

**ERNST & YOUNG FORD RHODES SIDAT  
HYDER**

Chartered Accountants  
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**KPMG TASEER HADI & CO.**

Chartered Accountants  
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Karachi

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the accompanying consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries, SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited (together "the Group"), which comprise of consolidated balance sheet as at 30 June 2012 and consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### ***Management's responsibility for the financial statements***

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Accounting Standards 1 to 38 and accounting policies for bank notes and coins, investments, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in note 4.2, 4.3, 4.6 and 4.17 respectively, to the consolidated financial statements approved for adoption by the Central Board of the Bank and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

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

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

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

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

**KPMG TASEER HADI & CO.**  
Chartered Accountants

***Opinion***

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Accounting Standards 1 to 38 and accounting policies for bank notes and coins, investments, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in note 4.2, 4.3, 4.6 and 4.17 respectively, to the consolidated financial statements approved for adoption by the Central Board of the Bank.

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**Ernst & Young Ford Rhodes Sidat Hyder**  
Chartered Accountants  
Karachi

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**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Karachi

**Omer Chughtai**  
Audit Engagement Partner  
Date: October 05, 2012

**Mohammad Mahmood Hussain**  
Audit Engagement Partner

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

	Note	2012	2011 (Restated)	2010 (Restated)
------(Rupees in '000)-----				
<b>ASSETS</b>				
Gold reserves held by the Bank	5	313,077,419	267,969,374	219,942,435
Local currency - coins	6	1,814,196	2,225,301	2,373,520
Foreign currency reserves	7	1,038,341,770	1,288,780,274	1,094,012,634
Earmarked foreign currency balances	8	4,994,808	75,464,270	13,171,542
Special Drawing Rights of the International Monetary Fund	9	91,334,177	102,188,403	107,537,965
		<b>1,449,562,370</b>	<b>1,736,627,622</b>	<b>1,437,038,096</b>
Reserve tranche with the International Monetary Fund under quota arrangements	10	17,104	16,392	15,054
Securities purchased under agreement to resale	11	112,898,648	63,660,336	30,845,284
Current accounts of Governments	20.2	12,744,407	586,181	3,936,712
Investments	12	1,827,251,187	1,387,263,881	1,185,769,479
Loans, advances, bills of exchange and commercial papers	13	340,046,025	385,191,976	396,826,685
Assets held with the Reserve Bank of India	14	6,311,529	5,652,991	4,805,488
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	6,797,433	6,312,679	5,829,001
Property and equipment	16	23,450,893	24,722,358	17,977,317
Intangible assets	17	30,882	21,495	47,758
Other assets	18	6,024,442	8,073,692	5,843,255
Total assets		<b>3,785,134,920</b>	<b>3,618,129,603</b>	<b>3,088,934,129</b>
<b>LIABILITIES</b>				
Bank notes in circulation	19	1,776,962,388	1,599,833,487	1,377,277,470
Bills payable		587,542	780,155	589,249
Current accounts of the Governments	20	148,815,907	217,968,067	42,584,981
Securities sold under agreement to repurchase	21	12,240,388	-	23,116,035
Deposits of banks and financial institutions	22	396,172,467	349,426,939	289,566,182
Other deposits and accounts	23	153,534,625	189,162,447	196,137,052
Payable to the International Monetary Fund	24	656,185,305	732,764,340	694,770,558
Other liabilities	25	107,523,858	36,670,597	32,678,317
		<b>3,252,022,480</b>	<b>3,126,606,032</b>	<b>2,656,719,844</b>
Deferred liability - staff retirement benefits	26	21,457,079	19,393,880	16,062,292
Capital grant rural finance resource centre		-	59,430	59,430
Endowment fund		67,281	-	-
Deferred income		-	-	17,718
Total liabilities		<b>3,273,546,840</b>	<b>3,146,059,342</b>	<b>2,672,859,284</b>
<b>Net assets</b>		<b>511,588,080</b>	<b>472,070,261</b>	<b>416,074,845</b>
<b>REPRESENTED BY</b>				
Share capital	27	100,000	100,000	100,000
Reserves	28	175,944,238	177,044,238	149,206,231
Unappropriated profit		-	-	27,838,007
		<b>176,044,238</b>	<b>177,144,238</b>	<b>177,144,238</b>
Unrealised appreciation on gold reserves	29	309,565,438	268,947,619	220,183,593
Surplus on revaluation of property and equipment	16.2	25,978,404	25,978,404	18,747,014
<b>Total equity</b>		<b>511,588,080</b>	<b>472,070,261</b>	<b>416,074,845</b>

**CONTINGENCIES AND COMMITMENTS** 30

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

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

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

	Note	2012 (Rupees in '000)	2011
Discount, interest / mark-up and / or return earned	31	236,276,844	215,741,094
Less: Interest / mark-up expense	32	<u>11,338,230</u>	<u>13,393,884</u>
		<b>224,938,614</b>	<b>202,347,210</b>
Commission income	33	1,952,783	1,958,328
Exchange gain - net	34	42,827,638	1,927,333
Dividend income		15,697,821	11,923,782
Other operating income / (loss) - net	35	9,033,651	(11,598,617)
Other charges - net	36	<u>(123,761)</u>	<u>(368,071)</u>
		<b>294,326,746</b>	<b>206,189,965</b>
Less: Direct operating expenses			
- Bank notes printing charges	37	5,689,829	4,575,741
- Agency commission	38	5,953,743	4,210,424
- General administrative and other expenses	39	20,159,546	15,667,599
- Provision for / (reversal of provision) against:			
▪ loans, advances and other assets		-	(510,848)
▪ claims	25.2.2	1,885,143	1,106,326
▪ diminution in value of investments	12.3	(59,212)	84,162
▪ other doubtful assets	25.2.1.1	(102,415)	80,823
		<u>1,723,516</u>	<u>760,463</u>
		<b>33,526,634</b>	<b>25,214,227</b>
<b>PROFIT FOR THE YEAR</b>		<u><b>260,800,112</b></u>	<u><b>180,975,738</b></u>

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

**Yaseen Anwar**  
Governor

**Kazi Abdul Muktedir**  
Deputy Governor

**Muhammad Haroon Rasheed**  
Executive Director

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

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

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

*Yaseen Anwar*  
Governor

*Kazi Abdul Muktadir*  
Deputy Governor

*Muhammad Haroon Rasheed*  
Executive Director

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

	Share capital	Reserves						Unappropriated profit / (loss)	Unrealised appreciation on gold reserves	Surplus on revaluation of property and equipment	Total
		Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund				
		----- (Rupees in '000) -----									
Balance as at June 30, 2010	100,000	137,906,231	2,600,000	1,600,000	1,500,000	900,000	4,700,000	27,838,007	220,183,593	18,747,014	416,074,845
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	180,975,738	-	-	180,975,738
Other comprehensive income											
Surplus on revaluation of property and equipment	-	-	-	-	-	-	-	-	-	7,231,390	7,231,390
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	48,764,026	-	48,764,026
	-	-	-	-	-	-	-	180,975,738	48,764,026	7,231,390	236,971,154
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(180,965,738)	-	-	(180,965,738)
	-	-	-	-	-	-	-	(180,975,738)	-	-	(180,975,738)
Others											
Transferred to reserve fund	-	27,838,007	-	-	-	-	-	(27,838,007)	-	-	-
Balance as at June 30, 2011	100,000	165,744,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	268,947,619	25,978,404	472,070,261
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	260,800,112	-	-	260,800,112
Other comprehensive income											
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	44,962,441	-	44,962,441
	-	-	-	-	-	-	-	260,800,112	44,962,441	-	305,762,553
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(261,890,112)	-	-	(261,890,112)
	-	-	-	-	-	-	-	(261,900,112)	-	-	(261,900,112)
Others											
Transferred from reserve fund	-	(1,100,000)	-	-	-	-	-	1,100,000	-	-	-
Revaluation reserve relating to gold reserves held by the Reserve Bank of India transferred to provision for other doubtful assets (Note 25.2.1)	-	-	-	-	-	-	-	-	(4,344,622)	-	(4,344,622)
	-	(1,100,000)	-	-	-	-	-	1,100,000	(4,344,622)	-	(4,344,622)
Balance as at June 30, 2012	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	309,565,438	25,978,404	511,588,080

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

**STATE BANK OF PAKISTAN**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Note	2012 (Rupees in '000)	2011
<b>Cash flows from operating activities</b>			
Profit for the year after non-cash items	40	255,268,546	175,546,493
(Increase) / decrease in assets:			
Foreign currency reserves not included in cash and cash equivalents		(59,871)	(65,183)
Reserve tranche with the International Monetary Fund under quota arrangements		(712)	(1,338)
Securities purchased under agreement to re-sale		(49,238,312)	(32,815,052)
Investments		(440,024,845)	(201,495,208)
Loans, advances and bills of exchange		45,145,951	12,145,558
Assets held with the Reserve Bank of India and balances due from government of India and Bangladesh		(413,988)	(552,726)
Other assets		2,049,250	(2,230,437)
		<b>(442,542,527)</b>	<b>(225,014,386)</b>
		<b>(187,273,981)</b>	<b>(49,467,893)</b>
Increase / (decrease) in liabilities:			
Bank notes issued		177,134,499	222,593,148
Bills payable		(192,613)	190,906
Current accounts of the Government		(81,455,990)	178,692,249
Securities sold under agreement to re-purchase		12,240,388	(23,116,035)
Deposits of banks and financial institutions		46,745,528	59,860,757
Other deposits and accounts		(35,627,822)	(6,974,605)
Payable to the International Monetary Fund		(76,579,035)	37,993,782
Other liabilities		7,999,489	181,440
		<b>50,264,444</b>	<b>469,421,642</b>
Net cash (used in) / generated from operating activities		<b>(137,009,537)</b>	<b>419,953,750</b>
<b>Cash flows from investing activities</b>			
Payment of retirement benefits and employees' compensated absences		(6,695,854)	(2,783,859)
Proceeds from disposal of investments		96,751	6,350
Dividend received		15,697,821	11,923,782
Fixed capital expenditure		(335,749)	(574,643)
Proceeds from disposal of property and equipment		28,998	83,984
Net cash generated from investing activities		<b>8,791,967</b>	<b>8,655,614</b>
<b>Cash flows from financing activities</b>			
Surplus profit paid to Federal Government		(204,000,000)	(176,999,995)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		<b>(204,010,000)</b>	<b>(177,009,995)</b>
(Decrease) / Increase in cash and cash equivalents during the year		<b>(332,227,570)</b>	<b>251,599,369</b>
Cash and cash equivalents at beginning of the year		<b>1,467,982,292</b>	<b>1,216,382,923</b>
Cash and cash equivalents at end of the year	41	<b>1,135,754,722</b>	<b>1,467,982,292</b>

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

**Yaseen Anwar**  
Governor

**Kazi Abdul Muktaadir**  
Deputy Governor

**Muhammad Haroon Rasheed**  
Executive Director

# STATE BANK OF PAKISTAN

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2012

#### 1. STATUS AND NATURE OF OPERATIONS

1.1 The Group comprises of:

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

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

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

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

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

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

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



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

## **2. BASIS OF PREPERATION**

The consolidated financial statements have been prepared in accordance with the requirements of International Accounting Standards (IASs) and policies for bank notes and coins, investments, gold reserves and transactions and balances with International Monetary Fund (IMF) as stated in note 4.2, 4.3, 4.6 and 4.17 respectively approved for adoption by the Central Board of the Bank. Under the power conferred by the State Bank of Pakistan Act, 1956, the Central Board has approved IAS-1 to IAS-38 for adoption. Where the requirements of policies adopted by the Central Board differ with the requirements of IASs adopted by the Central Board, the requirements of policies adopted by the Central Board take precedence.

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

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

All material inter group balances and transactions have been eliminated.

## **3. BASIS OF MEASUREMENT**

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

### **3.2 *Use of estimates and judgments***

The preparation of consolidated financial statements in conformity with International Accounting Standards 1 to 38 and policies for bank notes and coins, investments, gold reserves and transactions and balances with IMF as stated in note 4.2, 4.3, 4.6 and 4.17 respectively, approved for adoption by the Central Board of the Bank, requires management to make judgments estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of International Accounting Standards 1 to 38 and policies for bank notes and coins, investments, gold reserves and transactions and balances with IMF as stated in note 4.2, 4.3, 4.6 and 4.17 respectively, approved for adoption by the Central Board of the Bank, that have significant effect on the consolidated financial statements and estimates with significant risk of material adjustment in subsequent years are as follows:

### **3.2.1 *Provision against loans and advances***

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

### **3.2.2 *Impairment of available for-sale investments***

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

### **3.2.3 *Held-to-maturity investments***

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

### **3.2.4 *Retirement Benefits***

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 39.2 to the consolidated financial statements.

### **3.2.5 *Useful life and residual value of property and equipment***

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

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

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

<b>Standards / improvements</b>	<b>Effective date (accounting period beginning on or after)</b>
IAS 1 Presentation of Financial Statements – Presentation of items of comprehensive income	01 January 2013
IAS 12 Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 Employee Benefits - (Amendment)	01 January 2013
IAS 32 Offsetting Financial Assets and Financial liabilities - (Amendment)	01 January 2014

The Group expects that the adoption of the above revisions and interpretations of the standards will not have any material impact on the Group's financial statements in the period of initial application other than the amendments to IAS 19 'Employee Benefits' and except for certain new / enhanced disclosure and presentation requirements. The significant changes include the following:

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Change in accounting policy**

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

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

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

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

Financial statement line item	2012			
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification	Combined Balance sheet (Restated)
	------(Rupees in '000)-----			
<b>ASSETS</b>				
Gold reserves held by the Bank	313,077,419	-	-	313,077,419
Local currency - coins	1,814,196	-	-	1,814,196
Local currency	-	160,156	(160,156)	-
Foreign currency reserves	360,180,828	678,160,942	-	1,038,341,770
Earmarked foreign currency balances	-	4,994,808	-	4,994,808
Special Drawing Rights of the International Monetary Fund	7,146,000	84,188,177	-	91,334,177
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,104	-	17,104
Securities purchased under agreement to resale	-	112,898,648	-	112,898,648
Current accounts of Governments	-	12,744,407	-	12,744,407
Investments	1,088,514,072	738,737,115	-	1,827,251,187
Loans, advances and bills of exchange	-	339,967,525	-	339,967,525
Commercial papers held in Bangladesh	78,500	-	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	339,967,525	-	340,046,025
Assets held with the Reserve Bank of India	5,584,810	-	-	4,016,051
Indian notes representing assets receivable from Reserve Bank of India	726,719	-	-	789,437
Assets held with the Reserve Bank of India	6,311,529	-	-	6,311,529
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	6,797,433	-	6,797,433
Property and equipment	-	23,450,893	-	23,450,893
Intangible assets	-	30,882	-	30,882
Other assets	-	6,024,442	-	6,024,442
Total assets	1,777,122,544	2,008,172,532	(160,156)	3,785,134,920
<b>LIABILITIES</b>				
Bank notes in circulation	1,777,122,544	-	(160,156)	1,776,962,388
Bills payable	-	587,542	-	587,542
Current accounts of the Governments	-	148,815,907	-	148,815,907
Securities sold under agreement to repurchase	-	12,240,388	-	12,240,388
Deposits of banks and financial institutions	-	396,172,467	-	396,172,467
Other deposits and accounts	-	153,534,625	-	153,534,625
Payable to the International Monetary Fund	-	656,185,305	-	656,185,305
Other liabilities	-	107,523,858	-	107,523,858
Deferred liability - staff retirement benefits	-	21,457,079	-	21,457,079
Endowment fund	-	67,281	-	67,281
Total liabilities	1,777,122,544	1,496,584,452	(160,156)	3,273,546,840
<b>Net assets</b>	-	511,588,080	-	511,588,080
<b>REPRESENTED BY</b>				
Share capital	-	100,000	-	100,000
Reserves	-	175,944,238	-	175,944,238
Unrealised appreciation on gold reserves	-	309,565,438	-	309,565,438
Surplus on revaluation of property and equipment	-	25,978,404	-	25,978,404
<b>Total equity</b>	-	511,588,080	-	511,588,080

Financial statement line item	2011			
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification	Combined Balance sheet (Restated)
	----- (Rupees in '000) -----			
<b>ASSETS</b>				
Gold reserves held by the Bank	267,969,374	-	-	267,969,374
Local currency - coins	2,225,301	-	-	2,225,301
Local currency	-	154,558	(154,558)	-
Foreign currency reserves	400,387,512	888,392,762	-	1,288,780,274
Earmarked foreign currency balances	-	75,464,270	-	75,464,270
Special Drawing Rights of the International Monetary Fund	6,869,850	95,318,553	-	102,188,403
Reserve tranche with the International Monetary Fund under quota arrangements	-	16,392	-	16,392
Securities purchased under agreement to resale	-	63,660,336	-	63,660,336
Current accounts of Governments	-	586,181	-	586,181
Investments	916,804,517	470,459,364	-	1,387,263,881
Loans, advances and bills of exchange	-	385,113,476	-	385,113,476
Commercial papers held in Bangladesh	78,500	-	-	78,500
Loans, advances, bills of exchange and commercial papers	78,500	385,113,476	-	385,191,976
Assets held with the Reserve Bank of India	4,825,442	-	-	4,016,051
Indian notes representing assets receivable from Reserve Bank of India	827,549	-	-	789,437
Assets held with the Reserve Bank of India	5,652,991	-	-	5,652,991
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	6,312,679	-	6,312,679
Property and equipment	-	24,722,358	-	24,722,358
Intangible assets	-	21,495	-	21,495
Other assets	-	8,073,692	-	8,073,692
Total assets	1,599,988,045	2,018,296,116	(154,558)	3,618,129,603
<b>LIABILITIES</b>				
Bank notes in circulation	1,599,988,045	-	(154,558)	1,599,833,487
Bills payable	-	780,155	-	780,155
Current accounts of the Governments	-	217,968,067	-	217,968,067
Deposits of banks and financial institutions	-	349,426,939	-	349,426,939
Other deposits and accounts	-	189,162,447	-	189,162,447
Payable to the International Monetary Fund	-	732,764,340	-	732,764,340
Other liabilities	-	36,670,597	-	36,670,597
Deferred liability - staff retirement benefits	-	19,393,880	-	19,393,880
Capital grant rural finance resource centre	-	59,430	-	59,430
Total liabilities	1,599,988,045	1,546,225,855	(154,558)	3,146,059,342
<b>Net assets</b>	-	472,070,261	-	472,070,261
<b>REPRESENTED BY</b>				
Share capital	-	100,000	-	100,000
Reserves	-	177,044,238	-	177,044,238
Unrealised appreciation on gold reserves	-	268,947,619	-	268,947,619
Surplus on revaluation of property and equipment	-	25,978,404	-	25,978,404
<b>Total equity</b>	-	472,070,261	-	472,070,261

Financial statement line item	2010		
	Issue Department Balance sheet	Banking Department Balance sheet	Reclassification Combined Balance sheet (Restated)
	------(Rupees in '000)-----		
<b>ASSETS</b>			
Gold reserves held by the Bank	219,942,435	-	-
Local currency - coins	2,373,520	-	-
Local currency	-	117,427	(117,427)
Foreign currency reserves	472,412,239	621,600,395	-
Earmarked foreign currency balances	-	13,171,542	-
Special Drawing Rights of the International Monetary Fund	6,295,600	101,242,365	-
Reserve tranche with the International Monetary Fund under quota arrangements	-	15,054	-
Securities purchased under agreement to resale	-	30,845,284	-
Current accounts of Governments	-	3,936,712	-
Investments	671,487,115	514,282,364	-
Loans, advances and bills of exchange	-	396,748,185	-
Commercial papers held in Bangladesh	78,500	-	-
Loans, advances, bills of exchange and commercial papers	78,500	396,748,185	-
Assets held with the Reserve Bank of India	4,016,051	-	-
Indian notes representing assets receivable from Reserve Bank of India	789,437	-	-
Assets held with the Reserve Bank of India	4,805,488	-	-
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	5,829,001	-
Property and equipment	-	17,977,317	-
Intangible assets	-	47,758	-
Other assets	-	5,843,255	-
Total assets	1,377,394,897	1,711,656,659	(117,427)
<b>LIABILITIES</b>			
Bank notes in circulation	1,377,394,897	-	(117,427)
Bills payable	-	589,249	-
Current accounts of the Governments	-	42,584,981	-
Securities sold under agreement to repurchase	-	23,116,035	-
Deposits of banks and financial institutions	-	289,566,182	-
Other deposits and accounts	-	196,137,052	-
Payable to the International Monetary Fund	-	694,770,558	-
Other liabilities	-	32,678,317	-
Deferred liability - staff retirement benefits	-	16,062,292	-
Capital grant rural finance resource centre	-	59,430	-
Deferred income	-	17,718	-
Total liabilities	1,377,394,897	1,295,581,814	(117,427)
<b>Net assets</b>	-	416,074,845	-
<b>REPRESENTED BY</b>			
Share capital	-	100,000	-
Reserves	-	149,206,231	-
Unappropriated profit	-	27,838,007	-
Unrealised appreciation on gold reserves	-	220,183,593	-
Surplus on revaluation of property and equipment	-	18,747,014	-
<b>Total equity</b>	-	416,074,845	-

#### **4.2 Bank notes and coins**

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

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

#### **4.3 Investments**

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

##### **Held for trading**

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

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

##### **Held to maturity**

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

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

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

### **Loans and receivables**

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

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

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

### **Available for sale securities (AFS)**

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

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

### **Derecognition**

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

## **4.4 Derivative financial instruments**

The Group uses derivative financial instruments which include forwards, futures and foreign currency swaps. Derivatives are initially recorded at cost and are re-measured to fair value on subsequent reporting dates. Forwards are shown under Commitments in the note 30.2. The resultant gains or losses from derivatives are included in the profit and loss account.



**4.5 Collateralised borrowings / lending**

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

**4.6 Gold reserves**

Gold reserves, including those held with the Reserve Bank of India, are stated at the revalued amounts of the fine gold content thereof in accordance with the requirements of the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations. Appreciation or depreciation, if any, on revaluation is taken to equity under the head of "Unrealised appreciation on gold reserves" account. Appreciation / diminution realised on disposal of gold is credited to the profit and loss account. During the current year, unrealised appreciation on gold reserves held with the Reserve Bank of India till June 30, 2012 has been transferred to "Provision for other doubtful assets."

**4.7 Property and equipment**

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

Depreciation on property and equipment are charged to profit and loss account applying the straight-line method whereby the cost/revalued amount of an asset is written off over its estimated useful life at the rates specified in note 16.1 to these consolidated financial statements. The useful life of assets is reviewed and adjusted if appropriated, at each balance sheet date.

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

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

#### **4.8 Intangibles**

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

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

#### **4.9 Impairment**

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

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

#### **4.10 Compensated absences**

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

#### **4.11 Staff retirement benefits**

The Bank and the Corporation operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. The Bank provided an option to employees covered under old scheme to join Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from June 1, 2007. Under this scheme contribution is made both by the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Bank service after June 1, 2007 are covered under the new scheme.
- b) an unfunded general provident fund (GPF) scheme for all those employees who joined the Bank after 1975 and those employees who had joined prior to 1975 but opted for the new scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.
- c) following other staff retirement benefit schemes:
  - an unfunded gratuity scheme (old scheme) for all employees other than those who opted for the new general provident fund scheme, or joined the Bank after 1975 and are entitled only to pension scheme benefits.
  - an Employees' Gratuity Fund (EGF) was introduced by the Bank effective from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme).
  - an un-funded pension scheme for those employees who joined the Bank after 1975 and before the introduction of EGF which is effective from June 1, 2007.
  - an un-funded benevolent fund scheme; and
  - an un-funded post retirement medical benefit scheme.

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

Annual provisions are made by the Group to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 2012. Unrecognised actuarial gains and losses at the beginning of the year are recognised in the profit and loss account over the expected average remaining working lives of the employees.

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

**4.12 Deferred income**

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

**4.13 Revenue recognition**

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

**4.14 Finances under profit and loss sharing arrangements**

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

**4.15 Taxation**

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

**4.16 Foreign currency translation**

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

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 4.17, which are transferred to the Government of Pakistan account.

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

Commitments for outstanding forward foreign exchange contracts disclosed in note 30.2 to the consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the closing rate of exchange ruling on the balance sheet date.

#### **4.17 Transactions and balances with International Monetary Fund**

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

- the Government's contribution for quota with the IMF is recorded by the Group as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.
- exchange gains or losses arising on revaluation of borrowings from the IMF are recognised in the profit and loss account.
- the cumulative allocation of Special Drawing Rights (SDRs) by the IMF is recorded as a liability to non resident and is translated at closing exchange rate for SDRs prevailing at the balance sheet date. Exchange differences on translation of SDRs is recognised in profit and loss account.
- commitment fee is charged to profit and loss account on date of the commitment of Funds by IMF.
- service charge is recognised in profit and loss account at the time of receipt of IMF tranches.

All other income or charges pertaining to balances with the IMF are taken to the profit and loss account, including the following:

- charges on borrowings under credit schemes and fund facilities,
- charges on net cumulative allocation of SDRs; and
- return on holdings of SDRs.

#### **4.18 Provisions**

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

**4.19 Cash and cash equivalents**

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

**4.20 Financial instruments**

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

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

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

**4.21 Stationary and other consumables**

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

**4.22 Accounts receivables and other receivables**

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

**4.23 Trade and other payables**

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

**4.23 Offsetting**

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

	Note	Net content in troy ounces	2012 (Rupees in '000)	2011 (Restated) (Rupees in '000)
<b>5. GOLD RESERVES HELD BY THE BANK</b>				
Opening balance		2,070,529	267,969,374	219,942,435
Additions during the year		963	145,604	41,368
Appreciation during the year due to revaluation	29		44,962,441	47,985,571
	19.1	<u>2,071,492</u>	<u>313,077,419</u>	<u>267,969,374</u>
<b>6. LOCAL CURRENCY</b>			<b>2012</b>	<b>2011</b>
				(Restated)
				(Rupees in '000)
Bank notes held by the Banking Department			160,156	154,558
Coins held as an asset of the Issue Department	6.1 & 19.1		<u>1,814,196</u>	<u>2,225,301</u>
			1,974,352	2,379,859
Less: bank notes held by the Banking Department	19.1		<u>(160,156)</u>	<u>(154,558)</u>
			<u>1,814,196</u>	<u>2,225,301</u>
<b>6.1</b>	As mentioned in note 4.2, the Bank is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of unissued coins held by the Bank at the year end (also refer Note 19.1).			
<b>7. FOREIGN CURRENCY RESERVES</b>	Note		2012 (Rupees in '000)	2011
Investments	7.1 & 7.2		289,059,247	257,860,663
Deposit accounts	7.3 & 7.4		454,986,528	429,735,892
Current accounts	7.2 & 7.3		96,830,826	56,275,472
Securities purchased under agreement to resale	7.5		<u>197,465,169</u>	<u>544,908,247</u>
			<u>1,038,341,770</u>	<u>1,288,780,274</u>
The above foreign currency reserves are held as follows:				
Issue Department	19.1		360,180,828	400,387,512
Banking Department			<u>678,160,942</u>	<u>888,392,762</u>
			<u>1,038,341,770</u>	<u>1,288,780,274</u>
<b>7.1 Investments</b>				
Held for trading	7.4		288,836,712	214,625,939
Held to maturity			-	42,981,312
Available for sale	7.2		<u>222,535</u>	<u>253,412</u>
			<u>289,059,247</u>	<u>257,860,663</u>
<b>7.2</b>	These represent assets recoverable from the Government of India. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.			
<b>7.3</b>	The balance in current and deposit accounts carry interest at various rates ranging between 0.05% to 4.85% (2011: 0.02% and 5.00% ) per annum.			
<b>7.4</b>	These include investments made in international market through reputable Fund Managers. The activities of the Fund Managers are being monitored through a custodian. Market value of these investments is equivalent to USD 2,565.58 million (2011: USD 2,632.34 million).			
<b>7.5</b>	These represent Repurchase Agreement lendings and carry mark-up in USD at 0.14% having maturity on July 2, 2012 (2011: 0.0072% and 0.0075% matured on July 1, 2011).			
<b>8. EARMARKED FOREIGN CURRENCY BALANCES</b>				
These represent certain foreign currency held with the Group to meet foreign currency commitments of the Group.				

**9. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND**

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Bank at June 30, 2012. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

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

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

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

**11. SECURITIES PURCHASED UNDER AGREEMENT TO RESALE**

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

**12. INVESTMENTS**

	Note	2012	2011
		(Rupees in '000)	
<b>Loans and receivables originated by the Bank</b>			
<b>Government securities</b>			
Market Treasury Bills (MTBs)		1,803,844,625	1,363,815,487
Federal Government scrip		2,740,000	2,740,000
	12.1	<u>1,806,584,625</u>	<u>1,366,555,487</u>
<b>Available for sale investments</b>			
Investments in Banks and other financial institutions			
Ordinary shares			
- Listed		15,563,789	15,563,789
- Unlisted		4,919,707	4,957,247
	12.2	<u>20,483,496</u>	<u>20,521,036</u>
Term Finance Certificates		127,082	169,441
Certificates of Deposits		50,558	67,410
		<u>20,661,136</u>	<u>20,757,887</u>
Provision against diminution in value of investments	12.3	(385,971)	(445,183)
		<u>20,275,165</u>	<u>20,312,704</u>
Investment held to Maturity - Pakistan Investment Bonds		391,397	395,690
		<u>1,827,251,187</u>	<u>1,387,263,881</u>
The above investments are held as follows:			
Issue Department - MTBs	19.1	1,088,514,072	916,804,517
Banking Department		738,737,115	470,459,364
		<u>1,827,251,187</u>	<u>1,387,263,881</u>



**12.1 Investments in Government securities**

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

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

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

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

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

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

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

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

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

**12.3 Provision against diminution in value of investments**

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

<b>13. LOANS, ADVANCES, BILLS OF EXCHANGE AND COMMERCIAL PAPERS</b>	<b>Note</b>	<b>2012</b>	<b>2011 (Restated)</b>
		<b>(Rupees in '000)</b>	
Governments	13.1	<b>36,097,865</b>	56,082,403
Government owned / controlled financial institutions	13.2 & 13.3	<b>113,363,735</b>	116,419,871
Private sector financial institutions	13.4	<b>180,035,597</b>	203,213,017
		<b>293,399,332</b>	319,632,888
Employees		<b>16,958,746</b>	15,874,593
		<b>346,455,943</b>	391,589,884
Provision against doubtful balances	13.5	<b>(6,409,918)</b>	(6,397,908)
		<b>340,046,025</b>	385,191,976

**13.1 Loans and advances to the Governments**

Provincial Government - Punjab	13.1.1	<b>25,477,121</b>	37,093,810
Provincial Government - Balochistan	13.1.2	<b>8,183,244</b>	15,988,593
Provincial Government - Khyber Pakhtunkhwa	13.1.3	<b>2,437,500</b>	3,000,000
		<b>36,097,865</b>	56,082,403

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

**13.1.1** This includes current account receivable balance of the Government of Punjab (GoPb) amounting to Rs. 50,900 million converted in a loan balance under agreement carried out on November 10, 2009 and is effective from August 01, 2009. This loan carries interest at a rate equivalent to quarterly average rate of six months Market Treasury Bills and is repayable in 48 equal installments of Rs. 1,060 million each starting from October 01, 2009. Two installments of January 2012 and February 2012 has been deferred upon request of Government of Punjab. Accordingly the date of recovery of last installment has been revised to November 01, 2013. As at June 30, 2012, the outstanding balance of this loan amounts to Rs. 18,027 million (2011: Rs 28,631 million). These loans is secured by the guarantee of the Federal Government.

**13.1.2** This represents current account receivable balance of the Government of Balochistan and carries interest at a rate equivalent to quarterly average rate of six months Market Treasury Bills. Under an agreement, the total loan is repayable in 65 monthly installments, which started from July 01, 2009. The loan is secured by the guarantee of the Federal Government.

**13.1.3** This represents bridge financing facility extended to Government of Khyber Pakhtunkhwa under agreement carried out on December 28, 2010. This loan is repayable in 16 equal quarterly installments amounting to Rs. 187.5 million starting from December 31, 2011 along with mark-up at the rate of 3 months weighted average Treasury Bill rate of the last auction of the preceding quarter. As at June 30, 2012, the outstanding balance of this loan amounts to Rs 2,437 million (2011: Rs 3,000 million). The loan is secured by the guarantee of Federal Government.

**13.2 Loans and advances to Government owned / controlled financial institutions**

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

- 13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2011: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2011: Rs. 51,257.21 million) to Zarai Taraqati Bank Limited (ZTBL) in addition to the unsecured subordinated loan to ZTBL amounting to Rs. 3,204 million (2011: Rs. 3,204 million) classified in other loans and advances. The restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalised in due course.
- 13.2.2** This represents loan receivable from House Building Finance Corporation Limited (HBFCL) against seven credit lines on profit and loss sharing basis. As at June 30, 2012 all of these credit lines are over due amounting to Rs. 11,242 million (2011: five credit lines amounting Rs. 9,689 million) . These credit lines are secured by guarantee from Federal Government.
- 13.2.3** Exposure to the industrial and export sector include Rs. 1,054 million and nil balance (2011: Rs. 1,054 and Rs. 20 million) respectively, representing cumulative financing of Rs. 1,074 million to Industrial Development Bank of Pakistan (IDBP). Furthermore, other loans and advances include Rs. 13,000 million and Rs. 340.783 million which are secured by the Government guarantee and other Government securities respectively. During the previous year, the Federal Cabinet approved the winding up of the IDBP. During the current year proceedings were initiated for its winding up.
- 13.2.4** Above balances include Rs. 569 million (2011: Rs. 567 million) which are recoverable from various financial institutions operating in Bangladesh (former East Pakistan). The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).
- 13.3** These balances include the face value of certain commercial papers amounting to Rs. 78.5 million (2011: Rs. 78.5 million) which are held in Bangladesh (former East Pakistan). The realisability of the underlying amount is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan). These commercial papers included in assets of issue department.

**13.4 Loans and advances to private sector financial institutions**

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

**13.5 Provision against doubtful assets**

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

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

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

<b>14. ASSETS HELD WITH THE RESERVE BANK OF INDIA</b>		<b>2012</b>	<b>2011</b> (Restated)
		<b>(Rupees in '000)</b>	
Gold reserves			
- Opening balance		<b>4,346,524</b>	3,568,068
- Appreciation from revaluation during the year	29	<b>729,303</b>	778,455
		<b>5,075,827</b>	4,346,523
Sterling securities		<b>486,977</b>	453,889
Government of India securities		<b>17,047</b>	19,412
Rupee coins		<b>4,959</b>	5,618
	14.1	<b>5,584,810</b>	4,825,442
Indian notes representing assets receivable from the Reserve Bank of India	14.2	<b>726,719</b>	827,549
	19.1	<b>6,311,529</b>	5,652,991

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

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

15. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)		2012	2011
		(Rupees in '000)	
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		837	837
		40,453	40,453
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans and advances	15.1	5,937,056	5,452,302
		6,756,980	6,272,226
		6,797,433	6,312,679

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

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

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

## 16.1 Operating fixed assets

2012											
	Cost / revalued amount at July 01, 2011	Additions / (deletions) during the year	Revaluation during the year	Reversal due to revaluation	Cost / revalued amount at June 30, 2012	Accumulated depreciation at July 01, 2011	Depreciation for the year/ (deletions) / Adjustments	Reversal due to revaluation	Accumulated depreciation at June 30, 2012	Net book value at June 30, 2012	Annual rate of depreciation %
(Rupees in '000)											
Freehold land	3,791,658	-	-	-	3,791,658	-	-	-	-	3,791,658	-
Leasehold land	16,735,802	71,341	-	-	16,807,143	-	589,562	-	589,562	16,217,581	over the remaining term of lease
Buildings on freehold land	1,019,194	21,951	-	-	1,041,145	-	203,807	-	203,807	837,338	over the remaining useful life
Buildings on leasehold land	1,878,950	38,038	-	-	1,916,988	-	368,691	-	368,691	1,548,297	over the remaining term of lease
Furniture and fixtures	212,396	7,005 (9,331)	-	-	210,070	125,759	18,093 (9,303)	-	134,549	75,521	10
Office equipment	1,082,985	99,815 (18,208)	-	-	1,164,592	732,987	136,068 (18,051) 25	-	851,029	313,563	20
EDP equipment	1,531,207	21,733 (707)	-	-	1,552,233	1,290,780	166,976 (559) 40	-	1,457,237	94,996	33.33
Motor vehicles	358,138	72,200 (42,835)	-	-	387,503	135,496	70,075 (25,753)	-	179,818	207,685	20
	26,610,330	332,083 (71,081) -	-	-	26,871,332	2,285,022	1,553,272 (53,666) 65	-	3,784,693	23,086,639	
2011											
	Cost / revalued amount at July 01, 2010	Additions / (deletions) during the year	Revaluation during the year	Reversal due to revaluation	Cost / revalued amount at June 30, 2011	Accumulated depreciation at July 01, 2010	Depreciation for the year/ (deletions) / Adjustments	Reversal due to revaluation	Accumulated depreciation at June 30, 2011	Net book value at June 30, 2011	Annual rate of depreciation %
(Rupees in '000)											
Freehold land	3,577,047	2,941	211,670	-	3,791,658	-	-	-	-	3,791,658	-
Leasehold land	12,762,205	600	5,625,949	(1,652,952)	16,735,802	1,354,769	298,183 -	(1,652,952)	-	16,735,802	over the term of lease
Buildings on freehold land	1,032,055	13,183	470,331	(496,375)	1,019,194	388,812	107,563	(496,375)	-	1,019,194	5
Buildings on leasehold land	1,718,275	31,550	923,440	(794,315)	1,878,950	613,783	180,636 - (104)	(794,315)	-	1,878,950	5
Furniture and fixtures	205,761	8,177 (1,740) 198	-	-	212,396	108,840	18,180 (1,459) 198	-	125,759	86,637	10
Office equipment	903,447	170,879 (19,850) 28,509	-	-	1,082,985	606,947	114,981 (17,450) 28,509	-	732,987	349,998	20
EDP equipment	1,337,452	271,130 (77,375)	-	-	1,531,207	1,120,605	189,517 (19,342)	-	1,290,780	240,427	33.33
Motor vehicles	356,009	33,792 (31,663)	-	-	358,138	83,167	66,507 (14,178)	-	135,496	222,642	20
	21,892,251	532,252 (130,628) 28,707	7,231,390	(2,943,642)	26,610,330	4,276,923	975,567 (52,429) 28,603	(2,943,642)	2,285,022	24,325,308	

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

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

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

**16.3 Capital work-in-progress**

Buildings on freehold land	8,016	31,647
Buildings on leasehold land	309,301	251,466
Office equipment	46,559	107,663
EDP equipment	378	6,274
	<u>364,254</u>	<u>397,050</u>

**17. INTANGIBLE ASSETS**

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

**18. OTHER ASSETS**

	Note	2012 (Rupees in '000)	2011
Accrued interest / mark-up, discount and return		5,229,111	7,322,050
Stationery and stamps on hand		117,963	102,818
Other advances, deposits and prepayments		607,323	597,318
Others		70,045	51,506
		<u>6,024,442</u>	<u>8,073,692</u>

**19. BANK NOTES IN CIRCULATION**

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

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

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

**20. CURRENT ACCOUNTS OF THE GOVERNMENTS**

			2012	2011
		Note	(Rupees in '000)	
<b>20.1</b>	<b>Current accounts of Governments - credit balances</b>			
	Federal Government	20.3	<b>95,381,342</b>	119,186,027
	Provincial Governments			
	- Punjab	20.4	<b>16,404,794</b>	25,614,248
	- Sindh	20.5	-	34,319,349
	- Khyber Pakhtunkhwa	20.6	<b>28,601,808</b>	30,481,993
	- Balochistan	20.7	<b>8,427,963</b>	8,366,450
			<b>53,434,565</b>	98,782,040
			<b>148,815,907</b>	217,968,067
<b>20.2</b>	<b>Current accounts of Governments - receivable balances</b>			
	Provincial Government of Sindh	20.5	<b>9,470,579</b>	-
	Gilgit - Baltistan Administration Authority	20.8	<b>600,965</b>	-
	Government of Azad Jammu and Kashmir	20.9	<b>2,672,863</b>	586,181
			<b>12,744,407</b>	586,181
<b>20.3</b>	<b>Federal Government</b>			
	Non-food account		<b>126,141,484</b>	147,039,243
	Food account		<b>313,128</b>	309,424
	Zakat fund account		<b>3,951,667</b>	7,803,056
	Railways - ways and means advances	20.10	<b>(39,938,969)</b>	(39,999,880)
	Saudi Arabia special loan account		<b>4,124</b>	4,124
	Pakistan Baitul Mal fund account		<b>6</b>	6
	Pakistan Railways special account		<b>5,688</b>	270,157
	Government deposit account no. XII		<b>5,276</b>	5,276
	Special transfer account		<b>10,592</b>	10,592
	UN reimbursement account		<b>3,756,810</b>	3,740,171
	Fata Zakat Fund Account		<b>5,021</b>	3,858
	Pakistan Railways - pay & pension account		<b>1,126,077</b>	-
	Pakistan Railways - PSDP account		<b>438</b>	-
			<b>95,381,342</b>	119,186,027
<b>20.4</b>	<b>Provincial Government - Punjab</b>			
	Non-food account		<b>(34,998,448)</b>	(10,238,641)
	Food account		<b>11,485,033</b>	1,223,025
	Zakat fund account		<b>2,373,632</b>	392,923
	District Government account no. IV		<b>37,544,577</b>	34,236,941
			<b>16,404,794</b>	25,614,248
<b>20.5</b>	<b>Provincial Government - Sindh</b>			
	Non-food account		<b>(12,129,639)</b>	20,119,519
	Food account		<b>224,941</b>	770,860
	Zakat fund account		<b>2,434,119</b>	1,559,724
	District Government account no. IV		-	11,869,246
			<b>(9,470,579)</b>	34,319,349
	Classified as receivable balance	20.10	<b>9,470,579</b>	-
			-	34,319,349
<b>20.6</b>	<b>Provincial Government - Khyber Pakhtunkhwa</b>			
	Non-food account		<b>15,426,567</b>	18,536,151
	Food account		<b>1,905,946</b>	796,490
	Zakat fund account		<b>1,168,535</b>	1,011,039
	District Government account no. IV		<b>10,100,760</b>	10,138,313
			<b>28,601,808</b>	30,481,993
<b>20.7</b>	<b>Provincial Government - Balochistan</b>			
	Non-food account		<b>7,843,144</b>	7,695,334
	Food account		<b>227,213</b>	647,727
	Zakat fund account		<b>357,606</b>	23,389
			<b>8,427,963</b>	8,366,450

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

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

## 21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

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

## 22. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

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

## 23. OTHER DEPOSITS AND ACCOUNTS

<b>Foreign currency</b>				
Foreign central banks			<b>42,548,754</b>	38,686,123
International organisations		23.2	<b>43,074,422</b>	47,808,377
Others			<u>15,113,063</u>	<u>47,343,094</u>
			<b>100,736,239</b>	133,837,594
<b>Local currency</b>				
Special debt repayment		23.3	<b>23,914,674</b>	23,914,674
Government		23.4	<b>19,130,988</b>	21,108,428
Others			<u>9,752,724</u>	<u>10,301,751</u>
			<b>52,798,386</b>	55,324,853
			<u>153,534,625</u>	<u>189,162,447</u>

			2012 (% per annum)	2011
<b>23.1</b>	The interest rate profile of the interest bearing deposits is as follows:			
	Foreign central banks		<b>0.31 to 0.58</b>	0.35 to 0.66
	International organisations		<b>1.39 to 2.51</b>	1.13 to 2.38
	Others		<b>0 to 1.11</b>	0.03 to 0.89
<b>23.2</b>	This includes two long-term deposits of US\$ 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2012) and June 2012 carrying interest at six months LIBOR plus 100 bps and twelve months LIBOR plus 100 bps respectively both payable semi-annually. These deposits of USD 500 million each have been set off against the rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantees dated March 12, 2012 and June 29, 2012 whereby the MoF has agreed to assume all liabilities and risks arising from SBP's agreement with SAFE China.			
	Further this also includes a deposit of US\$ 500 million received from SAFE China in June 2008 carrying interest at six months LIBOR plus 100 bps payable semi-annually. The outstanding balance of this deposit is US\$ 200 million as on June 30, 2012 (US\$ 300 million as on June 30, 2011). This deposit is the direct liability of SBP.			
<b>23.3</b>	These are free of interest and represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan.			



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

**24. PAYABLE TO INTERNATIONAL MONETARY FUND**

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

- 24.1** IMF granted a Stand By Arrangement Facility amounting to SDR 5,168.50 million in FY 2008-09 which was extended up to SDR 7,235.90 million. The amount was to be disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2011. However, upto June 30, 2012, five tranches amounting to SDR 3,984.935 million (2011:SDR 3,984.935 million) have been received. The facility is subject to mark up based on the weekly rates determined by the IMF and is payable on each quarter. The repayment of the facility has commenced from February 2012 and would continue upto May 2015. The outstanding balance as on June 30, 2012 is an amount of SDR 3,397.018 million (2011: SDR 3,984.935 million)

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

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

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

**25. OTHER LIABILITIES**

	Note	2012 (Rupees in '000)	2011
<b>Foreign currency</b>			
Accrued interest and discount on deposits		5,745,245	2,961,132
Charges on allocation of Special Drawing Rights of IMF		30,303	121,946
		5,775,548	3,083,078
<b>Local currency</b>			
Overdue mark-up and return	25.1	5,621,403	5,136,650
Remittance clearance account		1,556,814	1,249,583
Exchange loss payable under exchange risk coverage scheme		228,556	182,207
Balance profit payable to the Government of Pakistan		62,700,879	4,810,767
Dividend payable		10,000	10,000
Share of Loss payable under profit and Loss sharing arrangements		2,407,129	2,407,129
Payable to Government in respect of privatisation proceeds		-	2,929,066
Other accruals and provisions	25.2	25,282,606	11,298,668
Others		3,940,923	5,563,449
		101,748,310	33,587,519
		107,523,858	36,670,597

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

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

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

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

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

25.3.2 This represents provision made against a claim under arbitration.

## 26. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS

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

## 27. SHARE CAPITAL

2012 (Number of shares)	2011		2012 (Rupees in '000)	2011
<b>Authorised share capital</b>				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	100,000	100,000
<b>Issued, subscribed and paid-up capital</b>				
1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	100,000	100,000

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

**28. RESERVES****28.1 Reserve Fund**

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

**28.2 Other Funds**

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

**29. UNREALISED APPRECIATION ON GOLD RESERVES**

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

Gold reserves are revalued under the State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No. 42 (vi) at the closing market rate fixed by the London Bullion Market Association on the last working day of the year. During the year, the revaluation reserve relating to gold reserves held by the Reserve Bank of India has been transferred to provision for other doubtful assets.

**30. CONTINGENCIES AND COMMITMENTS**

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

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

- b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme. The Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. During the previous year, the Honourable Bench of the Supreme Court of Pakistan set aside the judgment of FST and allowed employees to avail proper forum. The employees have filed an appeal in the Honourable Lahore High Court, Rawalpindi Bench, the decision of which is pending. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.

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

<b>31. DISCOUNT, INTEREST / MARK-UP AND / OR RETURN EARNED</b>	<b>2012</b>	<b>2011</b>
	<b>(Rupees in '000)</b>	
Discount income	<b>199,916,615</b>	172,813,031
Other Government securities	<b>93,497</b>	90,419
Loans and advances to Government	<b>6,875,852</b>	14,085,289
Share of profit on finances under profit and loss sharing arrangements	<b>20,406,243</b>	19,611,882
Foreign currency deposits	<b>4,003,327</b>	3,314,271
Foreign currency securities	<b>4,847,634</b>	5,697,859
Others	<b>133,676</b>	128,343
	<b>236,276,844</b>	215,741,094
<b>32. INTEREST / MARK-UP EXPENSE</b>		
Deposits	<b>10,606,882</b>	12,017,880
Others	<b>731,348</b>	1,376,004
	<b>11,338,230</b>	13,393,884
<b>33. COMMISSION INCOME</b>		
Market Treasury Bills	<b>341,647</b>	368,547
Draft / payment orders	<b>731,424</b>	784,944
Prize Bonds and National Saving Certificates	<b>311,099</b>	267,295
Management of public debts	<b>215,856</b>	204,873
Others	<b>352,757</b>	332,669
	<b>1,952,783</b>	1,958,328
<b>34. EXCHANGE GAIN - NET</b>		
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	<b>67,584,902</b>	53,169,732
- Forward covers under Exchange Risk Coverage Scheme	<b>18,689</b>	22,203
- Payable to IMF	<b>(21,969,395)</b>	(44,765,738)
- Special Drawing Rights of IMF	<b>(2,907,061)</b>	(6,625,640)
- Others	<b>-</b>	22,000
	<b>42,727,135</b>	1,822,557
Exchange risk fee income	<b>100,503</b>	104,776
	<b>42,827,638</b>	1,927,333
<b>35. OTHER OPERATING INCOME / (LOSS) - NET</b>		
Penalties levied on banks and financial institutions	<b>1,144,218</b>	1,221,990
License / Credit Information Bureau fee recovered	<b>141,372</b>	109,418
Gain/(loss) on sale of investment:		
Local	<b>-</b>	5,542
Foreign	<b>1,655,898</b>	1,666,093
	<b>1,655,898</b>	1,671,635
(Loss) / gain on remeasurement of securities classified as held for trading	<b>6,097,647</b>	(14,590,633)
Others	<b>(5,484)</b>	(11,027)
	<b>9,033,651</b>	(11,598,617)
<b>36. OTHER CHARGES - NET</b>		
Gain /(loss) on disposal of property and equipment	<b>11,583</b>	5,785
Liabilities and provisions written back - net	<b>4,329</b>	1,218
Amortisation of deferred income	<b>-</b>	17,718
Charges on allocation of Special Drawing Rights of IMF	<b>(326,167)</b>	(540,922)
Others	<b>186,494</b>	148,130
	<b>(123,761)</b>	(368,071)

**37. BANK NOTES PRINTING CHARGES**

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

**38. AGENCY COMMISSION**

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.13% (2011: 0.13% ) of the total amount of collection and remittances handled by NBP.

**39. GENERAL ADMINISTRATIVE AND OTHER EXPENSES**

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

**39.1 Auditors' remuneration**

	2012			2011		
	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total
	----- (Rupees in '000) -----					
<b>State Bank of Pakistan</b>						
Audit fee	2,875	2,875	5,750	2,125	2,125	4,250
Out of pocket expenses	415	415	830	385	385	770
	<u>3,290</u>	<u>3,290</u>	<u>6,580</u>	<u>2,510</u>	<u>2,510</u>	<u>5,020</u>
<b>SBP Banking Services Corporation</b>						
Audit fee	2,275	2,275	4,550	1,725	1,725	3,450
Out of pocket expenses	875	875	1,750	825	825	1,650
	<u>3,150</u>	<u>3,150</u>	<u>6,300</u>	<u>2,550</u>	<u>2,550</u>	<u>5,100</u>
<b>NIBAF</b>						
Audit fee	-	-	150	-	-	150
	<u>6,440</u>	<u>6,440</u>	<u>13,030</u>	<u>5,060</u>	<u>5,060</u>	<u>10,270</u>

**39.2 Staff retirement benefits**

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

- Expected rate of increase in grants and contributions 6.00% (2011: 6.00%) per annum.
- Expected rate of discount 12.50% (2011: 14.0%) per annum.
- Expected rate of increase in salary 11.50% (2011: 12.00%) per annum.
- Expected rate of increase in pension 8.00% (2011: 8.00%) per annum.
- Medical cost increase 8.50% (2011: 9.00%) per annum.
- Personnel turnover 2.5% (2011: 2.0%) per annum.

**39.2.2 Present value of the defined benefit obligations**

Present values of obligations under the retirement benefit schemes and liabilities recognised there against for the past services of the employees at June 30, 2012 based on actuarial valuation as of that date was as follows:

		2012		
	Note	Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognized liabilities
------(Rupees in '000)-----				
Gratuity	39.2.3	36,286	(26,759)	9,527
Pension	39.2.3	33,929,015	(19,295,324)	14,633,691
Benevolent	39.2.3	2,115,859	(639,207)	1,476,652
Post retirement medical benefits	39.2.3	8,270,382	(4,219,344)	4,051,038
		<u>44,351,542</u>	<u>(24,180,634)</u>	<u>20,170,908</u>
		2011		
		Present value of the defined benefit obligation	Unrecognised actuarial loss	Net recognized liabilities
------(Rupees in '000)-----				
Gratuity	39.2.3	29,955	(27,632)	2,323
Pension	39.2.3	27,250,150	(13,883,989)	13,366,161
Benevolent	39.2.3	1,794,679	(512,824)	1,281,855
Post retirement medical benefits	39.2.3	6,469,642	(2,919,433)	3,550,209
		<u>35,544,426</u>	<u>(17,343,878)</u>	<u>18,200,548</u>

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

	2012			
	Net recognised liabilities at July 1, 2011	Charge for the year (note 39.2.4)	Payments during the year	Employees contribution/ Amount transferred
------(Rupees in '000)-----				
Gratuity	2,323	11,985	(4,781)	-
Pension	13,366,161	5,558,614	(4,291,084)	-
Benevolent	1,281,855	358,608	(167,797)	3,986
Post retirement medical benefits	3,550,209	1,419,093	(918,264)	-
	<b>18,200,548</b>	<b>7,348,300</b>	<b>(5,381,926)</b>	<b>3,986</b>
				<b>20,170,908</b>

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

**39.2.4 Amount recognised in the profit and loss account**

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

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

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

**39.2.5 Historical information**

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

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

### 39.6 Employees' compensated absences

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

## 40. PROFIT FOR THE YEAR AFTER NON-CASH ITEMS

	2012	2011
	(Rupees in '000)	
Profit for the year	<b>260,800,112</b>	180,975,738
Adjustments for:		
Depreciation	<b>1,553,272</b>	975,567
Amortisation of intangible assets	<b>27,140</b>	33,593
Amortisation of deferred income	-	(17,718)
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	<b>8,759,053</b>	6,002,328
- loans, advances and other assets	-	(510,848)
- other doubtful assets	<b>(102,415)</b>	80,823
- diminution in value of investments	<b>(59,212)</b>	(57,881)
(Gain) / loss on disposal of property, plant and equipment	<b>(11,583)</b>	(5,785)
Gain on disposal of investments	-	(5,542)
Dividend income	<b>(15,697,821)</b>	(11,923,782)
	<b>255,268,546</b>	175,546,493

## 41. CASH AND CASH EQUIVALENTS

Local currency	<b>1,974,352</b>	2,379,859
Foreign currency reserves	<b>1,037,451,385</b>	1,287,949,760
Earmarked foreign currency balances	<b>4,994,808</b>	75,464,270
Special Drawing Rights of IMF	<b>91,334,177</b>	102,188,403
	<b>1,135,754,722</b>	1,467,982,292



## 42. RELATED PARTY TRANSACTIONS

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

### 42.1 Governments and related entities

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

### 42.2 Remuneration to key management personnel

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

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

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

## 43. RISK MANAGEMENT POLICIES

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

### 43.1 Credit risk management

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

**43.2 INTEREST / MARK-UP RATE RISK**

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

**43.2.1**

	2012						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand 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							
Local currency - coins	-	-	-	1,814,196	-	1,814,196	1,814,196
Foreign currency reserves	1,037,453,327	-	1,037,453,327	222,535	665,908	888,443	1,038,341,770
Earmarked foreign currency balance	-	-	-	4,994,808	-	4,994,808	4,994,808
Special Drawing Rights of International Monetary Fund	91,334,177	-	91,334,177	-	-	-	91,334,177
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	17,104	17,104	17,104
Securities purchased under agreement to resale	112,898,648	-	112,898,648	-	-	-	112,898,648
Current account of the Government of AJK	12,744,407	-	12,744,407	-	-	-	12,744,407
Investments	1,803,844,625	3,131,397	1,806,976,022	-	20,275,165	20,275,165	1,827,251,187
Loans, advances, bills of exchange and commercial paper	274,669,777	48,438,043	323,107,820	574,841	16,375,374	16,950,215	340,058,035
Assets held with the Reserve Bank of India	-	-	-	1,235,702	-	1,235,702	1,235,702
Balances due from the Governments of India and Bangladesh (former East Pakistan)	5,937,056	-	5,937,056	860,377	-	860,377	6,797,433
Other assets	-	-	-	5,785,855	-	5,785,855	5,785,855
	3,338,882,017	51,569,440	3,390,451,457	15,488,314	37,333,551	52,821,865	3,443,273,322
Financial liabilities							
Bank notes in circulation	-	-	-	1,776,962,388	-	1,776,962,388	1,776,962,388
Bills payable	-	-	-	587,542	-	587,542	587,542
Current accounts of the Government	-	-	-	148,815,907	-	148,815,907	148,815,907
Securities sold under agreement to repurchase	12,240,388	-	12,240,388	-	-	-	12,240,388
Deposits of banks and financial institutions	-	-	-	396,172,467	-	396,172,467	396,172,467
Other deposits and accounts	56,102,900	37,819,520	93,922,420	58,937,735	-	58,937,735	152,860,155
Payable to International Monetary Fund	372,242,668	283,942,637	656,185,305	-	-	-	656,185,305
Other liabilities	-	-	-	94,467,090	-	94,467,090	94,467,090
	440,585,956	321,762,157	762,348,113	2,475,943,129	-	2,475,943,129	3,238,291,242
On balance sheet gap	2,898,296,061	(270,192,717)	2,628,103,344	(2,460,454,815)	37,333,551	(2,423,121,264)	204,982,080
Forward exchange contracts - sales	-	-	-	(412,632,541)	-	(412,632,541)	(412,632,541)
Forward exchange contracts - purchases	-	-	-	390,848,354	-	390,848,354	390,848,354
Futures - sale	-	-	-	(15,877,206)	-	(15,877,206)	(15,877,206)
Futures - purchase	-	-	-	13,242,061	-	13,242,061	13,242,061
Off balance sheet gap	-	-	-	(24,419,332)	-	(24,419,332)	(24,419,332)
Total yield/Interest Risk Sensitivity Gap	2,898,296,061	(270,192,717)	2,628,103,344	(2,436,035,483)	37,333,551	(2,398,701,932)	229,401,412
Cumulative Yield/Interest Risk Sensitivity Gap	2,898,296,061	2,628,103,344	5,256,206,688	2,820,171,205	2,857,504,756	458,802,824	458,802,824

**43.2.2**

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

	2011 (Restated)						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
<b>Financial assets</b>							
Local currency - coins	-	-	-	2,225,301	-	2,225,301	2,225,301
Foreign currency reserves	1,287,886,687	-	1,287,886,687	253,412	640,175	893,587	1,288,780,274
Earmarked foreign currency balance	-	-	-	75,464,270	-	75,464,270	75,464,270
Special Drawing Rights of International Monetary Fund	102,188,403	-	102,188,403	-	-	-	102,188,403
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	16,392	16,392	16,392
Securities purchased under agreement to resale	63,660,336	-	63,660,336	-	-	-	63,660,336
Current account of the Government of AJK	586,181	-	586,181	-	-	-	586,181
Investments	1,363,815,489	3,135,688	1,366,951,177	-	20,312,704	20,312,704	1,387,263,881
Loans, advances and bills of exchange	230,185,188	118,111,936	348,297,124	19,847,415	17,047,437	36,894,852	385,191,976
Assets held with the Reserve Bank of India	-	-	-	1,306,468	-	1,306,468	1,306,468
Balances due from the Governments of India and Bangladesh (former East Pakistan)	5,452,302	-	5,452,302	860,377	-	860,377	6,312,679
Other assets	-	-	-	7,898,433	-	7,898,433	7,898,433
	3,053,774,586	121,247,624	3,175,022,210	107,855,676	38,016,708	145,872,384	3,320,894,594
<b>Financial liabilities</b>							
Bank notes in circulation	-	-	-	1,599,833,487	-	1,599,833,487	1,599,833,487
Bills payable	-	-	-	780,155	-	780,155	780,155
Current accounts of the Government	-	-	-	217,968,067	-	217,968,067	217,968,067
Deposits of banks and financial institutions	-	-	-	349,426,939	-	349,426,939	349,426,939
Other deposits and accounts	77,960,149	55,877,445	133,837,594	44,312,353	11,012,500	55,324,853	189,162,447
Payable to International Monetary Fund	243,306,491	489,457,849	732,764,340	-	-	-	732,764,340
Other liabilities	-	-	-	29,070,091	-	29,070,091	29,070,091
	321,266,640	545,335,294	866,601,934	2,241,391,092	11,012,500	2,252,403,592	3,119,005,526
<b>On balance sheet gap</b>	<b>2,732,507,946</b>	<b>(424,087,670)</b>	<b>2,308,420,276</b>	<b>(2,133,535,416)</b>	<b>27,004,208</b>	<b>(2,106,531,208)</b>	<b>201,889,068</b>
<b>Off Balance Sheet Financial Instruments</b>							
Forward exchange contracts - sales	-	-	-	(221,851,605)	-	(221,851,605)	(221,851,605)
Forward exchange contracts - purchases	-	-	-	234,837,376	-	234,837,376	234,837,376
Futures - sale	-	-	-	(3,481,803)	-	(3,481,803)	(3,481,803)
Futures - purchase	-	-	-	7,885,090	-	7,885,090	7,885,090
Off balance sheet gap	-	-	-	17,389,058	-	17,389,058	17,389,058
<b>Total yield/Interest Risk Sensitivity Gap</b>	<b>2,732,507,946</b>	<b>(424,087,670)</b>	<b>2,308,420,276</b>	<b>(2,150,924,474)</b>	<b>27,004,208</b>	<b>(2,123,920,266)</b>	<b>184,500,010</b>
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>	<b>2,732,507,946</b>	<b>2,308,420,276</b>	<b>4,616,840,552</b>	<b>2,465,916,078</b>	<b>2,492,920,286</b>	<b>369,000,020</b>	<b>369,000,020</b>

### **43.3 Currency risk management**

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

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

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

### **43.4 Liquidity risk management**

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

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

### **43.5 Portfolio risk management**

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

## **44. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

## **45. DATE OF AUTHORISATION**

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

**46. CORRESPONDING FIGURES**

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

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

**47. GENERAL**

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

*Yaseen Anwar*  
Governor

*Kazi Abdul Muktadir*  
Deputy Governor

*Muhammad Haroon Rasheed*  
Executive Director