

# 12 Consolidated Financial Statements of SBP and its Subsidiaries

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**KPMG TASEER HADI & CO.**

Chartered Accountants

Sheikh Sultan Trust Building No. 2

Beaumont Road

Karachi

**A. F. FERGUSON & CO.**

Chartered Accountants

State Life Building No. 1-C

I. I. Chundrigar Road

P.O. Box 4716

Karachi-74000

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries, SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited (together "the Group"), which comprise the consolidated balance sheet as at June 30, 2013, and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the consolidated financial statements).

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

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

### *Auditors' responsibility*

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

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

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

**KPMG TASEER HADI & CO.**

Chartered Accountants

**A. F. FERGUSON & CO.**

Chartered Accountants

***Opinion***

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at June 30, 2013, and of its financial performance and its cash flows for the year then ended in accordance with approved accounting standards as disclosed in note 2 to the consolidated financial statements.

***Other Matter***

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

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**KPMG Taseer Hadi & Co.**

Chartered Accountants

Karachi

**Mohammad Mahmood Hussain**

Audit Engagement Partner

Date: October 30, 2013

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**A. F. Ferguson & Co.**

Chartered Accountants

Karachi

**Salman Hussain**

Audit Engagement Partner

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

	<i>Note</i>	<b>2013</b>	2012 (Restated)	2011 (Restated)
------(Rupees in '000)-----				
<b>ASSETS</b>				
Gold reserves held by the Bank	5	<b>246,096,839</b>	313,077,419	267,969,374
Local currency - coins	6	<b>924,997</b>	1,814,196	2,225,301
Foreign currency reserves	7	<b>642,181,554</b>	1,035,459,135	1,289,700,794
Earmarked foreign currency balances	8	<b>3,849,637</b>	4,994,808	75,464,270
Special Drawing Rights of the International Monetary Fund	9	<b>85,246,487</b>	91,334,177	102,188,403
		<b>978,299,514</b>	1,446,679,735	1,737,548,142
Reserve tranche with the International Monetary Fund under quota arrangements	10	<b>17,755</b>	17,104	16,392
Securities purchased under agreement to resale	11	<b>198,787,435</b>	112,898,648	63,660,336
Current accounts of Governments	20.2	<b>5,932,762</b>	12,744,407	586,181
Investments	12	<b>2,490,745,139</b>	1,952,690,329	1,507,790,777
Loans, advances, bills of exchange and commercial papers	13	<b>335,857,529</b>	340,046,025	385,191,976
Assets held with the Reserve Bank of India	14	<b>5,236,648</b>	6,311,529	5,652,991
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	<b>7,318,538</b>	6,797,433	6,312,679
Property and equipment	16	<b>22,341,050</b>	23,450,893	24,722,358
Intangible assets	17	<b>16,241</b>	30,882	21,495
Other assets	18	<b>4,865,957</b>	5,612,820	7,085,133
Total assets		<b>4,049,418,568</b>	3,907,279,805	3,738,588,460
<b>LIABILITIES</b>				
Bank notes in circulation	19	<b>2,041,361,303</b>	1,776,962,388	1,599,833,487
Bills payable		<b>603,922</b>	587,542	780,155
Current accounts of Governments	20.1	<b>133,392,486</b>	148,815,907	217,968,067
Securities sold under agreement to repurchase	21	-	12,240,388	-
Payable under bilateral currency swap agreement	22.1	<b>81,614,727</b>	-	-
Deposits of banks and financial institutions	23	<b>475,647,801</b>	396,172,467	349,426,939
Other deposits and accounts	24	<b>156,193,349</b>	153,534,625	189,162,447
Payable to the International Monetary Fund	25	<b>431,229,449</b>	656,185,305	732,764,340
Other liabilities	26	<b>113,107,984</b>	104,307,724	36,670,597
		<b>3,433,151,021</b>	3,248,806,346	3,126,606,032
Deferred liability - unfunded staff retirement benefits	27	<b>23,972,702</b>	21,457,079	19,393,880
Capital grant rural finance resource centre		-	-	59,430
Endowment fund		<b>74,490</b>	67,281	-
Total liabilities		<b>3,457,198,213</b>	3,270,330,706	3,146,059,342
<b>Net assets</b>		<b>592,220,355</b>	636,949,099	592,529,118
<b>REPRESENTED BY</b>				
Share capital	28	<b>100,000</b>	100,000	100,000
Reserves	29	<b>175,944,238</b>	175,944,238	177,044,238
		<b>176,044,238</b>	176,044,238	177,144,238
Unrealised appreciation on gold reserves	30	<b>242,568,983</b>	309,565,438	268,947,619
Unrealised appreciation on remeasurement of investments		<b>147,628,730</b>	125,361,019	120,458,857
Surplus on revaluation of property and equipment		<b>25,978,404</b>	25,978,404	25,978,404
<b>Total equity</b>		<b>592,220,355</b>	636,949,099	592,529,118
<b>CONTINGENCIES AND COMMITMENTS</b>				
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Pursuant to the requirements of section 26 (1) of SBP Act, 1956, the assets of the Group specifically earmarked against the liabilities of the issue department have been detailed in note 19.1 to these consolidated financial statements.

The annexed notes from 1 to 49 form an integral part of these consolidated financial statements.

**Yaseen Anwar**  
Governor

**Kazi Abdul Muktaadir**  
Deputy Governor

**Muhammad Haroon Rasheed**  
Executive Director

**STATE BANK OF PAKISTAN**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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

The annexed notes from 1 to 49 form an integral part of these consolidated financial statements.

**Yaseen Anwar**  
Governor

**Kazi Abdul Muktadir**  
Deputy Governor

**Muhammad Haroon Rasheed**  
Executive Director

**STATE BANK OF PAKISTAN**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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

The annexed notes from 1 to 49 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 CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2013**

Share capital	Reserves						Unappropriated profit	Unrealised appreciation on gold reserves	Unrealised appreciation on remeasurement of investments	Surplus on revaluation of property and equipment	Total	
	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund						
------(Rupees in '000)-----												
<b>Balance as at July 1, 2011 - as previously reported</b>	100,000	165,744,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	268,947,619	-	25,978,404	472,070,261
Effect of change in accounting policy (refer note 4.1.1)	-	-	-	-	-	-	-	-	-	120,458,857	-	120,458,857
<b>Balance as at July 1, 2011 - restated</b>	100,000	165,744,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	268,947,619	120,458,857	25,978,404	592,529,118
<b>Total comprehensive income for the year</b>												
Profit for the year	-	-	-	-	-	-	-	260,800,112	-	-	-	260,800,112
<i>Other comprehensive income</i>												
Unrealised appreciation on remeasurement of investments	-	-	-	-	-	-	-	-	-	4,902,162	-	4,902,162
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	44,962,441	-	-	44,962,441
	-	-	-	-	-	-	-	260,800,112	44,962,441	4,902,162	-	310,664,715
<b>Transactions with owners</b>												
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)
<b>Others</b>												
Transferred from reserve fund	-	(1,100,000)	-	-	-	-	-	1,100,000	-	-	-	-
Revaluation reserve pertaining to gold reserves held by the Reserve Bank of India transferred to provision for other doubtful assets	-	-	-	-	-	-	-	-	(4,344,622)	-	-	(4,344,622)
	-	(1,100,000)	-	-	-	-	-	1,100,000	(4,344,622)	-	-	(4,344,622)
<b>Balance as at June 30, 2012 - restated</b>	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	309,565,438	125,361,019	25,978,404	636,949,099
<b>Total comprehensive income for the year</b>												
Profit for the year	-	-	-	-	-	-	-	233,782,029	-	-	-	233,782,029
<i>Other comprehensive income</i>												
Unrealised appreciation on remeasurement of investments	-	-	-	-	-	-	-	-	-	22,267,711	-	22,267,711
Unrealised appreciation on gold reserves	-	-	-	-	-	-	-	-	(66,996,455)	-	-	(66,996,455)
	-	-	-	-	-	-	-	233,782,029	(66,996,455)	22,267,711	-	189,053,285
<b>Transactions with owners</b>												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Balance profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(233,772,029)	-	-	-	(233,772,029)
	-	-	-	-	-	-	-	(233,782,029)	-	-	-	(233,782,029)
<b>Balance as at June 30, 2013</b>	<b>100,000</b>	<b>164,644,238</b>	<b>2,600,000</b>	<b>1,600,000</b>	<b>1,500,000</b>	<b>900,000</b>	<b>4,700,000</b>	<b>-</b>	<b>242,568,983</b>	<b>147,628,730</b>	<b>25,978,404</b>	<b>592,220,355</b>

The annexed notes from 1 to 49 form an integral part of these consolidated financial statements.

Yaseen Anwar  
Governor

Kazi Abdul Muktaadir  
Deputy Governor

Muhammad Haroon Rasheed  
Executive Director

**STATE BANK OF PAKISTAN**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

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

The annexed notes from 1 to 49 form an integral part of these consolidated financial statements.

**Yaseen Anwar**  
Governor

**Kazi Abdul Muktedir**  
Deputy Governor

**Muhammad Haroon Rasheed**  
Executive Director

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

**1. STATUS AND NATURE OF OPERATIONS**

**1.1** The Group comprises of:

**1.1.1** State Bank of Pakistan ("the Bank") is the central bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. The Bank is primarily responsible for monitoring of credit and foreign exchange, management of currency and also acts as the banker to the Government. The activities of the Bank include:

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

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

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

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

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

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

**1.2** The head office of the Bank is situated at I. I. Chundrigar Road, Karachi, in the province of Sindh, Pakistan.

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

## **2. STATEMENT OF COMPLIANCE**

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

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

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

All material inter group balances and transactions have been eliminated.

## **3. BASIS OF MEASUREMENT**

- 3.1** These consolidated financial statements have been prepared under the historical cost convention, except that gold reserves, certain foreign currency reserves, certain investments and certain items of property as referred to in their respective notes have been included at revalued amounts and certain staff retirement benefits have been carried at present value of defined benefit obligations.

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

The preparation of consolidated financial statements in conformity with approved accounting standards as adopted by the Central Board of the Bank, requires management to make judgments estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of approved accounting standards as adopted by the Central Board of the Bank, and estimates that have a significant risk of material adjustment to the carrying amounts of amounts of assets and liabilities are as follows:

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

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

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

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

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

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

### **3.2.4 Retirement Benefits**

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 40.2.1 to the consolidated financial statements.

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

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

## **3.3 New and amended standards and interpretations that are effective in the current year**

IAS 1, 'Financial statement presentation' (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The impact of this change has been disclosed in the consolidated statement of comprehensive income.

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

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

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

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Change in accounting policies

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

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

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

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

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

## 4.2 Bank notes and coins

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

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

## 4.3 Investments

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

### Held for trading

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

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

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

### Held to maturity

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

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

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

### **Loans and receivables**

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

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

An allowance for impairment is established if there is evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans and receivables except where the loan is secured by the guarantee of the Federal or Provincial Governments. The amount of the provision is the difference between the carrying amount and the amount recoverable from guarantees and collateral, discounted at the original effective interest rate of loans and receivables.

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

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

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

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

### **Derecognition**

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

## **4.4 Derivative financial instruments**

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

## **4.5 Collateralised borrowings / lendings**

### **4.5.1 Reverse repurchase and repurchase agreements**

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

### **4.5.2 Bilateral currency swap agreements**

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

## **4.6 Gold reserves**

Gold reserves, including those held with the Reserve Bank of India, are stated at the revalued amounts of the fine gold content thereof in accordance with the requirements of the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations.

Gold is recorded at the prevailing rate at initial recognition. Subsequent to initial measurement, it is revalued under the State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No. 42(vi) at the closing market rate fixed by the London Bullion Market Association on the last working day of the year. Appreciation or diminution, if any, on revaluation is taken to equity under the head “unrealised appreciation on gold reserves”. Appreciation / diminution realised on disposal of gold is taken to the profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the consolidated statement of changes in equity pending transfer of these assets to the Bank subject to final settlement between the Governments of Pakistan and India. Instead it is shown in other liabilities as provision for other doubtful assets.

## **4.7 Property and equipment**

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

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

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

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

#### **4.8 Intangibles**

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

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

#### **4.9 Impairment**

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

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

#### **4.10 Compensated absences**

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

#### 4.11 Staff retirement benefits

The Bank and Corporation operate:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. The Bank and Corporation provided an option to employees covered under old scheme to join the funded Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from June 1, 2007 and July 1, 2010 respectively. Under this scheme contribution is made both by the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Bank or Corporation service after June 1, 2007 are covered under the new scheme.
- b) an unfunded General Provident Fund (GPF) scheme for all those employees who joined the Bank after 1975 and those employees who had joined prior to 1975 but opted for the new scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.
- c) following are other staff retirement benefit schemes:
  - an unfunded gratuity scheme (old scheme) for all employees other than those who opted for the new general provident fund scheme, or joined the Bank or corporation after 1975 and are entitled only to pension scheme benefits;
  - a funded Employees' Gratuity Fund (EGF) was introduced by the Bank and the Corporation effective from June 1, 2007 and July 1, 2010 respectively for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
  - an unfunded pension scheme for those employees who joined the Group after 1975 and before the introduction of EGF which is effective from June 1, 2007 in case of the Bank and July 1, 2010 in case of Corporation;
  - an unfunded benevolent fund scheme;
  - an unfunded post retirement medical benefit scheme; and
  - six months post retirement facility.

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

Annual provisions are made by the Group to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2013. Unrecognised actuarial gains and losses at the beginning of the year are recognised in the consolidated profit and loss account over the expected average remaining working lives of the employees.

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

#### 4.12 Deferred income

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

#### **4.13 Revenue recognition**

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

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

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

#### **4.15 Taxation**

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

#### **4.16 Foreign currency translation**

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

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

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

Commitments for outstanding foreign exchange forward and swap contracts disclosed in note 31.2 to the consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the closing rate of exchange prevailing at on the balance sheet date.

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

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

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

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

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

#### **4.18 Provisions**

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

#### **4.19 Cash and cash equivalents**

Cash and cash equivalents include cash, certain foreign currency reserves, local currency coins, earmarked foreign currency balances, SDRs, balances in the current and deposit accounts and securities that are realisable in known amounts of cash within three months from the date of original investments and which are subject to insignificant changes in value.

#### **4.20 Financial instruments**

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

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

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

#### 4.21 Stationery and other consumables

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

#### 4.22 Accounts receivables and other receivables

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

#### 4.23 Trade and other payables

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

#### 4.24 Offsetting

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

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

6.1 As mentioned in note 4.2, the Group is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of unissued coins held by the Group at the year end (also refer Note 19.1).

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

#### 7.1 Investments

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

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

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

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

7.4 These consist of investments made in:

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

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

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

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

#### 8. EARMARKED FOREIGN CURRENCY BALANCES

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

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

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Group as at June 30, 2013. Interest is credited by the IMF on the SDR holding of the Group at weekly interest rates on daily products of SDRs held during each quarter.

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

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

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

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

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

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

**12.1 Investments in Government securities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**13.1 Loans and advances to the Governments**

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

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

**13.1.1** This includes current account receivable balance of the Government of Punjab amounting to Rs. 50,900 million converted in a loan balance under agreement finalised on November 10, 2009 and which is effective from August 01, 2009. This loan carries interest equivalent to quarterly average rate of six months weighted average Market Treasury Bills and is repayable in 48 equal installments of Rs. 1,060 million each starting from October 01, 2009. Two installments of January 2012 and February 2012 have been deferred upon request of Government of Punjab. Accordingly the date of recovery of last installment has been revised to November 01, 2013. As at June 30, 2013, the outstanding balance of this loan amounts to Rs. 5,302 million (2012: Rs 18,027 million). The loan is secured by the guarantee of the Federal Government.

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

**13.1.2** This represents current account receivable balance of the Government of Baluchistan and carries interest at a rate equivalent to quarterly average rate of six months weighted average Market Treasury Bills rate. Under the agreement, the total loan is repayable in 65 monthly installments, which started from July 1, 2009. The loan is secured by the guarantee of the Federal Government.

**13.1.3** This represents bridge financing facility extended to Government of Khyber Pakhtunkhwa under agreement carried out on December 28, 2010. This loan is repayable in 16 equal quarterly installments amounting to Rs. 187.50 million starting from December 31, 2011 along with mark-up at the rate of 3 months weighted average Market Treasury Bills rate of the last auction of the preceding quarter. As at June 30, 2013, the outstanding balance of this loan amounts to Rs 1,875 million (2012: Rs 2,437 million). The loan is secured by the guarantee of the Federal Government.

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

	Scheduled banks		Other financial institutions		Total	
	2013	2012	2013	2012	2013	2012
	----- (Rupees in '000) -----					
Agricultural sector (13.2.1)	50,659,855	50,789,594	-	-	50,659,855	50,789,594
Industrial sector (13.2.1 & 13.2.3)	6,709,427	7,573,812	-	-	6,709,427	7,573,812
Export sector (13.2.3)	13,547,868	13,218,944	3,567	3,567	13,551,435	13,222,511
Housing sector (13.2.2)	-	-	11,242,300	11,242,300	11,242,300	11,242,300
Others (13.2.1, 13.2.3 & 13.2.4)	16,939,306	16,939,306	-	-	16,939,306	16,939,306
	<b>87,856,456</b>	<b>88,521,656</b>	<b>11,245,867</b>	<b>11,245,867</b>	<b>99,102,323</b>	<b>99,767,523</b>

**13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2012: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative government guaranteed financing of Rs. 51,257.21 million (2012: Rs. 51,257.21 million) to Zarai Taraqiati Bank Limited (ZTBL) in addition to the unsecured subordinated loan to ZTBL amounting to Rs. 3,204 million (2012: Rs. 3,204 million) classified in other loans and advances. The entire exposure has become overdue and restructuring of ZTBL is in progress and detailed terms of repayment of these finances are expected to be finalised in due course.

**13.2.2** This represents loan receivable from House Building Finance Corporation Limited (HBFCL) against seven credit lines on profit and loss sharing basis. As at June 30, 2013 all of these credit lines are over due amounting to Rs. 11,242 million (2012: Rs. 11,242 million). These credit lines are secured by the guarantee from the Federal Government.

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

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

**13.3** These balances include face value of certain commercial papers amounting to Rs. 78.5 million (2012: Rs. 78.5 million) which are held in Bangladesh (former East Pakistan). The reliability of this amount is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan). These commercial papers are included in assets of Issue Department.

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

	Scheduled banks		Other financial institutions		Total	
	2013	2012	2013	2012	2013	2012
	----- (Rupees in '000) -----					
Agricultural sector	1,627,651	1,352,495	131,540	157,846	1,759,191	1,510,341
Industrial sector	35,402,043	35,816,917	4,252,409	4,651,692	39,654,452	40,468,609
Export sector	164,286,776	151,627,377	-	-	164,286,776	151,627,377
Others	25,482	25,482	-	-	25,482	25,482
	<b>201,341,952</b>	<b>188,822,271</b>	<b>4,383,949</b>	<b>4,809,538</b>	<b>205,725,901</b>	<b>193,631,809</b>

<b>13.5 Provision against doubtful assets</b>		<b>2013</b>	<b>2012</b>
		<b>(Rupees in '000)</b>	
Opening balance		<b>6,409,918</b>	6,397,908
(Reversal) / charge during the year		<b>(1,059,387)</b>	12,010
Closing balance		<b>5,350,531</b>	6,409,918
<b>13.6</b> The interest / mark-up rate profile of the interest / mark-up bearing loans and advances is as follows:		<b>2013</b>	<b>2012</b>
		<b>(% per annum)</b>	
Government owned / controlled and private sector financial institutions		<b>0 to 11</b>	0 to 12
Employees loans		<b>10</b>	10
<b>14. ASSETS HELD WITH THE RESERVE BANK OF INDIA</b>	<i>Note</i>	<b>2013</b>	<b>2012</b>
		<b>(Rupees in '000)</b>	
Gold reserves			
- Opening balance		<b>5,075,827</b>	4,346,524
- (Diminution) / appreciation for the year due to revaluation	30	<b>(1,086,193)</b>	729,303
		<b>3,989,634</b>	5,075,827
Sterling securities		<b>501,657</b>	486,977
Government of India securities		<b>16,970</b>	17,047
Rupee coins		<b>4,938</b>	4,959
	14.1	<b>4,513,199</b>	5,584,810
Indian notes representing assets receivable from the Reserve Bank of India	14.2	<b>723,449</b>	726,719
	19.1	<b>5,236,648</b>	6,311,529
<b>14.1</b>	These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 26.2.1).		
<b>14.2</b>	These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Reliability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 26.2.1).		
<b>15. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)</b>	<i>Note</i>	<b>2013</b>	<b>2012</b>
		<b>(Rupees in '000)</b>	
<b>India</b>			
Advance against printing of notes		<b>39,616</b>	39,616
Receivable from Reserve Bank of India		<b>837</b>	837
		<b>40,453</b>	40,453
<b>Bangladesh (former East Pakistan)</b>			
Inter office balances		<b>819,924</b>	819,924
Loans and advances	15.1	<b>6,458,161</b>	5,937,056
		<b>7,278,085</b>	6,756,980
	15.2	<b>7,318,538</b>	6,797,433
<b>15.1</b>	These represent interest bearing loans and advances provided to the Government of Bangladesh (former East Pakistan).		
<b>15.2</b>	The reliability of the above balances is subject to final settlement between the Government of Pakistan and Governments of Bangladesh (former East Pakistan) and India (also refer notes 26.1 and 26.2.1).		

## 16. PROPERTY AND EQUIPMENT

Note

2013  
(Rupees in '000)

2012

Operating fixed assets	16.1	21,835,143	23,086,639
Capital work-in-progress	16.3	505,907	364,254
		<u>22,341,050</u>	<u>23,450,893</u>

## 16.1 Operating fixed assets

	2013							Annual rate of depreciation %
	Cost / revalued amount at July 1, 2012	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2013	Accumulated depreciation at July 1, 2012	Depreciation for the year/ (deletions) / adjustments	Accumulated depreciation at June 30, 2013	Net book value at June 30, 2013	
(Rupees in '000)								
Freehold land	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land	16,807,143	3,862	16,811,005	589,562	590,006	1,179,568	15,631,437	over the remaining term of lease
Buildings on freehold land	1,041,145	26,367	1,067,512	203,807	210,392	414,199	653,313	over the remaining useful life
Buildings on leasehold land	1,916,988	40,538	1,957,526	368,691	379,481	748,172	1,209,354	over the remaining term of lease
Furniture and fixtures	230,291	7,405 (5,919)	231,777	154,479	17,678 (4,684)	167,473	64,304	10
Office equipment	1,492,574	97,586 (42,701)	1,547,459	1,183,110	126,950 (42,152)	1,267,908	279,551	20
EDP equipment	1,590,549	49,567 (8,777)	1,631,339	1,491,734	90,523 (6,766)	1,575,491	55,848	33.33
Motor vehicles	400,604	23,844 (22,327)	402,121	192,930	73,392 (13,879)	252,443	149,678	20
	<u>27,270,952</u>	<u>249,169</u> <u>(79,724)</u>	<u>27,440,397</u>	<u>4,184,313</u>	<u>1,488,422</u> <u>(67,481)</u>	<u>5,605,254</u>	<u>21,835,143</u>	

	2012							Annual rate of depreciation %
	Cost / revalued amount at July 1, 2011	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2012	Accumulated depreciation at July 1, 2011	Depreciation for the year/ (deletions) / adjustments	Accumulated depreciation at June 30, 2012	Net book value at June 30, 2012	
(Rupees in '000)								
Freehold land	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land	16,735,802	71,341	16,807,143	-	589,562	589,562	16,217,581	over the remaining term of lease
Buildings on freehold land	1,019,194	21,951	1,041,145	-	203,807	203,807	837,338	over the remaining useful life
Buildings on leasehold land	1,878,950	38,038	1,916,988	-	368,691	368,691	1,548,297	over the remaining term of lease
Furniture and fixtures	232,617	7,005 (9,331)	230,291	145,689	18,093 (9,303)	154,479	75,812	10
Office equipment	1,410,967	99,815 (18,208)	1,492,574	1,065,068	136,068 (18,051)	1,183,110	309,464	20
EDP equipment	1,569,523	21,733 (707)	1,590,549	1,325,277	166,976 (559) 40	1,491,734	98,815	33.33
Motor vehicles	371,239	72,200 (42,835)	400,604	148,608	70,075 (25,753)	192,930	207,674	20
	<u>27,009,950</u>	<u>332,083</u> <u>(71,081)</u>	<u>27,270,952</u>	<u>2,684,642</u>	<u>1,553,272</u> <u>(53,666)</u> 65	<u>4,184,313</u>	<u>23,086,639</u>	

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

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

**16.3 Capital work-in-progress**

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

**17. INTANGIBLE ASSETS**

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

**18. OTHER ASSETS**

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

**19. BANK NOTES IN CIRCULATION**

Total bank notes issued	19.1	2,041,504,603	1,777,122,544
Notes held with the Banking Department	6	(143,300)	(160,156)
Notes in circulation		<u>2,041,361,303</u>	<u>1,776,962,388</u>

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

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

## 20. CURRENT ACCOUNTS OF GOVERNMENTS

### 20.1 Current accounts of Governments - payable balances

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

### 20.2 Current accounts of Governments - receivable balances

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

### 20.3 Federal Government

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

### 20.4 Provincial Government - Punjab

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

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

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

## 21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

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

## 22. BILATERAL CURRENCY SWAP AGREEMENTS

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

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

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

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

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

**24. OTHER DEPOSITS AND ACCOUNTS**

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

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

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

**24.2** This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2013) and June 2012 carrying interest at six months LIBOR plus 100 bps and twelve months LIBOR plus 100 bps respectively, both payable semi-annually. These deposits of USD 500 million each have been set off against the rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantees dated February 7, 2013 and June 29, 2012 whereby the MoF has agreed to assume all liabilities and risks arising from the Group's agreement with SAFE China.

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

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

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

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

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

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

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

**25.4** Interest profile of payable to IMF is as under:

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

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

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

26. OTHER LIABILITIES	Note	2013	2012
(Rupees in '000)			
<b>Foreign currency</b>			
Accrued interest and discount on deposits		798,239	2,529,111
Charges on allocation of Special Drawing Rights of the IMF		16,075	30,303
		<u>814,314</u>	<u>2,559,414</u>
<b>Local currency</b>			
Overdue mark-up and return	26.1	6,142,508	5,621,403
Remittance clearance account		1,652,084	1,556,814
Exchange loss payable under exchange risk coverage scheme		226,436	228,556
Balance profit payable to the Government of Pakistan		76,472,914	62,700,879
Dividend payable	26.3	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		2,407,129	2,407,129
Other accruals and provisions	26.2	24,066,802	25,282,606
Others	26.4	1,315,797	3,940,923
		<u>112,293,670</u>	<u>101,748,310</u>
		<u>113,107,984</u>	<u>104,307,724</u>

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

26.2 Other accruals and provisions	Note	2013	2012
(Rupees in '000)			
Agency commission		8,761,090	7,144,581
Provision for employees' compensated absences	40.3	5,475,932	4,881,805
Provision for other doubtful assets	26.2.1	6,359,475	7,435,365
Other provisions	26.2.2	2,848,933	4,981,171
Others		621,372	839,684
		<u>24,066,802</u>	<u>25,282,606</u>

#### 26.2.1 Provision for other doubtful assets

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

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

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

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

#### 26.2.1.1 Movement of provisions for other doubtful assets

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

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

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

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

**26.2.2.2** This represents provision made against a claim under arbitration.

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

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

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

## **28. SHARE CAPITAL**

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

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

## 29. RESERVES

### 29.1 Reserve Fund

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

### 29.2 Other Funds

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

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

## 31. CONTINGENCIES AND COMMITMENTS

### 31.1 Contingencies

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

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

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

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

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

<b>35. EXCHANGE GAIN - NET</b>	<b>2013</b>	<b>2012</b>
	<b>(Rupees in '000)</b>	
Gain / (loss) on:		
- Foreign currency placements, deposits, securities and other accounts - net	<b>25,856,535</b>	67,584,902
- Forward covers under Exchange Risk Coverage Scheme	<b>5,728</b>	18,689
- Payable to the IMF	<b>(16,233,145)</b>	(21,969,395)
- Special Drawing Rights of the IMF	<b>(3,019,610)</b>	(2,907,061)
	<b>6,609,508</b>	42,727,135
Exchange risk fee income	<b>93,907</b>	100,503
	<b>6,703,415</b>	42,827,638
<b>36. OTHER OPERATING (LOSS) / INCOME - NET</b>		
Penalties levied on banks and financial institutions	<b>904,330</b>	1,144,218
License / Credit Information Bureau fee recovered	<b>182,314</b>	141,372
Gain / (loss) on sale of investment:		
Local	<b>(276)</b>	-
Foreign	<b>1,625,362</b>	1,655,898
	<b>1,625,086</b>	1,655,898
(Loss) / gain on remeasurement of securities classified as held for trading	<b>(3,748,949)</b>	6,097,647
Others	<b>16,908</b>	(5,484)
	<b>(1,020,311)</b>	9,033,651
<b>37. OTHER INCOME / (CHARGES) - NET</b>		
(Loss) / gain on disposal of property and equipment	<b>(617)</b>	11,583
Liabilities and provisions written back - net	<b>777</b>	4,329
Charges on allocation of Special Drawing Rights of the IMF	<b>(112,769)</b>	(326,167)
Grant income under foreign assistance program	<b>26,292</b>	-
Others	<b>146,567</b>	186,494
	<b>60,250</b>	(123,761)
<b>38. BANK NOTES PRINTING CHARGES</b>		
Bank notes printing charges are paid to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.		
<b>39. AGENCY COMMISSION</b>		
Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.13% (2012: 0.13% ) of the total amount of collections and payments handled by NBP.		

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

## 40.1 Auditors' remuneration

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

40.1.1 This includes amount relating to the year 2011.