financial statements in note 37.1 and 40. The subsidiaries of the Bank and their primary activities are as follows:

43.2.1 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.

43.2.2 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.

43.3 Remuneration to key management personnel

Key management personnel of the Bank include members of the Central Board of Directors of the Bank, Governor of the Bank, Deputy Governors of the Bank 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 State Bank of Pakistan 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 are as follows:

	2014	2013
	------(Rupees in '000)-----	
Short-term employee benefit	194,413	166,273
Post-employment benefit	64,227	91,685
Loans disbursed during the year	30,221	35,948
Loans repaid during the year	27,253	26,615
Directors' fees	9,854	3,345

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.

44. RISK MANAGEMENT POLICIES

The Bank is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 44.1 to 44.10. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

44.1 Credit risk management

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

44.2 Concentrations of risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly effected by changes in economic, political or other conditions. The Bank's significant concentrations arising from financial instruments at the balance sheet date without taking any collateral held or other credit enhancements is shown below:

44.2.1 Geographical analysis

	2014						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
----- (Rupees in '000) -----							
Financial assets							
Local currency - coins	417,880	-	-	-	-	-	417,880
Foreign currency accounts and investments	44,292,746	222,323,208	414,828,024	252,786,760	29,450,055	-	963,680,793
Earmarked foreign currency balance	7,453,502	-	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund							-
Fund under quota arrangements	-	-	18,194	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited	167,001	-	-	-	-	-	167,001
Investments - local	3,154,326,379	-	-	-	-	-	3,154,326,379
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	297,974,259	-	-	-	-	-	297,974,259
Assets held with the Reserve Bank of India	-	1,503,318	-	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	7,957,658	-	-	-	-	7,957,658
Other assets	1,373,721	5,510	13,483	43,804	4,256	16,025	1,456,799
Total financial assets	3,524,872,303	231,789,694	496,916,778	252,830,564	29,454,311	16,025	4,535,879,675
----- (Rupees in '000) -----							
2013							
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
----- (Rupees in '000) -----							
Financial assets							
Local currency - coins	924,997	-	-	-	-	-	924,997
Foreign currency accounts and investments	782,995	197,942,095	290,536,516	143,656,828	9,039,651	-	641,958,085
Earmarked foreign currency balance	3,849,637	-	-	-	-	-	3,849,637
Special Drawing Rights of International Monetary Fund	-	-	85,246,487	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund							-
Fund under quota arrangements	-	-	17,755	-	-	-	17,755
Securities purchased under agreement to resell	198,787,435	-	-	-	-	-	198,787,435
Current accounts of Governments	5,990,933	-	-	-	-	-	5,990,933
Current account with National Institute of Banking and Finance (Guarantee) Limited	175,399	-	-	-	-	-	175,399
Investments - local	2,490,610,318	-	-	-	-	-	2,490,610,318
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	328,590,310	-	-	-	-	-	328,590,310
Assets held with the Reserve Bank of India	-	1,470,483	-	-	-	-	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	7,397,038	-	-	-	-	7,397,038
Other assets	551,741	-	-	-	-	-	551,741
Total financial assets	3,030,263,765	206,809,616	375,800,758	143,656,828	9,039,651	-	3,765,570,618

44.2.2 Industrial analysis

	2014						
	Sovereign	Supranational	Public Sector Entities	Corporate	Banks & Financial Institutions	Others	Grand Total
	----- (Rupees in '000) -----						
Financial assets							
Local currency - coins	417,880	-	-	-	-	-	417,880
Foreign currency accounts and investments	436,111,016	209,580,459	1,243,310	-	303,928,350	12,817,658	963,680,793
Earmarked foreign currency balance	7,453,502	-	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	82,057,077	-	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	18,194	-	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	167,001	-	-	-	167,001
Investments - local	2,918,510,357	-	1,029,260	-	234,786,762	-	3,154,326,379
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	3,266,166	-	96,518,615	-	190,937,563	7,251,915	297,974,259
Assets held with the Reserve Bank of India	1,503,318	-	-	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	-	-	-	-	-	7,957,658
Other assets	649,500	29,986	4	680	55,158	721,471	1,456,799
Total financial assets	3,394,736,212	291,685,716	98,958,190	680	729,707,833	20,791,044	4,535,879,675

	2013						
	Sovereign	Supranational	Public Sector Entities	Corporate	Banks & Financial Institutions	Others	Grand Total
	(Rupees in '000)						
Financial assets							
Local currency - coins	924,997	-	-	-	-	-	924,997
Foreign currency accounts and investments	423,591,489	15,045,390	1,965,963	-	198,197,466	3,157,777	641,958,085
Earmarked foreign currency balance	3,849,637	-	-	-	-	-	3,849,637
Special Drawing Rights of International Monetary Fund	-	85,246,487	-	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,755	-	-	-	-	17,755
Securities purchased under agreement to resell	-	-	-	-	198,787,435	-	198,787,435
Current accounts of Governments	5,990,933	-	-	-	-	-	5,990,933
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	175,399	-	-	-	175,399
Investments - local	2,322,414,269	-	1,029,260	-	167,166,789	-	2,490,610,318
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	18,724,135	-	101,437,983	-	201,618,050	6,810,142	328,590,310
Assets held with the Reserve Bank of India	1,470,483	-	-	-	-	-	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,397,038	-	-	-	-	-	7,397,038
Other assets	20,411	-	-	-	-	531,330	551,741
Total financial assets	2,784,383,392	100,309,632	104,608,605	-	765,769,740	10,499,249	3,765,570,618

44.3 CREDIT EXPOSURE BY CREDIT RATING

The credit quality of financial assets is managed by the Bank using external credit ratings. The table below shows the credit quality by class of assets for all financial assets that are neither past due nor impaired as at the reporting date and are exposed to credit risk, based on the rating of external rating agencies. The Bank uses lower of the credit rating of Moody's, Standard & Poor's and Fitch to categorise its financial assets in foreign currency accounts and investments. For domestic financial assets, credit rating of JCR-VIS and PACRA are used.

	2014						
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated
	(Rupees in '000)						
Financial assets							
Local currency - coins	417,880	-	-	-	-	-	-
Foreign currency accounts and investments	-	133,455,201	535,253,368	244,924,046	8,996,992	39,377,607	1,673,579
Earmarked foreign currency balance	-	-	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	-
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	-	-	-	167,001
Investments - local	2,918,510,357	215,297,625	17,839,242	75,000	-	-	2,604,155
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	-
Loans, advances and bills of exchange	3,266,166	104,898,677	137,060,183	29,929,057	1,899,528	-	20,920,648
Assets held with the Reserve Bank of India	-	-	-	-	1,503,318	-	-
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	7,957,658	-	-
Other assets	-	18,391	25,445	27,647	-	-	1,385,316
Total financial assets	2,941,061,218	453,669,894	690,178,238	274,955,750	20,357,496	39,377,607	116,279,472
							4,535,879,675
	2013						
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated
	(Rupees in '000)						
Financial assets							
Local currency - coins	924,997	-	-	-	-	-	-
Foreign currency accounts and investments	-	96,757,175	324,637,666	177,966,556	3,356,803	38,524,639	715,246
Earmarked foreign currency balance	-	-	-	-	-	-	3,849,637
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,755
Securities purchased under agreement to resell	-	173,342,118	-	24,555,780	293,701	-	595,836
Current accounts of Governments	5,990,933	-	-	-	-	-	-
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	-	-	-	175,399
Investments - local	2,322,414,269	130,669,450	34,847,444	75,000	-	-	2,604,155
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	18,724,135	26,526,663	173,562,975	86,830,141	2,493,809	-	20,452,587
Assets held with the Reserve Bank of India	-	-	-	-	1,470,483	-	-
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	7,397,038	-	-
Other assets	-	-	-	-	-	-	551,741
Total financial assets	2,348,054,334	427,295,406	533,048,085	289,427,477	15,011,834	38,524,639	114,208,843
							3,765,570,618

44.3.1 Government securities and balances are rated as sovereign. The international rating of Pakistan is B- (as per Fitch).

44.3.2 The collateral held as security against financial assets to cover the credit risk are disclosed in the respective notes.

44.4 Details of financial assets impaired and provision recorded there against:

	Gross Amount		Impairment Provision	
	2014	2013	2014	2013
	(Rupees in '000)			
Available for sale investment - unlisted	4,712,706	4,862,706	856,863	1,006,863
Loans and advances - agriculture sector	18,587	18,587	18,587	18,587
Loans and advances - industrial sector	1,054,285	1,054,285	1,054,285	1,054,285
Loans and advances - others	4,267,953	4,267,953	4,267,953	4,267,953
Assets held with the Reserve Bank of India	1,503,318	1,470,483	1,503,318	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,380,885	7,820,265	8,380,885	7,820,265

44.5 LIQUIDITY ANALYSIS WITH INTEREST / MARK-UP RATE RISK

44.5.1 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.

	2014						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
(Rupees in '000)							
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	417,880	-	417,880	417,880
Foreign currency accounts and investments	744,917,914	162,525,387	907,443,301	51,903,114	-	51,903,114	959,346,415
Earmarked foreign currency balance	-	-	-	7,453,502	-	7,453,502	7,453,502
Special Drawing Rights of International Monetary Fund	82,057,077	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	18,194	-	18,194	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,100	-	802,100	215	-	215	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	167,001	-	167,001	-
Investments - local	2,834,265,102	2,740,000	2,837,005,102	81,505,255	235,816,022	317,321,277	3,154,326,379
Securities given as collateral under repurchase agreements	17,500,000	-	17,500,000	564,500	-	564,500	18,064,500
Loans, advances and bills of exchange	217,029,835	61,398,114	278,427,949	13,070,996	6,475,314	19,546,310	297,974,259
Assets held with the Reserve Bank of India	-	-	-	1,503,318	-	1,503,318	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,097,281	-	7,097,281	860,377	-	860,377	7,957,658
Other assets	-	-	-	1,456,799	-	1,456,799	1,456,799
	3,903,669,309	226,663,501	4,130,332,810	158,921,151	242,291,336	401,212,487	4,531,545,297
Derivatives assets							
Foreign currency accounts and investments	-	-	-	4,383,623	-	4,383,623	4,383,623
Grand Total	3,903,669,309	226,663,501	4,130,332,810	163,304,774	242,291,336	405,596,110	4,535,928,920
Financial liabilities							
Bank notes issued	-	-	-	2,309,127,023	-	2,309,127,023	2,309,127,023
Bills payable	-	-	-	642,102	-	642,102	642,102
Current accounts of the Governments *	(12,705,375)	-	(12,705,375)	544,511,918	-	544,511,918	531,806,543
Current account with SBP Banking Services Corporation- a subsidiary	-	-	-	37,876,846	-	37,876,846	37,876,846
Securities sold under an agreement to repurchase	17,194,695	-	17,194,695	-	-	-	17,194,695
Payable under bilateral currency swaps agreements	105,248,797	-	105,248,797	-	-	-	105,248,797
Deposits of banks and financial institutions	10,807	-	10,807	530,735,549	-	530,735,549	530,746,356
Other deposits and accounts	48,293,741	34,581,610	82,875,351	62,534,631	-	62,534,631	145,409,982
Payable to International Monetary Fund	66,155,064	315,740,456	381,895,520	3,099,222	-	3,099,222	384,994,742
Other liabilities	-	-	-	55,648,615	-	55,648,615	55,648,615
	224,197,729	350,322,066	574,519,795	3,544,175,906	-	3,544,175,906	4,118,695,701
Derivatives liabilities							
Foreign currency accounts and investments	49,245	-	49,245	-	-	-	49,245
	224,246,974	350,322,066	574,569,040	3,544,175,906	-	3,544,175,906	4,118,744,946
On balance sheet gap (a)	3,679,422,335	(123,658,565)	3,555,763,770	(3,380,871,132)	242,291,336	(3,138,579,796)	417,183,974
Foreign currency forward and swap contracts - sale	-	-	-	(371,895,229)	-	(371,895,229)	(371,895,229)
Foreign currency forward and swap contracts - purchase	-	-	-	201,199,235	-	201,199,235	201,199,235
Futures - sale	-	-	-	(15,854,429)	-	(15,854,429)	(15,854,429)
Futures - purchase	-	-	-	10,826,777	-	10,826,777	10,826,777
Off balance sheet gap	-	-	-	(175,723,646)	-	(175,723,646)	(175,723,646)
Total yield / interest risk sensitivity gap	3,679,422,335	(123,658,565)	3,555,763,770	(3,205,147,486)	242,291,336	(2,962,856,150)	592,907,620
Cumulative yield / interest risk sensitivity gap	3,679,422,335	3,555,763,770	7,111,527,540	3,906,380,054	4,148,671,390	1,185,815,240	1,185,815,240
Contingent liabilities in respect of guarantees given	-	-	-	-	31,671,430	31,671,430	31,671,430

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

* The Bank has the contractual right and intention to offset these balances against their respective non-interest bearing deposit balances. Mark-up on these balances is charged only when these balances are in debit

	2013						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	Total
	(Rupees in '000)						
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	924,997	-	924,997	924,997
Foreign currency accounts and investments	341,867,648	195,822,140	537,689,788	101,957,023	-	101,957,023	639,646,811
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 resell	198,787,435	-	198,787,435	-	-	-	198,787,435
Current accounts of the Governments	5,932,762	-	5,932,762	58,171	-	58,171	5,990,933
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	175,399	-	175,399	175,399
Investments - local	2,274,674,501	2,740,000	2,277,414,501	44,999,768	168,196,049	213,195,817	2,490,610,318
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	262,942,358	45,353,370	308,295,728	14,208,327	6,086,255	20,294,582	328,590,310
Assets held with the Reserve Bank of India	-	-	-	1,470,483	-	1,470,483	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	6,536,661	-	6,536,661	860,377	-	860,377	7,397,038
Other assets	-	-	-	551,741	-	551,741	551,741
	3,175,987,852	243,915,510	3,419,903,362	169,073,678	174,282,304	343,355,982	3,763,259,344
Derivatives assets							
Foreign currency accounts and investments	1,181,385	-	1,181,385	1,129,889	-	1,129,889	2,311,274
Grand Total	3,177,169,237	243,915,510	3,421,084,747	170,203,567	174,282,304	344,485,871	3,765,570,618
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 Governments *	(22,878,933)	-	(22,878,933)	156,188,695	-	156,188,695	133,309,762
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	25,984,493	-	25,984,493	25,984,493
Securities sold under an agreement to repurchase	-	-	-	-	-	-	-
Payable under bilateral currency swap agreement	81,614,727	-	81,614,727	-	-	-	81,614,727
Deposits of banks and financial institutions	10,807	-	10,807	475,636,994	-	475,636,994	475,647,801
Other deposits and accounts	50,200,749	45,374,237	95,574,986	60,267,270	-	60,267,270	155,842,256
Payable to International Monetary Fund	209,367,032	211,611,516	420,978,548	8,247,380	2,568,075	10,815,455	431,794,003
Other liabilities	-	-	-	84,503,942	-	84,503,942	84,503,942
	318,314,382	256,985,753	575,300,135	2,852,793,999	2,568,075	2,855,362,074	3,430,662,209
On balance sheet gap (a)	2,858,854,855	(13,070,243)	2,845,784,612	(2,682,590,432)	171,714,229	(2,510,876,203)	334,908,409
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	2,858,854,855	(13,070,243)	2,845,784,612	(2,686,593,189)	171,714,229	(2,514,878,960)	330,905,652
Cumulative yield / interest risk sensitivity gap	2,858,854,855	2,845,784,612	5,691,569,224	3,004,976,035	3,176,690,264	6,611,811,304	6,611,811,304
Contingent liabilities in respect of guarantees given	-	-	-	-	44,341,485	44,341,485	44,341,485

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

* The Bank has the contractual right and intention to offset these balances against their respective non-interest bearing deposit balances. Mark-up on these balances is charged only when these balances are in debit

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

44.6 Interest rate risk

44.6.1 Cash flow interest rate risk

Cash flow interest rate risk is the risk of loss arising from changes in variable interest rates. The sensitivity analysis below have been determined based on the exposure to interest rates for floating rate assets and liabilities, the analysis is prepared assuming the amount of average assets and liabilities outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 10 basis points higher/ lower and all other variables were held constant, the bank's profit for the year ended June 30, 2014 would increase / decrease by Rs 375.09 million (2013: Rs. 483.81 million). This is mainly attributable to the Bank's exposure to interest rates on its variable rate instruments.

The Bank does not keep a sizable portion of its foreign currency accounts and investments in floating rate securities, therefore the profit / loss attributable to the Bank's exposure to interest rate on its variable rate instruments is negligible.

44.6.2 Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank is exposed to fair value interest rate risk on its fixed income securities classified as 'financial assets at fair value through profit or loss'. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 44.10.

As at June 30, 2014, a 10 basis points shift in market value, mainly as a result of change in interest rates with all other variables held constant, would result in profit for the year to increase by Rs 334.71 million (2013: Rs 1,359.80 million) or decrease by Rs 333 million (2013: Rs 1,372.79 million) mainly as a result of a increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

44.7 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.

The sensitivity analyses calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Bank had significant exposure as at June 30, 2014 with all other variables constant profit for the year would have been Rs. 3,203.62 million higher / lower (2013: 187.36 million). Net foreign currency exposure of the Bank is as follows:

	2014	2013
	----- (Rupees in '000) -----	
US Dollars	393,850,571	12,434,047
Pound	(23,123,079)	(11,027,854)
Chinese Yuan	704,551	24,426,608
EURO	(100,923,398)	(107,895,687)
Japanese Yen	8,045,452	(10,772,307)
Arab Emirates Dirham	11,999,698	16,298,429
Australian Dollar	19,458,036	41,037,259
Canadian Dollar	8,570,318	12,692,821
Others	1,779,613	4,070,697
	<u>320,361,762</u>	<u>(18,735,987)</u>

Net exposure in Special Drawing Rights (SDR) is allocated to its four basket currencies i.e. USD, GBP, EURO and JPY in the ratio of their percentage allocated by IMF for SDR basket.

The composition of the Bank's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 44.6 and 44.7 prepared as of June 30, 2014 are not necessarily indicative of the effects on the Bank's profit and loss of future movements in different variables.

44.8 Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

The Bank is exposed to equity securities price risk because of investment in listed equity securities by the Bank classified as available-for-sale. These investments are held as per 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. Accordingly, price risk on listed equity securities can not be managed by the Bank.

In case of 5% increase or decrease in KSE 100 index on June 30, 2014, other comprehensive income would increase or decrease by Rs 2,393.87 million (2013: Rs. 1,579.94 million) and equity of the Bank would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Bank's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Bank's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2014 is not necessarily indicative of the effect on the Bank's equity of future movements in the level of KSE 100 index.

44.9 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. The maturity profile of Bank's financial assets and financial liabilities is given in note 44.5.1.

44.10 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 customised 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.

45. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, and is usually determined by the quoted market price. The following tables summarizes the carrying amounts and fair values of financial assets and liabilities.

	Carrying Value		Fair value	
	2014	2013	2014	2013
	------(Rupees in '000)-----			
Financial assets				
Local currency - coins	417,880	924,997	417,880	924,997
Foreign currency accounts and investments	963,680,793	641,958,085	963,680,793	641,958,085
Earmarked foreign currency balances	7,453,502	3,849,637	7,453,502	3,849,637
Special Drawing Rights of the International Monetary Fund	82,057,077	85,246,487	82,057,077	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	18,194	17,755	18,194	17,755
Securities purchased under agreement to resell	-	198,787,435	-	198,787,435
Current accounts of Governments	802,315	5,990,933	802,315	5,990,933
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	167,001	175,399	167,001	175,399
Investments - local	3,154,326,379	2,490,610,318	3,154,326,379	2,490,610,318
Securities given as collateral under repurchase agreement	18,064,500	-	18,064,500	-
Loans, advances and bills of exchange	297,974,259	328,590,310	297,974,259	328,590,310
Assets held with the Reserve Bank of India	1,503,318	1,470,483	1,503,318	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	7,397,038	7,957,658	7,397,038
Other assets	1,456,799	551,741	1,456,799	551,741

	Carrying Value		Fair value	
	2014	2013	2014	2013
	----- (Rupees in '000) -----			
Financial Liability				
Bank notes in circulation	2,309,127,023	2,041,361,303	2,309,127,023	2,041,361,303
Bills payable	642,102	603,922	642,102	603,922
Current accounts of Governments	531,806,543	133,309,762	531,806,543	133,309,762
Current account with SBP Banking Services Corporation	37,876,846	25,984,493	37,876,846	25,984,493
Securities sold under agreement to repurchase	17,194,695	-	17,194,695	-
Payable under bilateral currency swap agreement	105,248,797	81,614,727	105,248,797	81,614,727
Deposits of banks and financial institutions	530,746,356	475,647,801	530,746,356	475,647,801
Other deposits and accounts	145,409,982	155,842,256	145,409,982	155,842,256
Payable to the International Monetary Fund	384,994,742	431,794,003	384,994,742	431,794,003
Other liabilities	55,648,615	84,503,942	55,648,615	84,503,942

45.1 The table below analyses financial and non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs e.g. estimated future cash flows) (Level 3).

	2014			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	175,315,946	-	-	175,315,946
Investments - local	230,812,492	-	-	230,812,492
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	20,137,447	-	20,137,447
Gold reserves held by the Bank	269,307,930	-	-	269,307,930
	675,436,368	20,137,447	-	695,573,815
	2013			
	Level 1	Level 2	Level 3	Total
	----- (Rupees in '000) -----			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	286,947,632	-	-	286,947,632
Investments - local	163,192,519	-	-	163,192,519
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	21,285,762	-	21,285,762
Gold reserves held by the Bank	246,096,839	-	-	246,096,839
	696,236,990	21,285,762	-	717,522,752

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

There were no transfers between levels 1 and 2 during the year.

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of financial assets in note 7.1 related to foreign currency accounts and investments and investment in listed shares in note 12.2 classified as available-for-sale.

(b) Financial instruments in level 2

Currently, no financial instruments are classified in level 2.

(c) Financial instruments in level 3

Currently, no financial instruments are classified in level 3.

45.2 Valuation techniques used in determination of fair values within level 2

Item	Valuation approach and input used
Operating fixed assets (Land and building)	The fair value of land and building are derived using the sale comparison approach. The sales value is determined by physically analysing the condition of land and building and by ascertaining the current market value of similar land, which is selling in near vicinity. Moreover, for buildings, the valuer has also considered prevailing current cost of construction for relevant type of civil work carried out thereon, where ever required. Please refer note 16.2 highlighting the year of valuation and external valuer name.

46. Classification of financial instruments

	2014				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	------(Rupees in '000)-----				
Financial assets					
Local currency - coins	417,880	-	-	-	417,880
Foreign currency accounts and investments	682,558,180	175,315,946	105,806,667	-	963,680,793
Earmarked foreign currency balances	7,453,502	-	-	-	7,453,502
Special Drawing Rights of the International Monetary Fund	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	18,194	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	167,001	-	-	-	167,001
Investments - local	2,918,510,357	-	-	235,816,022	3,154,326,379
Securities given as collateral under repurchase agreement	18,064,500	-	-	-	18,064,500
Loans, advances and bills of exchange	297,974,259	-	-	-	297,974,259
Assets held with the Reserve Bank of India	1,503,318	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	-	-	-	7,957,658
Other assets	1,456,799	-	-	-	1,456,799
	------(Rupees in '000)-----				
	2013				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	------(Rupees in '000)-----				
Financial assets					
Local currency - coins	924,997	-	-	-	924,997
Foreign currency accounts and investments	250,589,122	286,947,632	104,421,331	-	641,958,085
Earmarked foreign currency balances	3,849,637	-	-	-	3,849,637
Special Drawing Rights of the International Monetary Fund	85,246,487	-	-	-	85,246,487
Reserve tranche with the International Monetary Fund under quota arrangements	17,755	-	-	-	17,755
Securities purchased under agreement to resell	198,787,435	-	-	-	198,787,435
Current accounts of Governments	5,990,933	-	-	-	5,990,933
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	175,399	-	-	-	175,399
Investments - local	2,322,414,269	-	-	168,196,049	2,490,610,318
Securities given as collateral under repurchase agreement	-	-	-	-	-
Loans, advances and bills of exchange	328,590,310	-	-	-	328,590,310
Assets held with the Reserve Bank of India	1,470,483	-	-	-	1,470,483
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,397,038	-	-	-	7,397,038
Other assets	551,741	-	-	-	551,741

	2014		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	------(Rupees in '000)-----		
Financial liabilities			
Bank notes in circulation	2,309,127,023	-	2,309,127,023
Bills payable	642,102	-	642,102
Current accounts of Governments	531,806,543	-	531,806,543
Current account with SBP Banking Services Corporation - a subsidiary	37,876,846	-	37,876,846
Securities sold under agreement to repurchase	17,194,695	-	17,194,695
Payable under bilateral currency swap agreement	105,248,797	-	105,248,797
Deposits of banks and financial institutions	530,746,356	-	530,746,356
Other deposits and accounts	145,409,982	-	145,409,982
Payable to the International Monetary Fund	384,994,742	-	384,994,742
Other liabilities	55,648,615	-	55,648,615
	2013		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	------(Rupees in '000)-----		
Financial liabilities			
Bank notes in circulation	2,041,361,303	-	2,041,361,303
Bills payable	603,922	-	603,922
Current accounts of Governments	133,309,762	-	133,309,762
Current account with SBP Banking Services Corporation - a subsidiary	25,984,493	-	25,984,493
Securities sold under agreement to repurchase	-	-	-
Payable under bilateral currency swap agreement	81,614,727	-	81,614,727
Deposits of banks and financial institutions	475,647,801	-	475,647,801
Other deposits and accounts	155,842,256	-	155,842,256
Payable to the International Monetary Fund	431,794,003	-	431,794,003
Other liabilities	84,503,942	-	84,503,942

47. SUBSEQUENT EVENT

The subsequent events regarding sovereign guaranteed loans to ZTBL and HBFCL are disclosed in note 13.2.1 and 13.2.2 respectively.

48. DATE OF AUTHORISATION

These financial statements were authorised for issue on October 25, 2014 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. No significant reclassifications have been made during the current year except for the changes as mentioned in note 3.5.1.

50. GENERAL

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

Ashraf Mahmood Wathra
Governor

Kazi Abdul Muktedir
Deputy Governor

Noman Ahmed Qureshi
Executive Director

11 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 No. 1-C
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Karachi-74000

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, 2014, 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 International Financial Reporting Standards, 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.

KPMG TASEER HADI & CO.

Chartered Accountants

A. F. FERGUSON & CO.

Chartered Accountants

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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, 2014

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2014

	<i>Note</i>	2014	2013	July 1, 2012
		----- (Rupees in '000) -----		
ASSETS				
Current account with the State Bank of Pakistan		37,876,846	25,984,493	22,259,608
Investments	5	569,449	926,641	937,420
Employee loans	6	10,577,916	11,024,650	10,971,563
Advances, deposits and prepayments	7	32,283	35,930	28,018
Medical and stationery consumables	8	125,061	119,592	117,128
Property and equipment	9	237,867	197,957	244,704
Total assets		49,419,422	38,289,263	34,558,441
LIABILITIES				
Deposits and other liabilities	10	5,900,571	4,540,140	4,388,078
Deferred liabilities - unfunded staff retirement benefits	11	42,518,851	32,749,123	29,170,363
Total liabilities		48,419,422	37,289,263	33,558,441
Net assets		1,000,000	1,000,000	1,000,000
REPRESENTED BY:				
Share capital	12	1,000,000	1,000,000	1,000,000
CONTINGENCIES AND COMMITMENTS	13			

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED JUNE 30, 2014

	<i>Note</i>	2014 ----- (Rupees in '000) -----	2013
Discount and interest earned	<i>14</i>	48,907	58,031
Net operating expenses	<i>15</i>	13,980,071	12,091,341
Reimbursable from the State Bank of Pakistan		(7,086,827)	(6,213,009)
Allocated to the State Bank of Pakistan		(6,893,244)	(5,878,332)
Operating profit		<u>48,907</u>	<u>58,031</u>
Gain / (loss) on disposal of property and equipment		121	(776)
Other income		1,081	1,911
Profit transferred to the State Bank of Pakistan		<u>50,109</u>	<u>59,166</u>

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED JUNE 30, 2014

	<i>Note</i>	2014	2013
		----- (Rupees in '000) -----	
Profit for the year		50,109	59,166
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Loss on remeasurements of defined benefit plans	15.1.5	(12,972,476)	(4,038,181)
Allocated to the State Bank of Pakistan		12,972,476	4,038,181
		-	-
Total comprehensive income for the year		<u>50,109</u>	<u>59,166</u>

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED JUNE 30, 2014

	Share capital	Unappropriated profit	Total
	-----	(Rupees in '000)	-----
Balance as at July 1, 2012	1,000,000	-	1,000,000
Total comprehensive income 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>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total comprehensive income for the year	-	50,109	50,109
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(50,109)	(50,109)
Balance as at June 30, 2014	<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

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

Qasim Nawaz
 Managing Director

Muhammad Habib Khan
 Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	<i>Note</i>	2014	2013
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) after adjustment of non-cash items	<i>16</i>	43,585	40,630
Profit transferred to the State Bank of Pakistan		(50,109)	(59,166)
Retirement benefits and employees' compensated absences allocated to the State Bank of Pakistan		11,329,509	3,835,855
Depreciation allocated to the State Bank of Pakistan		88,358	95,036
Discount income on Government securities received		34,390	32,047
		11,445,733	3,944,402
(Increase) / decrease in assets			
Current account with the State Bank of Pakistan		(11,892,353)	(3,724,885)
Medical and stationery consumables		(5,469)	(2,464)
Employee loans		446,734	(53,087)
Advances, deposits and prepayments		3,647	(7,912)
Increase / (decrease) in liabilities			
Deposits and other liabilities		(199,350)	(105,033)
Net cash (used in) / generated from operating activities		(201,058)	51,021
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		329,205	(1,956)
Capital expenditure		(130,964)	(52,553)
Proceeds from disposal of property and equipment		2,817	3,488
Net cash generated from / (used in) investing activities		201,058	(51,021)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at end of the year		-	-

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

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 (including the portion charged to the statement of comprehensive income) 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. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

These financial statements represent the first annual financial statements of the Corporation prepared in accordance with IFRS. The Corporation has adopted IFRS as the reporting framework in accordance with 'IFRS-1 First time Adoption of International Financial Reporting Standards'. The first date at which IFRS was applied was July 1, 2012 (i.e. "Transition date").

The Corporation's financial statements were previously prepared in accordance with the approved accounting standards as adopted by the Board of Directors of the Corporation.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention, except that certain staff retirement benefits have been carried at present value of defined benefit obligations.

3.2 The financial statements are presented in Pakistani Rupees (PKR) which is the Corporation's functional and presentation currency.

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs), 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 International Financial Reporting Standards (IFRSs) and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

3.3.1 Retirement benefits

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

3.3.2 Useful life and residual value of property and equipment

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

3.3.3 Provision against obsolete medical and stationery consumables

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.

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

There are certain new and amended standards and interpretations that are mandatory for the Corporation's accounting periods beginning on or after July 1, 2014 but are considered not to be relevant or do not have any material effect on the Corporation's operations and are therefore not detailed in these financial statements.

3.5 Transition to IFRS

These financial statements represent the first annual financial statements of the Corporation prepared in accordance with IFRS, as issued by the IASB. The Corporation has adopted IFRS in accordance with 'IFRS-1, First-time adoption of IFRS. The first date at which IFRS was applied is July 1, 2012 (i.e. Transition date). In accordance with IFRS, the Corporation has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented; and
- retrospectively applied all effective IFRS standards as at June 30, 2014, as required.

The reconciliation of the transition to IFRS from previous financial reporting framework (i.e approved accounting standards as adopted by the Board of Directors of the Corporation) on the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows is given in notes 3.5.1 and 3.5.2 to these financial statements.

3.5.1 Reconciliation of balance sheet:

June 30, 2013				July 1, 2012				
------(Rupees in '000)-----								
Previous financial reporting framework	Adjustments		IFRS	Previous financial reporting framework	Adjustments		IFRS	
	IAS - 19 (Note 15.1)	Other adjustment			IAS - 19 (Note 15.1)	Other adjustment		
ASSETS								
Current account with the State Bank of Pakistan	8,475,848	17,508,645	-	25,984,493	7,453,254	14,806,354	-	22,259,608
Investments	926,641	-	-	926,641	937,420	-	-	937,420
Employee loans	11,024,650	-	-	11,024,650	10,971,563	-	-	10,971,563
Advances, deposits and prepayments	35,930	-	-	35,930	28,018	-	-	28,018
Medical and stationery consumables	119,592	-	-	119,592	117,128	-	-	117,128
Property and equipment	197,957	-	-	197,957	244,704	-	-	244,704
Total assets	20,780,618	17,508,645	-	38,289,263	19,752,087	14,806,354	-	34,558,441
LIABILITIES								
Deposits and other liabilities	4,540,140	-	-	4,540,140	4,388,078	-	-	4,388,078
Deferred liabilities - unfunded staff retirement benefits	15,240,478	17,508,645	-	32,749,123	14,364,009	14,806,354	-	29,170,363
	19,780,618	17,508,645	-	37,289,263	18,752,087	14,806,354	-	33,558,441
Net assets	1,000,000	-	-	1,000,000	1,000,000	-	-	1,000,000
REPRESENTED BY:								
Share capital	1,000,000	-	-	1,000,000	1,000,000	-	-	1,000,000

3.5.2 Change in Accounting Policy

3.5.2.1 Employee future benefits

Under the previous financial reporting framework, the Corporation was also using IAS 19 for accounting of its employee benefits. This IAS has been revised and the revised standard became applicable during the year. As the Corporation, has applied IFRS as the financial reporting framework in the current year, the effects of this change in accounting policy are also required to be disclosed as part of transition to IFRS. The change in accounting policy and related impacts are summarised as follows:

Actuarial gains and losses

Previous Financial Reporting Framework: Actuarial gains and losses were recognised in the profit and loss account over the future expected average remaining working lives of the employees to the extent of the greater of 10% of the present value of the defined benefit obligation at the end of previous reporting period and 10% of the fair value of plan assets at the end of previous reporting period.

IFRS: The IFRS requires immediate recognition of past service cost and also requires recognition of net interest cost based on net defined benefit asset or liability by using the discount rate at the beginning of the year. Further, a term remeasurement has been used which is made up of actuarial gains and losses and the difference between the actual investment returns and the returns implied by the net interest cost. The "remeasurements" are required to be recognised in the "balance sheet" immediately with a charge or credit to "other comprehensive income" in the periods in which they occur.

The effects on the balance sheet, profit and loss account, statement of comprehensive income and statement of changes in equity are summarised below:

	2013 ------(Rupees in '000)-----	July 1, 2012
Impact on balance sheet		
Increase in deferred liabilities - unfunded staff retirement benefits	17,508,645	14,806,354
Increase in current account with the State Bank of Pakistan	17,508,645	14,806,354
	For the year ended June 30, 2013	For the year ended June 30, 2012
Impact on profit and loss account		
Decrease in net operating expense	1,335,890	-
Decrease in expenses allocated to the State Bank of Pakistan	1,335,890	-
Impact on statement of comprehensive income		
Remeasurement losses on defined benefit plan	(4,038,181)	-
Remeasurements losses on defined benefit plan allocated to the State Bank of Pakistan	4,038,181	-

3.5.2.2 Cash and cash equivalents

Until last year, current account with the State Bank of Pakistan was considered as cash and cash equivalent. This presentation in the statement of cash flows has been changed and the movement in current account with the State Bank of Pakistan is reflected as an operating activity in the statement of cash flows. In the opinion of the management, the revised presentation reflects more appropriately the substance of the account balance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

The management determines the appropriate classification of its financial assets in accordance with the requirements of International Accounting Standard 39 (IAS 39) "Financial Instruments: Recognition and Measurement" at the time of purchase of financial assets and re-evaluates this classification on a regular basis. The financial assets of the Corporation are categorised as follows:

a) Financial assets 'at fair value through profit or loss'

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as financial assets 'at fair value through profit or loss' category.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise of current account with the State Bank of Pakistan, employee loans and other advances and deposits.

c) Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity with the Corporation having positive intent and ability to hold till maturity.

d) Available for sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets 'at fair value through profit or loss', (b) loans and receivables and (c) held to maturity.

4.1.1.2 Initial recognition and measurement

All financial assets are recognised at the time the Corporation becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Corporation commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value while the transaction costs associated with these financial assets are taken directly to the profit and loss account.

4.1.1.3 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

a) Financial asset 'at fair value through profit or loss' and 'available for sale'

Financial assets 'at fair value through profit or loss' are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are taken to the profit and loss account in the period in which these arise.

'Available for sale' financial assets are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are recognised in other comprehensive income.

b) Financial assets classified as 'Loans and receivables' and 'held to maturity'

Loans and receivables and held to maturity financial assets are carried at amortised cost.

4.1.1.4 Impairment

The Corporation assesses at each balance sheet date whether there is an objective evidence that a financial asset is impaired.

a) Assets carried at amortised cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty or default in payments, the probability that they will enter bankruptcy, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment amount and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

b) Assets classified as 'available for sale'

In case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any evidence for impairment exist, the cumulative loss is removed from equity and recognised in the profit and loss account. For investments, other than equity instruments, the increase in fair value in a subsequent period thereby resulting in reversal of impairment is reversed through profit and loss account. Impairment losses recognised in profit and loss account on equity instruments are not reversed through profit and loss account.

4.1.2 Financial liabilities

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits and other liabilities.

4.1.3 Derecognition of financial assets and financial liabilities

a) Financial assets

The Corporation derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit and loss account.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability, and the difference in the respective carrying amount is recognised in the profit and loss account.

4.1.4 Offsetting of financial assets and financial 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 realise the assets and settle the liabilities simultaneously.

4.2 Employee loans

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.

4.3 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 9.1 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 asset is 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 the profit and loss account as and when incurred.

4.4 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 necessary to make the sale.

4.5 Impairment of non-financial assets

The carrying amounts of the Corporation'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 higher of an asset fair value less cost to sell and value in use. In assessing the value in use, estimated future cash flows are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. 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.

4.6 Compensated absences

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

4.7 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 by both 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 this new scheme. Under this scheme contribution is made by the employee 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, 2014. As more fully stated in note 3.5.2 the amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a change or credit to other comprehensive income in which they occur.

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

4.8 Revenue recognition

Discount, interest / mark-up and / or return on loans and investments are recorded on a time proportion basis that takes into account the effective yield on the asset.

4.9 Taxation

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

4.10 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.

	Note	2014	2013	July 1, 2012
5. INVESTMENTS				
			----- (Rupees in '000) -----	
Held to maturity				
Market Treasury Bills	5.1	522,837	532,593	539,090
Pakistan Investment Bond	5.2	46,612	394,048	398,330
		<u>569,449</u>	<u>926,641</u>	<u>937,420</u>

5.1 Market Treasury Bills carry mark-up at the rate of 9.98% to 9.99% per annum (2013: 9.21% to 10.29% per annum) and are due to mature by June 2015 (2013: June 2014).

5.2 Pakistan Investment Bond carry mark-up at the rate of 9.60% per annum (2013: 8.00% to 9.60% per annum) and is due to mature by June 2016 (2013: June 2016).

	Note	2014	2013	July 1, 2012
6. EMPLOYEE LOANS				
			----- (Rupees in '000) -----	
Considered good		10,577,916	11,024,650	10,971,563
Considered doubtful		9,021	9,706	12,010
	6.1	<u>10,586,937</u>	<u>11,034,356</u>	<u>10,983,573</u>
Provision against doubtful loans	6.2	<u>(9,021)</u>	<u>(9,706)</u>	<u>(12,010)</u>
		<u>10,577,916</u>	<u>11,024,650</u>	<u>10,971,563</u>

6.1 Represent 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. 70 million (2013: Rs. 110.790 million) that carry mark up at 10% per annum (2013: 10% per annum). Maximum maturity of loans is upto year 2051 (2013: year 2049).

These loans have been given in respect of:-

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

	Note	2014	2013	July 1, 2012
6.2 Provision held against employee loans				
			----- (Rupees in '000) -----	
Opening balance		9,706	12,010	12,241
Charge for the year		-	-	-
Reversals		(685)	(2,304)	(231)
Closing balance		<u>9,021</u>	<u>9,706</u>	<u>12,010</u>

7. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances, deposits and prepayments		26,472	30,583	22,687
Others		5,811	5,347	5,331
		<u>32,283</u>	<u>35,930</u>	<u>28,018</u>

8. MEDICAL AND STATIONERY CONSUMABLES

Medical and stationery consumables	8.1	126,166	120,740	118,276
Provision against obsolete items		(1,105)	(1,148)	(1,148)
		<u>125,061</u>	<u>119,592</u>	<u>117,128</u>

8.1 These include stocks of medicine, stationery, engineering items and printing press.

9. PROPERTY AND EQUIPMENT

Operating fixed assets	9.1	<u>237,867</u>	<u>197,957</u>	<u>244,704</u>
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9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2014						Net book value as at June 30, 2014	Annual rate of depreciation %
	Cost			Accumulated Depreciation				
	As at July 01, 2013	Additions/ (deletions)	As at June 30, 2014	As at July 01, 2013	Charge for the year / (deletions)	As at June 30, 2014		
	----- (Rupees in '000) -----							
Furniture and fixtures	115,291	15,057 (1,410)	128,938	76,893	8,233 (1,410)	83,716	45,222	10
Office equipment	858,580	75,846 (1,086)	933,340	736,591	51,369 (848)	787,112	146,228	20
EDP equipment	328,729	25,712 (1,887)	352,554	322,099	9,122 (1,887)	329,334	23,220	33.33
Motor vehicles	99,777	14,349 (5,450)	108,676	68,837	19,634 (2,992)	85,479	23,197	20
	1,402,377	130,964 (9,833)	1,523,508	1,204,420	88,358 (7,137)	1,285,641	237,867	
	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							
	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	Net book value as at June 30, 2012	Annual rate of depreciation %
	----- (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 *			

	Note	2014	2013	July 1, 2012
------(Rupees in '000)-----				
10. DEPOSITS AND OTHER LIABILITIES				
Provision for employees' compensated absences	15.1.9	5,402,674	3,842,893	3,585,798
Deposits		362,725	600,854	677,902
Others		135,172	96,393	124,378
		5,900,571	4,540,140	4,388,078
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS				
Gratuity		1,277	19,007	23,560
Pension		30,676,912	25,118,066	21,976,728
Benevolent fund scheme		1,017,022	1,788,602	1,619,375
Post retirement medical benefits		9,882,770	4,774,390	4,483,395
Six months post retirement benefits		76,678	59,263	-
	15.1.3	41,654,659	31,759,328	28,103,058
Provident fund scheme		864,192	989,795	1,067,305
		42,518,851	32,749,123	29,170,363

12. SHARE CAPITAL

2014	2013	July 1, 2012	Note	2014	2013	July 1, 2012
(Number of shares)				------(Rupees in '000)-----		
1,000	1,000	1,000		1,000,000	1,000,000	1,000,000
Authorised share capital						
Ordinary shares of Rs. 1,000,000 each						
Issued, subscribed and paid-up capital						
Fully paid-up ordinary shares of Rs. 1,000,000 each						
509	509	509		509,000	509,000	509,000
491	491	491		491,000	491,000	491,000
1,000	1,000	1,000		1,000,000	1,000,000	1,000,000
- issued for cash						
- issued against consideration in kind						

13. CONTINGENCIES AND COMMITMENTS**13.1 Contingencies**

13.1.1 The Corporation does not have any contingencies as at June 30, 2014 and June 30, 2013.

13.2 Commitments

Capital commitments	13.2.1	77,390	29,931	45,272
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13.2.1 This represent amounts committed by the Corporation to purchase assets from successful bidders.

14. DISCOUNT AND INTEREST EARNED

	Note	2014	2013
------(Rupees in '000)-----			
Discount income on Government securities		48,229	55,641
Interest on employee loans		678	2,390
		48,907	58,031

15. NET OPERATING EXPENSES**Reimbursable from the State Bank of Pakistan**

Salaries, wages and other benefits		5,955,069	5,243,803
Rent and taxes		17,142	11,833
Insurance		5,374	5,404
Electricity, gas and water		302,524	244,753
Repair and maintenance		124,422	71,915
Auditors' remuneration	15.2	5,950	5,950
Legal and professional		2,665	4,122
Travelling		15,791	12,578
Daily expenses		22,066	18,704
Passages / rest and recreational allowance		217,782	189,249
Fuel		3,843	3,329
Conveyance		14,057	18,049
Postages and telephone		18,650	16,797
Training		37,915	42,152
Remittance of treasure		69,190	49,870
Stationery		12,796	13,629
Books and newspapers		1,292	1,402
Advertisement		10,773	12,018
Bank guards charges		120,676	121,944
Uniforms		17,779	23,725
Others		111,071	101,783
		7,086,827	6,213,009

Allocated to the State Bank of Pakistan

Retirement benefits and employees' compensated absences	15.1 to 15.1.10	6,804,886	5,783,296
Depreciation	9.1	88,358	95,036
		6,893,244	5,878,332
		13,980,071	12,091,341

15.1 Staff retirement benefits

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

	2014	2013
- Discount rate for year end obligation	13.25% - 13.50% p.a.*	11.5% p.a.
- Salary increase rate	13.25% p.a.	11.5% p.a.
- Pension indexation rate	10.75% p.a.	9% p.a.
- Medical cost increase rate	13% p.a.	8% p.a.
- Personnel turnover	2.1% p.a.	3% p.a.
- Normal retirement age	60 Years	60 Years

* 13.50% has been used for post retirement medical benefits. For all other benefits rate of 13.25% is used.

Assumptions regarding future mortality are based on actuarial advice in accordance with the published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with 1 year setback.

15.1.2 Through its defined benefit plan, the Corporation is exposed to a number of risks, the most significant of which are detailed below:

Discount rate risks

The risk of changes in discount rate, since discount rate is based on corporate / government bonds, any decrease in bond yields will increase plan liabilities

Salary increase / inflation risks

The risk that the actual salary increases are higher than the expected salary increase, where benefits are linked with final salary at the time of cessation of service.

Mortality risks

The risk that the actual mortality experience is different than that of expected i.e. the actual life expectancy is longer than assumed.

Withdrawal risks

The risk of actual withdrawals experience is different from the assumed.

Medical inflation risks

The risk of actual medical inflation experience is different from the assumed.

15.1.3 Change in present value of defined benefit obligation

	2014					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	-----Rupees in '000-----					
Present value of defined benefit obligation as on July 1, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328
Current service cost	363	774,129	87,105	263,606	2,944	1,128,147
Interest cost on defined benefit obligation	471	2,512,004	116,958	523,251	6,778	3,159,462
Benefits paid	(29,823)	(6,549,109)	(336,408)	(448,770)	(644)	(7,364,754)
Remeasurements:						-
Actuarial (gains)/losses from changes in financial assumptions	-	-	(681,803)	-	-	(681,803)
Experience adjustments	11,259	8,821,822	42,568	4,770,293	8,337	13,654,279
Present value of defined benefit obligation as on June 30, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659

2013						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
Rupees in '000						
Present value of defined benefit obligation as on July 1, 2012	23,560	21,976,728	1,619,375	4,483,395	-	28,103,058
Current service cost	648	821,951	81,000	138,868	-	1,042,467
Past service cost	-	-	-	-	59,263	59,263
Interest cost on defined benefit obligation	2,042	2,747,091	207,000	627,675	-	3,583,808
Benefits paid	(7,221)	(4,605,170)	(124,836)	(330,222)	-	(5,067,449)
Remeasurements:						
Actuarial (gains)/losses from changes in financial assumptions	-	-	-	-	-	-
Experience adjustments	(22)	4,177,466	6,063	(145,326)	-	4,038,181
Present value of defined benefit obligation as on June 30, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328

15.1.4 Amount recognised in the profit and loss account

2014						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
Rupees in '000						
Current service cost	363	774,129	87,105	263,606	2,944	1,128,147
Interest cost on defined benefit obligation	471	2,512,004	116,958	523,251	6,778	3,159,462
Contribution made by employees	-	-	(18,271)	-	-	(18,271)
	834	3,286,133	185,792	786,857	9,722	4,269,338

2013					
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
-----Rupees in '000-----					
Current service cost	648	821,951	81,000	-	1,042,467
Past service cost	-	-	-	59,263	59,263
Interest cost on defined benefit obligation	2,042	2,747,091	207,000	-	3,583,808
Contribution made by employees	-	-	-	-	-
	2,690	3,569,042	288,000	59,263	4,685,538

15.1.5 Movement of present value of defined benefit obligation

2014						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Net recognised liabilities at July 1, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328
Amount recognised in the profit and loss account	834	3,286,133	185,792	786,857	9,722	4,269,338
Remeasurements	11,259	8,821,822	(639,235)	4,770,293	8,337	12,972,476
Benefits paid during the year	(29,823)	(6,549,109)	(336,408)	(448,770)	(644)	(7,364,754)
Employees contribution / amount transferred	-	-	18,271	-	-	18,271
Net recognised liabilities at June 30, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659

	2013					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	Rupees in '000					
Net recognised liabilities at July 1, 2012	23,560	21,976,728	1,619,375	4,483,395	-	28,103,058
Amount recognised in the profit and loss account	2,690	3,569,042	288,000	766,543	59,263	4,685,538
Remeasurements	(22)	4,177,466	6,063	(145,326)	-	4,038,181
Benefits paid during the year	(7,221)	(4,605,170)	(124,836)	(330,222)	-	(5,067,449)
Employees contribution / amount transferred	-	-	-	-	-	-
Net recognised liabilities at June 30, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328

15.1.6 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Impact on defined benefit obligation - Increase / (Decrease)			
Change in Assumption	Increase in assumption	Decrease in assumption	
-----Rupees in '000-----			
Gratuity			
Discount rate	1%	(100)	110
Future salary increase	1%	109	(101)
Pension			
Discount rate	1%	(2,361,960)	3,105,525
Future salary increase	1%	1,412,811	(1,315,807)
Future pension increase	1%	1,672,461	(1,419,319)
Expected mortality rates	1 Year	(314,533)	308,585
Benevolent fund scheme			
Discount rate	1%	(51,222)	55,972
Grant increase	1%	61,976	-
Expected mortality rates	1 Year	(1,611)	1,493
Post retirement medical benefits			
Discount rate	1%	(1,396,775)	1,767,722
Future medical cost increase	1%	1,763,326	(1,417,170)
Expected mortality rates	1 Year	(214,351)	216,628
Six months post retirement benefits			
Discount rate	1%	(4,425)	4,921
Salary increase	1%	4,875	(4,462)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability of all schemes recognised within the balance sheet.

15.1.7 Duration of defined benefit obligation

Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits
8 Years	9 Years	5 Years	16 Years	6 Years

The weighted average duration of the defined benefit obligation is

15.1.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2015

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2015 would be as follows:

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	-----Rupees in '000-----					
Current service cost	226	955,681	49,896	245,213	4,669	1,255,685
Interest cost on defined benefit obligation	169	4,065,000	134,755	1,334,000	10,160	5,544,084
Amount chargeable to profit and loss account	395	5,020,681	184,651	1,579,213	14,829	6,799,769

15.1.9 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 5,402.674 million (2013: Rs. 3,842.893 million). An amount of Rs. 2,614.851 million (2013: Rs. 986.755 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2015 would be Rs. 939.673 million. The benefits paid during the year amounted to Rs. 1,055.070 million (2013: Rs. 729.659 million).

15.1.10 Charge for the year in respect of defined contribution plan amounted to Rs. 62.901 million (2013: Rs. 56.589 million).

15.2 Auditors' remuneration

	2014			2013		
	KPMG Taseer Hadi & Co.	A.F. Ferguson & Co.	Total	KPMG Taseer Hadi & Co.	A.F. Ferguson & Co.	Total
	----- (Rupees in '000) -----					
Audit fee	2,090	2,090	4,180	2,090	2,090	4,180
Out of pocket expenses	885	885	1,770	885	885	1,770
	<u>2,975</u>	<u>2,975</u>	<u>5,950</u>	<u>2,975</u>	<u>2,975</u>	<u>5,950</u>

16. PROFIT / (LOSS) AFTER ADJUSTMENT OF NON-CASH ITEMS

	2014	2013
	----- (Rupees in '000) -----	----- (Rupees in '000) -----
Profit for the year	50,109	59,166
Adjustments for:		
Amortisation of discount on Government securities	(13,839)	(23,594)
Amortisation of premium on Government securities	7,436	4,282
(Gain) / loss on disposal of property and equipment	(121)	776
	(6,524)	(18,536)
	<u>43,585</u>	<u>40,630</u>

17. 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 responsibilities 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 (also refer note 15).

18. 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 18.1 to 18.4 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 Managing Director on the monitoring and management of these risks.

18.1 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. 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 recorded as recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

18.2 Concentrations of risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Corporation's significant concentration arising from financial instruments at the balance sheet date without taking any collateral held or other credit enhancements is shown below:

18.2.1 Geographical analysis

All the financial instruments of the Corporation at the balance sheet date are present in Pakistan only.

18.2.2 Industrial analysis

	2014			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	----- (Rupees in '000)-----			
Financial assets				
Current account with the State Bank of Pakistan	-	37,876,846	-	37,876,846
Investments	569,449	-	-	569,449
Employee loans	-	-	10,577,916	10,577,916
Advances and deposits	-	-	7,743	7,743
	<u>569,449</u>	<u>37,876,846</u>	<u>10,585,659</u>	<u>49,031,954</u>
	2013			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	----- (Rupees in '000)-----			
Financial assets				
Current account with the State Bank of Pakistan	-	25,984,493	-	25,984,493
Investments	926,641	-	-	926,641
Employee loans	-	-	11,024,650	11,024,650
Advances and deposits	-	-	9,013	9,013
	<u>926,641</u>	<u>25,984,493</u>	<u>11,033,663</u>	<u>37,944,797</u>

18.2.3 Credit exposure by credit rating:

Financial assets of the Corporation essentially represents amounts due from the State Bank of Pakistan (central bank of the country), sovereign investments and amounts due from Corporation's own employees as detailed below:

	2014		
	Sovereign (18.2.3.1)	Unrated	Grand Total
	----- (Rupees in '000)-----		
Financial Assets			
Current account with the State Bank of Pakistan	-	37,876,846	37,876,846
Investments	569,449	-	569,449
Employee loans	-	10,577,916	10,577,916
Advances and deposits	-	7,743	7,743
	<u>569,449</u>	<u>48,462,505</u>	<u>49,031,954</u>
	2013		
	Sovereign (18.2.3.1)	Unrated	Grand Total
	----- (Rupees in '000)-----		
Financial Assets			
Current account with the State Bank of Pakistan	-	25,984,493	25,984,493
Investments	926,641	-	926,641
Employee loans	-	11,024,650	11,024,650
Advances and deposits	-	9,013	9,013
	<u>926,641</u>	<u>37,018,156</u>	<u>37,944,797</u>

18.2.3.1 Government securities and balances are rated as sovereign. The international rating of Pakistan is B- (as per Fitch).

18.3 Details of financial assets impaired and provision recorded there against:

	Gross amount		Impairment / Provision	
	2014	2013	2014	2013
	----- (Rupees in '000)-----			
Employee loans	<u>10,586,937</u>	<u>11,034,356</u>	<u>9,021</u>	<u>9,706</u>

18.4 Liquidity analysis with interest rate risk

Interest rate risk is the risk that the value of a financial instrument or its cash flow will fluctuate due to changes in the market interest rates. The Corporation has adopted appropriate policies to minimise its exposure to this risk.

	2014			2013			
	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							
Current account with the State Bank of Pakistan*	-	-	-	37,876,846	-	37,876,846	37,876,846
Investments	508,998	46,087	555,085	14,364	-	14,364	569,449
Employee loans	12,960	57,040	70,000	1,493,916	9,014,000	10,507,916	10,577,916
Advances and deposits	-	-	-	1,932	5,811	7,743	7,743
	521,958	103,127	625,085	39,387,058	9,019,811	48,406,869	49,031,954
Financial liabilities							
Deposits and other liabilities	-	-	-	497,897	-	497,897	497,897
On balance sheet gap	521,958	103,127	625,085	38,889,161	9,019,811	47,908,972	48,534,057
	2014			2013			
	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							
Current account with the State Bank of Pakistan*	-	-	-	25,984,493	-	25,984,493	25,984,493
Investments	850,193	45,921	896,114	30,527	-	30,527	926,641
Employee loans	16,134	94,656	110,790	1,485,434	9,428,426	10,913,860	11,024,650
Advances and deposits	-	-	-	3,266	5,747	9,013	9,013
	866,327	140,577	1,006,904	27,503,720	9,434,173	36,937,893	37,944,797
Financial liabilities							
Deposits and other liabilities	-	-	-	697,247	-	697,247	697,247
On balance sheet gap	866,327	140,577	1,006,904	26,806,473	9,434,173	36,240,646	37,247,550

*All cash settlements of the Corporation are routed through the current account maintained with the State Bank of Pakistan as the Corporation functions and acts on behalf of the SBP.

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

18.6 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. However, at balance sheet date all of the Corporation's financial instruments are denominated in local currency.

18.7 Liquidity risk management

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 as all its settlements are routed through the State Bank of Pakistan.

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The following tables summarizes the carrying amounts and fair values of financial assets and liabilities.

	Carrying value		Fair value	
	2014	2013	2014	2013
	----- (Rupees in '000) -----			
Financial assets				
Current account with the State Bank of Pakistan	37,876,846	25,984,493	37,876,846	25,984,493
Investments	569,449	926,641	569,449	926,641
Employee loans	10,577,916	11,024,650	10,577,916	11,024,650
Advances and deposits	7,743	9,013	7,743	9,013
Financial Liability				
Deposits and other liabilities	497,897	697,247	497,897	697,247

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2014			
	Loans and receivables	At fair value through profit or loss	Held to maturity	Available for sale
	----- (Rupees in '000) -----			
Financial assets				
Current account with the State Bank of Pakistan	37,876,846	-	-	-
Investments	-	-	569,449	-
Employee loans	10,577,916	-	-	-
Advances and deposits	7,743	-	-	-

	2013			
	Loans and receivables	At fair value through profit or loss	Held to maturity	Available for sale
	----- (Rupees in '000) -----			
Financial assets				
Current account with the State Bank of Pakistan	25,984,493	-	-	-
Investments	-	-	926,641	-
Employee loans	11,024,650	-	-	-
Advances and deposits	9,013	-	-	-

	2014	
	Carried at amortised cost	At fair value through profit or loss
	----- (Rupees in '000) -----	

Financial liabilities

Deposits and other liabilities	497,897	-	497,897
--------------------------------	---------	---	---------

	2013	
	Carried at amortised cost	At fair value through profit or loss
	----- (Rupees in '000) -----	

Financial liabilities

Deposits and other liabilities	697,247	-	697,247
--------------------------------	---------	---	---------

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 25, 2014 by the Board of Directors of the Corporation.

22. CORRESPONDING FIGURES

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

23. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

12 Financial Statements of NIBAF

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, 2014 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, 2014 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: 26-09-2014

Karachi

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
BALANCE SHEET
AS AT JUNE 30, 2014

	Note	2014 Rupees in '000	2013
NON CURRENT ASSETS			
Property plant and equipment	5	38,866	39,588
Long term deposits		1,620	954
CURRENT ASSETS			
Stock of stationery and consumables		663	812
Receivable against training programs	6	11,236	32,707
Advances, prepayments and other receivables	7	318	1,776
Short term investments	8	178,025	237,440
Assets relating to Endowment fund	9	81,711	-
Cash in hand		88	34
		272,041	272,769
		<u>312,527</u>	<u>313,311</u>
SHAREHOLDERS' EQUITY			
Authorized share capital (20,000,000 Ordinary shares of Rs.10 each)		<u>200,000</u>	<u>200,000</u>
Issued, subscribed and paid up capital	10	29,261	29,261
Accumulated surplus		<u>24,367</u>	<u>24,367</u>
		53,628	53,628
Endowment Fund	11	<u>81,711</u>	<u>74,490</u>
		135,339	128,118
CURRENT LIABILITIES			
Creditors, accrued expenses and other payables	12	10,187	9,794
Due to State Bank of Pakistan (Parent entity)	13	167,001	175,399
		177,188	185,193
		<u>312,527</u>	<u>313,311</u>
COMMITMENTS			
	14		

The annexed notes 1 to 25 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, 2014

	Note	2014 Rupees in '000	2013
INCOME			
Hostel and training halls	15	20,991	33,374
Training and education fee	16	54,333	36,573
Other income	17	17,202	18,042
		<u>92,526</u>	<u>87,989</u>
EXPENDITURE			
Operating, administrative and general expenses	18	<u>(185,028)</u>	<u>(171,476)</u>
Operating deficit for the year		(92,502)	(83,487)
Provision for taxation	19	<u>-</u>	<u>-</u>
Deficit for the year		(92,502)	(83,487)
Other comprehensive income for the year		-	-
Total comprehensive deficit for the year		<u><u>(92,502)</u></u>	<u><u>(83,487)</u></u>

The annexed notes 1 to 25 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, 2014

	2014	2013
	Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating deficit for the year	(92,502)	(83,487)
Adjustments for non cash items		
Income from investments	(15,076)	(16,047)
Depreciation	11,878	13,124
Gain on disposal of fixed assets	(2,440)	-
Provision for doubtful debts	-	-
	(5,638)	(2,922)
Operating deficit before working capital changes	(98,140)	(86,409)
Changes in working capital		
(Increase) / decrease in current assets		
Stock of stationery and consumables	151	23
Receivable against training programs	21,471	(1,784)
Advances, prepayments and other receivables	1,458	405
	23,080	(1,356)
Increase / (decrease) in current liabilities		
Creditors, accrued expenses and other payables	393	(3,958)
Due to State Bank of Pakistan (Parent entity)	84,197	107,320
	84,590	103,362
Net changes in working capital	107,670	102,006
Net cash generated from operating activities	9,530	15,597
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(11,309)	(15,724)
Sale proceeds of fixed assets disposed off	2,499	-
Long term security deposits	(666)	-
Net cash used in investing activities	(9,476)	(15,724)
Net increase in cash and cash equivalents	54	(127)
Cash and cash equivalents at beginning of the year	34	161
Cash and cash equivalents at end of the year	88	34

The annexed notes 1 to 25 form an integral part of these financial statements.

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

	Share Capital	Accumulated Surplus	Total
 Rupees in '000		
Balance at July 01, 2012	29,261	24,367	53,628
Total comprehensive deficit for the year	-	(83,487)	(83,487)
Deficit allocated to State Bank of Pakistan (the Parent entity)	-	83,487	83,487
Balance at June 30, 2013	29,261	24,367	53,628
Total comprehensive deficit for the year	-	(92,502)	(92,502)
Deficit allocated to State Bank of Pakistan (the Parent entity)	-	92,502	92,502
Balance at June 30, 2014	29,261	24,367	53,628

The annexed notes 1 to 25 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, 2014

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, 2014

The following standards, amendments and interpretations are effective for the year ended June 30, 2014. These standards, interpretations and the amendments are either not relevant to the institute's operations or are not expected to have significant impact on the institute's financial statements other than certain additional disclosures.

Standards / amendments / interpretations	Effective date (accounting periods beginning on or after)
Amendments to IAS 1 - Presentation of Financial Statements – Clarification of requirements for comparative information	January 01, 2013
Amendments to IAS 16 - Property, Plant and Equipment – Classification of servicing equipment	January 01, 2013
Amendment to IAS 19 - Employee Benefits	January 01, 2013
Amendments to IAS 32 Financial Instruments: Presentation - Tax effects of distributions to holders of an equity instrument, and transaction costs of an equity transaction	January 01, 2013
Amendments to IAS 34 - Interim Financial Reporting - Interim reporting of segment information for total assets and total liabilities	January 01, 2013
Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting financial assets and financial liabilities	January 01, 2013

IFRIC 20 - Stripping costs in the production phase of a surface mine

January 01, 2013

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 institute's operations or are not expected to have significant impact on the institute's financial statements other than certain additional disclosures.

Standards / amendments / interpretations	Effective for annual periods beginning on or after
Amendments to IAS 19 Employee Benefits: Employee contributions	July 01, 2014
IAS 27 (Revised 2011) – Separate Financial Statements	January 01, 2015
IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures	January 01, 2015
Amendments to IAS 32 Financial Instruments: Presentation - Offsetting financial assets and financial liabilities	July 01, 2014
IAS 36 Impairment of Assets - Recoverable amount disclosures for non-financial assets	July 01, 2014
IAS 39 Financial Instruments: Recognition and Measurement - Novation of derivatives and continuation of hedge accounting	July 01, 2014
IFRS 10 – Consolidated Financial Statements	January 01, 2015
IFRS 11 – Joint Arrangements	January 01, 2015
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2015
IFRS 13 – Fair Value Measurement	January 01, 2015
IFRIC 21 - Levies	July 01, 2014

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:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers

2.2 Basis of measurement

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

2.3 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 Stock

Stock 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 officers/employees of State Bank of Pakistan (the Parent entity) which are provided free of cost, However, the training projects funded by other institutions are billed to State Bank of Pakistan (the Parent entity).
- (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 officers/employees sent by State Bank of Pakistan (the Parent entity). Stipend to entry grade officers / employees was also paid by the Institute uptill 2010 that was later 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 analyze 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 in '000-----				
Cost					
Balance as at 01 July 2012	18,442	17,752	41,290	29,111	106,595
Additions during the year	23	576	15,124	-	15,723
Balance as at 30 June 2013	18,465	18,328	56,414	29,111	122,318
Balance as at 01 July 2013	18,465	18,328	56,414	29,111	122,318
Additions during the year	1,390	199	4,447	5,273	11,309
Transfer in during the year	-	174	-	-	174
Disposals during the year	(6,659)	(299)	(9,040)	(2,602)	(18,600)
Balance as at 30 June 2014	13,196	18,402	51,821	31,782	115,201
Allowance for depreciation					
Balance as on 01 July 2012	12,175	14,283	33,223	9,925	69,606
Depreciation charge for the year	791	3,327	4,034	4,972	13,124
Balance as at 30 June 2013	12,966	17,610	37,257	14,897	82,730
Balance as on 01 July 2013	12,966	17,610	37,257	14,897	82,730
Depreciation charge for the year	782	611	5,422	5,063	11,878
Transfer in during the year	-	174	-	-	174
Disposals during the year	(6,606)	(205)	(9,034)	(2,602)	(18,447)
Balance as at 30 June 2014	7,142	18,190	33,645	17,358	76,335
Carrying amounts - 2014	6,054	212	18,176	14,424	38,866
Carrying amounts - 2013	5,499	718	19,157	14,214	39,588
Rate of depreciation	10%	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 18).

	Note	2014 Rupees in '000	2013
6. RECEIVABLE AGAINST TRAINING PROGRAMS UNSECURED			
Associated undertaking			
SBP Banking Services Corporation		3,995	21,566
State Bank of Pakistan		1,653	5,850
		5,648	27,416
Others			
Considered good		5,588	5,291
Considered doubtful		1,435	1,435
		7,023	6,726
Provision for doubtful receivables	6.1	(1,435)	(1,435)
		5,588	5,291
		11,236	32,707
6.1 Provision for doubtful receivables			
Opening Balance		1,435	2,510
Reversal during the year		-	(1,075)
		1,435	1,435
7. ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advances to staff - unsecured, considered good		223	385
Prepayments		70	1,391
Others		25	-
		318	1,776
8. SHORT TERM INVESTMENTS			
Investment held to maturity			
Government Treasury Bills			
Cost	8.1	176,410	229,414
Accrued profits		1,615	8,026
		178,025	237,440
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 9.97% to 10% per annum (2013: 8.93% to 11.89% per annum).		
9. ASSETS RELATING TO ENDOWMENT FUND			
Government Treasury Bills			
Cost		79,763	-
Accrued profits		1,948	-
		81,711	-
9.1	During the year, the management earmarked the investments from Endowment fund in the government treasury bills. These are for a period 12 months or less and are shown at amortized cost using effective rate of interest of 9.96% per annum .		

		2014	2013
		Rupees in '000	
10. ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
Issued, subscribed and paid-up capital			
2,926,084 ordinary shares of Rs.10 each issued for cash	10.1	29,261	29,261
10.1	State Bank of Pakistan hold 2,926,083 (2013: 2,926,083) ordinary shares and Governor of State Bank of Pakistan holds 1 (2013: 1) share of the Institute as at the balance sheet date.		

	Note	2014	2013
		Rupees in '000	
11. ENDOWMENT FUND			
Opening balance		74,490	67,281
Interest income on investments		7,221	7,209
Closing balance		81,711	74,490

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 State Bank of Pakistan out of the proceeds of loan received by the Government of Pakistan (GoP) from 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.

	2014	2013
	Rupees in '000	
12. CREDITORS, ACCRUED EXPENSES AND OTHER PAYABLES		
Creditors	3,205	2,721
Traveling and training cost	158	212
Accrued expenses	2,644	3,873
Retention money/deposits	4,180	2,988
	10,187	9,794

13. DUE TO STATE BANK OF PAKISTAN (PARENT ENTITY)

State Bank of Pakistan (Parent entity)	167,001	175,399
Opening balance	175,400	151,567
Received during the year	84,103	107,320
Deficit allocated	(92,502)	(83,487)
Closing balance	167,001	175,400

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

14. COMMITMENTS

There were no commitments as at the year end.(2013: Rs. 4.7 million).

	Note	2014 Rupees in '000	2013
15. HOSTEL AND TRAINING HALLS INCOME			
Rental income		14,487	20,030
Service charges		795	1,887
Food and beverages		5,709	11,457
		<u>20,991</u>	<u>33,374</u>
16. TRAINING AND EDUCATION FEE			
International courses		26,202	5,959
Domestic courses		23,125	26,434
Islamic banking courses		5,006	4,180
		<u>54,333</u>	<u>36,573</u>
17. OTHER INCOME			
Interest on investments		15,076	16,047
Reversal of provision for doubtful receivable		-	1,075
Miscellaneous (Loss) /income		(314)	920
Gain on disposal of fixed assets		2,440	-
		<u>17,202</u>	<u>18,042</u>
18. OPERATING, ADMINISTRATIVE AND GENERAL EXPENSES			
Salaries, wages and other benefits		89,956	76,769
Training cost		15,112	12,399
Repairs and maintenance		11,339	12,749
Lodging, catering and allied services		12,882	13,631
Traveling and conveyance		8,371	6,925
Printing and stationery		2,414	2,425
Medical		397	1,022
Electricity, gas and water		24,354	24,798
Telephone and fax		794	1,071
Vehicles running and maintenance		1,443	1,319
General consumables		305	252
Security charges		1,680	1,522
Insurance		1,524	1,228
Newspapers, books and periodicals		166	110
Postage and courier		309	184
Entertainment		574	528
Auditors' remuneration		200	170
Rent, rates and taxes		623	728
Legal and professional		75	145
Depreciation	5.2	11,878	13,124
Other		632	377
		<u>185,028</u>	<u>171,476</u>

19. 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.

20. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**20.1 Credit risk****Exposure to credit risk**

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

		2014	2013
		Rupees in '000	
Deposit		1,620	953
Receivable against training programs	20.1.1	11,236	32,708
Advances		223	385
Short term investments	20.1.2	178,025	237,440
Assets relating to Endowment fund	20.1.2	81,711	-
		272,815	271,486

20.1.1 The receivable against training programs includes Rs. 5.6 million (2013: Rs. 27.4 million) due from the Parent entity and its subsidiary which are not significantly exposed to credit risk.

20.1.2 Short term investments and assets relating to endowment fund represents investments in treasury bills (Refer note 8 and 9) of State Bank of Pakistan and carries insignificant credit risk.

	2014	2013
	Rupees in '000	
20.2 Impairment losses		
(a) The maximum exposure to credit risk for receivable against training programs at the balance sheet date by geographic region was:		
Domestic	11,236	32,708
Other regions	-	-
	11,236	32,708

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

	2014		2013	
	----- Rupees in '000 -----			
	Gross	Provision	Gross	Provision
Not past due	-	-	31,623	-
Past due 0-30 days	6,218	-	551	-
Past due 31-90 days	4,395	-	240	-
Past due 90-180 days	354	-	90	-
Past due 180-365 days	-	-	-	-
More than one year	1,704	1,435	1,639	1,435
	12,671	1,435	34,143	1,435

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

20.3 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	Total	Contractual cash flows-----			
			6 months or less	6 to 12 months	1 to 5 years	More than 5 years
30 June 2014			Rupees in '000			
Trade and other payables	10,187	10,187	6,007	4,180	-	-
Due to State Bank of Pakistan (Parent entity)*	167,001	167,001	83,501	83,501	-	-
	<u>177,188</u>	<u>177,188</u>	<u>89,508</u>	<u>87,681</u>	<u>-</u>	<u>-</u>
30 June 2013						
Trade and other payables	9,794	9,794	6,806	2,988	-	-
Due to State Bank of Pakistan (Parent entity)*	175,399	175,399	87,700	87,699	-	-
	<u>185,193</u>	<u>185,193</u>	<u>94,506</u>	<u>90,687</u>	<u>-</u>	<u>-</u>

*The analysis of financial liabilities aging is based on management best estimate

20.4 Market risk

The Institute is not exposed to market risk.

20.5 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.

21. 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.

22. TRANSACTIONS WITH RELATED PARTIES

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

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

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

	2014	2013
	Rupees in '000	
State Bank of Pakistan (Parent Entity)		
Balances at the year end		
Short term investments	178,025	237,440
Assets relating to Endowment fund	81,711	-
Receivable against training programs	1,653	5,850
Due to the Parent entity	167,001	175,399
Transactions during the year		
Investments purchased / matured and re-invested	252,597	229,285
Allocation of deficit	92,502	83,487
Associated undertaking - SBP - Banking Services Corporation (Subsidiary of Parent entity)		
Balances at the year end		
Receivable against training programs	3,995	21,566
Transactions during the year		
Revenue charged	16,002	27,957
Receipts	10,466	12,823
Remuneration to chief executive officer and key management personnel		
Transactions during the year		
Salaries, wages and other benefits to:		
- Chief executive officer	16,577	12,506
- Key management personnel	33,346	27,019
- No. of key management 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.

23. NUMBER OF EMPLOYEES

The average number of employees for the year ended June 30, 2014 were 22 (2013:28) and number of employees as at June 30, 2014 were 26 (2013: 28).

24. GENERAL

Figures have been rounded off to thousand rupees.

25. DATE OF APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorized for issue on September 26, 2014 by the board of directors of the Institute.

MANAGING DIRECTOR

DIRECTOR

A Chronology of Policy Announcements

A-1 Banking Policy & Regulation Group

IBD Circular No. 03 July 15, 2013: *Adoption of AAOIFI Shariah Standard No. 17 on 'Investment Sukuk'*: In order to standardize and harmonize Shariah practices in IBIs, AAOIFI Shariah Standard No. 17 related to 'Investment Sukuk' has been adopted subject to clarifications / amendments.

IBD Circular No. 01 April 03, 2014: *Free-of-cost Priority Banking Services*: Free-of-cost priority banking services can be provided to both current and saving account holders. IBIs are also allowed to prescribe a certain level of minimum balance to avail priority banking services.

IBD Circular No. 02 April 03, 2014: *Shariah Compliant Solutions for Foreign Bill Discounting*: With a view to standardize Shariah practices regarding foreign bill discounting, instructions regarding Salam, and Qarde-Hasanah cum Wakalah have been issued. Further, IBIs are also allowed to use Murabaha, Musawama, Salam and Istisna-cum-Wakalah etc to meet financing needs of their customers independent of foreign bill.

IBD Circular No. 03 April 04, 2014 : *Shari'ah Governance Framework for Islamic Banking Institutions*: A comprehensive Shariah Governance Framework was issued which aims at institutionalizing the *Shariah* compliance function in IBIs. It defines the roles and responsibilities of all organs of IBIs including Board of Directors, executive management, *Shariah* board, *Shariah* compliance department and internal and external auditors towards *Shariah* compliance.

OSD Circular Letter No. 2 October 29, 2013: Stress testing guidelines-Return submission: The Bank rationalized the deadline for submission of quarterly stress testing returns to be submitted within 22 working days from 30 calendar days.

OSD Circular No. 1 February 07, 2014: Instructions on Internal Controls over Financial Reporting (ICFR): The circular contains the instructions regarding submission of annual long form report and annual assessment report on ICFR, its disclosure in annual report and governance structure-roles and responsibilities of key stakeholders of ICFR.

OSD Circular No. 2 July 08, 2014: Reporting of Data / Information to OSD by Exchange Companies: In order to enhance the efficiency and strengthen the reporting mechanism of exchange companies, the reporting requirements, frequency and reporting formats have been rationalized. The returns include data pertaining to sale / purchase of FCYs, export of FCYs, home remittances, outward remittances, and foreign exchange exposure position for bimonthly, monthly and quarterly frequency.

BPRD Circular No. 06 August 15, 2013: *Implementation of Basel III Capital Instructions*: In order to further strengthen the capital adequacy framework of the banking sector, SBP issued Basel III guidelines which largely replaced the existing rules under Basel II instructions pertaining to numerator i.e. "Eligible Capital" of Capital Adequacy Ratio (CAR).

BPRD Circular Letter No. 22 August 19, 2013: *Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations*: AML/CFT Regulations have been revised. Major changes were related to review of banks' internal Policies, verification requirements for legal persons, CDD requirements for walk-in customers and online transactions, rationalization of requirements to assess respondent bank in the context of sanctions/embargoes and wire transfers etc.

BPRD Circular No. 8 November 21, 2013: *Writing -Off of Irrecoverable Loans And Advances – Consumer Financing*: In view of the different profile of consumer loans, requirements for write off of irrecoverable loans and advances have been revisited for consumer financing.

BPRD Circular Letter No. 29 November 21, 2013: *Writing Off Of Irrecoverable Loans and Advances*: Clarification regarding BPRD Circular No. 06 of 2007 dated 05-Jun-07 was issued to ensure uniform practices across the industry with objective to foster the availability of accurate and reliable information to the stakeholders.

BPRD Circular No. 01 Jan 02, 2014: *Exposure Limit on Real Estate Sector*: To limit the concentration of the banks/DFIs' exposure in the real estate sector, detailed instructions regarding maximum exposure limit have been issued.

BPRD Circular No. 02 Jan 06, 2014: *Exposure Limit on Real Estate Sector*: To promote the low cost/low income/affordable housing, the limit of 10 percent as notified in the BPRD Circular No. 01 dated January 02, 2014 regarding Exposure Limit on Real Estate Sector, will not be applicable on financings under Government Housing schemes and initiatives.

BPRD Circular Letter No. 06 February 06, 2014: *Anti-money Laundering/Combating Financing of Terrorism (AML/CFT) Regulations*: With a view to facilitate the general public and regularize existing accounts with expired Computerized National Identity Card (CNIC), banks have been permitted to utilize NADRA Verisys reports of renewed CNICs.

BPRD Circular Letter No. 07 February 12, 2014: *Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations*: With a view to facilitate timely settlement of transactions by Foreign Portfolio Investors (FPIs), in their Special Convertible Rupee Accounts (SCRAs), SBP advised banks/DFIs that they may reactivate dormant SCRAs upon receipt of authenticated instructions from the concerned FPI/account holder.

BPRD Circular No. 05 May 27, 2014: *Minimum Rate of Return on Saving Deposits and SBP Repo Rate*: The clause 2(iii) of the BPRD Circular No. 7 dated September 27, 2013 has been amended as following; "Effective from June 1, 2014, Minimum Profit Rate, on average monthly balances, shall be applicable on all new and existing Savings products (including any other profit bearing deposits with no fixed maturity) except term deposits".

BPRD Circular No. 06 June 26, 2014: *Revised Prudential Regulations for Corporate / Commercial Banking*: Prudential Regulations on Risk Management and Operations for Corporate & Commercial Banking have been revised with an objective to assist the banks /DFIs to deal with their unique risk factors and the dynamic environment. Minimum prudential benchmarks have been identified in critical risk areas to balance the considerations of financial stability of banks/DFIs vis-à-vis diversity and innovation.

BPRD Circular Letter No. 25 July 23, 2014: *Risk weight for Unrated Large Corporate –*

Implementation of Basel Capital Framework: Banks/DFIs have been advised that enhanced risk weight will be applicable on large unrated private sector borrowers. This initiative is expected to encourage large borrowers to get them rated.

A-2 Development Finance Group

IH&SMEFD Circular No. 9 August 20, 2013: *Long Term Financing Facility for the Services Sector (LTFF-SS):* In order to promote the exports of services sector, the SBP has launched a new Long Term Financing Facility for the Services Sector (LTFF-SS) under which Bank will provide finance to the exporters of services sector for adoption of new technologies and in enhancement of their capacities.

IH&SMEFD Circular No. 10 November 18, 2013: *Prime Minister's Youth Business Loans Scheme:* With an objective to promote self-employment in the country, instructions have been issued to banks regarding participation in Prime Minister's Youth Business Loan Scheme which aims to provide loans to unemployed youth for establishing or extending business enterprises.

IH&SMEFD Circular Letter No. 08 November 26, 2013: *Prime Minister's Youth Business Loans (PMYBL):* Grace period under PMYBL program extended from six months to one year; the banks participating under the programme advised to ensure that not more than 5000 loans are disbursed to a single sector in order to build diversified portfolio of loans and avoid excessive concentration/ credit exposure to a single sector.

IH&SMEFD Circular Letter No. 09 November 29, 2013: *Prime Minister's Youth Business Loans:* Maximum tenor of the loans revised to eight years including grace period of one year and sectoral limits are also withdrawn. Further, other banks have been advised to participate in PMYBL program under Corporate Social Responsibility.

IH&SMEFD Circular Letter No. 01 February 03, 2014: *Prime Minister's Youth Business Loans:* Banks were advised about Federal Government's approval of 5 percent quota for three categories i.e. Shaheed (widow and children of Shaheed), Widows and Special Persons under the PM's Youth Business Loan Scheme.

IH&SMEFD Circular Letter No. 2 February 4, 2014: *Extension in Expiry Dates Of The Financing Facility For Storage Of Agriculture Produce (FFSAP) and Refinance Facility For Modernization Of SMEs:* Expiry dates of the "Financing Facility for Storage of Agricultural Produce (FFSAP)" and "Refinance Facility for Modernization of SMEs" have been extended.

IH&SMEFD Circular No. 1 March 4, 2014: *Mechanism To Facilitate Utilization Of Existing Export Finance Scheme (EFS) by SMEs:* In order to further improve utilization of Export Finance Scheme (EFS) for SMEs, additional incentives for banks and exporters have been introduced.

IH&SMEFD Circular No. 02 April 01, 2014: *Guidelines for Financing to Housing Builders/Developers:* Guidelines have been issued for financing to house builders/developers to encourage banks/DFIs to develop suitable products to facilitate finance to credit worthy Real Estate Builders/Developers.

IH&SMEFD Circular No. 03 May 06, 2014: *Prudential Regulations for Housing Finance*: Separate Prudential Regulations (PRs) for Housing Finance have been issued with the view to enable banks/DFIs to increase their outreach for provision of housing finance. With the separate PRs, the banks/DFIs will be able to adopt viable housing finance approaches that will ultimately lead to better service and provision of housing finance to individuals.

IH&SMEFD Circular Letter No.7 June 30, 2014: *Extension In Validity Period Of Scheme For Financing Power Plants Using Renewable Energy*: SBP extended the validity period of the Scheme for Financing Power Plants Using Renewable Energy for Two Years i.e. up to June 30, 2016.

AC&MFD Circular No. 01 January 29, 2014: *Revision of PRs for Agriculture Financing*: To enhance access of formal financing for the farming community and to bring regulatory framework for farmers' financing in line with the changing business environment, The revised instructions call upon banks to develop robust, market-oriented policies and practices to enhance flow of credit to the agriculture sector without compromising financial stability and banks' risk management.

AC&MFD Circular No. 02 February 04, 2014: *Report on Indicative Credit Limits & List of Eligible Items for Agri Financing*: The Indicative Credit Limits have been enhanced to align the cost of production of various farming activities with inflationary pressures and current market practices. The revisions will facilitate farmers in getting adequate loans for growing their farms and forestry besides facilitating banks and provincial governments to estimate actual credit requirements of the farmers.

AC&MFD Circular No. 03 June 10, 201: *Revised Prudential Regulations for Microfinance Banks (MFBs)*: Revised Prudential Regulations (PRs) for Microfinance Banks have been issued in view of the changing dynamics of the microfinance sector in Pakistan. These revisions have been made after carrying out a holistic review of existing regulatory framework and to promote sustainable growth of microfinance in the country.

A-3 Financial Market/Reserve Management Group

DMMD Circular No. 1 January 07, 2014 & DMMD Circular No. 8 May 28, 2014: *Code of Conduct for Treasuries of Banks, DFIs and PDs*: In order to foster high standard of business conduct, adopt good market practices and ensure equitable and healthy relationships among market participants, SBP has prepared a 'Code of Conduct' for treasuries of Banks, DFIs and PDs. All Banks, DFIs and PDs are advised to implement this 'Code of Conduct' in their treasuries and ensure its meticulous compliance.

DMMD Circular No. 2 January 28, 2014: *Trading of Government Securities on the Stock Exchanges*: In order to further broaden the investor base of Government securities, State Bank of Pakistan has decided to allow trading of Government Securities (Market Treasury Bills, Pakistan Investment Bonds & GOP Ijara Sukuk) on the Stock Exchanges. However, the current OTC market of Government Securities and all its associated platforms will continue to work as usual.

EPD Circular Letter No. 07 August 07, 2013: *Amendment in Exchange Companies Rules and Regulations*: Certain conditions imposed vide FE Circular No. 04 dated 23rd July, 2013 were modified vide this circular letter. As per the revised instructions, certain restrictions on sale/purchase and outward remittances have been imposed, while the requirement for getting NTN number has been withdrawn.

EPD Circular Letter No. 03 May 05, 2014: *Exports of Fresh Fish, Vegetables, Fruits, Poultry and other Goods of Perishable Nature*: The circular letter contains the clarification of the instructions earlier issued under Para-18, Chapter XII of the F.E. Manual 2002 explaining that these instructions are applicable for export of only those commodities, against which the condition of Advance Payments or Irrevocable LC have been specifically mentioned in the Export Policy Order issued by the Ministry of Commerce, GoP.

FE Circular No. 04 July 23, 2013: *Strengthening of Regulatory and AML/KYC Regime*: Additional instructions for strengthening the regulatory and AML/KYC regime of exchange companies sector have been issued. These mainly include reducing the regulatory threshold for retaining the copies of certain identification documents and NTN etc and conducting of transactions through Crossed Cheque/ DD/ PO under specified circumstances.

FE Circular No. 05 December 23, 2013: *Amendment in Rules related to Formation of New Exchange Companies*: It has been decided that the minimum paid-up capital of all new exchange companies will be Rs. 200 million. Existing exchange companies not fulfilling the requirement must fulfill the same as per the timelines given to them.

A-4 Operations Group

FD Circular No. 3 July 23, 201: *Issuance of Fresh Banknotes*: The Bank made arrangements for issuance of fresh notes to commercial banks for onward issuance to the general public on Eid and other occasions for which instructions have been issued for banks for the convenience and facilitation of the general public.

IDD/ 117 / 7 (Dem-Coin) 2013 September 30, 2013: *Exchange of and Demonetization of Decimal Coins*: The Federal Government vide Notification dated September 19, 2013 notified that coins of paisa 1, 2, 5, 10, 25 and 50 will cease to legal tender on October 01, 2014. Accordingly, instructions have been issued to banks to discontinue issuance of decimal coins with effect from September 30, 2013 and exchange these coins till close of banking hours on September 30, 2014.

IDD / 336 / 7 / (Dem-50 & 1000) / 2013 October 29, 2013: *Phasing out the old design banknotes of Rs 50 & Rs 1000 denomination*: As sufficient quantities of new design banknotes have already been issued to banks and other stakeholders, it has been decided to phase out the old design banknotes of Rs. 50 & Rs. 1000 denominations.

B-1 Business Continuity Management

The Business Continuity Plan of the State Bank ensures continuity of critical functions of SBP and SBP BSC and to prevent any major disruption in financial system of the country in the face of a catastrophe caused either by natural disaster, fire, civil strife, sabotage or an act of war. The size, complexity and geographically dispersed nature of the operations of SBP made the implementation of BCP in SBP even more challenging. However, SBP has further improved its level of preparedness and readiness to an unprecedented level by establishing State of the Art Data Recovery Site and fully equipped Backup Site(s) for critical time sensitive functions. To increase the level of readiness, following initiatives were taken:

Crisis Communication Setup at SBP: The most challenging part during a crisis situation is communication with the employees in general and critical staff in particular. Crisis communication is reacting with the right response, quickly and efficiently. To develop a crisis communication system, a Short Messaging System (SMS) based broadcast system was deployed with masking features. This system can also be used from the backup site through web. Through this capability, SBP can reach out to its employees directly on their hand held devices.

Establishment of Command & Control Center: A command and control center has been established at the Backup site to coordinate all BCP related activities to effectively manage a crisis situation. It will be responsible for all logistical, administrative and security functions during the disaster period. This center will help in coordinating all information and resources for making real time decisions.

Access Control Mechanism: Keeping in view the present security situation of the country, a project was proposed to improve the access control mechanism at the backup site. For this purpose, IP cameras are installed for round the clock monitoring by IBSD control room. Furthermore, an access control system which operates through thumb impression has been successfully installed at the backup site.

Scenario Based Testing: Apart from the routine testing from the backup site, scenario based tastings were conducted from the backup site where different scenarios were proposed, documented and conducted successfully from the backup site.

Combined Staff Relocation exercises: To stress test the networks, equipments, services and other allied facilities, four combined mock exercises were successfully conducted from the backup site during the year. Around 50 persons from critical (time sensitive) departments participated in the combined mock exercises on each occasion.

Monitoring of BCP Exercises: Continuous testing and exercising the BCP enhances readiness of employees to cope with a disaster. To streamline the testing procedure at SBP and SBP BSC and to facilitate the departments/offices to conduct their tests and rehearsals smoothly, an annual test plan was compiled in coordination with the critical departments and field offices where all critical departments/field offices had planned to conduct quarterly table top exercise (total 88), half yearly mock exercise (total 54) and annual rehearsals (total 22).

Updation of BCP Communication Cards: The BCP Communication Cards are designed to ensure that, in the event of a disaster, where people are at times unable to act in a planned manner, are able to contact key persons. These cards clearly elaborate the responsibilities of various committees for managing the situation under crisis, a brief on what-to-do and the information on the activation levels. These cards are updated regularly to incorporate any changes in the BCP personnel of all concerned

departments and field offices. The BCP Cards were updated twice during the year to incorporate changes necessitated due to transfer/postings.

B-2 Risk Based Auditing Approach

Internal Audit & Compliance Department (IA&CD) at State Bank of Pakistan conducts financial, operational and information technology (IT) based post event audits of SBP operations on annual basis.

The following milestones were achieved by the department during FY14:

- Continuous updation was made in the Audit Universe (Database) of auditable business processes with the feedback of auditee departments. This database has been developed by IA&CD using its own prepared risk scoring model based on IIA Research Foundation. Risk Based Annual Audit Plan of the Department was based and developed on the updated content of Audit Universe.
- Successfully accomplished audit assignments as per approved Audit Plan FY14 consisting of 29 Annual Risk Based Audits and 11 Compliance Audits. IA&CD also carried out 11 special audit assignments on the advice of Audit Committee and higher management of SBP. The significant findings were regularly reported to Audit Committee of Central Board and Honorable Governor.
- To bring the concept of Self Risk Assessment by business departments, IA&CD is facilitating different Departments of SBP in developing their Risk Registers. In this regard, two more risk registers were developed in FY14, making a total of 16 risk registers. Further, continuous improvements were made in Risk Registers already developed by the Departments during audit engagements in FY14.
- Capacity Building is an important element in an Audit Department. In this regard, senior level professional resources have been recruited externally as well as professional education / certifications pertaining to field of audit have also been acquired by audit officers.
- Parallel run phase of new enhancements / up gradation made within AuditWare (a tailor made application developed by IT Audit Division of IA&CD) was successfully completed and all audit engagements are being carried out using newly improved features of AuditWare application that also maintains electronic working papers.
- Close coordination with External and Govt. Auditors was made and Audit Reports of various departments duly audited by IA&CD were reviewed by both of them.

B-3 Legal Services

The Legal Services extend support and expert advice with regard to various functions of SBP and its subsidiaries to mitigate legal risks.

During FY14, LSD received around 3000 references from various departments of SBP, SBP-BSC and NIBAF which included legal opinion, court notices and corporate nature cases. All these references were disposed off in accordance with the relevant laws, case laws and the applicable policies of SBP and its subsidiaries.

The department also contributed in drafting amendments in the SBP Act, 1956 and BCO 1962 as well as developing various regulations for effective banking regulatory functions. In addition, necessary support is provided in the adjudication process undertaken by the Bank under Foreign Exchange Regulation Act, 1947 and in petitions where the courts pass specific Orders to decide the petition and issue a Speaking Order.

LSD organizes various training sessions which are facilitated through its officers as well as through external experts. A training session on “Criminal Procedure Code with reference to BCO – 1962 and FERA – 1947” was arranged for officers of SBP. Prominent advocate facilitated the lecture on the subject to the officers of the concerned departments of SBP and SBP BSC.

Cases under Litigation

LSD provides support in the litigation proceedings initiated by and against the Bank and its subsidiaries in various Courts of Law in consultation with the external Advocates. The current status of pending litigation in various departments of SBP, SBP-BSC and NIBAF during FY14 is 787 cases in various Courts of Law throughout the country. Of these, 645 cases under litigation are associated with the SBP and the remaining 142 cases are of subsidiaries of the Bank. Further break-up of the cases revealed that 81 percent cases under litigation are relating to banking and financial matters while the remaining 19 percent cases are related with Human Resources / Internal matters. Moreover, 69 cases have been disposed of by various Courts of Law during the year.

B-4 Library Services

During FY14, Library kept on contributing with its supportive role towards research promotion and knowledge management at SBP besides improving financial literacy through its quality information dissemination services.

Library enriched its print resources with 1,810 new books, 110 journals, and 38 newspapers while augmenting electronic resources with 2 new databases, namely: 1) Project Muse, and 2) IET Digital Library, besides renewing previous year's subscriptions to 17 databases.

Library catalogue was loaded with 8,736 bibliographic records comprising 1,948 books, 2,719 periodical issues and 4,069 journal articles. All bibliographic management operations, like: accessioning, classification, cataloguing, indexing, etc. were processed timely yet with utmost care to ensure accuracy and efficiency in information retrieval. To update library users with new acquisitions, publishing of monthly Fresh Arrivals Bulletin and Current Contents Bulletin on SBP website and Electronic Board remained regular feature of the Library. Furthermore, an information flyer, titled: "Featured Books of the Month", containing summaries of selected new books was compiled and disseminated among the higher management of SBP & BSC on monthly basis to keep the executives abreast of the latest happenings and issues in socioeconomic arena world-wide.

A special development project featuring on-campus demonstrations for faculty members, research scholars and students at 10 major business schools of Karachi was also successfully completed. Library attracted 249 new members that included 106 SBP employees, 76 internees and 62 friend members. The record of 23,749 visitors and 28,055 books loaned are indicative of sustained usage of library resources during FY14. **Table B-4.1** describes five year's performance of the Library against five major operational areas:

Table B-4.1: SBP Library Services at a Glance (FY10-FY14) (numbers)							
Operational Areas			FY10	FY11	FY12	FY13	FY14
Procurement	Books	Purchased	2,093	1,821	2,124	2,061	1,560
		Complimentarily Acquired	402	405	192	253	250
	Periodical Issues		4,402	3,598	3,291	2,649	2,719
Technical Processing	Books Catalogued		2,497	2,183	2,460	2,401	1,948
	Articles Indexed		8,455	8,047	4,697	3,561	4,069
Circulation (Books Loaned)	The SBP Employees (Active + Retired)		26,049	27,139	16,612	26,653	25,844
	General Public (Friends + Internees)		2,620	2,242	2,175	2,146	2,211
Membership	The SBP Employees (Active + Retired)		104	125	45	60	106
	General Public (Friends + Internees)		273	160	184	180	138
Visitation	The SBP Employees (Friends + Internees)		14,915	17,522	17,874	17,703	16,693
	General Public (Friends + Internees + Casual visitors)		12,129	9,007	8,873	7,619	7,056

Note: Library's total collection comprise 89,500 books; 29,550 volumes of research journals; archives of annual reports of 75 central banks / IFIs, 46 local commercial banks/NBFIs, over 500 national / multinational companies, back files of 5 leading national dailies and sizeable audio-visual materials as on end June 2014.

B-5 External Relations

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 to the public and other stakeholders through media. It ensures that SBP's point of view is presented to the general public through media without any distortion of facts.

The department issued 118 Press Releases to media from July 2013 to June 2014. The Department also handled 615 queries from print and electronic media and coordinated with cross sections of SBP for an early reply to these queries.

A media moot with representatives of electronic and print media on the 20th May and the 21st May 2014 respectively was arranged to get media representatives acquainted with SBP's point of view on different sensitive issues. Large number of media representatives covering the beat of State Bank of Pakistan attended the meetings. Journalists from print and electronic media floated invaluable suggestions for further improving flow of information which was duly noted down.

ERD arranged electronic media monitoring of monetary policy announced by the State Bank of Pakistan on the 17th May 2014. The event was accorded extraordinary coverage by electronic and print media and all major channels ran tickers/breaking news regarding monetary policy announcement and repeated the same in their hourly bulletins. External Relations Department arranged for the tracking of 13 channels including *Samaa TV, ARY News, Aaj News, Business Plus, Jaag TV, Dunya News, Express News, Geo News, PTV, ATV, Abbtak News, Dawn News and Waqt News* from 4:00 pm to 10:00 pm on the 17th May, 2014. Thereafter, it distributed DVD copies to CMT, executive directors and directors. The feedback received was quite positive and encouraging.

B-6 Information System and Technology Developments

Since its inception in 2005, the SBP Data Warehouse has come a long way, as it now hosts a number of subject areas built upon diverse datasets. The “Data Warehouse Knowledge Center” has been successfully designed and built. It provides an easy-to-use interface for browsing available datasets, including regulatory/statutory and other statistical statements acquired.

The successful implementation and testing of the New RTGS Certificate Authority and PKI Infrastructure at all SBP sites and 45+ Participants (Main, DR, and BCP) sites at zero cost was another big achievement during the year. This activity included generation of more than 1000 Digital Certificates and comprehensive testing at about 600 Participants PC Systems. The upgrade of the Core Banking System, Globus to Temenos T24 has been initiated. When the upgrade is complete, the users would have access to the latest features and applications.

This year the major infrastructure project was the replacement of the main network core switches and upgrade of Fiber Optic. The Fiber Optics channeling specifications and layouts were revisited and enhanced and the project has been planned to replace the core switches with compatible 10-Gbps fiber backbones. Further, SBP has initiated the procurement process to acquire Next Generation Intrusion Detection and Prevention Systems to protect the hardware and software resources from advance malware threats and zero day attacks. The new IDP system is being implemented at all data centers, including the BCP site, as well as in Lahore and Islamabad.

The UPS systems installed at SBP BSC offices under the Automation Project had become obsolete and the OEM had declared End of Support. To provide reliable and continuous power to desktop equipment at all SBP BSC offices, old UPS systems are being replaced with the latest state-of-the-art and enhanced capacity ones as per UPS strategy.

To better facilitate international payments, end-to-end upgrade of SWIFT Servers at Primary, Backup and DR sites was successfully completed. Further, to strengthen the corporate infrastructure, countrywide email servers were upgraded to cater to high availability, data storage enhancement and performance requirements of the end users all over Pakistan. Another achievement in the area of Windows System administration was the implementation of Transport Layer Security (TLS) for Email Security across financial institutes in Pakistan.

For smooth functioning of Corporate Business Applications, i.e., Globus & Oracle, old desktop equipment (Desktop PCs, Desktop Laser Printers, Network Laser Printers, Scanners) which have gone out of warranty and maintenance at all SBP & SBP BSC Offices, are being replaced with new equipment as per Desktop Equipment Replacement and Disposal Plan.

B-7 Museum & Art Gallery

Overview

Monetary and Archives Museums are necessary adjuncts of Central Banks. Pakistan is one of the very few places in the world where currency developed from its very rudimentary form to the advanced level of coinage. To document this interesting history, the idea of establishment of Money Museum was developed, where educational activities and outreach program for the general public especially for the students and children were planned to be arranged.

The SBP Museum was inaugurated on 1st July 2011. The Museum has Coin Galleries, Stamp Gallery, Currency Gallery, History of State Bank, Governors' Gallery, Sadequain Gallery and Contemporary Art Gallery. The coin galleries depicting coinage from its evolution till contemporary period, Stamps which were used as Currency in the interim period between Coinage to Currency, and the Currency Gallery from very early time period to present Polymer Notes.

History of SBP and Governors' Gallery are depicting the History of SBP from its establishment since 1948, and the Governors' Gallery has brief profiles of the Ex-Governors of State Bank with their photograph, also the original photographic history of Inauguration of State Bank by Mr. Muhammad Ali Jinnah, Quaid-i-Azam on 1st July 1948. The State Bank Museum has the honor to be first museum of Pakistan to be member of International Council of Museums. The Museum also has the honor to be only museum of Pakistan which is wheelchair friendly and provides services to physically challenged visitors.

Visitors Flow and Souvenir Shop

Over 5300 people visited SBP Museum in FY14. The special occasions also provided a chance to a large numbers of visitors to visit the Museum.

Activities

To Support the Museum's mission of imparting money information and education to the youth and common man, different activities were arranged by SBP Museum.

Calligraphy Workshop: The Calligraphy Workshop for 10 to 15 years age children of the SBP and BSC employees was held from 15th to 19th July, 2013 in the State Bank Museum. The workshop focused on the basic training & practice of calligraphy, including traditional & contemporary techniques & drawing motifs with text.

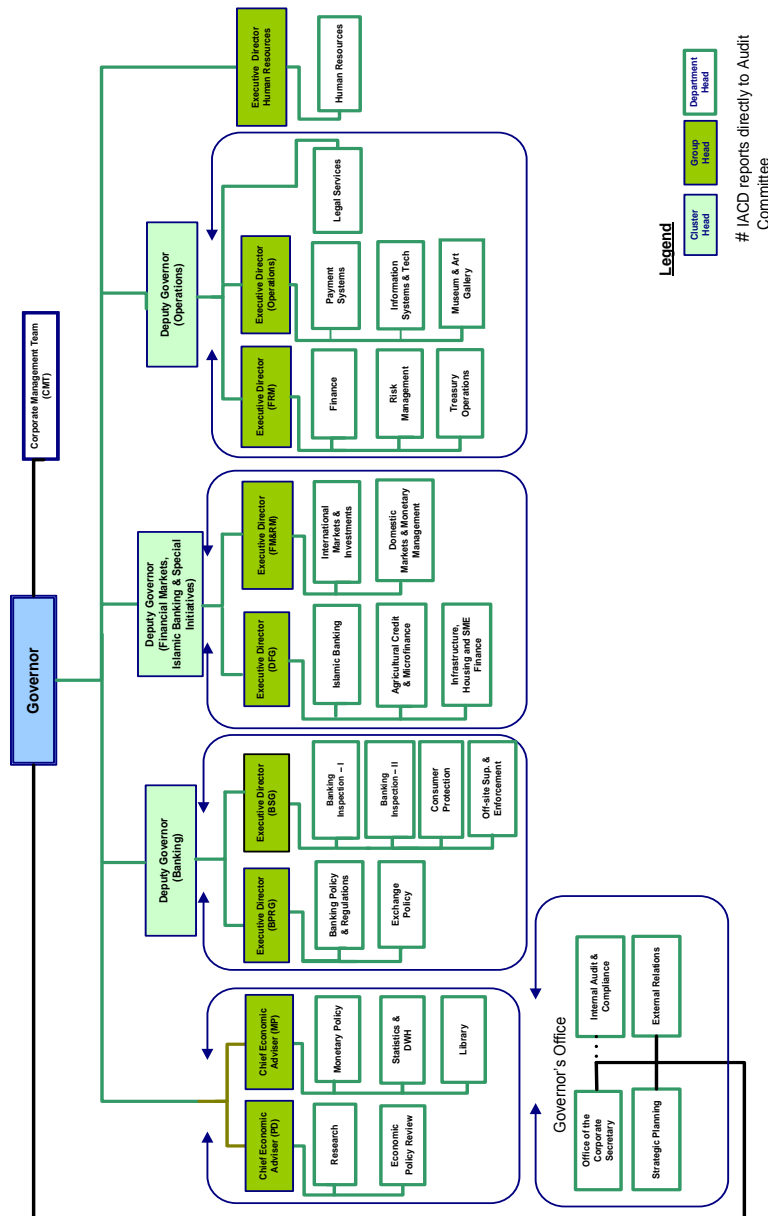
Souvenir Making Workshop: A Souvenir Making Workshop for 8 to 15 years old kids of SBP and BSC employees was held from 22nd to 26th July, 2013. The participating children learned different techniques of making souvenir from the technical staff of the Museum and prepared their own unique souvenirs to take home.

Universal Children Day: United Nations' (UN) Universal Children's Day is an occasion to promote the welfare of children and an understanding between children all over the world. It is held on November 20 of each year. SBP Museum also celebrated this day with children from SOS village. Children played different games, talent show, musical chairs, etc

International Museum Day: International Museum Day is celebrated globally on May 18 since 1977 to raise awareness about the importance of the museums in the development of society. The State Bank Museum is also celebrating this day for the last four years. As per its tradition, to mark this occasion SBP Museum along with all the Museums globally organized two days program on 17th & 18th May, 2014.

C Organizational Chart

Organogram- State Bank of Pakistan



Legend



IACD reports directly to Audit Committee

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Note: Data reflecting position as on 2nd Oct, 2014.