

Annual Performance Review 2014-2015

SBP VISION
2020 STRATEGY



- ☐ Policies
- ☐ Regulations
- ☐ Standards
- ☐ Laws
- ☐ Compliance
- ☐ Transparency
- ☐ Systems



State Bank of Pakistan

STATE BANK OF PAKISTAN ANNUAL PERFORMANCE REVIEW FY2014-15

Our Vision

To be an independent and credible central bank that achieves monetary and financial stability and inclusive financial sector development for the long term benefit of the people of Pakistan

Our Mission

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

The Team

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State Bank of Pakistan

KARACHI

ASHRAF M. WATHRA
GOVERNOR

LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi

October 27, 2015

Honorable Federal Minister Dar Sahib,

As required by Section 40(2) of the State Bank of Pakistan Act, 1956, the financial statements of the Bank for the year ended June 30, 2015 and auditors' report are dispatched to the Government separately.

I am pleased to enclose the Annual Performance Review of the Bank for the year ended June 30, 2015.

With kind regards,

Yours sincerely,

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

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Governor's Review



I am pleased to present the performance report of State Bank of Pakistan (SBP) for FY15. The year witnessed some major developments including steep fall in international oil prices to six years low and its benign impact on our external sector and domestic inflation, which at 4.5 percent was the lowest in last ten years. The other key macroeconomic indicators including fiscal deficit, balance of payments, current account deficit, real sector growth also showed positive and encouraging trends during the year. The investment to GDP ratio though improved marginally, however, remained modest at 15.2 percent. SBP, during the year, while keeping vigilance on developments on various fronts, vigorously pursued its strategic objectives and continued to enhance and improve its institutional capacity to align it with the strategic direction. This report reviews and examines the progress on strategic objectives as well as the management strategies adopted.

The favorable inflation environment and outlook and stability in the exchange rate during the year, gave us the space to shift the focus of our monetary policy towards catalyzing growth and investment in the country; the SBP policy rate was thus reduced by a total 300 bps during the year. This coupled with improving law and order situation and relatively better energy availability would be instrumental in catalyzing growth in fixed capital investment in the country. The external sector barring exports, which reduced marginally during the year, also registered significant improvement with stable foreign exchange rate and reserves reaching US\$18.7 billion by the close of the fiscal year from US\$14 billion as at end June last year. Further, to improve the monetary policy transmission mechanism the Interest Rate Corridor was revised and SBP Target Rate was introduced. The main purpose of this change was to keep the overnight money market rate close to the target rate. This has now become the main policy rate of SBP distinct from Reverse Repo Rate (ceiling rate). SBP is now signaling its monetary policy stance through changes in the policy rate. We are also very near to establishment of a statutory Monetary Policy Committee in SBP through amendments in the SBP Act that have already been approved by National Assembly and are likely to be approved soon by the Senate.

The banking system closed the year on a strong note with significantly enhanced capital base and solvency levels, declining trend in NPLs, enhanced coverage against NPLs and remarkable profitability levels. While maintaining adequate supervisory oversight on individual banks and financial institutions, we have increased our focus on macro prudential oversight to ensure safety and soundness of overall banking system. The resilience of the system towards both historical and hypothetical single/multi factor shocks is being assessed on regular basis. Similarly to assess the resilience of individual banks against various shocks, each bank/DFI is required to carry out quarterly stress testing exercise as per our *Stress Testing Guidelines*. The stress test results both at the banking system and individual institution level, are encouraging. To further strengthen our capacity to monitor and manage systemic risks we have developed a comprehensive financial stability framework wherein Financial System Stability Council at national level and Financial Stability Executive Committee and Department at SBP level will be created. This would enable SBP to better preempt the systemic risks and take prompt and well coordinated measures to manage the systemic shocks.

Consumer protection is another key focus of our banking supervision policy, which is aimed at ensuring provision of banking services to the consumers in fair and transparent manner. To promote truth, transparency and fairness in banking services, guidelines on *Fair Treatment of Customer* and

Conduct of Business in Banks were issued during the year. We have also intensified our efforts for educating consumers about banking and financial services and their rights and responsibilities. The enhanced consumer awareness about banking and financial services will ensure them fairer deal from banks and will help us in increasing financial inclusion.

Payment System being the main artery of the financial system has also remained amongst our key focus areas. During the year, we continued strengthening and modernizing our Payment System Infrastructure, revamping the regulatory framework and enhancing payment options for Federal and Provincial governments, general public, and corporate sector. Considering the dominance of cash in our payment system, a comprehensive strategy was introduced to reform the cash management function from manual to fully automated environment. The process for automation of SBP cash management function and installation of high end banknote processing machine was also initiated. This will help us in checking currency counterfeiting, improving quality of banknotes in circulation and enhancing the efficiency of cash management function in the banking industry. We have also initiated the process for reforming the government payments and receipts system to diversify tax payment options for the tax payers and gradually move towards electronic transfers for all government payments. Further, to optimally leverage the developments in retail payments technology, we are encouraging electronic processing of retail payments. Over the last five years, the volume of e-banking transactions has almost doubled to 469 million valuing Rs 35.8 trillion. Similarly payments worth Rs 179.6 trillion were processed through Pakistan Real-time Interbank Settlement Mechanism (PRISM) during the year, which is approximately 8 times of Pakistan's GDP at current basic prices.

Financial inclusion since the beginning of last decade has emerged as a key strategic objectives of central banks in developing countries. SBP has also been pursuing it as one of the key focus areas of its financial sector policy. It has been at the forefront of all major initiatives, public or private, taken during last 15 years for increasing financial inclusion. During the year we steered the development of a consensus *National Financial Inclusion Strategy* in consultation with all stakeholders. The strategy approved by National Financial Inclusion Council headed by Finance Minister will guide our efforts to promote financial inclusion over the next five years. We also introduced 'Asaan Accounts' during the year with reduced KYC requirements to enable low end clientele to use banking services.

The year also witnessed stellar growth of over 32 percent in disbursements to agriculture sector, which increased to Rs516 billion. A significant feature of the recent credit growth is the increased diversification of agricultural credit into non-crop and non-conventional agribusiness segments. Similarly our flagship initiative of branchless banking has started making massive impact on financial inclusion levels. During the year the number of depositors of microfinance banks increased by over 7 million to 11.5 million primarily due to M-wallet accounts introduced during the year. I strongly believe that the success of microfinance and other financial inclusion policies is highly dependent on optimum use of technology, and as such will remain a key focus area of our financial inclusion strategy. Encouragingly the housing finance market has also started responding to our policy, regulatory and promotional initiatives. The disbursements to the housing sector during the year increased to Rs14.25 billion which is the highest in last 5 years. The long outstanding issue of establishing a Mortgage Refinance Company also saw resolution during the year as Pakistan Mortgage Refinance Company was incorporated and its Board constituted. This is a key milestone achieved which will go a long way in developing a robust housing finance sector in the country.

Islamic banking has also been amongst our key focus areas and we have been playing a leading role in development of this segment of our financial system on sound footings. During the year, we launched

Bai Muajjal of Sukuk as an important instrument for managing liquidity in Islamic banking industry. Further, to encourage graduation of Islamic banking branches of conventional banks into Islamic banking subsidiaries, the MCR for Islamic banking subsidiaries was reduced to Rs 6 billion to be increased to Rs 10 billion within five years from the date of commencement of operations. We have also been working extensively to enhance HR capacity of the Islamic banking industry. During the year, we signed agreements with IBA Karachi, LUMS Lahore, and IMS Peshawar for establishing Centers of Excellence in Islamic Finance in these cities. The centers will produce Islamic finance professionals not only for the domestic industry but also for Middle East, particularly GCC and other far eastern countries.

The development of SBP Vision 2020 was another key task completed during the year. The vision developed through a consultative process identifies the key focus areas of our policy, regulatory, supervisory and promotional initiatives during next five years. The strategic objectives of the vision 2020 are:

- Enhancing effectiveness of monetary policy
- Strengthening the financial system stability
- Improving efficiency, effectiveness, and fairness of the banking system
- Increasing financial inclusion
- Developing modern and robust payment systems; and
- Strengthening SBP's organizational efficiency and effectiveness

The performance achieved in almost all the strategic objectives was not possible without improving the institutional capacity. We continued investing in our human resources and IT and physical infrastructure to have adequate capacity to undertake our strategic objectives. We also reviewed the HR policies to better align them with our strategic goals, enhance transparency and improve employees' motivation. The clarity in the direction and objectives and their full ownership by the Board and the senior management has given a new vigor, energy, and motivation to my team and staff to perform. This gives me optimism for further improvement in our performance on all the strategic objectives.

Lastly, I would like to acknowledge the professional and commendable guidance provided by members of the Central Board of Directors for improvement in the performance of SBP. The commitment and hard work of SBP employees is also appreciable and I expect them to take the same to next levels with the objective of making SBP a model central bank.

Mr. Ashraf Mahmood Wathra
Governor/Chairman

October 26, 2015

Governance Structure of SBP

The State Bank of Pakistan (SBP) is governed under *the State Bank of Pakistan Act, 1956*, which gives the Bank the authority to function as the central bank of the country. The Act mandates the Bank to regulate the monetary and credit system of Pakistan to foster economic growth in the best national interest, secure monetary stability, and ensure fuller utilization of the country's productive resources.

Central Board of Directors

The State Bank of Pakistan is governed by an independent Board of Directors, which is responsible for the general superintendence and direction of the affairs of the Bank. The Board is chaired by the Governor SBP and comprises eight non-executive Directors and Federal Secretary Finance. The Governor is also the Chief Executive Officer and manages the affairs of the Bank. Brief profile of the members of the Board is given on pages 6-7. Ten meetings of the Central Board were held during FY15. During the year, Mr. Shahid Ahmed Khan resigned from the SBP Central Board, whereas Mirza Qamar Beg completed his second term as Director on May 25, 2015. Mirza Qamar Beg made valuable contributions over the course of 6 years as Board member and was the Chairman of the HR Committee and member of the Board Committees on Audit, Publications Review, Enterprise Risk Management, Financial Law Reform as well as the Advisory Committee on Monetary Policy.

Some of the noteworthy decisions of the Board during FY15 include constitution of the Advisory Committee on Monetary Policy (ACMP) to assist the Board in formulating Monetary Policy, initiating public disclosure of summary minutes of the meetings of the ACMP and the Board related to Monetary Policy decisions on the SBP website, constitution of the Financial Law Reform Committee to review the legal framework for the financial sector and the SBP, approving a new set of HR Policies in addition to approving SBP's Vision 2020, the Strategic Plan for the next 5 years.

The Governor

The Governor is appointed by the President of Pakistan for a term of three years which is renewable once. Mr. Ashraf Mahmood Wathra was appointed as Governor, SBP with effect from April 29, 2014, for a period of three years. Prior to assuming charge as the Governor, he was working as Deputy Governor (Banking) since March 11, 2013. He also served as Acting Governor from January 31, 2014 to April 28, 2014.

Deputy Governors

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

During FY15 Mr. Riaz Riazuddin was appointed as Deputy Governor with effect from March 28, 2015 while Mr. Saeed Ahmad and Mr. Kazi Abdul Muktadir¹ were already working as Deputy Governors since January 21, 2014, and July 6, 2012 respectively. Mr. Riazuddin was previously working as Chief Economic Adviser - Monetary Policy.

¹ Kazi Abdul Muktadir completed his term as Deputy Governor SBP, on July 5, 2015.

Central Board of Directors²



Mr. Ashraf Mahmood Wathra, Governor/Chairman

Governor and Chairman since April 29, 2014, Mr. Wathra brings 35 years of commercial and investment banking experience to the Bank. He has worked in eight regulatory regimes in South East and Far East Asia including Singapore, Hong Kong, and Australia. He has also served on the Board of Directors of several Financial Institutions.



Dr. Waqar Masood Khan (Member, SBP Board since April 16, 2013) Secretary, Finance Division, Government of Pakistan and ex-officio member of the Board of Directors of SBP. He has served as Special Secretary to the Prime Minister, Secretary, Economic Affairs Division, and Additional Secretary, Prime Minister's Secretariat.



Mr. M. Nawaz Tiwana (Member, SBP Board since February 26, 2013) Former Managing Director, Pakistan International Airlines. He has served at key positions in leading public and private enterprises. He is serving on the Board of Directors of leading organizations. He is also Fellow of Chartered Institute of Transport, UK, Royal Aeronautical Society, UK, and has been Chairman of Chartered Institute of Logistics & Transport, Pakistan.



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



Mr. Mehmood Mandviwalla (Member, SBP Board since February 26, 2013) Founding and Senior Partner of the law firm Mandviwalla & Zafar. With professional experience of over 30 years, he has contributed in drafting various statutes and regulatory framework of the country. He is also the founder member of SAARC LAW and is currently serving as a member of its Executive Council.

² Board Composition is as of June 30, 2015.



Mr. Iskander Mohammed Khan (Member, SBP Board since February 26, 2013)
Director of Premier Group of Companies. He has served as Chairman of several industrial bodies and was twice elected as Chairman of the Pakistan Sugar Mills Association. He has also served on the Board of Directors of Pakistan State Oil, Oil & Gas Development Company, Zarai Taraqiati Bank and Islamabad Stock Exchange. Mr. Khan is qualified in accountancy and also holds a law degree (LLB).



Mr. Muhammad Hidayatullah (Member, SBP Board since March 15, 2013)
A chartered accountant by profession and a Senior Partner of M. Hidayatullah & Company (MHCO). He has extensive experience of 35 years in providing consultancy services for privatization, dis-investment, merger and acquisitions of top-notch public and private sector institutions involving local and overseas clientele.



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

Corporate Secretary

The Corporate Secretary is the Secretary to the Central Board and the Committees of the Board and acts as a focal person for communication between the Board and the management. The Corporate Secretary is responsible for recording the proceedings of the meetings of the Board and its Committees and also ensures compliance with statutory and regulatory requirements for effective implementation of the Board's decisions.

The Corporate Secretary is also responsible for ensuring effective Corporate Governance standards and availability of relevant information to the Board members to facilitate informed decision-making. In addition to the responsibilities of organizing meetings of the Central Board and its Committees, the Corporate Secretary also interfaces with the Federal Government on matters related to the Governor, Deputy Governors and Directors of the Board.

Committees of the Central Board

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

Committee on Audit

The Committee assists the Central Board in reviewing SBP's financial statements, auditing, accounting and related reporting processes, the system of internal controls, governance, business practices and conduct established by the management and the Central Board. The Committee met nine times during the year. Committee on Audit is chaired by Mr. Muhammad Hidayatullah, with Messieurs Khawaja Iqbal Hassan and Iskandar M. Khan as members.

Committee on Investment

The Committee assists, and recommends to the Board, the strategy and policy for investment and management of the foreign exchange reserves. The Committee also approves operational guidelines for investment of the reserves and appointment of asset managers, custodians, investment consultants and the broad investment framework for the Bank. It also reviews the performance of the reserves managed in-house and externally, and the appropriateness of the approved investment policy, its benchmarks, and guidelines on an annual basis or as warranted by the global market conditions. The Committee met twice during the year. Committee on Investment is chaired by Dr. Waqar Masood Khan, with Messieurs Khawaja Iqbal Hassan, Iskandar M. Khan and Zafar Masud as members.

Committee on Human Resources

The Committee assists the Central Board in reviewing and approving HR policies prepared by the management. It reviews all the proposals requiring approval of the Central Board on formulation, revision, modification or interpretation of HR policies, and submits its recommendations to the Central Board. The Committee also reviews the terms and conditions of employment of senior level Bank officers including those reporting directly to the Governor, other than Deputy Governors. The Committee met 13 times during the year. Committee on Human Resources is chaired by Mr. Mehmood Mandviwalla³, with Messieurs M. Nawaz Tiwana and Zafar Masud as members. Notably, the Committee was chaired by Mirza Qamar Beg until the completion of his second term as Board member on May 25, 2015.

Publications Review Committee

Publications Review Committee of the Board assists the Central Board in the review and approval of the Annual and Quarterly Reports on the State of the Economy. The Committee deliberates on the draft reports and reviews them for the consideration and final approval of the Board. The Committee met six times during the year. Publications Review Committee is chaired by Mr. Zafar Masud, with Messieurs Muhammad Hidayatullah and M. Nawaz Tiwana⁴ as members.

Enterprise Risk Management Committee

The Committee assists the Central Board in ensuring that an effective Enterprise Risk Management Framework exists in the Bank to identify, assess, monitor, and mitigate all the key risks the Bank is exposed to. The Committee also coordinates with the ERM Committee of the Management and with other Committees of the Board on need basis. The Committee is also mandated to oversee risks emerging from the subsidiaries, i.e., SBP-BSC and NIBAF until such time that the subsidiaries set up their own ERM framework and committees. The Committee met five times during the year. Enterprise Risk Management Committee is chaired by Mr. Khawaja Iqbal Hassan, with Messieurs Muhammad Hidayatullah and Zafar Masud as members.

Financial Law Reform Committee

The Board constituted the Financial Law Reform Committee on May 2, 2015 to assist the Board in proposing a cohesive and comprehensive legal framework, reflecting the principles of financial regulatory authorities as practiced globally and applicable in the domestic environment. To formulate its recommendations regarding amendments in the legal framework, the Committee will also take into account comments and observations of the various departments on inconsistencies and anomalies in the legal framework, where they exist. The Committee was constituted on May 2, 2015 as a revival of the SBP Act Review Committee which was tasked to formulate recommendations on amending the

³ Mr. Mehmood Mandviwalla was nominated as Chairman HR Committee subsequent to the completion of Mirza Qamar Beg's second term on the SBP Board.

⁴ Mr. Nawaz Tiwana was nominated as a PRC member by the Board on July 4, 2015.

SBP Act, 1956. The Committee met once since its constitution until the end of the year on June 30, 2015. Committee on Financial Law Reforms is chaired by Mr. Mehmood Mandviwalla, with Messieurs Khawaja Iqbal Hassan, Muhammad Hidayatullah and Zafar Masud as members.

Advisory Committee on Monetary Policy (ACMP)

The ACMP was constituted by the Board on July 19, 2014 as an interim body which is expected to be replaced by the statutory Monetary Policy Committee, as envisaged under the proposed amendments in the *SBP Act, 1956* submitted to the Parliament on April 1, 2014. National Assembly has approved these amendments and these are under consideration of the Senate.

In its role to assist the Board, the Committee formulates, supports and recommends the monetary policy stance. The Board approves and takes the final decision on the recommendations of the Committee. The Committee met five times during the year.

Advisory Committee on Monetary Policy is chaired by Mr. Ashraf Mahmood Wathra, with Messieurs Khawaja Iqbal Hassan, Muhammad Hidayatullah, Zafar Masud, Chief Economic Adviser (Monetary Policy)⁵, Chief Economic Advisor (Policy Development)⁶, Director (FMRM), Dr. Asad Zaman (External Economist), Dr. Qazi Masood Ahmad (External Economist) as members.

Corporate Management Team (CMT) and CMT-HoDs forum

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

⁵ Mr. Riaz Riazuddin, Deputy Governor-Policy was working as CEA-MP till May 2, 2015.

⁶ Positions of CEA (MP) and CEA (PD) have been merged as Chief Economic Adviser since July 25, 2015.

Corporate Management Team⁷



Mr. Ashraf Mahmood Wathra, Governor



Mr. Kazi Abdul Muktadir⁸
Deputy Governor (Operations)



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



Mr. Riaz Riazuddin
Deputy Governor (Policy)



Mr. Jameel Ahmad
Executive Director (Operations)



Mr. Amer Aziz
Managing Director (NIBAF)



Mr. Noman Ahmed Qureshi
Executive Director (FRM)



Mr. Qasim Nawaz
Managing Director (SBP-BSC)



Mr. Muhammad Ashraf Khan
Executive Director (BPRG)



Syed Samar Hasnain
Executive Director (DFG)



Syed Irfan Ali
Executive Director (BSG)



Ms. Sahar Z. Babar
Director OCS / Corporate Secretary

⁷ CMT Composition is as of June 30, 2015.

⁸ Kazi Abdul Muktadir completed his term as Deputy Governor on July 5, 2015.

Management Committees

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

- Banking Policy Committee
- Budget Committee of Management
- Business Continuity Planning Committee
- Data Warehouse Committee
- Derivatives Approval & Review Team
- Enterprise Risk Management Committee
- Investment Committee of Management
- Library Committee
- Management Committee on Information Technology
- Management Committee on Properties and Equipment
- Payment Systems Committee
- Publications Review Committee
- Refund Committee (Export Refund Committee)
- Sports Committee

SBP Subsidiaries

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

SBP-BSC

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

NIBAF

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

1 Formulation and Effectiveness of Monetary Policy

Macroeconomic indicators further improved in FY15 on account of declining inflation and positive outlook for external, real, and fiscal sectors. Given benign inflation environment and outlook, SBP reduced its policy rate by a cumulative 300 bps during FY15 to 7.0 percent. The efforts to rein-in inflation proved to be effective as average headline inflation declined to 4.5 percent in FY15 from 8.6 percent in FY14. With improved macroeconomic indicators and market sentiments, SBP apart from slashing the policy rate in FY15, revised the interest rate corridor framework to strengthen the monetary policy transmission mechanism. While the decline in lending rates is expected to revive private investment going forward, lower deposit rates may discourage deposit growth. To address this issue, SBP responded with a reduction in corridor width by increasing the SBP repo (floor) rate to protect the interest of depositors.

Moreover, uptick in credit for long term investment purposes and stable exchange rate during the period boded well for the effectiveness of monetary policy. The balance of payments position continued to improve in FY15. It is particularly reflected in sustained increase in Pakistan's foreign exchange reserves by US\$ 4.6 billion to US\$ 18.7 billion by June 30, 2015.

1.1 Monetary Policy Statement

Though key macroeconomic indicators were positive even at the start of the FY15, however, adopting a cautious approach, SBP kept the policy rate unchanged in July and September 2014. In November 2014, the policy rate was cut by 50 bps to 9.5 percent due to further improvement in the external sector amid continuing increase in foreign exchange inflows, falling inflation on the back of plummeting global oil prices and fiscal consolidation.

Positive sentiments further strengthened during H2-FY15. Particularly, downward trajectory of inflation and inflation expectations, average annual inflation being significantly below the target, continued soft global commodity prices, upward trajectory of foreign exchange reserves, and containment of fiscal deficit provided grounds for further reduction in the policy rate. In response, a cumulative cut of 250 bps in the policy rate was announced in H2-FY15.

1.2 Implementation of Revised Interest Rate Corridor Framework

SBP had established an 'Interest Rate Corridor (IRC)' in August 2009 with SBP reverse repo rate, the policy rate, as ceiling and SBP repo rate as floor. The main objective of introducing the corridor was to minimize volatility in the money market by ensuring the movement of short term interest rates within a reasonable range.

To bring monetary policy framework further closer to best international practices, strengthen the transmission of monetary policy, and better manage liquidity in the interbank market, SBP revised the IRC framework in May 2015. In the improved IRC framework, a new SBP Target Rate has been introduced between the ceiling and floor of IRC to signal SBP's stance of monetary policy. Purpose of introducing this rate is to target the overnight money market repo rate close to a particular level. This target rate will be the main Policy Rate of SBP. Currently, IRC ceiling and floor has been set at 50 bps above and 150 bps below the policy (target rate). The width of IRC has also been reduced by 50 bps from 250 bps to 200 bps.

1.3 Research

During FY15, the SBP continued to conduct rigorous quantitative and qualitative research on challenging macroeconomic issues on the basis of micro-foundations with applied and theoretical tools. While considering the areas of interest for SBP, some research studies were completed in collaboration with national/foreign universities/organizations both in private and public sector including IBA, Karachi; Bureaus of Punjab and Sindh; Pakistan Bureau of Statistics; Yale University, USA; MIT, USA; London School of Economics, UK. Major research related activities performed during FY15 included the following:

- For clear articulation and implementation of a forward looking, transparent and effective monetary policy framework in SBP, consumer confidence, inflation expectation indices and model based forecast on some of the macroeconomic indicators were prepared and provided to the Advisory Committee on Monetary Policy (ACMP) and the Central Board.
- A study to compare the forecasting performance of a large set of models of inflation has been completed. The performance has been measured at different forecast horizons and for different time periods: when inflation is low, high and moderate. Different forecasting models perform differently during low, high and moderate inflation regimes. Similarly, for monetary policy analysis purpose at monthly frequency, a Vector Autoregression (VAR) model has also been developed.
- The first generation of reduced-form dynamic-stochastic general equilibrium models known as the Forecasting and Policy Analysis System (FPAS) was developed and launched. It is useful for forecasting and scenario analysis for macroeconomic indicators like inflation, exchange rate, and large scale manufacturing production gap on quarterly basis.
- To explore the dynamics of agriculture credit markets in the country, the experimental study initiated last year, moved into its third phase. This phase will help understand the mechanisms that encourage growers to fully settle their loans. The first two phases of the experiment known as the Matiari project showed that how a bank was able to lend to small and medium sized growers using an intermediary. Preliminary results of the previous two phases reveal some interesting facts about agricultural credit dynamics in the country. Detailed report will be shared with all the stakeholders after completion of the third phase.
- To further intensify the debate and exposure on the best practices for extending financing facilities to small farmers the focus and theme of the 20th Zahid Husain Memorial Lecture organized in Islamabad was “Trader Agent Intermediated Lending (TRAIL): A New Approach to Financing Smallholder Agriculture in LDCs”. Mr. Dilip Mookherjee, professor of Boston University, USA, was the guest speaker. The lecture while supporting the findings of Matiari project study opened new vistas for agri-credit market research.
- A Management and Organizational Practices (MOP) Survey was conducted in collaboration with Pakistan Bureau of Statistics (PBS) and the London School of Economics (LSE). It will help understand the inner working of manufacturing sector firms and their management and organizational practices (MOP) in Pakistan and will allow international comparison of MOP and other indicators, which will help improve management practices and production performance. This would also enable banks to have deeper insights of the corporate sector management practices and culture and thus will help them in better appraising the capacity of corporate to utilize credit.
- SBP got the chair of SAARCFINANCE Network during 29th meeting of the Network, held on October 9, 2014 in Washington D.C, U.S.A. and Governor SBP became Chairperson of the Network. As the Secretariat for SAARCFINANCE related activities, SBP organized following seminars and meetings:

- (1) *Consumer Protection in Banks: The SAARC Perspective* was organized on March 19-21, 2015 at Islamabad wherein delegates from member countries participated in the seminar and presented country papers on the subject issue.
- (2) The 21st SAARCFINANCE Coordinators' meeting was held on March 19-21, 2015 at Islamabad. The Governor SBP inaugurated the meeting and appreciated the initiatives taken by regional central banks for the creation of regional database and conducting research studies under the collaborative arrangements which will help in harmonization of banking rules and strengthening economic and financial integration in the region.
- (3) Facilitated Bangladesh Bank in organizing the 30th SAARCFINANCE Group Meeting at Dhaka, Bangladesh on June 12, 2015. The major issues deliberated upon during the meeting included; SAARCFINANCE database-way forward, modalities for collaborative research studies by SAARCFINANCE member countries; proposal for identifying areas of regional cooperation and integration, which would eventually act as the roadmap for SAARCFINANCE; SAARCFINANCE database.

1.4 Economic Analysis / Publications

During FY15, SBP continued its efforts to improve the quality and depth of analysis presented in its flagship publications, i.e., annual and quarterly reports. These reports are submitted to both Houses of the Parliament. The reports published during FY15 highlighted a number of economic issues. For example, while mentioning weaknesses in the compilation of data on the large-scale manufacturing and livestock, SBP argued that most of the vibrancy witnessed in the economy is not adequately reflected in national income accounts data. Similarly, against the commonly held view, SBP pointed out that it is the distribution, not generation, which is more binding constraint in the power sector. In effect, even if generating units are geared up to increase capacity utilization, the country simply does not have the capacity to distribute this power to where it is needed (i.e., from the main-grid to actual users).

In FY15, SBP initiated a new Staff Notes series, which contain articles on current economic and relevant banking issues in Pakistan to initiate debate on these issues among informed general public. The first note evaluated different measures on PKR misalignment and concluded that these measures can be helpful, but cannot be a strict guide to policymakers. While the note acknowledges that an unusually strong US Dollar against Euro and other trading partner currencies in recent months has led to PKR appreciation, the assessment of its impact on Pakistan's exports is vague, as structural bottlenecks appear more important in explaining the slowdown in exports.

1.5 Data Management System

With the objective of strengthening the capacity of DWH and data management system to serve as a strong input for robust and effective policy formulation and supervision, all business processes of data compilation processes at SBP are mostly automated. SBP always endeavors to provide quality and timely statistics to users on regular basis. The statistics compiled and disseminated with different periodicities mainly relate to monetary, financial and external sectors. In the recent past, SBP has brought numerous improvements in data compilation and dissemination by adopting international standards. Some of the achievements include:

- Implementation of the IMF's Manual on Balance of Payments and International Investment Position, 6th Edition (BPM6)
- Compilation of trade in services data as per standard classification as prescribed in Manual of Statistics of International Trade in Services-2010 (MSITS 2010) published by United Nations consistent with the BPM6 services classification recognized as EBOPS-2010 classification

- Adoption of latest classification systems such as Harmonized Coding System (HS) for classification of trade data and International Standard Industrial Classification (ISIC 3.1) for private sector business and now in the process of implementing ISIC 4
- Compilation of International Investment Position (IIP) of Pakistan on quarterly basis to meet international standards
- Compilation of Foreign Direct Investment Statistics according to the concepts of Ultimate Controlling Parent (UCP)
- Compilation of Coordinated Portfolio Investment Survey (CPIS) on semi-annual basis initiated for adoption of international standards
- Compilation of quarterly Gross External Debt Statistics initiated as per External Debt Guide 2013 aligned with BMP6 and Special Data Dissemination Standards (SDDS) requirement of IMF
- Implementation of System of National Accounts 2008 (SNA 2008) for the compilation of Flow of Funds Accounts of Pakistan
- Adoption of the methodology of Manual of Financial & Monetary Statistics 2000 (MFSM 2000) for compilation of monetary statistics
- Improvement in scope, coverage, and timeliness of all important statistics compiled in SBP
- Compilation of Prudential and Structural Islamic Financial Indicators (PSIFIs)
- Compilation of Regional Statistics on advances by place of disbursement and utilization

2 Payment Systems

Efficient and reliable payment and settlement systems contribute immensely towards economic growth and financial stability in a country. Any disruption in the payment system could not only be devastating for the banking industry but also for the economy as a whole. SBP being the custodian of payment system is playing an overarching role in various capacities such as the regulator, operator and facilitator of National Payment Systems. During the year, it continued strengthening and modernizing the payment system infrastructure both within the central bank and the banking industry, revamping the regulatory framework, and enhancing payment options for the general public, corporate sector, and Federal and Provincial governments.

2.1 Government Payments and Receipts

SBP provides full range of banking services to the Federal and Provincial governments. All the collections and payments of Federal and Provincial governments are routed through the central bank. The government is the largest player in the country's payment system and as such improvement in efficiency of governments' receipts and payment systems will have a major positive impact on the efficiency of the country's payment system. The reforms in the government receipts and payment system is thus on the priority agenda of SBP. It has plans to diversify tax payment options for the tax payers and gradually moving to paperless transactions for all government payments. During the year, an understanding with the government of Punjab was reached to allow other banks in addition to NBP and SBP-BSC to collect the provincial government taxes. This will be a pilot for allowing other banks to provide banking services to the governments as agents of SBP which if successful will pave the way for opening the government banking business for other banks. Similarly, as a part of its efforts to reform government payments, different government departments maintaining accounts with SBP-BSC have been pursued to shift from manual issuance of cheques to electronic funds transfer mechanism, whereby funds could be transferred to the beneficiaries' accounts directly on receipt of electronic advice from the government. Besides increasing efficiency and transparency in government payments, this will also be instrumental in improving financial inclusion.

2.2 Currency Management

Despite continuous increase in card based, digital and electronic payment volumes over the years, cash still maintains its dominance in our payment system. The SBP, thus, has been making concerted efforts to improve the quality of banknotes in circulation, check counterfeiting and ensure adequate supply of banknotes across the country. The replacement of soiled bank notes and availability of good quality bank notes across the country requires institutional commitment as well as operational innovation. To ensure adequate and uninterrupted supply of good quality banknotes across the country, SBP is not only using its subsidiary SBP-BSC and its 16 field offices but has also made arrangements with NBP chest branches. It also makes arrangements for ensuring adequate supply of the fresh banknotes on special occasions like Eid; on the occasion of Eid-ul-Fitr during FY15, fresh notes worth Rs 154.5 billion were issued through SBP-BSC field offices as compared to Rs 138.6 billion issued during FY14 on the same occasion.

During the year, SBP developed a comprehensive strategy (see box 2.1) to reform cash management function in the country. The strategy envisages automation of cash processing function both in the central bank and the banking industry, engaging and encouraging banks' participation in cash sorting and authentication function, promoting interbank exchange/trade of cash and rationalizing SBP role in

collection of re-issuable cash from banks. The SBP BSC has already initiated the process for procuring high speed banknotes sorting and authentication machines as well as medium sized desktop banknotes sorters. Further, to implement the strategy, a major project for automation of cash processing function in the central bank was initiated and detailed instructions were given to banks to automate their cash processing function by January 2017. Successful implementation of the strategy will bring efficiency in cash management function, improve quality of banknotes in circulation, check counterfeiting and thus increase public confidence in the national currency.

Box 2.1: SBP Strategy to Automate Cash Processing Functions

The key features of SBP currency management strategy, discussed in the international conference on currency management held in February 2015, are given below:

- Automation of cash management function in the banking industry to ensure availability of machine authenticated good quality banknotes to general public
- Rationalization of SBP BSC currency management operations and increasing commercial banks' role and participation in currency management
- Improved supervision and regulation of commercial banks and cash processing centers/houses for ensuring good quality bank notes in circulation and combating counterfeiting
- Introduction of modern, reliable and easily recognizable security features in banknotes

To achieve the above objectives, SBP BSC has already initiated the process for procuring high speed banknotes sorting and authentication machines as well as medium sized desktop banknotes sorters. Further, SBP has also issued detailed instructions to banks for standardizing cash management practices at commercial banks. These instructions are aimed at:

- (i) Ensuring issuance/disbursement of machine authenticated genuine and fit banknotes by banks through their branches/ATMs
- (ii) Promoting interbank cash exchange/trade
- (iii) Acceptance of fit/re-issuable banknotes by SBP-BSC only as a last resort against a service charge
- (iv) Eliminating redundancies in the existing cash operations of banks and promoting clean notes culture in the economy

2.3 Retail Payment Systems

Retail Payments are processed either through paper based instruments or electronic payment systems. Paper based payment instruments include cheques, pay orders, demand drafts, telegraphic and money transfers. Electronic payment instruments, typically being used in Pakistan, include various types of plastic cards and electronic credit transfers that could be used over various delivery channels and devices like ATMs, internet, Point of Sale Terminals, mobile phones, call centers and a network of Real Time Online Branches (RTOB).

Traditionally, efforts for the development of Payment Systems in Pakistan have remained directed at strengthening the large value payment systems, primarily to mitigate systemic shocks inherent in this area. In recent years, there has been an increasing emphasis of policy makers, globally, on improving access to financial services at retail level. The improvements in technology coupled with the introduction of low cost electronic mobile devices have resulted in consumers' increasing demand for banking and payment services on electronic delivery channels available 24/7 at relatively lower cost. The commercial banks and other financial institutions are actively launching new payment cards including prepaid cards and offering funds transfer services and wallet accounts using internet banking and mobile apps.

Over the last five years, the volume of e-banking transactions has increased from 235 million to 469.1 million (almost 100 percent) with a corresponding increase in value from Rs 22.1 trillion to Rs35.8 trillion (68 percent). For detailed statistics on e-banking (see table 2.1).

Table 2.1 Payment & Settlements Systems

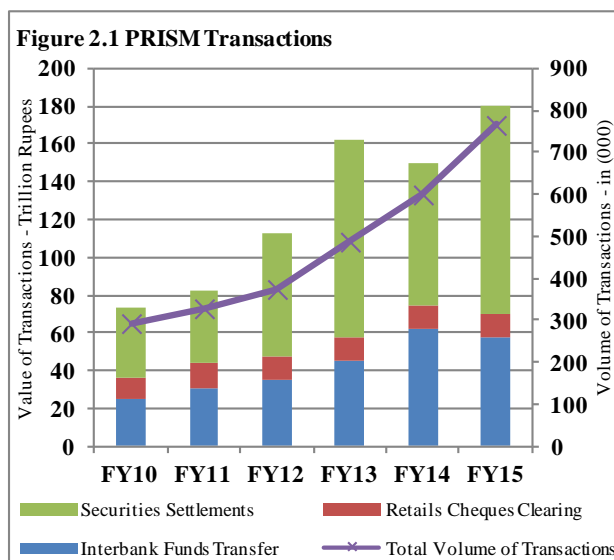
Item		FY11	FY12	FY13	FY14	FY15p	CAG %
1. Paper Based Instruments (Cheques, Pay Orders, Demand Drafts and others)							
No. of Transactions	Million	343.76	357	359	362.04	361.59	1.30
Value of Transactions	Trillion Rs	91.05	99	107	115.16	127.16	9.91
2. Electronic Banking and its Composition							
No. of Transactions	Million	234.85	277.38	320.53	403.65	469.06	24.93
Value of Transactions	Trillion Rs	22.14	26.02	29.69	33.71	35.85	15.48
3. Real-time Online Banking (RTOB)							
No. of Transactions	Million	74.41	83.07	89.06	98.49	113.80	13.24
Value of Transactions	Trillion Rs	20.70	24.00	27.10	30.20	31.60	13.16
4. Automated Teller Machines (ATMs)							
No. of Transactions	Million	137.66	166.16	199.78	258.48	300.25	29.53
Value of Transactions	Trillion Rs	1.20	1.60	2.00	2.60	3.20	41.67
5. Point of Sale (POS)							
No. of Transactions	Million	14.29	17.45	17.31	24.29	32.11	31.18
Value of Transactions	Billion Rs	70.00	80.00	87.00	124.61	171.14	36.12
6. Internet Banking							
No. of Transactions	Million	4.44	6.93	9.59	15.55	16.00	65.16
Value of Transactions	Billion Rs	209.00	365.00	498.82	675.60	797.65	70.41
7. Mobile Banking							
No. of Transactions	Million	3.29	3.12	4.15	6.17	6.14	21.71
Value of Transactions	Billion Rs	8.00	12.00	27.02	67.44	106.89	309.03
8. Call Center & IVR Banking							
No. of Transactions	Thousand	778.00	663.00	639.23	666.01	765.56	-0.40
Value of Transactions	Billion Rs	7.00	7.00	8.15	9.54	9.52	9.01
9. Numbers of:							
i. Online Branches	Thousand	7.42	9.29	10.01	10.64	11.32	13.14
ii. ATMs	Thousand	5.20	5.75	6.76	8.24	9.60	21.14
iii. Credit Cards	Million	1.40	1.20	1.20	1.33	1.37	-0.54
iv. Debit Cards	Million	12.00	16.00	20.20	23.06	25.02	27.13
v. Point of Sale (POS)	Thousand	37.23	34.88	33.75	34.43	41.18	2.65

P - Provisional as on June 30, 2015

2.4 Large Value Payment System

PRISM system is used for large value fund transfers and settlement of paper instruments clearing and government securities trading. The value processed by the PRISM system grew from Rs 62.2 trillion in FY09 to Rs 179.6 trillion in FY15 indicating an increase of 224 percent in the number of total transactions and 189 percent in value.

During FY15, PRISM system processed payments worth approximately 8 times of Country's GDP (at current basic prices). It settled 766,113 transactions worth Rs 179.6 trillion during FY15, showing an increase of 28 percent in volume and 20 percent in terms of value as compared to FY14. At present, there are 43 participants of PRISM comprising 34 banks, 7 Development Finance Institutions (DFIs), 1 MFB and Central Depository Company (CDC).



2.5 Standardization of Cheques and other Payment Instruments

The SBP, during the year, continued its efforts to standardize payment instruments. Last year, it had introduced standardized layout and security features of cheques and made it mandatory for banks to use International Bank Account Number (IBAN). In the second phase of the project, the work on standardization of pay orders, demand drafts and cashier cheques were initiated during the year, which is likely to be completed in first half of FY16. The standardization of layout and security features of payment instruments will check counterfeiting of the instruments and thus will be instrumental in promoting culture of payments through cheques.

2.6 Rules for Payment System Operators and Payment Service Providers

Payment System Operators (PSOs) and Payment Service Providers (PSPs) are important components of financial market infrastructure of the country. PSOs and PSPs help in developing an environment for efficient, convenient, and secure processing of payment transactions. As part of a broader strategy to create an enabling regulatory environment and bring systemic harmony, introduce standardization and setting benchmarks, SBP issued detailed rules for PSOs and PSPs in October 2014. These rules will not only bring existing payment systems operators under a formal regulatory ambit but would also provide conducive environment for establishment of new payment processing institutions for automated clearing house, electronic payment gateway for e-commerce, ATM switches (including white label ATMs), domestic POS and pay card schemes.

2.7 SAARC Payment Council - Regional Cooperation in Payment Systems

SBP is currently managing the secretariat of SAARC Payment Council (SPC). SPC is a forum of central banks of SAARC countries for developing collective strategies for improvements in the payment systems in the region. The SPC meets bi-annually in one of the member countries on rotation basis. The following programs were organized during the year:

- The SAARC Payment Initiative (SPI) Secretariat arranged the 16th SAARC Payments Council (SPC) meeting in March 2015 at Lahore. During the meeting developments in the area of payment systems of SAARC member countries were reviewed. The progress made as

per the roadmap of the forum on harmonization of payment systems, risk mitigation, status and developments in RTGS systems was also reviewed.

- The Secretariat organized second SPC seminar attended by a representative of the BIS Committee on Payments and Market Infrastructures (CPMI). The representative provided an overview of the CPMI, and Principles for Financial Market Infrastructures (PFMI) and issues related to their implementation.
- The SPI Secretariat also arranged two workshops for all SAARC delegates as well as participants from banking industry on '*Payments Technology for Financial Inclusion* and "Financial Market Infrastructure in Pakistan: Issues and Challenges". The workshops were hosted by SBP as part of its efforts to provide for an interactive forum to the SAARC central banks for information and knowledge sharing.

3 Ensuring Soundness and Efficiency of Financial System

Ensuring financial system stability is amongst the key strategic objectives of SBP and bulk of its resources, time and efforts are consumed in undertaking this important responsibility. SBP makes concerted efforts to promote financial stability, efficiency, consumer confidence and market discipline in the banking industry. It has developed an elaborate and extensive regulatory and supervisory infrastructure to ensure adequacy of risk identification, measurement and mitigation systems both at banking system and individual institution level. The SBP's regulatory and supervisory framework is largely at par with international best practices and Basel core principles of effective supervision. It continuously endeavors to strengthen this framework to cope with the challenges posed by the dynamic local and global environment. The following key developments in this area were recorded during the year.

3.1 Regulatory Initiatives

3.1.1 Capital Adequacy Requirements

SBP issued Basel III instructions for implementation in Pakistan in August 2013 in the light of Basel III reform package introduced by the Basel Committee on Banking Supervision (BCBS). During the year, SBP introduced disclosure templates released by BCBS for capital adequacy purposes. The templates aim to enhance consistency and comparability of banks' capital related disclosures. Moreover, the regulatory capital adequacy reporting formats have been automated on Data Acquisition Portal (DAP) to improve efficiency of the supervisory process. The capital adequacy framework for Microfinance Banks (MFBs) was also revised in line with international best practices and Basel Capital Framework.

3.1.2 MCR for Islamic Banking Subsidiary

To promote Islamic banking and encourage conventional banks to upscale their Islamic banking window operations into Islamic banking subsidiaries, the MCR for Islamic banking subsidiaries was revised downward to Rs 6 billion provided the subsidiary gives plans to raise its capital (net of losses) to Rs 10 billion within 5 years. The revision defines a road map for Islamic banking windows to graduate into independent subsidiaries to better serve their faith sensitive clientele. It will also be instrumental in further accelerating Islamic banking growth as the subsidiaries will significantly increase their branch network to leverage the enhanced capital base.

3.1.3 Strengthening of Corporate Governance Regime

The corporate governance regime of the banking industry was further strengthened during the year to bring it at par with international standards and best practices. Following key regulations were issued for the purpose:

- Banks/DFIs were advised to conduct prior self-assessment of their prospective Directors, CEOs and Key Executives and furnish an undertaking to SBP in this regard.
- Fiduciary role of the Board members was extended to cover succession planning, compensation packages, promotion, appointment and removal of Key Executives so that a comprehensive approach could be established within the organization to achieve its business objectives with focused strategy.
- The chairmen of the Boards of banks/DFIs were made ineligible to become members of Board committees such as audit, risk management, credit, recruitment and remuneration.

- To enhance the role of independent directors, the banks/DFIs were advised that Board's audit committee would invariably be chaired by an independent director.

3.2 Developments in Supervision

3.2.1 Risk Based Supervision Framework

Regulators in many parts of the world have changed their focus from compliance based examination to risk based supervision (RBS) to better align their supervisory resources with the supervisory objectives and to institute a forward looking approach towards supervision. The main focus under RBS approach is on evaluating risks in a continuum, identifying early problems and facilitating prompt intervention/ early corrective action. Keeping in view the benefits of risk based supervision, SBP has initiated work on migrating its supervisory approach to RBS. Adoption of RBS will enable SBP to form forward looking views on the health of a financial institution by focusing on business risk and linkages with wider financial sector and impact of its failure on the banking and financial system.

3.2.2 Prompt Corrective Action Framework

SBP has prepared a draft report on 'Prompt Corrective Action (PCA) Framework' to further enhance and strengthen the supervisory regime. The PCA is defined as "a framework requiring the regulators to intervene well before the bank's financial health deteriorates to the point where it is classified as insolvent". The underlying objective of instituting PCA regime is to include structured and pre-specified intervention and resolution framework, triggered by objective performance measures duly disseminated to market participants.

3.2.3 Thematic Inspections

During H1-FY15, SBP introduced the concept of thematic inspections for focusing the areas that needed further strengthening with regard to policy and/or supervision. In first phase, industry-wide thematic inspections were conducted in two key areas of Corporate Governance and AML/CFT to comprehensively identify the core issues in these areas. In H2-FY15, thematic reviews of "Islamic banking windows in conventional banks' branches" and "agency services provided by the banks to insurance companies and Assets Management Companies" AMC's were conducted.

3.2.4 Resolution of Problem Banks

During FY15, SBP successfully managed resolution of problem bank. The bank was put under moratorium on November 14, 2014 for six months to safeguard interest of the bank's depositors and prevent any systemic risk. Under the moratorium, the depositors were allowed to withdraw up to PKR 300,000, which fully served the 92.3 percent of the deposit accounts. The liquidity stress faced by some of the small banks was tactically managed while rumor mongering about the stability of the banking sector was curbed through effective and measured communication in print and electronic media.

On the advice of Federal Government, a scheme of amalgamation of under section 47 of the *Banking Companies Ordinance, 1962*, was also devised which led to its merger and amalgamation with an Islamic bank. After the merger, the moratorium on withdrawal of deposits was also lifted. The SBP not only ensured smooth functioning of the bank during the moratorium period but also made effective arrangements that all deposit withdrawals claims are timely honored after lifting of the moratorium. The ample availability of liquidity ensured by SBP in all branches of the defunct bank (since merged and amalgamated in BIPL) across the country played a key role in giving comfort to the depositors and preventing any run on the bank.

3.2.5 Enforcement Support System (ESS)

SBP has developed an in-house Enforcement Support System (ESS). Primarily, it is an electronic record keeping of enforcement actions taken by SBP, however, real benefit comes out of its ability of providing references to past enforcement related matters and issue tracking across the entire banking industry. It will enhance efficacy of supervisory response by calibrating decisions on the basis of various patterns made observable through ESS and will help ensure consistency in regulatory responses and enforcement actions.

3.3 Financial Consumer Protection and Responsible Banking Conduct

SBP promotes responsible banking through effective market conduct regulations and supervisory tools. Major developments in the area of consumer protection during FY15 are briefly elaborated below:

3.3.1 Enactment of *Credit Bureau Act-2015*

To provide for incorporation, functioning, regulation and supervision of existing and new credit bureaus, the SBP proposed for enactment of the *Credit Bureaus Act (CBA)* and the same has been approved by the Parliament. The establishment of credit bureaus under the new law is expected to bring efficiency and better credit risk management for banks and financial institutions. It will also attract foreign collaboration, enabling the core players to benefit from the expertise of reputed credit bureaus operating in advanced economies. Also, the improved credit risk culture is expected to reduce risks of default and increase flow of credit to new segments of borrowers and thus will be instrumental in improving financial inclusion.

3.3.2 Improving Efficiency and Fairness in Banking Services

SBP has issued guidelines on “*Fair Treatment of Customer*”. The objective is to instill the idea that Consumer Protection is not merely a compliance issue rather it is an indispensable ingredient of sustainable success for banks. These guidelines will enable banks to inculcate culture wherein customers are treated fairly and equitably. Further, to rationalize service charges, SBP has issued nine overarching guiding principles of fairness to be followed by banks while devising fees and service charges on banking products/services.

3.3.3 Enhancing Conduct Requirement for Banks

SBP has issued a set of “*Guidelines for Conduct of Business in Banks*”. The objective of these guidelines is to promote good banking practices by setting out minimum standards in dealings with customers and increasing transparency in the provision of banking services. These will also enhance understanding of customers regarding the services provided by banks. To alleviate the difficulties being faced by visually impaired/blind persons in availing banking facilities, SBP has issued related guidelines to banks/MFBs to treat such persons in dignified manner.

3.3.4 Consumer Awareness Initiatives

SBP has intensified its efforts for educating consumers and launched awareness campaign for various segments of society through mass media. Information relating to complaint redressal mechanism, role of SBP in resolving disputes vis-à-vis role and functions of Banking Mohtasib Pakistan (BMP) were disseminated. The campaign also covered basic but necessary information relating to debt collection and recovery guidelines, precautionary measures for using ATMs, debit and credit cards, cheque handling, to identity theft, skimming frauds, understanding e-CIB functions and its implications for debtors.

3.4 Financial Stability Framework

Strengthening the financial stability regime is a key strategic goal of SBP. To achieve this goal, SBP has embarked upon developing financial stability framework in line with international best practices. The framework includes design and implementation of institutional set-up, development of crisis management framework, deposit insurance scheme and strengthening of supporting legal and regulatory framework. During the year under review, a number of initiatives were taken and projects started for pursuing this goal; some of which are elaborated below:

3.4.1 Strengthening of Financial Stability (FS) Framework at SBP

The global financial crisis (2007-08) revealed that financial authorities' approach to seek price stability and micro-prudential surveillance was not sufficient to ensure financial stability. Hence, in the post crisis era, increased focus was laid on institutionalizing framework for maintaining financial stability under the Financial Stability Board (FSB) principles. Drawing from the country experiences and based on an internal assessment of existing arrangements, SBP has initiated work on designing and implementing a formal structure of FS for Pakistan encompassing the establishment of: i) National Financial System Stability Council (NFSSC), ii) Financial Stability Executive Committee (FSEC) at SBP and iii) Financial Stability Department (FSD) in SBP.

3.4.2 Assessment of Banks' Resilience towards Stress Tests

In line with the global regulatory and supervisory developments, SBP has increased its focus on conducting macro prudential oversight to safeguard soundness of overall financial system. Among others, SBP performs resilience analysis of the banking system for which it has adopted two pronged strategy. Under the top-down approach, the SBP assesses resilience of the system towards both historical and hypothetical single factor/multifactor shocks to credit, market and liquidity risks. These shocks are regularly reviewed and updated keeping in view the changes taking place in the financial landscape and the risk factors. Under the bottom-up approach, banks and DFIs have been mandated to carry out quarterly stress testing exercise against various shocks provided in the revised *Stress Testing Guidelines*. Moreover, large banks are required to carry out advanced stress tests commensurate with their size, business, and complexity.

Recently, sensitivity tests on concentration of borrowers have been revised in line with Basel Committee on Banking Supervision (BCBS) guidelines on large exposures. Moreover, liquidity shocks have been applied using the Basel III liquidity standards to assess resilience of system and individual financial institutions towards stressed liquidity withdrawals. SBP is in the process of strengthening its stress testing framework and for this purpose it has sought Technical Assistance from IMF.

3.4.3 Framework for Identification and Supervision of D-SIBs in Pakistan

As part of its commitment to ensure stability of financial system and further strengthen the supervisory and regulatory regime, SBP has designed and published a paper on "*Identification, Regulation/ Supervision of Domestic Systemically Important Banks (D-SIBs) in Pakistan*". To better manage build up of systemic exposures, the policy paper adopted the benchmark BCBS methodology for constructing criteria for identifying D-SIBs in Pakistan. Further, the framework touches upon the matter of possible regulatory, monitoring, and disclosure requirements to maintain financial stability and reduce the probability of direct support and implicit Government guarantee for managing D-SIBs during crisis. It is expected that identification of the D-SIBs and future work on development of regulatory and supervisory framework will go a long way in limiting systemic risk and ensuring financial sector stability.

3.4.4 Encouraged Financial Soundness Indicators (FSIs)

After successful development of core Financial Soundness Indicators (FSIs) – which are being published regularly by SBP and IMF on quarterly basis, SBP initiated work on enhancing the scope of FSIs through preparation of “*Encouraged FSIs*”. In addition to coverage of deposit taking institutions, the Encouraged FSIs covers other financial corporations, non-financial corporations, households, market liquidity and real estate markets which have systemic implications owing to their linkages with banking sector. SBP has initiated publishing the quarterly encouraged FSIs on its website, while IMF is expected to publish the same on its website shortly.

3.4.5 Developments related to Financial Stability Board – Regional Consultative Group for Asia (FSB-RCGA)

SBP is a member of FSB-RCGA since its inception in 2011 and Governor SBP represents Pakistan on the forum. SBP has remained an active participant in FSB-RCG Asia and effectively contributed in discussion on the financial sectors reform agenda.

3.4.6 Quarterly Performance Review (QPR) of Banking Sector

To keep the stakeholders apprised with latest developments related to banking sector, SBP commenced publishing of Quarterly Performance Review (QPR) of the banking sector. The QPR for October-December 2014 quarter was the first in this series. The report provides a comprehensive analysis related to banking trends including asset structure, performance and solvency position of the banking system.

4 Broadening Access to Financial Services

Broadening and deepening of financial system is amongst the key strategic objectives of central banks. The central banks of developing countries like ours where the overall penetration of the financial systems is relatively low, strive even harder to broaden the access and reach of the financial system to all sectors of the economy. SBP has been working extensively with all the key stakeholders to develop a market based inclusive financial system catering to the financial needs of all segments of the economy, especially agriculture, microenterprises, SMEs, and low cost housing, which are commercially less attractive but strategically important. During FY15, SBP took a number of policy, regulatory and promotional initiatives to increase financial inclusion including National Financial Inclusion Strategy (NFIS).

4.1 National Financial Inclusion Strategy (NFIS)

In the overall scenario, the challenges to enhancing financial inclusion and expanding credit to private sector go beyond the scope of financial sector policies and require to be tackled in the broad economic, social, and political context. The factors which warrant due consideration include economic cycle, business climate, rising government debt, gender barriers, and informality in the economy. SBP's proactive role in promoting an inclusive financial sector is impeded by weak coordination among stakeholders, limitations of financial sector infrastructure, issues in legal and judicial framework, and lack of capacity of both financial institutions and their clients.

In the above background, the National Financial Inclusion Strategy (NFIS) was developed during the year in collaboration with the World Bank. While developing the strategy all key stakeholders were extensively consulted, which resulted into a national consensus on the objectives and approach of the strategy. The NFIS envisions a financial system where individuals and firms particularly the unserved and marginalized segments of society can access and use a range of quality payments, savings, credit and insurance services with dignity and fairness. The NFIS will guide efforts to promote financial inclusion over the next five years (2015-2020). The objectives of NFIS are also aligned with GoP's Vision 2025. The key enablers identified for successful implementation of the strategy include commitment to NFIS, enabling legal and regulatory environment, adequate supervisory and judicial capacity, and ICT (information & communication technology) infrastructure. Following are the major goals set in NFIS:

- Diversifying the range of basic payments, remittances, and saving products
- Increasing the financing opportunities
- Increasing penetration of insurance services
- Bringing pensions to more workers
- Developing housing finance products
- Fostering Islamic Finance
- Ensuring consumer protection and increasing financial literacy
- particularly the unserved marginalized segments of society

4.1.1 Nationwide Financial Literacy Program (NFLP)

SBP had launched Pakistan's first-ever Nationwide Financial Literacy Programme (NFLP) in 2012, to support financial inclusion and poverty alleviation efforts. The NFLP was launched with the support and collaboration of ADB, PBA, PPAF and Bearing Point (Consultant). The program focused on disseminating basic education about financial concepts, products and services to masses focusing on

budgeting, savings, investments, banking products and services, debt management and consumer right and responsibilities, etc. The pilot of the program was completed in July 2012. The program was evaluated through a third party and upon its positive evaluation, the program is now being rolled-out nationwide. The national roll-out has been segregated into two components: i) scale up the scope of NFLP to national level ii) initiation of Child and Youth Financial Literacy Program with the objective to provide basic financial education to children and youth and train them for their future roles in social and economic sectors.

4.1.2 Exchange Learning Program

SBP also initiated international exchange learning programs for officers of financial institutions. In this respect four programs will be arranged in different countries. First of these programs was arranged in Turkey which was attended by officials from various financial institutions and SBP.

4.2 Agricultural Credit

Banks surpassed the indicative agricultural credit disbursement target for the year FY15. Against the target of Rs 500 billion, the banks disbursed Rs 516 billion during the year, which is 32 percent higher than the disbursement of Rs 391 billion made in the preceding year. The main factors contributing to this substantial growth include: SBP's efforts for sensitization of banks about potential of agricultural financing, diversification of their agricultural lending portfolio, inclusion of more lending institutions in the agricultural lending scheme, increase in per acre credit limits, introduction of innovative products like value chain & warehouse receipt financing, rigorous follow-up and monitoring of banks' targets and farmers awareness & financial literacy programs at grass-root level leading to increase in credit demand. Bank-wise credit disbursement details are given in **table 4.1**.

Table 4.1 Agricultural Credit Disbursements (Amount in billions)

Bank	FY14		FY15	
	Target	Actual	Target	Actual
Five Big Commercial Banks	188	195.5	252.5	263
Specialized Banks				
• ZTBL	69.5	77.9	90	95.8
• PPCBL	10	8.8	11.5	10.5
Domestic Private Banks	90.4	84.8	115.5	109
Microfinance Banks	21.6	22.8	28.2	33
Islamic Banks	0.5	1.5	2.3	5
Total	380	391.3	500	516

Source: Agricultural Credit & Microfinance Department, SBP.

Box 4.1: Initiatives for Promotion of Agricultural Credit during FY15

- **Enhancement of Scope of Crop Loan Insurance:** SBP enhanced the scope of crop loan insurance scheme (CLIS) from 12.5 acres to 25 acres. Under the scheme, which is mandatory for small farmers, the government is bearing the cost of premium on account of small farmers' up to 2 percent per crop per season.
- **Framework for Warehouse Receipt Financing:** SBP issued draft Framework for Warehouse Receipt Financing which facilitates banks in development of specialized products for providing financing to farmers, traders, processors, and other players in the value chain. SBP facilitated two pilot projects (Sindh and Punjab) to test the feasibility of warehouse receipt financing in the country. These projects were launched in collaboration with banks, MFBs, warehouse operators, and collateral management company.
- **Credit Guarantee Scheme for Small and Marginalized Farmers:** SBP developed a credit guarantee scheme, funded by the Federal Government, for small & marginalized farmers which would facilitate flow of credit to small and marginalized farmers who do not have any collateral. The objective of the guarantee scheme is to encourage financial institutions to lend to small farmers who do not have adequate collateral (acceptable to bank) in order to meet their working capital requirements.
- **2nd Round of Financial Innovation Challenge Fund (FICF):** This Round of the facility was launched in March 2014 to promote innovative rural and agricultural financial services. Under this round, FICF is currently supporting 12 institutions for testing innovations such as Agriculture Value Chain Financing, Warehouse Receipt Financing, green agricultural financing, Islamic microfinance, use of ICT solutions for agricultural finance and price information, etc.
- **International Conference on Agriculture Value Chain (VC) & Rural Finance:** A two day international conference was held in Islamabad with the objective to promote innovative agriculture VC financing in Pakistan. The conference was attended by more than 350 local and international participants.

4.3 Microfinance

The microfinance banking sector exhibited strong growth despite various external challenges. Due to favorable regulatory environment, both existing and new investors continued to invest in microfinance banks (MFBs). Growth has been witnessed in all the key performance indicators of MFBs. Credit, the core growth engine for MFBs, has encouragingly registered strong growth. Another substantial development was healthy performance of mobile phone banking, which through eight players, has been adding vast, low-cost, and easy-to-access distributional channels in the sector.

Presently, ten MFBs are operating in the country. Nine of them having national level MFBs licenses and one has provincial level (Sindh province) license. All the MFBs are privately owned with both foreign and local investors.

During FY15, due to fresh equity injections in some of the MFBs, the overall equity base of MFBs jumped to Rs 16.7 billion as of end June, 2015, from Rs 13.4 billion last year, registering 24 percent YoY growth. Deposits of MFBs have also shown a strong growth of 41 percent during the year and reached to Rs 52 billion as of June, 2015 from Rs 37 billion in the preceding year. The MFBs' assets also registered a growth of 33 percent during the year and reached to Rs 82.8 billion. The gross loan portfolio (GLP) of MFBs has increased by Rs 12 billion (36 percent) during the year to Rs 46 billion. The number of MFBs' depositors reached 11.5 million as at end June, 2015 registering an incredible growth of 168 percent over the last year's number of 4.3 million. This rise is largely attributed to stellar growth in M-Wallet accounts, which increased to 7 million as at end June 2015. The MFBs have been consistently strengthening their loan size owing to strong market demand and better recoveries. The portfolio quality during the year remained good with NPLs at 1.76 percent, slightly higher than 1.55 percent last year.

Table 4.2 Performance of MFBs-FY 2014-15

(Amount in millions)			
Key Indicators	June, 2014	June, 2015	YoY Growth
Borrowers	1,095.96	1,296.20	18.3
GLP	33,479.27	45,581.50	36.1
Deposits	36,923.13	52,016.29	40.9
Depositors	4,331.08	11,598.52	167.8
Assets	62,419.01	82,837.96	32.7
Equity	13,452.06	16,705.30	24.2
NPLs	1.55%	1.76%	

Source: State Bank of Pakistan

Box 4.2: Initiatives and Developments for Promotion of Microfinance

- **Amendment in Prudential Regulation for Microfinance Banks (MFBs):** Cognizant of the mounting trend in gold backed lending by MFBs and its associated risks, SBP directed MFBs to ensure that their aggregate loan exposure against the security of gold should not exceed 35 percent of their gross loan portfolio.
- **Microfinance Credit Guarantee Facility (MCGF):** It is a £15 million facility launched by SBP in December 2008 under FIP to cover partial risks against the loans extended to microfinance providers by the commercial banks. So far, 46 guarantees have been issued under MCGF enabling MFBs to mobilize Rs16 billion from commercial banks and capital markets/ retail investors for onward lending to more than 800,000 micro borrowers. There have been no calls on the guarantee yet.
- **Institutional Strengthening Fund (ISF):** A £6 million facility was launched by SBP with the objective to provide grants for institutional strengthening of the microfinance sector, develop and implement strategies for mobilization of savings, strengthen governance and internal control functions, and launch branchless banking initiatives. Under ISF, the grants of Rs703 million have been approved for 26 projects from 15 microfinance institutions (MFIs) and banks (MFBs) representing more than 60 percent of the microfinance sector.
- **1st Round of Financial Innovation Challenge Fund (FICF),** This Round of FICF was launched in May 2011 to promote "Financially Inclusive Government to Person (G2P) Payments" through branchless banking models. Under this round, FICF is currently supporting Punjab Pension Fund, Employees Old-age Benefits Institution, UBL, and NADRA for a number of pilots for adoption of innovative approaches and solutions to deliver affordable and convenient financially inclusive G2P payments.
- **Establishment of Nationwide Microfinance Credit Information Bureau:** SBP is supporting the Nationwide Microfinance exclusive Credit Information Bureau (MF-CIB) that helps microfinance providers (MFPs) in developing robust risk management system and practices, which in turn reduce the risk of multiple borrowing and

loan defaults.

- **Client Protection (CP) Monitoring and Pricing Transparency Initiatives for Pakistan's Microfinance Sector:** SBP is supporting these initiatives with the help of Pakistan Microfinance Network (PMN) which are aimed at a holistic client protection intervention at the industry level. The key objectives of the initiatives are monitoring of client protection measures in place at MFPs in accordance with globally accepted benchmarks and standardization in calculating and communicating product prices to clients.
- **MoU between SBP and NADRA:** A MoU was signed between SBP and NADRA for reducing the biometric verification cost to Rs 10 for each M-Wallet account opening at industry level. This initiative will reduce transaction costs of banks and clients and strengthen customer identification and verification procedure leading to accelerated growth in mobile accounts.
- **MoU between Gates Foundation and DFID:** Another MoU was signed between Bill and Melinda Gates Foundation and DFID to set up a Digital Financial Services Unit within *Karandaaz Pakistan*, a newly incorporated company to support small and growing businesses in Pakistan.
- **Addition in Nation-wide MFBs:** APNA Microfinance Bank, a Sindh-based provincial MFB, has been converted into a nation-wide MFB.
- **Workshop on 'Inclusion-Effective Interoperability:** SBP, in collaboration with Consultative Group to Assist the Poor (CGAP), organized a one day workshop in October, 2014. The conference aimed to share the findings of the global research study conducted by CGAP on topics such as: solution relating to account to account interoperability, how agent interoperability might assist financial inclusion, effective use of national payment infrastructure, and key impediments.
- **International Branchless Banking Conference:** SBP, in collaboration with CGAP and UK Department for International Development (DFID) organized a one day international branchless banking conference. The conference was attended by over 280 participants from the Government, international policy advisory organizations, financial service providers, telecom sector, and payment service providers.

4.4 Small and Medium Enterprise Finance

The SME sector contributes significantly in economic and social development especially through employment generation. During the year, outstanding finance to SMEs by banks/DFIs grew by 3.2 percent to Rs 261 billion as at June 30, 2015. The number of SME borrowers however registered a strong growth of 14 percent during the year. Notably, the non performing loans of SME sector showed positive trends with decline of about 9 percent during the same period.

4.4.1 Major Initiatives to Promote SME Finance

Strengthening Secured Transaction Reform Framework (STRF): STRF calls for existence of a modern secured transaction law that provides for establishment of secured transaction registry office in the country. This will register charge on moveable assets of SME borrowers to facilitate them in obtaining bank credit against these assets. In this respect, SBP in consultation with other stakeholders, has prepared a draft *Secured Transaction Law* and forwarded the same to GoP for onward submission before the Legislature. After its enactment, GoP shall establish a collateral registry.

Growth in the Financing Schemes earlier Introduced by the Bank:

The Bank consolidated upon the financing scheme initiated in the past, highlights of which are given below:

- **The Credit Guarantee Scheme (CGS) for Small and Rural Enterprises:** CGS launched in 2010, involved 16 participating financial institutions (PFIs) with allocated credit exposure limits of Rs 8.4 billion.
- **SBP Refinance Facilities:** To reduce financial cost for exporters and to support overall exports of the country, the markup rates for short term and long term financing schemes were reduced in line with reduction in SBP policy rates.

- **Export Finance Scheme (EFS):** The outstanding financing under EFS showed an increase of 19.1 percent which stood at Rs 191.1 billion mainly due to reduced markup rates on EFS.
- **Long Term Financing Facility (LTFF):** The outstanding financing under LTFF was Rs 39.8 billion (390 borrowers) at the end of the year. Textile sector is the largest recipient of this facility with over 60 percent share against 317 borrowers.

4.5 Housing Finance Market

The Housing finance portfolio of banks/ DFIs grew by 12.50 percent during the year to Rs 59 billion from Rs52.5 billion last year; an impressive increase of over Rs 6.5 billion in the outstanding Housing finance portfolio of banks/DFIs. The cumulative disbursements to the housing sector during the year at Rs 14.25 billion were highest in last 5 years. Another encouraging trend is the decline in NPLs from Rs 15.66 billion in June 2014 to Rs 13.51 billion in June 2015; a 13.75 percent YoY decrease. The current low mark up regime will give further boost to the primary mortgage market enabling it to increase its size, which is currently amongst the lowest in the region.

4.5.1 Major Initiatives to Promote Housing Finance

Incorporation of Pakistan Mortgage Refinance Company (PMRC)

PMRC would serve as a secured source of long-term funding at attractive rates. In May 2015, the PMRC was incorporated with SECP. Further, GoP has already contributed its equity share of Rs 1.2 billion while financial institutions are in process of injecting their share of equity in the PMRC. Moreover, multilaterals are also being pursued to participate in the equity of PMRC.

Diagnostic Survey of Housing Finance

SBP has initiated a diagnostic survey on housing finance in Pakistan. The survey is being conducted in collaboration with Department for International Development (DFID), UK. It is a national-level survey encompassing major urban and rural areas of Pakistan. The objective of this survey is to further drill down on demand and supply side issues that are hindering the growth of housing finance in the country.

Capacity Building of Banking Court Judges

Banking courts are major stakeholders for housing finance in Pakistan. Realizing this and in continuation with capacity building initiatives of the mortgage banking industry, SBP, in coordination with Ministry of law, justice and human rights organized training session for banking court judges in Islamabad. 24 Banking court judges participated in the session facilitated by an industry expert on housing finance laws, regulations and products. Moving forward, a joint platform among Bankers, Banking Court Judges and SBP is envisaged, that would not only work for timely resolution of housing finance foreclosure cases but would also actively propose innovative solutions to existing legal hindrances that affect the growth of housing finance.

International Conference on Affordable Housing and Mortgage Finance

The conference was well attended by over 300 participants from different organizations including financial institutions, government departments, multilaterals and academia. The theme of the conference was designed to address the current issues in provision of affordable housing and mortgage finance in Pakistan.

Amendments in Foreclosure law

In order to further strengthen the housing finance in Pakistan, necessary amendments have been proposed to Financial Institutions Recovery Ordinance (FIRO). The initiative has been taken to fill the

vacuum created by annulment of Section 15, that empowered Financial Institutions to foreclose a mortgaged property without recourse to the court of law.

Capacity Building of Banking Industry on Housing Finance

Housing Finance in Pakistan is currently at a nascent stage and requires rigorous training initiatives to develop housing finance professionals. SBP has kept the capacity building of the housing finance industry on its priority. During the year, training programs/workshops were organized in Karachi, Lahore and Islamabad to provide local bankers with expertise necessary to execute housing finance transactions. More than 90 bankers have been trained in the current year on different aspects of housing finance in the sessions facilitated by local and international housing finance experts.

4.6 Infrastructure Finance Market

Infrastructure plays a pivotal role in the development of a country by improving productivity and supporting economic growth. Improved quality and service coverage in power, water supply, sewerage treatment and transport uplifts the living standards of the masses. Infrastructure financing of banks recorded growth of 19.1 percent during the year owing to overall economic growth, low interest rates and measures taken by SBP. The outstanding credit for infrastructure projects stood at Rs 328.7 billion at the end of year. The growth was witnessed in telecom, power generation, oil & gas and road, bridge & flyover sectors during the year.

Box 4.3: Green Banking in Pakistan

Concept Paper on Green Banking: The green and sustainable banking envisions reorientation of banking practices to incorporate resource efficiency, renewable energy and environmental protection in operations and products/ services of banks. In line with this vision, a concept paper on ‘*Green Banking*’ was prepared by SBP which provided a number of recommendations for future initiatives.

Establishment of Green Banking Unit in SBP: SBP has established a Green Banking Unit with a view to coordinate and gear-up its initiatives on green banking. The Unit has increased coordination with multilateral agencies for working out proposals of joint initiatives. SBP has joined IFC’s Sustainable Banking Network (SBN) which is an association of banking regulators globally for the purpose of knowledge exchange and learning on sustainable banking. SBP is coordinating with the IFC for a baseline survey on Environmental and Social Risk Management (ESRM) practices of banks/ DFIs. SBP is also working with GIZ for development of Green Banking Guidelines and awareness/ training sessions on renewable energy/ energy efficiency financing and green banking for the banks/ DFIs, energy services companies and prospective investors.

The Green Climate Fund: The Green Climate Fund established by the United Nations Framework Convention on Climate Change (UNFCCC) is emerging as a mainstay of international efforts on climate related measures. The Fund may open up an international funding avenue for banks/ DFIs to finance climate related projects. Accordingly, State Bank is exploring possibility of selection of bank/ DFI as Accredited National Implementing Entity (ANIE) under the GCF.

5 Islamic Banking

5.1 Islamic Banking

Growth momentum of Islamic banking industry in Pakistan continued during FY15. Both assets and deposits of Islamic Banking Institutions (IBIs) witnessed increase of more than 37 percent during the review year. As of end June 2015, the industry's asset base reached Rs 1,495 billion and constituted market share of 11.3 percent in overall banking industry. Similarly, deposits of Islamic banking industry increased to Rs 1,281 billion having a share of 12.8 percent in overall banking industry deposits (**see Table 5.1**). The outreach of IBIs also expanded and, as of June 2015, the branch network of IBIs consisted of 1,702 branches spread across 95 districts of the country.

Table 5.1: Industry Progress and market share of Islamic Banking Institutions
Rs in billions

	Growth (YoY)				Share in Industry	
	Jun-14	Jun-15	Jun-14	Jun-15	Jun-14	Jun-15
Total Assets	1089	1495	20.5%	37.3%	9.8%	11.3%
Deposits	932	1281	20.9%	37.4%	10.6%	12.8%
No. of Islamic Banks	22	22	—	—	—	—
No. of Branches*	1335	1702	—	—	—	—

Source: Quarterly Unaudited Accounts

*number includes sub-branches

SBP remained actively engaged in facilitating development of Islamic banking in the country through various promotional and regulatory initiatives. Some of the key measures and steps taken during FY15 are listed below:

5.1.1 Steering Committee for Promotion of Islamic Banking

The Government of Pakistan (GoP) has demonstrated strong commitment for supporting development of Islamic finance in the country. To this end, a high level Steering Committee for promotion of Islamic banking has been set up chaired by Deputy Governor SBP. The steering committee comprises renowned Shariah scholars, senior government officials, industry experts (local and international) and business leaders.

The Committee was to carry out an objective review of the current paradigm of Islamic banking and to formulate a comprehensive policy framework for an Islamic financial system in conformity with Shariah principles. To accomplish its mandate, the Committee has shown significant progress on various top priority areas including; review of legal, regulatory and taxation frameworks; developing liquidity management tools ; developing solutions for conversion of government debt into Shariah compliant financing; development of an Islamic capital market; reforms in Mudaraba sector; and several initiatives for capacity building and creating awareness among masses to have a better understanding about Islamic finance.

5.1.2 Shariah Compliant Open Market Operations OMOs - Bai Muajjal of Sukuk

SBP is working on providing multiple liquidity management solutions for the industry. In this regard the Shariah compliant OMOs (Bai Muajjal of Sukuk) utilizing Sukuk issued by the GoP was introduced during FY15. This transaction is helping SBP in mopping up excess liquidity from the market and improving implementation of monetary policy stance of SBP.

5.1.3 Implementation of Shariah Governance Framework

To strengthen the overall Shariah compliance environment in IBIs, a comprehensive Shariah Governance Framework was issued during FY14. In view of the feedback received from various quarters and deliberations of SBP Shariah Board, the Framework has been further refined and issued for compliance to IBIs. The Framework has come into force with effect from July 1, 2015. It aims at institutionalizing Shariah compliance function in IBIs.

5.1.4 Rationalization of Minimum Capital Requirements (MCR) for Islamic Banking Subsidiaries

In order to provide a level playing field to IBIs, SBP developed a proposal for rationalization of MCR for Islamic banking branches (IBBs) and Islamic banking subsidiaries of conventional banks. Accordingly, SBP has revised the MCR for Islamic banking subsidiary from Rs 10 billion to Rs 6 billion. However, the intending Islamic banking subsidiary shall be required to raise its paid-up capital (net of losses) up to Rs 10 billion within a period of 5 years from the date of commencement of its operations.

5.1.5 Awareness Creation and Capacity Building Programmes for Islamic Banking Industry

Islamic banking industry in collaboration with SBP has been running a mass media campaign for promotion of Islamic banking. After successful launch of the first phase in 2013, second phase was launched in December 2014 which focused more on education, awareness, and improving understanding of Islamic banking and finance. Second phase involved advertisements in newspapers, radio and distribution of brochures and placement of roll-up standees in IBIs' branches.

SBP has also been collaborating with reputed national and international institutions for organizing targeted seminars, lectures, training programmes and workshops for the Islamic banking industry.

5.1.6 Global Participation

SBP is playing active role in addressing the challenges and issues faced by the global Islamic financial industry. SBP continued to contribute in the Working Group of Islamic Financial Services Board (IFSB) on core principles for Islamic finance regulation (banking segment). SBP also became part of IFSB Task Force on Technical Note on stress testing for institutions offering Islamic financial services.

SBP participated actively at various international forums on Islamic finance, such as IFSB meetings and events, Global Islamic Finance Forum (GIFF), meeting of Central Banks and Monetary Authorities of the OIC member countries, Board of Trustees meeting of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Moreover, SBP facilitated AAOIFI in arranging a meeting of its Shariah Board's Shariah Standards Review and Translation Committee in Pakistan. SBP was awarded 'IFN Deal of the Year' by Islamic Finance News (IFN) for a deal of US\$ 1 billion GoP Ijara Sukuk.

5.1.7 Pakistan International Sukuk

Pakistan entered the international Sukuk Market after nine years during FY15, through Dollar denominated Sukuk. The issue size of this Sukuk was US\$ 1.0 billion having maturity of 5 years. The Sukuk was listed at the Luxembourg Stock Exchange and was received well in the international market.

5.1.8 Launch of KAP Study

SBP launched its survey based study; “Knowledge, Attitude and Practices of Islamic Finance in Pakistan (KAP)”, during FY15. The survey findings are highly encouraging and positive for Islamic banking in the country. Given the supply-demand gaps, there is huge potential for further development of Islamic banking in Pakistan. As a large segment of demand for Islamic banking is yet to be met and a significant proportion of demand lies amongst those who are still financially excluded, greenfield growth in Islamic banking has a huge scope.

5.1.9 Establishment of Centre of Excellence in Islamic Finance Education (CEIFE)

The sustenance of growth momentum of Islamic banking industry critically hinges upon skilled and well trained human resources. To fill the gap in demand and supply of suitably qualified and trained human resource there is a need to develop dedicated institutions that can lead, steer, and synergize all efforts for bridging these capacity gaps. The Steering Committee for promotion of Islamic banking in Pakistan recommended establishing Centre of Excellence in Islamic Finance (CEIEF).

The center will have:

- Comprehensive set of educational and training programs for various audience groups
- Strong quality assurance framework
- State of the art research facilities
- Partnerships with the industry and buy-in of the key stakeholders
- Good governance, management, faculty and technology
- International orientation; and
- Knowledge environment that promotes innovation

Three universities have been selected for establishment of CEIFEs based on the quality of their proposals and capacity to effectively manage the Center. Under this initiative, the grantee institutions will perform a wide range of activities including setting-up exclusive Islamic Finance education and research infrastructure, curriculum development, international collaborations, industry linkages, and most importantly they will attract private investments for ensuring sustainability of the initiative.

It is envisioned that the initiative will have positive impact the Islamic finance industry as a whole through sharing of Islamic finance curriculum/research material, initiation of distance learning programs, establishment of Islamic finance teaching resource pool, short courses/trainings for Islamic finance industry and holding of international conferences/events, etc.

6 Exchange Markets and Reserve Management

6.1 Money and Debt Market

A well-developed financial market plays a key role in effective implementation of monetary policy. During FY15, SBP has made further progress towards improving the depth, liquidity, and efficiency of the money, debt, and foreign exchange markets in Pakistan, which is one of the prime objectives of the Bank. During the year, SBP took the following initiatives which helped in the effective implementation of monetary policy stance and ensured smooth functioning of financial markets to achieve SBP's objective of anchoring expectations and maintaining low inflation.

6.1.1 Improvement in the Interest Rate Corridor Framework

To enhance the effectiveness of monetary policy and better manage liquidity in the interbank market, SBP improved the structure of its Interest Rate Corridor (IRC) framework. The main feature of this improved framework is the introduction of the 'SBP target rate' for the money market overnight repo rate as the new and main Policy Rate of SBP. This step aligned SBP's operational target with the new Policy Rate set within IRC, i.e., 50 basis points below the ceiling rate. The main objective of adopting an improved IRC by SBP was to stabilize short-tenor interest rates around the 'Policy Rate' for smooth transmission of monetary policy. To keep the interest rate close to the target rate, SBP conducted more frequent and larger volume Open Market Operations (OMOs) to meet liquidity needs of the market. As a result, in the period since May 2015 monetary policy statement, the overnight repo rate remained (on average) close to the new SBP target rate (Policy Rate) of 6.50 percent, indicating successful implementation of monetary policy stance.

6.1.2 Introduction of Liquidity Management Instruments for IBIs

Islamic banking industry in Pakistan has progressed significantly in recent years. However, due to limited availability of Shariah compliant instruments in the domestic market, IBIs were facing problems in managing their liquidity. The liquidity management for IBIs became more challenging due to lack of fresh issuances of GoP Ijara Sukuk (GIS) and maturing stock of already issued GIS.

To facilitate IBIs in their liquidity management and to improve the effectiveness of monetary policy transmission, SBP introduced OMOs for IBIs in October 2014. Under these OMOs, SBP can purchase or sell GIS either on deferred payment basis (Bai-Muajjal) or on ready payment basis, using multiple price competitive bidding auction process. These OMOs provided SBP a tool to manage liquidity available in this segment of the market and facilitated IBIs in better management of their surplus funds, particularly in the absence of new Sukuk issuances by the GoP.

6.1.3 Development and implementation of Derivative Transactions Reporting System (DTRS)

The Over-the-Counter (OTC) derivatives market in the country operates under the regulatory framework of SBP. Banks execute derivative transactions permitted by SBP and report the transactions detail on monthly basis. In the past, data from these reports was manually processed to get market-wide scenario. To closely monitor the activities of derivatives market, SBP introduced the Derivative Transaction Reporting System (DTRS) to capture all derivative transactions executed by banks operating in Pakistan.

DTRS, introduced in April 2015, is developed on the same lines as FXCRS and MMCRS which capture FX and money market transactions, respectively. DTRS requires all banks dealing in financial derivatives to report derivative transactions, including cross currency swaps, interest rate swaps,

foreign currency options, and Forward Rate Agreements (FRAs) on weekly basis. Banks send details of their derivative transactions using client-end forms developed and supplied by SBP. The data received by SBP is loaded in DTRS and reports are generated using available tools for monitoring and analysis.

6.2 Foreign Exchange Market

A stable and vibrant foreign exchange market is immensely important for the functioning of financial sector and overall economy. SBP continued to focus on smooth functioning of the domestic foreign exchange market and building its foreign exchange reserves. During FY15, Pakistan's foreign exchange reserves increased by US\$ 4.6 billion to 18.7 billion by June 30, 2015.

4.2.1 Establishment of Cross Border CNY settlement System in Pakistan

SBP signed a Currency Swap Agreement with the People's Bank of China (PBoC) in 2011 with the objective of promoting bilateral trade and financing direct investment between the two countries in their respective local currencies. Further to encourage trade with China in CNY, SBP has recently allowed ICBC Pakistan to establish a local CNY settlement and clearing setup in Pakistan. This is a part of series of steps taken by SBP to encourage trade with China in CNY such as allowing banks to accept CNY deposits and extend CNY loans to importers/exporters. Key elements of the CNY Settlement Initiative are as follows:

- (1) ICBC Pakistan branches are allowed to open CNY accounts of the banks operating in Pakistan to facilitate settlement of CNY based transactions such as remittance to/from China.
- (2) ICBC Pakistan branches can provide CNY liquidity to the interbank market for the settlement of CNY based transactions.

Keeping in view the recent local and global economic developments, SBP expects this initiative to yield long term benefits to China-Pakistan relationship in general, and Pakistan's economy and banking system in particular.

6.3 Foreign Exchange Reserve Management

6.3.1 Global Economic Outlook

The year started with a declining trend in oil prices driven by excess supply. OPEC did not reduce supply to preserve market share in face of increased supply by non-OPEC especially North American shale oil producers. The oil price was projected to provide a boost to household consumption in US. The oil price also reduced the US inflation and brought it close to zero. However, the Fed attributed it to transitory factors. The US economy grew strongly with a GDP growth of 2.4 percent for 2014. Fed indicated that the monetary policy tightening would commence once data confirmed that economy is on a growth trajectory. In contrast the European economies struggled during the year with France growing by 0.2 percent, Italy with a negative GDP growth of 0.4 percent, Portugal with a GDP growth of 0.9 percent, Spain 1.4 percent and Germany growing at 1.6 percent.

The heightened volatility in the bond and FX markets due to uncertain economic data, policy actions and political events saw sudden and sharp FX movements. During FY'15 US Dollar appreciated against GBP by 8.91 percent, EUR by 22.92 percent, JPY by 20.89 percent, AUD by 22.39 percent and CAD by 17.08 percent. In short, all major currencies have lost ground to the strengthening US Dollar during the year. The major events which caused this extreme volatility include European Central Bank's (ECB) launch of quantitative easing (QE) program of EUR 1.1 trillion; easing of monetary policy by central banks globally; Greek exit fear from eurozone, decoupling of the monetary

policy of Federal Reserve Bank & ECB and fall of commodity prices. The prevailing economic conditions and the allied policy actions taken by the monetary authorities dragged sovereign yields to extremely low levels and in some cases into negative territory.

Although the long drawn out negotiations between the new government and the troika, i.e., ECB, IMF, and European Commission, over the terms of the new bailout package were successful in the end, they caused great uncertainty and stress in the financial market. The Chinese economy was able to meet its growth target over FY15, providing some respite to global growth. In addition to monetary measures, Chinese policy makers also focused on supporting the economy by advancing its reforms agenda for its State Owned Enterprises (SOEs). The Chinese economy is likely to benefit from the internationalization of Renminbi – which includes gradually opening up of Chinese capital markets to foreign investors and promoting the global use of Renminbi for cross-border trade settlement.

6.3.2 SBP Reserve Management Strategy

SBP is continuing with its strategy of adhering to the overall risk parameters and ensuring that the foreign reserve portfolio provides an optimal return keeping in view the safety and liquidity needs of the SBP. The reserves have grown during the year and are expected to continue with this trend benefiting from the recent decrease in global oil prices. The investment in the Chinese bond market continued in FY15 and was expanded during the year. The Chinese bond portfolio continues to play an important role in the SBP's overall reserve portfolio mix and offers a vital source of risk diversification and yield enhancement.

6.4 Foreign Exchange Regime

Major changes made in foreign exchange regime during FY15 are as under:

- With a view to cater to their genuine small import needs, importers were allowed advance payment up to US\$ 10,000/- or equivalent foreign exchange per invoice for import of all eligible items without requirement of Letter of Credit or Bank Guarantee.
- In order to facilitate resident Pakistanis to meet their individual foreign exchange needs, SBP has simplified its instructions/procedure regarding remittances/release of foreign exchange related to medical treatment and studies abroad.
- To improve supervision and monitoring of foreign exchange transactions by Hotels having restricted authorization to deal in foreign currencies, reporting requirements were revised as per International Statistical Standards.
- To further facilitate exchange companies, duration of the renewed licenses of exchange companies (category A) was increased from three to five years from the date of expiry of the license subject to completion of SBP required formalities.
- The exchange companies have been encouraged to increase their capital by simplifying the regulatory approval process.
- To broaden the scope of exchange companies, they were allowed to conduct branchless banking activities as agents of authorized financial institutions.

6.5 Home Remittances

Workers' remittances increased to US\$ 18.7 billion during FY15, registering a growth of 18.2 percent over the preceding year. They made up for nearly 45 percent of the country's import and are 6.5 percent of GDP.

Pakistan Remittance Initiative (PRI) (a joint initiative of SBP, Ministry of Finance, & Ministry of Overseas Pakistanis) has contributed significantly in enhancing the flow of remittances through

formal channels. In the recent times, following major steps have been taken, under the auspices of PRI, to facilitate the flow of remittances:

- Introduction of innovative products by financial institutions for both remitters and beneficiaries
- Enhanced overseas market coverage of financial institutions
- Efforts to enhance awareness amongst the overseas Pakistanis in coordination with other stakeholders
- Country-wide workshops as a preparatory work to launch pre-departure briefing program
- Establishment of PRI dedicated call center to cater queries and complaints of customers regarding delay in home remittance payments

In order to encourage overseas Pakistanis to remit money to the country through formal banking channels, GoP had introduced 'Reimbursement of TT charges Scheme on Home Remittance' in October 1985. In order to rationalize the scheme, the reimbursement rate of SAR 25/- has been reduced to SAR 20/- for each eligible remittance transaction. The minimum amount of remittance to qualify for reimbursement of TT charges has been increased from US\$ 100/- to US\$ 200/- or equivalent to other currency.

6.6 Treasury Operations

A mechanism for compiling the data/disclosures relating to FCY investments and FX trades, for IAS compliant financial statements, has been developed and implemented. Further, settlement modalities and procedures were finalized and applied for the first time for internally managed fixed income securities investment initiated by the front office. This successful exercise has built internal HR capacity at back office and would greatly help in diversification of internally managed portfolio in future. In order to strengthen the SWIFT system operations, database recovery software has been procured and installed. On the core business side, accurate and timely settlement of trades, recording and reporting of traditional as well as advanced treasury transactions and execution of FCY payments were ensured.

7 Institutional Strengthening

7.1 Human Resource Developments

A well designed human resource management and development framework is central to an organization's performance. A robust and futuristic HR framework can only survive if the HR function is institutionalized with a long term vision.

7.1.1 HR Profile

Grade-wise comparison of headcount for FY14 and FY15 is given in Table 7.1. The change in grade-wise composition of the working strength has taken place mainly due to promotions. The overall working strength of SBP has slightly declined, which was mainly due to retirement/early retirement of employees (2.8 percent). The representation of women in the Bank remained unchanged, i.e., 10 percent of total working strength.

Table 7.1: SBP HR Profile		(numbers)	
Grade	End-FY14	End-FY15	
OG-8	12	12	
OG-7	39	41	
OG-6	26	51	
OG-5	85	99	
OG-4	192	249	
OG-3	387	323	
OG-2	343	282	
OG-1	99	103	
Support Staff	125	113	
Contractual Employees	4	2	
Total	1312	1275	

7.1.2 Employee Turnover

Employee attrition rate in FY15 stood at 4.43 percent, with a total of 19 involuntary and 40 voluntary separations during the year. The voluntary separations are mostly due to early retirement incentives given by the Bank. Gender-wise breakup shows that 81 percent male and 19 percent female employees left the Bank; among the male the ratio of involuntary to voluntary separations was 35:65 whereas 82 percent females left the Bank voluntarily.

7.1.3 Recruitment

In line with the traditional HR strategy of SBP, major recruitment was done at the officer's entry level, OG-2 position. To fulfill the HR gap, induction of fresh graduates from HEC recognized universities was completed through the State Bank Officers Training Scheme (SBOTs) Batch -19. Apart from entry level, professional/experienced individuals were also recruited in different areas where there was a dire skill gap.

7.1.4 Career Development

Bank-wide promotion process was initiated under the career development policy. It was assigned a top priority to raise the overall morale of employees, who were stagnant in their positions for a long time. Accordingly, the process of promotion for 174 positions was initiated during the year in various grades.

7.1.5 Training and Development

To gauge training needs of the organization, the Bank wide TNA (Training Need Assessment) was undertaken as done annually. A total of 225 employees participated in 34 in-house /

Table 7.2: International trainings (number)

Organization/ Institute	Participants
International Monetary Fund	54
Boulder Institute of Microfinance	4
European Central Bank	3
Asian Development Bank	3
Deutsche Bundesbank	10
SEACEN	6
Others	75
Total	155

institutional trainings. Similarly, 155 employees participated in foreign trainings at different institutions.

7.1.6 Internship Program

SBP offers internship opportunities to students across Pakistan. During FY15 a summer internship program was arranged for 160 students of HEC recognized universities.

7.1.7 Major HR Initiatives

Comprehensive Review of HR Policies

A comprehensive review of major HR policies was carried out and after deliberations at various levels the Central Board of Directors in the meetings held on 2nd & 23rd May, 2015 approved the following HR Policies:

- Recruitment
- Training and development
- Higher Study
- Succession Planning
- Changes in PMS
- Communication
- Job rotation
- Code of Conduct
- Grievance handling
- Promotion
- Whistle Blowing

Introduction of HRBP Model

For a successful and modern HR function to enable the organization achieve its overall objectives, it is important to see the value in greater collaboration between HR and all other departments to align strategic objectives towards a common goal. This process of alignment is known as HR business partnering where HR professionals along with shared services and centers of expertise work closely with line departments while carrying out all HR processes efficiently and effectively. To achieve the above objectives, Human Resource Department (HRD) has been re-structured on a three tiered model as detailed below:

- The first tier is composed of the HR Business partners (HRBPs) who coordinate directly with their assigned areas to understand the HR needs and requirements. This partnering with other departments will help to understand their needs and issues and address them proactively.
- The middle tier is responsible for processing all HR transactional and strategic areas including recruitment, promotion, training and development, etc.
- The third tier consists of the area responsible for development and interpretation of policies, and knowledge management framework.

7.2 Risk Management

SBP has considerably improved its internal control framework by developing code of ethics and conduct document that will enhance integrity and competence of staff working in the areas of assessment, quantification, monitoring and reporting of potential risks emanating from reserve management activities. Moreover, to deal with inherent complexity and rapidly evolving nature of credit, market and operational risk factors, SBP has extensively enhanced its risk identification,

monitoring, and reporting mechanism through the deployment of industry standard tools and technologies.

A robust Enterprise Risk Management (ERM) function is being implemented across SBP and its subsidiaries. In this regard, Technical Assistance (TA) from World Bank has also been sought.

7.3 Business Continuity Management

Business Continuity Management (BCM) function increases an organization's resilience. In case of SBP, the inherent capacity to operate under unforeseen circumstances is extremely critical.

Accordingly, state of the art infrastructure and facilities have been created to ensure continuity of critical functions and prevent any major disruption in financial system in the face of a catastrophe caused either by natural disaster, fire, civil strife, sabotage or an act of war. It has a state of the art Disaster Recovery Site and a fully equipped Backup Site (Alternate working site) for critical time sensitive functions. To further enhance the state of readiness, the following major initiatives were taken during the year as a part of overall Business Continuity Management:

- 179 BCP Exercises were conducted
- Technology up-gradation at primary backup site – installation of Bloomberg and Eikon
- Alternative connectivity testing during exercises
- Several BCP awareness sessions
- Participation in international programs for mutual learning
- Development of color coded threat matrix
- Development of BCP training module for SBP flagship training programs

7.4 Risk Based Audit of functions

The Bank regularly evaluates the effectiveness of its risk management framework, control and governance processes by conducting financial, operational, and information technology (IT) audits. During the year, four financial and operational and one Information Technology (IT) audit teams conducted audit engagements based on risk-based internal auditing methodology. Further, quality assurance of audit activities is undertaken on an ongoing basis to ensure conformity of these activities with the standards of Institute of Internal Auditors (IIA) and the Information Systems Audit and Control Association (ISACA). Following are some of the significant achievements during FY15:

- Gap analysis with the international standards of auditing was carried out as per the IIA and ISACA standards.
- Quality Peer Review assessment was carried out and areas identified for improvement were incorporated in business operations.
- As required in the IMF Safeguard Assessment, monetary program data is reviewed on quarterly basis and the reports are submitted to IMF Safeguard team as an independent assessment.

7.5 Legal Services Function

The Legal Services (LS) function at SBP assists and advises various departments of the Bank in developing new laws, bringing amendments in the existing laws in order to make these compatible with the emerging regulatory and economic challenges. The proposed amendments in the SBP Act 1956, already approved by the National Assembly and under consideration with the Senate, proposed amendments in the Foreign Exchange Regulations Act, 1947, and the recently promulgated Credit Bureau Act, 2015 are some of the last year contributions. It also partners with stakeholder

departments in formulating rules, regulations, and policies to carry out the Bank's business in accordance with applicable laws.

In addition to contributing to drafting new laws, LS offers expert advice with regard to various functions of SBP and its subsidiaries and advises on the foreseeable legal risks that may arise from any new business decision. It also evaluates from legal perspective matters pertaining to key business decisions, any national or international arrangements, and the general ongoing operations that have direct impact on the operations of the Bank and its subsidiaries. Legal Services represent SBP in various courts of law and other such forums.

7.6 Enhancing Knowledge-base of the Organization

SBP Library supports research, training and learning endeavors of SBP employees, the banking community and general public through quality resources and services. The Library has undertaken the following initiatives during FY15:

- Digitization of financial statements (last 10 years) of all commercial banks, DFIs, and MFIs operating in Pakistan;
- Digitization of significant government publications such as budget speeches, policy statements, plans, surveys and yearbooks and posted on the Library Portal;
- Complete series of all SBP publications since 1948 were scanned.

The operational routines of the library including enhancement of resource-base, technical processing of the acquired resources and their dissemination to the users is depicted in **Table 7.3**:

Operational Areas		FY11	FY12	FY13	FY14	FY15
Procurement	□ Books					
	i. Purchased	1,821	2,124	2,061	1,560	1,633
	ii. Complimentarily acquired	405	192	253	250	204
	□ Periodical issues	3,598	3,291	2,649	2,719	2,542
Technical processing	□ Books catalogued	2,183	2,460	2,401	1,948	1,837
	□ Articles indexed	8,047	4,697	3,561	4,069	3,300
Circulation (Books loaned)	□ The SBP employees (active and retired)	27,139	16,612	26,653	25,844	26,334
	□ General public	2,242	2,175	2,146	2,211	1,885
Membership	□ The SBP employees (active and retired)	125	45	60	106	85
	□ General public	160	184	180	143	106
Visitation	□ The SBP employees (active and retired)	17,522	17,874	17,703	16,693	14,598
	□ General public	9,007	8,873	7,619	7,056	7,217
Downloaded documents delivery through email		2,621	2,767	3,343	1,745	3,503
Bank-wide article downloads through subscribed resources		---	---	18,555	9,747	12,178

7.7 Strengthening External Relations

The Bank enhanced print and electronic media coverage of various activities through increased number of press releases i.e. 124 in FY15 and more TV appearances. Further, sharing information on social media was also initiated by starting the Bank's first ever official Twitter account. To cultivate use of the SBP website and making it a hub of all information dissemination for the public, its revamping process was started to make it more content rich and user friendly. To facilitate general public, students, business community and other stakeholders, SBP produced Urdu version of SBP

flagship publications beside issuance of press releases in Urdu. Further, key initiatives taken on strengthening the external relations have been summarized in **Box 7.1**.

Box 7.1: Key Activities for strengthening external relations during FY15

- **Workshop for Journalists on macroeconomics, Financial Sector and Banking:** The two-day workshop was attended by 30 journalists from electronic and print media organizations. The objective of this workshop was to familiarize journalists with the key concepts of macroeconomics and functions of SBP.
- **‘Dil ka Itmenan’ Islamic Banking Promotion Campaign:** To promote Islamic banking, an extensive media campaign was launched which aimed to educate general public about the Islamic banking and its various business models.
- **Two days Media Training workshop for Senior Management:** A Media Training Workshop for SBP Senior Management was arranged which provided a platform to practice formal press briefings and press conferences based on contrived scenarios.
- **Pakistan-China Year of Friendly Exchange 2015, Coverage by CCTV:** Governor Mr. Ashraf Mahmood Wathra unveiled Rs20 commemorative coin at State Bank of Pakistan Museum to mark “Pakistan-China Year of Friendly Exchange 2015. The ceremony was covered by Chinese CCTV besides local print and electronic media.

7.8 Museum & Art Gallery

Monetary and Archives Museums are necessary adjuncts of central banks. Pakistan is one of the very few places in the world where currency developed from its very rudimentary form to the advanced level of coinage. The SBP Museum has coin galleries, stamp gallery, currency gallery, history of State Bank Governors’ gallery, Sadequain gallery and contemporary art gallery. The State Bank museum has the honor to be member of International Council of Museums. The museum is wheelchair friendly and provides services to other physically challenged visitors. Highlights of activities at SBP museum during the year:

- Around 5505 people visited SBP Museum in FY15. The special occasions also provided a chance to a large numbers of visitors to visit the Museum.
- To support the museum's mission of imparting money information and education to the youth and common man, different workshops/ activities were arranged by SBP museum.
- To celebrate the Independence Day of Pakistan, a special exhibition was arranged at SBP museum. The exhibition displayed the original newspapers’ clippings starting from 1947 to date and portrayed historical photographs of political leaders and major events.
- Winter Camp for 3-9 years age children of daycare centre was organized.
- A calligraphy workshop for 7 to 15 years age children of the SBP and SBP-BSC employees was arranged. The workshop was focused on the basic training & practice of calligraphy, including traditional & contemporary techniques & drawing motifs with text.
- Souvenir/replica making is one of the best creative activities for children; it educates them about objects and subjects. It also gives confidence of creating art work. Children were guided how to make their own souvenirs i.e. button art, stone painting, cloth wall hanging, kite making and decoration of mug with permanent colors.

7.9 SBP Banking Services Corporation (SBP-BSC)

The Banking Services Corporation (BSC), a wholly owned subsidiary and an operational arm of SBP, provides services to the federal, provincial and district governments and banking industry including SBP and other stakeholders. During the year under review, it took various initiatives to further improve quality of services. These included application of e-Banking solutions for timely reporting of government transactions, improved availability of fresh notes, disposal of soiled bank notes, efficient

foreign exchange operations, promoting national savings schemes, facilitating SBP's initiatives for financial inclusion and development finance.

SBP-BSC facilitated in monitoring the banks' agricultural credit disbursements across Pakistan which stood at Rs 515.7 billion against SBP's indicative target of Rs 500 for FY15. During FY15, SBP-BSC offices received and processed 5,700 borrower's claims from participating banks of the Prime Minister Youth Business Loan (PMYBL) scheme. Moreover, the SBP-BSC field offices reimbursed Rs 440.2 billion to commercial banks under the Export Finance Scheme (EFS); Rs 14.1 billion under EFS for SMEs and Rs 62.0 billion under Islamic Export Refinance. Further, SBP BSC disbursed Rs 49.5 million in respect of subsidy on export of wheat / flour and Rs 3,247.4 million on account of subsidy on export of sugar. These schemes were entrusted to SBP-BSC for the first time by Federal Government. Besides these, like many previous years SBP BSC also made payments in respect of Ministry of Textile Industry scheme namely Drawback of Local Taxes and Levies to the tune of Rs 4.401 billion.

Other major initiatives taken by SBP-BSC during the year are given in **box 7.2**.

Box 7.2: Major Initiatives by SBP-BSC during FY15

- SBP-BSC initiated automation of issuance and certification process of export forms ("E" forms). A test run of the system is being done where "E" forms are being issued by banks both electronically and manually in their selected branches. A full roll out of the electronic system is expected by the end of second quarter of FY16, which, besides creating the much needed efficiency in the system of issuance of "E" forms, would also help in curbing its misuse.
- A focused training program for employees of commercial banks, dealing with forex trade, was designed and delivered in collaboration with SBP.
- In a major overhaul of HR policies, the existing HR policies were reviewed and new Promotion, Training & Development, Higher Education and Contract Employment Policies were introduced.
- Risk-based audits of field offices/departments was carried which led to improvements in internal control environment and in achieving the organizational objectives.
- Under the Corporate Social Responsibility initiatives, SBP-BSC arranged 6-weeks Summer/Winter Internship program for students of top universities across country which also included a special 6-weeks Summer Internship program at SBP-BSC Quetta office which provided opportunities to students of under developed areas of Baluchistan.

7.10 National Institute of Banking and Finance (NIBAF)

During FY15, NIBAF offered various programs to the banking and financial sector comprising of 125.8 weeks of training. A total of 2,294 participants - local as well as foreign - benefitted from these trainings. Meeting the training needs of SBP and SBP-BSC officials is the core and primary objective of the Institute. The time and space left after serving the SBP and SBP-BSC training needs is used to organize training programs for the banking industry, both local and regional. During the year, 66 percent of total trainings were delivered to both SBP and SBP-BSC and 34 percent for the banking industry.

7.10.1 International Training Program

NIBAF also offers international training program annually in collaboration with the Ministry of Finance, Government of Pakistan under the Pakistan Technical Assistance Program (PTAP). For the last three decades, a large number of bankers, government functionaries and officials of almost 105 developing countries have benefited from these programs. Moreover, NIBAF also hosted a seminar on Financial Consumer Protection and 21st SARRC finance coordinator's conference during FY15.

7.10.2 Priority Sector Programs

NIBAF continued to support SBP's development finance initiative aimed at broadening access to agricultural credit / rural finance, SME finance, microfinance, Islamic banking and infrastructure and housing finance. In this respect, following programs were offered during the year:

- Four Islamic Banking Certificate Courses (IBCC), which is a flagship program of NIBAF were organized during FY-15
- Two programs of fundamental of Islamic banking were arranged for bankers
- As partner to INCEIF-Malaysia, NIBAF conducted MIFP exam simultaneously at Karachi and Islamabad
- 20 Agricultural Batch Training Program for agricultural credit officers of banks were conducted
- Four iterations of middle management development programs were offered to MFBs
- A training programs on risks in housing finance processing and documentation and SME Lending techniques was organized
- A new grass root training program on Microfinance specifically targeting loan/credit officers of Micro Finance Banks was launched.

7.11 Sports and Recreation

According to a research, continued cognitive activities for prolonged durations and lack of exercise are the major causes of mental fatigue that decreases the level of performance of an organization's employees. In order to provide a timeout for recreational and healthy activities, a state-of-the-art Health Club and Gymnasium within the Bank's premises with latest equipments for physical fitness is available to the Bank employees. For the guidance and training of its members, a full-time Manager and trained instructor are available at the Gymnasium. At present 300 members are being facilitated by the Health Club and Gym.

Besides, this indoor facility, for the last one decade, SBP has always been on the forefront among the leading institutions in promoting and encouraging sports events across the country generally and in the South region especially as its corporate social responsibility. Cricket, badminton, football and table tennis tournaments are organized regularly around the year. Local and regional teams participate in these events. For its employees, SBP organizes these tournaments separately in which departmental teams take part. To institutionalize the sports activities in SBP, Sports Committee approves and oversees all these events. . Some of the notable developments and initiatives in the area are listed below:

SBP groomed and produced 30 cricket players who made it to the different formats of National Cricket Team.

- Organized six cricket tournaments every year for the last 11 years in five regions across the country within the banking industry.
- Tape ball cricket tournament is organized every year for the last six years for SBP employees.
- Inter school T20 cricket tournaments for boys and girls separately organized for the last three years. Organized women football tournament for the last two years. During FY 15 inter group football tournament was also organized for employees of the Bank.
- Table Tennis tournaments are organized by SBP and its Field Offices for Bank employees on regular basis.
- The Field Offices are organizing Badminton Tournaments for employees of the Bank.

These efforts and initiatives yielded the following results:

- Winner, President's Gold Cup One Day Tournament 2014-15.
- Runner Up, Quaid-e-Azam Trophy Silver (First Class) Tournament 2014-15.
- Runner Up, 4th Corporate T20 Cricket Tournament -2015 (Organized by DHA Club – Moin Khan Academy), Karachi.
- Winner, 2nd Corporate T20 Cricket Tournament -2012 (Organized by DHA Club – Moin Khan Academy), Karachi.
- Winner, PCB Inter Regions/Departments U-19 One Day Tournament 2011-12.
- Winner, Quaid-e-Azam Trophy (Div-II) Tournament 2010-11 and qualified for Quaid-e-Azam Trophy (Div-I) Tournament.
- Winner, PCB Patron's Trophy Grade-II Tournament, 2009-10.
- Runner Up, PCB Patron's Trophy Grade-II Tournament, 2007-08.

8 SBP Vision 2020 (Strategic Plan 2016-20)

State bank of Pakistan (SBP), like any other central bank in developing economies, perform both traditional and non-traditional functions to achieve macro-economic goals. SBP has covered a lot of ground in terms of its institutional strengthening but there always exist opportunities for improvement. Further, the challenges of increasing complexity of the global economic environment, changing economic growth dynamics, and fast-paced developments of the financial systems requires a formal and institutional mechanism to preempt the changes and risks thereof and to create institutional capacity to better manage the risks. SBP accordingly has a formal planning infrastructure lead by its Strategic Planning Department. During the year the Bank undertook a major exercise to develop its strategic plan for next five years (2016-2020) - the SBP Vision 2020.

8.1 Strategic Planning Process

The strategic planning process employed by SBP for SBP Vision 2020 was participative, consultative, and result-oriented. In the first phase of strategic planning process, three surveys (external stakeholder survey, staff survey and Board survey) were carried out to scan the external and internal environment and analyze the views of survey participants. Further, follow-up interviews with SBP staff and selected external stakeholders were also held in the context of matters identified in the surveys. In the next phase, a two-day Strategic Management Conference was organized, attended by the senior management including Governor and Deputy Governors. The Conference concluded with the finalization of strategic goals for the next five years. While the overall direction and strategic goals were decided in the conference, the action plans were evolved at the departmental level to ensure ownership and commitment of those charged with implementing the plan. Once compiled, the draft strategic plan was presented to SBP's Central Board of Directors and was finalized with their able guidance.

Vision Statement

'To be an independent and credible central bank that achieves monetary and financial stability and inclusive financial sector development for the long-term benefit of the people of Pakistan'

Mission Statement

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

Values

Integrity, accountability, teamwork, courage, excellence, and result oriented

Strategic Goals

SBP Vision 2020 focuses on the following six priority areas:

Strategic Goal 1: the Effectiveness of Monetary Policy

Enhance the Effectiveness of Monetary Policy by strengthening its independence and implementing a framework for inflation targeting

Strategic Goal 2: Strengthen the financial system stability regimes

Strengthen the financial system stability regimes implementing a framework for resolving distress banks and supervising systematically important financial institution. Financial system stability also

requires operationalizing Deposit Insurance Scheme initiative and developing mechanism for the operation of a lender of last resort facility that includes Islamic Banks.

Strategic Goal 3: Improve the efficiency, effectiveness, and fairness of the banking system

Improve the efficiency, effectiveness, and fairness of the banking system by enabling Pakistan's banking sector to fulfill its market role to support economic development and growth.

Strategic Goal 4: Increase financial inclusion

Increase financial inclusion through the implementation of the comprehensive National Financial Inclusion Strategy and addressing unnecessary hurdles that limit inclusion.

Strategic Goal 5: Develop modern and robust payment systems

Develop modern and robust payment systems by ensuring that existing payment systems are safe, resilient and efficient while, at the same time, providing scope for new payments technologies to emerge.

Strategic Goal 6: Strengthen SBP's organizational efficiency and effectiveness

To implement a range of measures including a new human resources management strategy that better align performance measures with strategic outcomes, a complete reengineering of business process, a comprehensive communications strategy and improved governance and internal controls.

8.2 Tactical Objectives and Key Activities

For each Strategic Goal, tactical objectives have also been defined to be achieved through the key activities listed in the SBP Vision 2020 document. Many of these will be significant projects in their own right and will make substantial contributions in achieving the broad Strategic Goals.

9 Annual Financial Performance Review

9.1 Overview

The surplus profit of the Bank during the year stood at Rs 397,690 million, which was 48 percent higher than the last year's surplus profit of Rs 268,634 million. The increase is mainly attributable to gain on sale of shares of Habib Bank Limited and Allied Bank Limited, rise in exchange gains and reduction in loss on re-measurement of defined retirement benefits from Rs 43,181 million to Rs 4061 million.

Table 9.1 gives a comparative summary of Bank's annual profit and loss account for FY15 and FY14.

Table 9.1: Summary Statement of Profit and Loss		(million rupees)	
Description	2015	2014	
Income			
Discount / interest /markup and/or return earned	304,368	306,035	
Less: Interest/mark-up expense	21,000	15,338	
Net discount / interest /markup and/or return income	283,368	290,697	
Commission income	1,629	1,727	
Exchange gain – net	36,419	11,394	
Dividend Income	15,429	12,128	
Other operating income/(loss) – net	103,343	31,221	
Other income – net	237	119	
Gross income	440,425	347,286	
Expenditure			
Bank notes printing charges	6,691	6,146	
Agency commission	7,243	6,463	
General administrative and other expenses	23,871	22,978	
(Reversal of Provisions) / Provisions - net	869	(116)	
Less: Total expenditure- net of reversal of provisions	38,674	35,471	
Profit for the year	401,751	311,815	
Less: Loss on re-measurement of defined retirement benefits	4,061	43,181	
Surplus Profit for the year after charge of re-measurement of defined retirement benefits	397,690	268,634	

9.2 Income

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

The Bank earns discount income on its holdings of Market Related Treasury Bills (MRTBs), whereas interest/markup and return is earned on the foreign and domestic financial assets held by the Bank.

The gross income under the head decreased by Rs 1,667 million, posting decrease of 1percent

Table 9.2: Interest/Discount/Return Income on Foreign and Domestic Assets			(million rupees)	
Description	2015	2014		
Discount, interest / mark-up on:				
- Government Securities	240,680	267,882		
-Securities purchased under agreement to resell	38,031	10,586		
-Others	16,716	20,117		
-Foreign assets	8,941	7,450		
Total	304,368	306,035		

compared to the last year. The decrease is mainly attributable to decrease in quantum of Government borrowings and decline in lending rates partly offset by increase in securities purchased under agreement to resell as given in the **Table 9.2** and **Table 9.3**.

Interest/markup expenses are incurred on borrowings from International Monetary Fund, deposits of international organizations and foreign central banks, payable currency swap arrangement, *Ijara Sukuk* and securities sold under agreement to repurchase. Expenditure under this head increased by 37 percent as compared to previous year mainly due to expense on *Sukuks* purchased under *Bai-muajjal* agreement partly offset by decrease in expense on securities sold under agreement to repurchase.

9.2.2 Commission Income

The Bank derives commission income from management of instruments of public debt, Market treasury bills, prize bonds, national saving schemes and government securities as well as issuance of drafts and payment orders. The commission income during FY15 decreased by 6 percent and stood at Rs 1,629 million compared to Rs 1,727 million during the previous financial year.

9.2.3 Exchange Gain – Net

The net exchange gain / (loss) arise on Bank's foreign currency assets and liabilities. The foreign currency assets of the Bank are mainly denominated in USD whereas the foreign currency liability exposure is mainly denominated in SDRs. Accordingly, the depreciation of PKR vis-à-vis USD and appreciation of PKR vis-à-vis SDR results in exchange gain to Bank.

The net exchange gain during the year was Rs 36,418 million as against Rs 11,394 million during the previous financial year. The increase is attributable to hefty appreciation of Rupee against SDRs by Rs 9.36 per SDRs as against depreciation of Rs 3.99 last year. The appreciation of Rupee against SDRs resulted in an exchange gain of Rs 23,580 million on SDRs denominated liabilities as compared to exchange loss of Rs 7,748 million last year. This was partly offset by decrease in exchange gain from foreign currency placements, deposits and other accounts by Rs 6,320 million (Rs 12,837 million as compared to Rs 19,157 million last year) due to relatively lesser depreciation of Rupee against the USD during the year.

Table 9.3: Lending to Government, Banks and Financial Institutions

(million rupees)		
Description	2015	2014
Government securities	2,326,471	2,937,404
Overdraft /loans to Governments	3,431	4,068
Securities purchased under agreement to resell	662,580	-
Banks and financial institutions	335,037	292,797
Total	3,327,519	3,234,269
Yield on Treasury Bills	6.64% to 8.39%	8.92% to 10%
Mark-up on Loans to Banks and FIs	0 to 9	0 to 11

Table 9.4: Foreign Currency Reserves

(million rupees)		
Description	2015	2014
At fair value through Profit or Loss	267,936	170,981
Unrealized gain / (loss) on -derivative financial instruments	(1,016)	(712)
Held to maturity	165,568	105,807
Loans and receivables		
Deposit accounts	104,599	62,394
Current accounts	26,790	19,605
Securities purchased under agreement to resale	125,422	269,904
Money market placements	753,990	330,655
Total	1,443,289	958,634

Table 9.5 Breakup of the Exchange Account

(million rupees)		
Description	2015	2014
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	12,837	19,157
Forward covers under Exchange Risk Coverage	1	(15)
Payable to the IMF	19,075	(5,914)
Special Drawing Rights of the IMF	4,449	(1,920)
Exchange risk fee income	56	86
Total	36,418	11,394

9.2.4 Dividend Income

The SBP holds the equity investments in banks and financial institutions under section 17(6A) of SBP Act 1956. The breakup of dividend income on Bank's listed and unlisted equity investments as at June 30, 2015 is given in **Table 9.6**. The dividend income of the Bank increased by Rs 3,301 million during the current financial year which is 27 percent higher than the income in the previous financial year.

Table 9.6: Dividend Income on Investments in Shares of Banks and Financial Institutions

(million rupees)		
Description	2015	2014
Listed	15,129	11,790
Unlisted	300	338
Total	15,429	12,128

9.2.5 Other Operating Income / (loss) - net

The other operating income during the year registered an impressive rise of over 330 percent to Rs 103,343 million from Rs 31,221 million last year. The increase is attributed to the gain on sale of shares of Habib Bank Limited and Allied Bank Limited amounting to Rs 90,686 million and Rs 12,253 million respectively (previous year gain on sale of United Bank Limited share was Rs 31,186 million).

9.2.6 Other Income - net

The net income under this head was recorded amounting Rs 237 million against the amount of Rs 119 million as compared with the previous year resulting an increase of 99 percent.

9.3 Expenditure

The total expenditure during the year (including reversal of provisions against impaired assets) was Rs 38,674 million as against Rs 35,471 million during last year, thus registering an increase of 9 percent over the previous year's expenses. An analysis of main elements of Bank's expenditure is given as under:

9.3.1 Bank Notes Printing Charges

During FY15, expense under this head stood at Rs 6,690 million compared to the expense of Rs 6,146 million during the previous year resulting in an increase of 9 percent. The increase is partly attributed to increase in quantity (Rs 284 million) and partly to price escalation (Rs 260 million).

9.3.2 Agency Commission

Agency commission is paid to National Bank of Pakistan (NBP) for handling government banking business as an agent of SBP. During the year agency commission amounted to Rs 7,243 million was paid to NBP, which was 12 percent higher than the agency commission of Rs 6,463 million paid last year. The increase is attributable to rise in the government receipts and payments handled by NBP during the year¹.

Table 9.7: General administrative and other expenses

(million rupee)		
Description	2015	2014
Salaries and other benefits	8,691	8,856
Retirement benefits	11,107	10,025
Other Expenses	4,073	4,097
Total	23,871	22,978

9.3.3 General Administrative and Other Expenses

The expenses under the head, inter alia, include employees' salaries and other benefits, retirement benefits and other expenses mainly including repairs and maintenance, postage and telephone charges,

¹ The rate of agency commission is .12 percent for the total receipts and payments of Federal and Provincial governments handled by NBP as an agent of SBP

legal and professional expenses etc. A summary of the general administrative and other expenses of the Bank is presented in Table 9.7. The reduction in salaries and benefits expense is attributable to reduction in SBP-BSC salary bill due to retirement of its 293 employees, including 269 retired under early retirement scheme.

9.3.4 (Reversal of Provision) / Provision / Write-off:

During the FY 2014-15, the provisions amounting Rs 869 million were made against impaired assets on net basis as compared net reversal of Rs 116 million during previous financial year.

9.4 Distributable Profit

A summary of the distributable profits of the Bank is presented in Table 9.8.

Description	2015	2014
Net profit for the year	401,751	311,815
Less: Loss on re-measurement of defined retirement benefits	4,061	43,181
Total distributable profit	397,690	268,634
<i>Breakup of above:</i>		
Dividend	10	10
Surplus profit transferable to the Federal Government	397,680	268,624

10 Consolidated Financial Statements of SBP and its Subsidiaries

A. F. FERGUSON & CO.

Chartered Accountants
State Life Building No. 1-C
I. I. Chundrigar Road
P.O. Box 4716
Karachi-74000

ERNST & YOUNG FORD

RHODES SIDATHYDER
Chartered Accountants
Progressive Plaza, Beaumont
Road, P. O. Box 15541
Karachi

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of the State Bank of Pakistan ("the Bank") and its subsidiaries, SBP Banking Services Corporation and National Institute of Banking and Finance (Guarantee) Limited (together "the Group"), which comprise the consolidated balance sheet as at June 30, 2015, and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the "consolidated financial statements").

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

A. F. FERGUSON & CO.
Chartered Accountants

**ERNST & YOUNG FORD
RHODES SIDATHYDER**
Chartered Accountants

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at June 30, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group for the year ended June 30, 2014 were audited by A.F. Ferguson & Co. and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 30, 2014.

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Salman Hussain
Audit Engagement Partner

Date: October 26, 2015

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

Omer Chughtai
Audit Engagement Partner

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2015

	Note	2015	2014
		(Rupees in '000)	
ASSETS			
Gold reserves held by the Bank	5	247,150,713	269,307,930
Local currency - coins	6	365,231	417,880
Foreign currency accounts and investments	7	1,443,289,097	958,634,464
Earmarked foreign currency balances	8	1,274,786	7,453,502
Special Drawing Rights of the International Monetary Fund	9	72,229,419	82,057,077
Reserve tranche with the International Monetary Fund			
under quota arrangements	10	17,052	18,194
Securities purchased under agreement to resell	11	662,579,848	-
Current accounts of Governments	20.2	3,048,507	802,315
Investments - local	12	2,415,541,268	3,154,126,304
Securities given as collateral under repurchase agreements	12	-	18,064,500
Loans, advances and bills of exchange	13	349,077,905	308,552,175
Assets held with the Reserve Bank of India	14	5,450,937	5,866,879
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	8,561,790	7,957,658
Property and equipment	16	20,839,622	21,453,644
Intangible assets	17	4,203	8,927
Other assets	18	4,167,883	6,729,497
Total assets		5,233,598,261	4,841,450,946
LIABILITIES			
Bank notes in circulation	19	2,707,258,012	2,309,127,023
Bills payable		643,121	642,102
Current accounts of Governments	20.1	394,020,378	531,806,543
Securities sold under agreement to repurchase	21	-	17,194,695
Payable to Islamic Banking Institutions against Bai Muajjal transactions	22	189,919,121	-
Payable under bilateral currency swap agreement	23	164,867,890	105,248,797
Deposits of banks and financial institutions	24	413,234,045	530,746,356
Other deposits and accounts	25	147,197,850	145,772,707
Payable to the International Monetary Fund	26	554,172,982	384,994,742
Other liabilities	27	62,092,551	62,568,694
Deferred liability - unfunded staff retirement benefits	28	70,717,980	64,437,052
Endowment fund		89,391	81,711
Total liabilities		4,704,213,321	4,152,620,422
Net assets		529,384,940	688,830,524
REPRESENTED BY			
Share capital	29	100,000	100,000
Reserves	30	175,944,238	175,944,238
Unrealised appreciation on gold reserves held by the Bank	31	243,367,310	265,639,648
Unrealised appreciation on remeasurement of investments - local	12.5	83,994,988	221,168,234
Surplus on revaluation of property and equipment		25,978,404	25,978,404
Total equity		529,384,940	688,830,524
CONTINGENCIES AND COMMITMENTS			
	32		

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

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2015**

	<i>Note</i>	2015 ----- (Rupees in '000) -----	2014 ----- (Rupees in '000) -----
Discount, interest / mark-up and / or profit earned	33	304,368,351	306,034,451
Less: interest / mark-up expense	34	(21,000,191)	(15,337,891)
		283,368,160	290,696,560
Commission income	35	1,628,668	1,727,194
Exchange gain - net	36	36,418,489	11,393,825
Dividend income		15,429,445	12,127,927
Other operating income - net	37	103,343,486	31,220,844
Other income - net	38	237,062	119,460
		440,425,310	347,285,810
Less: Operating expenses			
- Bank notes printing charges	39	6,690,484	6,146,145
- Agency commission	40	7,242,672	6,463,352
- General administrative and other expenses	41	23,871,368	22,977,834
Provision for / (reversal of provision against) / write off:			
- loans and advances - net	13.1.2 & 13.4	925,782	(685)
- claims	27.3.2	(1,489)	1,489
- diminution in value of investments - local	12.3	-	(150,000)
- other doubtful assets	27.3.1.1	(55,071)	32,835
		869,222	(116,361)
		38,673,746	35,470,970
Profit for the year		401,751,564	311,814,840

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015 ----- (Rupees in '000) -----	2014 -----
Profit for the year		401,751,564	311,814,840
Other comprehensive income			
Items that may be reclassified subsequently to the consolidated profit and loss account:			
Unrealised (diminution) / appreciation on remeasurement of investments - local			
- (Diminution) / appreciation during the year	12.5	(14,462,606)	93,285,053
- Reclassified to consolidated profit and loss account		(122,710,640)	(19,745,549)
		(137,173,246)	73,539,504
Unrealised (diminution) / appreciation on gold reserves held by the Bank	5	(22,272,338)	23,070,665
		(159,445,584)	96,610,169
Items that will not be reclassified subsequently to the consolidated profit and loss account:			
Remeasurements of staff retirement defined benefit plans	41.3.3.1	(4,060,948)	(15,389,901)
Total comprehensive income for the year		238,245,032	393,035,108

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2015**

Share capital	Reserves						Unappropriated profit / (loss)	Unrealised appreciation / (diminution) on gold reserves held by the Bank	Unrealised appreciation / (diminution) on remeasurement of investments - local	Surplus on revaluation of property and equipment	Total	
	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund						
(Rupees in '000)												
Balance as at July 1, 2013	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	(27,791,420)	242,568,983	147,628,730	25,978,404	564,428,935
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	311,814,840	-	-	-	311,814,840
Other comprehensive income												
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	(15,389,901)	-	-	-	(15,389,901)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	73,539,504	-	73,539,504
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	23,070,665	-	-	23,070,665
	-	-	-	-	-	-	-	296,424,939	23,070,665	73,539,504	-	393,035,108
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(268,623,519)	-	-	-	(268,623,519)
	-	-	-	-	-	-	-	(268,633,519)	-	-	-	(268,633,519)
Balance as at June 30, 2014	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	265,639,648	221,168,234	25,978,404	688,830,524
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	401,751,564	-	-	-	401,751,564
Other comprehensive income												
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	(4,060,948)	-	-	-	(4,060,948)
Unrealised diminution on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	(137,173,246)	-	(137,173,246)
Unrealised diminution on gold reserves held by the Bank	-	-	-	-	-	-	-	-	(22,272,338)	-	-	(22,272,338)
	-	-	-	-	-	-	-	397,690,616	(22,272,338)	(137,173,246)	-	238,245,032
Transactions with owners												
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(397,680,616)	-	-	-	(397,680,616)
	-	-	-	-	-	-	-	(397,690,616)	-	-	-	(397,690,616)
Balance as at June 30, 2015	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	243,367,310	83,994,988	25,978,404	529,384,940

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015	2014
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	42	313,600,808	276,806,768
(Increase) / decrease in assets:			
Foreign currency accounts and investments		(59,716,485)	(1,402,874)
Reserve tranche with the International Monetary Fund under quota arrangements		1,142	(439)
Securities purchased under agreement to resell		(662,579,848)	198,787,435
Investments - local		592,868,338	(595,761,192)
Securities given as collateral under repurchase agreement		18,064,500	(18,064,500)
Loans, advances and bills of exchange		(41,451,512)	31,063,470
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh (former East Pakistan)		(549,061)	(593,455)
Other assets		2,561,614	(5,840,366)
		(150,801,312)	(391,811,921)
		162,799,496	(115,005,153)
Increase / (decrease) in liabilities:			
Bank notes issued - net		398,130,989	267,765,720
Bills payable		1,019	38,180
Current accounts of Governments		(140,147,478)	403,544,973
Securities sold under agreement to repurchase		(17,194,695)	17,194,695
Payable to Islamic Banking Institutions against Bai Muajjal transactions		189,919,121	-
Payable under bilateral currency swap agreement		59,619,093	23,634,070
Deposits of banks and financial institutions		(117,512,311)	55,098,555
Other deposits and accounts		1,425,143	(10,670,402)
Retirement benefits and employees' compensated absences		(8,886,869)	(12,742,113)
Other liabilities		1,260,852	7,428,982
Endowment fund		7,680	7,221
		366,622,544	751,299,881
Net cash generated from operating activities		529,422,040	636,294,728
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investments - available for sale		111,664,408	37,688,507
Dividend received		15,429,445	12,127,927
Capital expenditure		(763,323)	(648,077)
Proceeds from disposal of property and equipment		6,723	11,641
Net cash generated from investing activities		126,337,253	49,179,998
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(399,000,180)	(326,185,728)
Receipts from International Monetary Fund		264,797,431	175,292,197
Payments made to International Monetary Fund		(95,619,191)	(222,091,458)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(229,831,940)	(372,994,989)
Increase in cash and cash equivalents during the year		425,927,353	312,479,737
Cash and cash equivalents at the beginning of the year		942,045,632	626,864,789
Effect of exchange (loss) / gain on cash and cash equivalents		(17,048,228)	2,701,106
Cash and cash equivalents at the end of the year	43	1,350,924,757	942,045,632

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

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

1.1.3 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.

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

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

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

The head office of the Institute is situated at Pitras Bukhari Road Islamabad, Pakistan.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 Impairment against loans and advances

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

3.3.2 Impairment of available-for-sale investments

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

3.3.3 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 41.3.1 to these consolidated financial statements.

3.3.4 Useful life and residual value of property and equipment

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

3.4 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following amendments, improvements to accounting standards and interpretations of IFRSs became effective during the current year:

IAS 19 - Employee Benefits - (Amendment) - Defined Benefit Plans: Employee Contributions

Improvements to Accounting Standards Issued by the IASB

IFRS 2 Share-based Payment - Definitions of vesting conditions

IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination

IFRS 3 Business Combinations - Scope exceptions for joint ventures

IFRS 8 Operating Segments - Aggregation of operating segments

IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets

IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation / amortisation

IAS 24 Related Party Disclosures - Key management personnel

IAS 40 Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any material effect on the financial statements.

3.5 New and amended standards and interpretations that are not yet effective:

The following standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

Standards, amendments and interpretations	Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01 January 2016
IFRS 11 Joint Arrangements-Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 15 – Revenue from contracts with customers	01 January 2017
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 27–Separate Financial Statements–Equity Method in Separate Financial Statements (Amendment)	01 January 2016

Improvements to Accounting Standards Issued by the IASB

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal	01 January 2016
IFRS 7 Financial Instruments: Disclosures - Servicing contracts	01 January 2016
IFRS 7 Financial Instruments: Disclosures - Applicability of the off-setting disclosures to condensed interim financial statements	01 January 2016
IAS 19 Employee Benefits - Discount rate: regional market issue	01 January 2016
IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'	01 January 2016

The Group expects that the adoption of the above standards and amendments will not have any material impact on the Group's financial statements in the period of initial application other than the initial application of IFRS 15, 'Revenue from contracts with customers' as described below:

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The management is in the process of assessing the impact of IFRS 15 on the financial statements of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Basis of consolidation

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

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

All material inter group balances and transactions have been eliminated.

4.2 Bank notes in circulation and local currency - coins

The liability of the Group towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956, is stated at face value and is represented by the specified assets of the Issue Department of the Group as per the requirements stipulated in the State Bank of Pakistan Act, 1956. The cost of printing of notes is charged to the consolidated profit and loss account as and when incurred. Any un-issued fresh bank notes lying with the Group and previously issued notes held by 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 coins held by the Group form part of the assets of the Issue Department.

4.3 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include local currency - coins, foreign currency accounts and investments, earmarked foreign currency balances, investments - local, loans, advances and bills of exchange, assets held with Reserve Bank of India (other than gold held by Reserve Bank of India), balances due from the governments of India and Bangladesh, other assets, bank notes in circulation, bills payable, deposits of banks and financial institutions, balances and securities under repurchase and reverse repurchase transactions, payable to Islamic Banking Institutions against Bai Muajjal transactions, current accounts of Governments, balances with the International Monetary Fund (IMF), payable under bilateral currency swap agreement, other deposits and accounts and other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

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

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the consolidated profit and loss account. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in note 4.5 is recognised in the consolidated profit and loss account.

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

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

These assets and liabilities are either acquired / assumed for generating a profit from short term fluctuations in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These are initially recognised at fair value and transaction costs associated with the instrument are taken directly to the consolidated profit and loss account. These instruments are subsequently re-measured at fair value. All related realised and unrealised gains and losses are recognised in the consolidated profit and loss account directly. Derivatives are also categorised as financial assets and financial liabilities at 'fair value through profit or loss'.

4.3.2 Held to maturity investments

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

4.3.3 Loans and receivables

These are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. Subsequent to initial recognition, these assets are carried at amortised cost less impairment losses, if any, and premiums and / or discounts are accounted for using the effective interest method.

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

4.3.4 Available-for-sale financial assets

These are the non-derivative financial assets which are either designated in this category or which do not fall in any of the other categories. Subsequent to initial recognition, these securities are measured at fair value, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost. Gain or loss on changes in fair value is taken to and kept in equity until the investments are sold or disposed off, or until the investments are determined to be impaired. At that time, cumulative gain or loss is re-classified to the profit and loss account.

4.3.5 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits from banks and financial institution, other deposits and accounts, securities sold under agreement to repurchase, payable under bilateral currency swap agreement, current accounts of Governments, payable to Islamic Banking Institutions against Bai Muajjal transactions, payable to the IMF, bank notes in circulation, bills payable and other liabilities.

4.4 Derecognition of financial asset and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.5 Fair value measurement principles

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

4.6 Impairment of financial assets

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

a) Financial assets carried at amortised cost

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

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

b) Available-for-sale financial assets

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

4.7 Offsetting

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

4.8 Derivative financial instruments

The Group uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at fair value and are re-measured to fair value on subsequent reporting dates. Forwards, futures and swaps are shown under commitments in note 32.2. The resultant gains or losses from derivatives are included in the consolidated profit and loss account.

4.9 Collateralised borrowing / lending**4.9.1 Reverse repurchase and repurchase agreements**

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

4.9.2 Payable under bilateral currency swap agreement

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 applicable exchange rate (determined in accordance with the terms of the agreement). The actual use of facility by the Group / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Group and interest is charged / earned at agreed rates to the consolidated profit and loss account on time proportion basis from the date of actual use. Any unutilised limit of the counterpart's drawing is reported as commitments in note 32.2.1.

4.10 Payable to Islamic Banking Institutions against Bai Muajjal transactions

The Bank purchases Government of Pakistan (GoP) Ijara sukuks on deferred payment basis (Bai Muajjal) from Islamic Banks. The deferred price is agreed at the time of purchase and such proceeds are paid to the Islamic Banks at the end of the agreed period. The difference between the fair value and deferred price represents financing cost and is recognised in profit and loss account on a time proportion basis as "markup expense". Amount payable to Islamic Banking Institutions under deferred payment basis on purchase of sukuks is reported at transaction value plus profit payable thereon (i.e. at amortised cost).

4.11 Gold reserves

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

4.12 Property and equipment

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

Depreciation on property and equipment is charged to the consolidated profit and loss account using the straight-line method whereby the cost / revalued amount of an asset is written off over its estimated useful life at the rates specified in note 16.1 to these consolidated financial statements.

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. The assets' residual value, depreciation method and useful life are reviewed, and adjusted, if appropriate, at each balance sheet date.

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

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

4.13 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.

4.14 Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. The recoverable amount is higher of an asset's fair value less cost to sell and value in use. In assessing the value in use, future cash flows are estimated which are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. An impairment loss is recognised in the consolidated profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. Impairment loss on revalued assets is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

4.15 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.

4.16 Staff retirement benefits

The Group operates:

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

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

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

Annual provisions are made by the Group to cover the obligations arising under defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2015. The "remeasurements", which are made up of actuarial gains and losses and the difference between the actual investment returns and the returns implied by the net interest cost, are recognised in the "balance sheet" immediately with the charge or credit to "other comprehensive income" in the periods in which they occur.

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

4.17 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.

4.18 Revenue recognition

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

4.19 Finances under profit and loss sharing arrangements

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

4.20 Taxation

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

4.21 Foreign currency translation

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

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 4.22, 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 consolidated profit and loss account on an accrual basis.

Commitments for outstanding foreign exchange forward and swap contracts disclosed in note 32.2 to the consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

4.22 Transactions and balances with the International Monetary Fund

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

- the Government's contribution for quota with the IMF is recorded by the Group as depository of the Government. Exchange differences arising on these balances are transferred to the Government of Pakistan 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.
- service charge is recognised in the consolidated profit and loss account at the time of receipt of the IMF tranches.

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

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

4.23 Provisions

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

4.24 Cash and cash equivalents

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

4.25 Stationery and other consumables

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

4.26 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.

4.27 Trade and other payables

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

5. GOLD RESERVES HELD BY THE BANK	Note	Net content in troy ounces	2015 ------(Rupees in '000)-----	2014
Opening balance		2,072,748	269,307,930	246,096,839
Additions during the year		964	115,121	140,426
(Diminution) / appreciation for the year due to revaluation	31		(22,272,338)	23,070,665
	19.1	<u>2,073,712</u>	<u>247,150,713</u>	<u>269,307,930</u>

	Note	2015 ------(Rupees in '000)-----	2014
6. LOCAL CURRENCY - COINS			
Bank notes held by the Banking Department		142,373	110,890
Coins held as an asset of the Issue Department	6.1 & 19.1	365,231	417,880
		507,604	528,770
Less: bank notes held by the Banking Department	19	(142,373)	(110,890)
		365,231	417,880

- 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 coins held by the Group at the year end (also refer note 19.1).

7. FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2015 ------(Rupees in '000)-----	2014
At fair value through profit or loss - held-for-trading			
- Investments	7.1	267,935,510	170,981,568
- Unrealised loss on derivative financial instruments - net	7.2	(1,015,518)	(711,951)
Held to maturity investment	7.3	165,568,110	105,806,667
Loans and receivables			
- Deposit accounts		104,598,933	62,393,652
- Current accounts		26,790,460	19,605,091
- Securities purchased under agreement to resell	7.4	125,421,892	269,904,526
- Money market placements	7.5	753,989,710	330,654,911
		1,443,289,097	958,634,464

The above foreign currency accounts and investments are held as follows:

Issue Department	19.1	753,989,710	330,654,911
Banking Department		689,299,387	633,025,882
		1,443,289,097	958,634,464

- 7.1** These represent investments made in international markets and balances maintained (on behalf of the Bank) through reputable Fund Managers. The activities of the Fund Managers are being monitored through a custodian. The market value of the investments and carrying amount of deposit accounts as on June 30, 2015 cumulatively amounts to USD 2,896.16 million (2014: USD 1,948.24 million).
- 7.2** This represents unrealised loss on foreign currency swaps, futures and forward contracts (including transactions executed by the Fund Managers on behalf of the Bank) entered into with various counterparties.
- 7.3** This represents investment in sovereign bonds of a foreign country carrying yield ranging from 1.8% to 3.8% per annum and having maturities from July 08, 2015 to September 10, 2016 (2014: 2.80% to 3.74% per annum and having maturities from July 4, 2014 to June 12, 2015).
- 7.4** These represent lending under repurchase agreements and carry mark-up in USD at 0.15 % per annum (2014: 0.07% per annum) and are due to mature on July 01, 2015 (2014: July 1, 2014).
- 7.5** The balance includes money market placements carrying interest at various rates ranging between 0.09 % to 0.6 % per annum (2014: 0.04% to 2.81% per annum) and having maturities from July 1, 2015 to September 30, 2015 (2014: from July 1, 2014 to September 30, 2014).

8. EARMARKED FOREIGN CURRENCY BALANCES

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

9. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Group as at June 30, 2015. Interest is credited by the IMF on the SDR holding of the Group at weekly interest rates on daily products of SDRs held during each quarter.

		Note	2015	2014
			(Rupees in '000) -----	
SDRs are held as follows:				
- By the Issue Department		19.1	7,143,400	7,625,850
- By the Banking Department			65,086,019	74,431,227
			<u>72,229,419</u>	<u>82,057,077</u>
10. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS				
Quota allocated by the International Monetary Fund			147,980,285	157,895,380
Liability under quota arrangements			<u>(147,963,233)</u>	<u>(157,877,186)</u>
			<u>17,052</u>	<u>18,194</u>
11. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL				
This represents collateralised lendings made to various financial institutions under repurchase arrangement carrying mark-up at rates ranging between 6.51% per annum to 7.00% per annum and are due to mature from July 2, 2015 to July 3, 2015. The fair value of securities collateralised as on June 30, 2015 amounts to Rs. 664,325 million (2014: nil). The collaterals held by the Group consist of Pakistan Investment Bonds and Market Treasury Bills.				
12. INVESTMENTS - LOCAL		Note	2015	2014
			(Rupees in '000) -----	
Loans and receivables				
Government securities				
Market Related Treasury Bills (MRTBs)			2,323,047,495	2,933,834,857
Federal Government scrips			<u>2,740,000</u>	<u>2,740,000</u>
		12.1	<u>2,325,787,495</u>	<u>2,936,574,857</u>
Less: securities given as collateral under repurchase agreements			-	(18,064,500)
			<u>2,325,787,495</u>	<u>2,918,510,357</u>
Available - for - sale investments				
Investments in banks and other financial institutions				
Ordinary shares				
- Listed			85,095,794	230,812,492
- Unlisted			<u>4,712,706</u>	<u>4,712,706</u>
		12.2	<u>89,808,500</u>	<u>235,525,198</u>
Term Finance Certificates			84,722	84,722
Certificates of Deposits			<u>33,705</u>	<u>33,705</u>
			<u>89,926,927</u>	<u>235,643,625</u>
Provision against diminution in value of investments		12.3	<u>(856,863)</u>	<u>(856,863)</u>
			<u>89,070,064</u>	<u>234,786,762</u>
Held to Maturity				
Pakistan Investment Bonds		12.4	<u>46,778</u>	<u>46,612</u>
Market Treasury Bills		12.1	<u>636,931</u>	<u>782,573</u>
			<u>683,709</u>	<u>829,185</u>
			<u>2,415,541,268</u>	<u>3,154,126,304</u>
The above investments are held as follows:				
Issue Department - MRTBs		19.1	1,693,300,394	1,695,364,463
Banking Department			<u>722,240,874</u>	<u>1,458,761,841</u>
			<u>2,415,541,268</u>	<u>3,154,126,304</u>

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

	2015	2014
	(% per annum)	
Market Related Treasury Bills	6.64 to 8.39	8.92 to 10
Federal Government scrips	3	3

These include:

- MRTBs are created for a period of six months whereas Federal Government scrips are of perpetual nature.
- Treasury bills held by the subsidiaries have maturities upto March 2016 (2014: June 2015)

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

	Note	2015 -----% of holding-----	2014	2015 ----- (Rupees in '000) -----	2014
Listed					
- National Bank of Pakistan	12.2.2	75.20	75.20	85,095,794	99,558,400
- Allied Bank Limited		-	10.07	-	15,839,242
- Habib Bank Limited		-	40.60	-	115,414,850
				<u>85,095,794</u>	<u>230,812,492</u>
Unlisted					
Other investments with holding less than or equal to 50%				<u>4,712,706</u>	<u>4,712,706</u>
				<u>89,808,500</u>	<u>235,525,198</u>

12.2.1 Investments in above entities have been made under the specific directives of the Government of Pakistan in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. The Group neither exercises significant influence nor has control over these entities except for any regulatory purposes or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates, or joint ventures.

12.2.2 Cost of the Group's investment in the shares of National Bank of Pakistan at June 30, 2015 amounted to Rs. 1,100.8 million (2014: Rs. 1,100.8 million).

	Note	2015 ----- (Rupees in '000) -----	2014
12.3 Provision against diminution in value of investments - local - net			
Opening balance		856,863	1,006,863
Reversal during the year		-	(150,000)
Closing balance		<u>856,863</u>	<u>856,863</u>

12.4 Pakistan Investment Bonds carry mark-up at the rate of 9.6% per annum (2014: 9.6% per annum) and are due to mature by 2016 (2014: June 2016).

	Note	2015 ----- (Rupees in '000) -----	2014
12.5 Unrealised appreciation on remeasurement of investments - local			
Opening balance		221,168,234	147,628,730
(Diminution) / appreciation during the year		(14,462,606)	93,285,053
Reclassified to consolidated profit and loss account	12.5.1	(122,710,640)	(19,745,549)
		<u>(137,173,246)</u>	<u>73,539,504</u>
Closing balance		<u>83,994,988</u>	<u>221,168,234</u>

12.5.1 This represents amount of surplus reclassified to the consolidated profit and loss account as a result of disposal of shares of Allied Bank Limited and Habib Bank Limited during the current year.

		2015 ----- (Rupees in '000) -----	2014
13. LOANS, ADVANCES AND BILLS OF EXCHANGE			
Governments	13.1	382,627	3,266,166
Government owned / controlled financial institutions	13.2	103,923,657	100,795,810
Private sector financial institutions	13.3	231,113,109	192,001,193
		<u>335,036,766</u>	<u>292,797,003</u>
Employees		19,007,703	17,838,852
		<u>354,427,096</u>	<u>313,902,021</u>
Provision against doubtful balances	13.4	(5,349,191)	(5,349,846)
		<u>349,077,905</u>	<u>308,552,175</u>
13.1 Loans and advances to the Governments			
Provincial Government - Baluchistan	13.1.2	-	2,113,244
Provincial Government - Khyber Pakhtunkhwa	13.1.3	382,627	1,152,922
	13.1.1	<u>382,627</u>	<u>3,266,166</u>

13.1.1 During the year, mark-up on above balances due from the Provincial Government was charged at various rates ranging between 7.18 % to 9.98 % per annum (2014: 9.03% to 9.98% per annum).

13.1.2 During the current year, out of the total balance receivable from the government of Baluchistan, an amount of Rs. 1,188.80 million has been received while penal interest amount of Rs 926.44 million has been written off as per Finance Division mechanism duly incorporated in the agreement between the Government of Baluchistan and the Bank dated November 26, 2008 for recovery of blocked account.

13.1.3 This represents bridge financing facility extended to Government of Khyber Pakhtunkhwa under agreement dated December 28, 2010. This loan is repayable in 16 equal quarterly installments amounting to Rs. 187.5 million starting from December 31, 2011 along with mark-up at the rate of 3 months weighted average market treasury bill rate of the last auction of the preceding quarter. As at June 30, 2015 the principal outstanding balance of this loan amounts to Rs. 375 million (2014: Rs 1,125 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	
	2015	2014	2015	2014	2015	2014
	(Rupees in '000)					
Agricultural sector (13.2.1)	50,927,495	50,526,831	-	-	50,927,495	50,526,831
Industrial sector (13.2.1 & 13.2.3)	4,938,308	6,661,817	-	-	4,938,308	6,661,817
Export sector (13.3.1)	19,872,681	15,421,989	3,567	3,567	19,876,248	15,425,556
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
	92,677,790	89,549,943	11,245,867	11,245,867	103,923,657	100,795,810

- 13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2014: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2014: 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 (2014: Rs. 3,204 million) classified in other loans and advances. The entire exposure has been overdue since 2002.

In a tripartite meeting held on July 11, 2014 among Ministry of Finance (MoF), ZTBL and the Bank, it was decided that the total outstanding amount of Rs. 89,490 million, including suspended mark-up of Rs. 35,029 million, will be converted to an equity investment of the Bank in ZTBL. This was subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. As at June 30, 2015, the bank is in the process of finalising the fair valuation of the shares of ZTBL subsequent to which all the legal and statutory formalities will be completed. Pending completion of the conversion process, these balances are secured through the sovereign guarantee of the Government of Pakistan.

- 13.2.2** This represents loan receivable from House Building Finance Corporation Limited (HBFCCL) against seven credit lines on profit and loss sharing basis. As at June 30, 2015 all of these credit lines are over due since 2006 amounting to Rs. 11,242 million (2014: Rs. 11,242 million). These credit lines are secured by the guarantee from the Federal Government.

It was decided in a tripartite meeting between MoF, HBFCCL and the Bank held on July 11, 2014 that the total outstanding amount of Rs. 15,690 million, including suspended mark-up / share of profit / loss of Rs. 4,448 million, after immediate cash payment of Rs. 2,000 million i.e. Rs. 13,690 million will be converted to an equity investment of the Bank in HBFCCL. The cash payment of Rs. 2,000 million has been received during the current year. The conversion process is subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. As at June 30, 2015, the bank is in the process of finalising the fair valuation of the shares of HBFCCL subsequent to which all the legal and statutory formalities will be completed. Pending completion of the conversion process, these balances would remain secured through the sovereign guarantee of the Government of Pakistan.

- 13.2.3** This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) credit line amounting to Rs. 1,054 million (2014: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2014: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. In line with the Federal Cabinet decision of winding up, the bank has closed all of its branches except two branches operating in Karachi and Lahore as at June 30, 2015.

- 13.2.4** These balances include Rs. 423 million (2014: Rs. 423 million) which are recoverable from various financial institutions operating in Bangladesh (former East Pakistan). The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.3 Loans and advances to private sector financial institutions

	Scheduled banks		Other financial institutions		Total	
	2015	2014	2015	2014	2015	2014
	(Rupees in '000)					
Agricultural sector	1,057,571	1,379,816	109,837	121,999	1,167,408	1,501,815
Industrial sector	35,521,006	38,080,588	3,989,519	4,391,844	39,510,525	42,472,432
Export sector (13.3.1)	173,250,119	148,001,464	-	-	173,250,119	148,001,464
Others (13.3.2)	17,185,057	25,482	-	-	17,185,057	25,482
	227,013,753	187,487,350	4,099,356	4,513,843	231,113,109	192,001,193

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

13.3.2

During the current year, the Bank in continuation of a scheme of amalgamation of two commercial banks duly sanctioned by the Federal Government under Section 47 of the Banking Companies Ordinance 1962 and under Section 17 of the State Bank of Pakistan Act 1956, extended a 10-year financing facility of Rs.5,000 million and a 6-month liquidity support facility of Rs.15,000 million to an Islamic commercial bank (ICB). Both the facilities are secured against Government of Pakistan Ijara Sukuk. The 10-year facility was provided on the basis of Mudaraba to be remunerated at profit sharing ratio declared by the ICB on its remunerative current accounts on monthly basis (the last declared rate in this respect is 0.01% per annum). The 6-month facilities were also provided on the basis of Mudaraba with profit sharing ratio to be calculated based on the ICB's cost of funds on a monthly basis, which is currently 4.70% per annum. In accordance with the requirements of accounting framework of the Bank these facilities are recognized at fair value. Their amortized cost as of June 30, 2015 is Rs. 17,160 million. The principal amount (Rs. 20 billion) of the facilities along with the profit will be recovered at their respective maturities.

		2015	2014
		------(Rupees in '000)-----	
13.4 Provision against doubtful assets			
Opening balance		5,349,846	5,350,531
Reversal during the year		(655)	(685)
Closing balance		<u>5,349,191</u>	<u>5,349,846</u>
13.5	The interest / mark-up rate profile of the interest / mark-up bearing loans and advances is as follows:		
		2015	2014
		-----(% per annum)-----	
Government owned / controlled and private sector financial institutions		0 to 9	0 to 11
Employees loans		10	10
	Note	2015	2014
14. ASSETS HELD WITH THE RESERVE BANK OF INDIA		------(Rupees in '000)-----	
Gold reserves			
- Opening balance		4,363,561	3,989,634
- (Diminution) / appreciation for the year due to revaluation	27.3.1.1	(360,871)	373,927
		<u>4,002,690</u>	<u>4,363,561</u>
Sterling securities		528,722	555,687
Government of India securities		228,200	235,177
Rupee coins		<u>4,698</u>	<u>4,835</u>
	14.1	<u>4,764,310</u>	<u>5,159,260</u>
Indian notes representing assets receivable from the Reserve Bank of India	14.2	<u>686,627</u>	<u>707,619</u>
	19.1	<u>5,450,937</u>	<u>5,866,879</u>
14.1	These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 27.3.1).		
14.2	These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 27.3.1).		
15. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)	Note	2015	2014
		------(Rupees in '000)-----	
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		<u>837</u>	<u>837</u>
		<u>40,453</u>	<u>40,453</u>
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	15.1	<u>7,701,413</u>	<u>7,097,281</u>
		<u>8,521,337</u>	<u>7,917,205</u>
	15.2	<u>8,561,790</u>	<u>7,957,658</u>
15.1	These represent interest bearing loans and advances (including commercial papers) provided to the Government of Bangladesh (former East Pakistan).		
15.2	The realisability of the above balances is subject to final settlement between the Government of Pakistan and Government of Bangladesh (former East Pakistan) and India (also refer notes 27.1, 27.3.1 and 27.4).		
	Note	2015	2014
16. PROPERTY AND EQUIPMENT		------(Rupees in '000)-----	
Operating fixed assets	16.1	<u>20,345,018</u>	<u>20,792,537</u>
Capital work-in-progress	16.3	<u>494,604</u>	<u>661,107</u>
		<u>20,839,622</u>	<u>21,453,644</u>

16.1 Operating fixed assets

	2015							
	Cost / revalued amount at July 1, 2014	Additions / (deletions) / adjustments ** during the year	Cost / revalued amount at June 30, 2015	Accumulated depreciation at July 1, 2014	Depreciation for the year/ (deletions)/ adjustments **	Accumulated depreciation at June 30, 2015	Net book value at June 30, 2015	Useful life / Rate of depreciation
	(Rupees in '000)							
Freehold land *	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land *	16,811,005	-	16,811,005	1,769,457	427,549	2,197,006	14,613,999	30-150 years
Buildings on freehold land *	1,078,511	59,864	1,138,375	630,786	218,739	849,525	288,850	20 years
Buildings on leasehold land *	2,015,010	292,499	2,307,509	1,158,494	388,765	1,547,259	760,250	20 years
Furniture and fixtures	241,255	13,493 (1,323) (75) **	253,350	174,989	14,883 (1,306) 678 **	189,244	64,106	10%
Office equipment	1,678,304	82,034 (4,942) 311 **	1,755,707	1,385,093	118,650 (3,959) 4,403 **	1,504,187	251,520	20%
EDP equipment	1,750,257	179,437 (130) 15,873 **	1,945,437	1,615,053	113,760 (127) 17,367 **	1,746,053	199,384	33.33%
Motor vehicles	467,489	301,102 (180,697) 245 **	588,139	307,080	88,142 (176,240) (6,094) **	212,888	375,251	20%
	27,833,489	928,429 (187,092)	28,591,180	7,040,952	1,370,488 (181,632)	8,246,162	20,345,018	
	2014							
	Cost / revalued amount at July 1, 2013	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2014	Accumulated depreciation at July 1, 2013	Depreciation for the year/ (deletions)	Accumulated depreciation at June 30, 2014	Net book value at June 30, 2014	Useful life / Rate of depreciation
	(Rupees in '000)							
Freehold land *	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land *	16,811,005	-	16,811,005	1,179,568	589,889	1,769,457	15,041,548	30-150 years
Buildings on freehold land *	1,067,512	10,999	1,078,511	414,199	216,587	630,786	447,725	20 years
Buildings on leasehold land *	1,957,526	57,484	2,015,010	748,172	410,322	1,158,494	856,516	20 years
Furniture and fixtures	231,777	17,547 (8,069)	241,255	167,473	15,532 (8,016)	174,989	66,266	10%
Office equipment	1,547,459	140,971 (10,126)	1,678,304	1,267,908	127,067 (9,882)	1,385,093	293,211	20%
EDP equipment	1,631,339	159,131 (40,213)	1,750,257	1,575,491	60,469 (20,907)	1,615,053	135,204	33.33%
Motor vehicles	402,121	99,178 (33,810)	467,489	252,443	78,675 (24,038)	307,080	160,409	20%
	27,440,397	485,310 (92,218)	27,833,489	5,605,254	1,498,541 (62,843)	7,040,952	20,792,537	

* These represent revalued assets.

** Adjustments represents reclassification within different categories of assets incorporated during the current year as a result of reconciliation exercise carried out by SBP Banking Services Corporation.

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

		2015		2014						
		----- (Rupees in '000) -----								
		Freehold land	39,124		39,124					
		Leasehold land	84,565		86,955					
		Buildings on freehold land	247,794		324,708					
		Buildings on leasehold land	405,707		580,258					
			<u>777,190</u>		<u>1,031,045</u>					
16.3	Capital work-in-progress									
		Buildings on freehold land	110,338		85,730					
		Buildings on leasehold land	206,944		410,749					
		Furniture and fixtures	181		-					
		Office equipment	156,102		143,589					
		EDP equipment	21,039		21,039					
			<u>494,604</u>		<u>661,107</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	2015	609,447	1,397	610,844	600,520	6,121	606,641	4,203	33.33
	Software	2014	601,880	7,567	609,447	585,639	14,881	600,520	8,927	33.33

	Note	2015	2014
		----- (Rupees in '000) -----	
20.2 Current accounts of Governments - receivable balances			
Government of Azad Jammu and Kashmir	20.9	<u>3,048,507</u>	<u>802,315</u>
		<u>3,048,507</u>	<u>802,315</u>
20.3 Federal Government			
Non-food account		996,737	235,195,428
Zakat fund accounts		5,398,534	4,825,613
Railways accounts		(27,004,869)	(36,345,798)
Other accounts		<u>237,250,937</u>	<u>161,302,877</u>
		<u>216,641,339</u>	<u>364,978,120</u>
20.4 Provincial Government - Punjab			
Non-food account		60,672,205	7,240,314
Zakat fund account		499,085	815,949
Other accounts		<u>13,711,311</u>	<u>62,010,963</u>
		<u>74,882,601</u>	<u>70,067,226</u>
20.5 Provincial Government - Sindh			
Non-food account		23,010,842	8,781,880
Zakat fund account		1,636,927	2,055,788
Other accounts		<u>817,700</u>	<u>205,704</u>
		<u>25,465,469</u>	<u>11,043,372</u>
20.6 Provincial Government - Khyber Pakhtunkhwa			
Non-food account		27,549,695	46,142,712
Zakat fund account		1,437,241	1,446,912
Other accounts		<u>488,742</u>	<u>4,074,232</u>
		<u>29,475,678</u>	<u>51,663,856</u>
20.7 Provincial Government - Baluchistan			
Non-food account		42,067,766	29,639,920
Zakat fund account		616,320	589,366
Other accounts		<u>102,228</u>	<u>126,749</u>
		<u>42,786,314</u>	<u>30,356,035</u>
20.8 Gilgit - Baltistan Administration Authority		<u>4,768,977</u>	<u>3,697,934</u>
		<u>4,768,977</u>	<u>3,697,934</u>
20.9 Government of Azad Jammu and Kashmir		(3,048,507)	(802,315)
Classified as receivable balance	20.10	<u>3,048,507</u>	<u>802,315</u>
		<u>-</u>	<u>-</u>

20.10 These balances carry mark-up at rates ranging from 7.18% to 9.98% per annum (2014: 9.98% to 12.15 % per annum).

21. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

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

22. PAYABLE TO ISLAMIC BANKING INSTITUTIONS AGAINST BAI MUAJJAL TRANSACTIONS

This represents amount payable to various Islamic Banking Institutions against purchases of Government of Pakistan (GoP) Ijara Sukuks by the Group on Bai Muajjal basis (deferred payment basis) having maturities ranging from October 23, 2015 to March 26, 2016.

23. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT**23.1 Payable under bilateral currency swap agreement with the People's Bank of China (PBoC)**

A bilateral currency swap agreement was entered between the Bank and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was for tenure of 3 years with overall limit of CNY 10,000 million and equivalent PKR, which has been renewed on 23rd December, 2014 for a further period of three years. The Bank has purchased CNY 5,000 million, CNY 1,500 million and CNY 3,500 million against PKR during the year with maturity buckets of six months, three months and two months respectively (2014: CNY 1,500 million, CNY 3,500 million and CNY 1,500 million with maturity buckets of one year, six months and six months respectively). These purchases have been fully utilized as on June 30, 2015 and the same amounts are outstanding as on June 30, 2015. Interest is charged on outstanding balance at agreed rates. As at June 30, 2015, the Group's commitment under this agreement is PKR 165,000 million (2014: PKR 140,000 million).

24. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

	Note	2015	2014
		------(Rupees in '000)-----	
Foreign currency			
Scheduled banks		15,059,625	23,305,097
Held under Cash Reserve Requirement	24.1	137,278,452	136,200,819
		<u>152,338,077</u>	<u>159,505,916</u>
Local currency			
Scheduled banks	24.1	257,566,828	368,623,750
Financial institutions		3,255,946	2,546,620
Others		73,194	70,070
		<u>260,895,968</u>	<u>371,240,440</u>
		<u><u>413,234,045</u></u>	<u><u>530,746,356</u></u>

24.1 This includes cash deposited with the State Bank of Pakistan by the scheduled banks under regulatory requirements.

25. OTHER DEPOSITS AND ACCOUNTS

	Note	2015	2014
		------(Rupees in '000)-----	
Foreign currency			
Foreign central banks		45,822,174	44,483,210
International organisations	25.2	25,656,686	24,902,682
Others		11,370,901	13,712,458
	25.1	<u>82,849,761</u>	<u>83,098,350</u>
Local currency			
Special debt repayment	25.3	24,074,660	24,074,660
Government	25.4	17,850,348	17,850,348
Foreign central banks		1,946	1,904
International organisations		6,261,043	6,330,362
Others		16,160,092	14,417,083
		<u>64,348,089</u>	<u>62,674,357</u>
		<u><u>147,197,850</u></u>	<u><u>145,772,707</u></u>

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

	2015	2014
	------(% per annum)-----	

Foreign central banks	0.31 to 0.54	0.32 to 0.57
International organisations	2.08 to 2.11	1.35 to 2.47
Others	0.02 to 0.09	0.03 to 0.12

25.2 This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2014) and June 2012 (rolled-over in June 2014) carrying interest at six months LIBOR plus 100 bps and twelve months LIBOR plus 100 bps respectively, both payable semi-annually. These deposits of USD 500 million each have been set off against the rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantees whereby the MoF has agreed to assume all liabilities and risks arising from the Bank's agreement with SAFE China.

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

25.4 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.

26. PAYABLE TO THE INTERNATIONAL MONETARY FUND	Note	2015 ------(Rupees in '000)-----	2014
Borrowings under:			
- Fund facilities	26.1 & 26.4	412,926,950	231,569,547
- Other credit schemes	26.2	-	2,627,563
- Allocation of SDRs	26.3	141,245,999	150,797,597
		<u>554,172,949</u>	<u>384,994,707</u>
Current account for administrative charges		33	35
		<u>554,172,982</u>	<u>384,994,742</u>

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

Under GRA financing, IMF granted Stand By Arrangement Facility (SBAF) amounting to SDR 5,168.50 million in FY 2008-09, having repayment period of 3¼–5 years, with repayments in eight equal quarterly installments. The facility was extended in FY 2009-10 up to SDR 7,235.90 million which includes financing for Budget Support for the Government of Pakistan amounting to SDR 951.10 million. The amount was to be disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2011. However, a total amount of SDR 4,936.04 million, including GoP Budgetary Support, was disbursed under five (5) tranches of SBAF up to June 30, 2010. The Bank's BoP share in the disbursement was SDR 3,984.94 million.

The repayment of the facility had commenced from February 2012 and continued till May 2015 and the entire amount of SDR 3,984.94 million representing Bank's BoP share has been repaid. The facility including share of Budget Support for GoP has also been fully repaid in May 2015.

Further, another 36-month extended arrangement under GRA financing i.e. Extended Fund Facility (EFF) was granted by IMF in FY 2013-14; the total facility amounts to SDR: 4,393 million having repayment period of 4½–10 years, with repayments in twelve equal semi-annual installments. A total amount of SDR: 2,880 million has been disbursed under seven (7) tranches of EFF up to June 30, 2015 (2014: SDR 1,080 million). The repayments under this facility would start in March 2018 and would continue till June 2025.

- 26.2** IMF provides concessional financial assistance to low-income members from Special Disbursement Account (SDA) held in its General Department. Under IMF's lending to Low Income Countries (LICs) from SDA resources i.e. Poverty Reduction and Growth Facility (PRGF), a total amount of SDR: 861.42 million was disbursed to Pakistan from December 2001 to July 2004. Upto June 30, 2015 the entire amount of SDR 861.42 million had been repaid (2014: SDR: 844.19 million).

- 26.3** 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.

- 26.4** Interest profile of amount payable to the IMF is as under:

	Note	2015 -----(% per annum)-----	2014
Fund facilities	26.4.1	1.03 to 1.08	1.06 to 1.14

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

27. OTHER LIABILITIES	Note	2015 ------(Rupees in '000)-----	2014
Local currency			
Provision against overdue mark-up	27.1	7,307,260	6,703,128
Remittance clearance account		2,348,970	1,377,735
Exchange loss payable under exchange risk coverage scheme		230,352	214,485
Balance profit payable to the Government of Pakistan		17,591,141	18,910,705
Dividend payable	27.2	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		1,377,691	1,377,691
Other accruals and provisions	27.3	29,113,002	26,522,174
Others	27.4	4,114,135	7,452,776
		<u>62,092,551</u>	<u>62,568,694</u>

- 27.1** 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).

- 27.2 This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to Rs. 9.99 million (2014: Rs. 9.99 million).

	Note	2015	2014
		----- (Rupees in '000) -----	
27.3 Other accruals and provisions			
Agency commission		10,613,915	8,691,248
Provision for employees' compensated absences	41.3.9	7,903,861	7,540,394
Provision for other doubtful assets	27.3.1	6,350,295	6,766,237
Other provisions	27.3.2	2,848,933	2,850,422
Others		1,395,998	673,873
		29,113,002	26,522,174

27.3.1 Provision for other doubtful assets

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

- Issue Department

- Banking Department

5,450,937	5,866,879
40,483	40,483
5,491,420	5,907,362

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

- Issue Department

- Banking Department

-	-
858,875	858,875
858,875	858,875
6,350,295	6,766,237

27.3.1.1

27.3.1.1 Movement of provisions for other doubtful assets

Opening balance
(Reversal) / charge during the year
(Diminution) / appreciation / relating to gold reserves held by the
Reserve Bank of India
Closing balance

6,766,237	6,359,475
(55,071)	32,835
(360,871)	373,927
6,350,295	6,766,237

27.3.2 Movement of other provisions

Opening balance
(Reversal) / charge during the year
Closing balance

2,850,422	2,848,933
(1,489)	1,489
2,848,933	2,850,422

	Home remittance	Specific claims (note 27.3.2.1)	Others (note 27.3.2.2)	Total
	----- (Rupees in '000) -----			
Balance as at July 1, 2013	260,363	1,600,000	988,570	2,848,933
Charge for the year	-	-	1,489	1,489
Reversal during the year	-	-	-	-
Payment during the year	-	-	-	-
Balance as at June 30, 2014	260,363	1,600,000	990,059	2,850,422
Charge for the year	-	-	-	-
Reversal during the year	-	-	(1,489)	(1,489)
Payment during the year	-	-	-	-
Balance as at June 30, 2015	260,363	1,600,000	988,570	2,848,933

27.3.2.1 This represents provision made against a claim under arbitration.

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

- 27.4 This includes liability maintained against balances due from Government of Bangladesh (Former East Pakistan) amounting to Rs. 778.399 million (2014: Rs. 778.399 million).

28. DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS

	Note	2015 ------(Rupees in '000)-----	2014
Pension		48,607,941	46,802,418
Gratuity scheme		28,021	19,040
Post retirement medical benefits		19,118,366	14,903,244
Benevolent fund scheme		1,478,246	1,301,936
Six months post retirement facility		378,600	322,618
	41.3.3	69,611,174	63,349,256
Provident fund scheme		1,106,806	1,087,796
		70,717,980	64,437,052

29. SHARE CAPITAL

	2015 ------(Number of shares)-----	2014	2015 ------(Rupees in '000)-----	2014
Authorised share capital				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	100,000	100,000
Issued, subscribed and paid-up capital				
1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	100,000	100,000

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

30. RESERVES**30.1 Reserve fund**

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

30.2 Other funds

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

31. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK

	Note	2015 ------(Rupees in '000)-----	2014
Opening balance		265,639,648	242,568,983
(Diminution) / appreciation for the year due to revaluation	5	(22,272,338)	23,070,665
		243,367,310	265,639,648

32. CONTINGENCIES AND COMMITMENTS**32.1 Contingencies**

a) Contingent liability in respect of guarantees given on behalf of:			
Federal Government		14,644,118	23,710,102
Federal Government owned / controlled bodies and authorities		7,823,443	7,961,328
		22,467,561	31,671,430

b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme amounting to Rs. 157 million approximately. The Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. In prior years, the Honorable Bench of the Supreme Court of Pakistan set aside the judgment of FST and allowed employees to avail proper forum. The employees have filed an appeal in the Honorable Lahore High Court, Rawalpindi Bench, the decision of which is pending. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.			
	<i>Note</i>	2015 ----- (Rupees in '000) -----	2014
c) Other claims against the Group not acknowledged as debts	32.1.1	703,534	588,500
32.1.1 These represent various claims filed against the Bank's role as a regulator and certain other cases.			
		2015 ----- (Rupees in '000) -----	2014
32.2 Commitments			
32.2.1 Foreign currency forward and swap contracts - sale		554,583,226	371,895,229
32.2.2 Foreign currency forward and swap contracts - purchase		382,060,837	201,199,235
32.2.3 Futures - sale		13,330,298	15,854,429
32.2.4 Futures - purchase		18,901,205	10,826,777
32.2.5 Commitments in respect of bilateral currency swap agreements with People's Bank of China have been disclosed in note 23.			
32.2.6 The Group has made commitments to extend advance under ways and means limits to the Provincial Governments of Pakistan, Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority in the normal course of its operations. The unutilised limits as on June 30, 2015 amounted to Rs. 70,400 million (2014: Rs. 74,097.69 million).			
In case the Governments exceed their respective ways and means limits, the Bank charges a penal rate of 4% over and above the normal rate of return on the amount exceeding the ways and means limit.			
32.2.7 Commitments in respect of capital expenditure contracted for but not as yet incurred amount to Rs. 47.51 million (2014: Rs. 77.39 million).			
	<i>Note</i>	2015 ----- (Rupees in '000) -----	2014
33. DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED			
Discount, interest / mark-up on:			
- Government securities	33.1	240,680,390	267,881,777
- Federal Government Scrips		82,200	81,401
- Loans and advances to and current accounts of Governments	33.2	194,825	961,322
Securities purchased under agreement to resell		38,031,409	10,586,285
Return on loans and advances to financial institutions		16,104,176	17,916,861
Foreign currency deposits		1,718,097	1,038,950
Foreign currency securities		7,222,459	6,411,353
Profit on Sukuks purchased under Bai Muajjal agreement		333,857	-
Others		938	1,156,502
		304,368,351	306,034,451
33.1 This represents income earned on Market Related Treasury Bills, Market Treasury Bills and Pakistan Investment Bonds.			
		2015 ----- (% per annum) -----	2014
33.2 Interest profile on loans and advances to facilities are as under:			
Mark-up on facility		7.18 to 9.18	9.03 to 9.98
Additional mark-up (where ways and means facility limit is exceeded)		4	4

	Note	2015	2014
		------(Rupees in '000)-----	
34. INTEREST / MARK-UP EXPENSE			
Deposits		12,551,575	11,627,200
Securities sold under agreement to repurchase		502,698	3,544,415
Return on Sukuks purchased under Bai Muajjal agreement		7,857,943	-
Charges on allocation of Special Drawing Rights of the IMF		78,425	156,918
Others		9,550	9,358
		<u>21,000,191</u>	<u>15,337,891</u>
35. COMMISSION INCOME			
Market Treasury Bills	35.1	353,678	664,242
Draft / payment orders		8,061	149,338
Prize Bonds and National Saving Certificates	35.1	404,948	363,208
Management of public debts	35.1	861,926	550,359
Others		55	47
		<u>1,628,668</u>	<u>1,727,194</u>
35.1	These represent commission income earned from services provided to the Federal Government.		
36. EXCHANGE GAIN - NET			
Gain / (loss) on:			
- Foreign currency placements, deposits, securities and other accounts - net		12,837,447	19,157,162
- Forward covers under Exchange Risk Coverage Scheme		787	(14,686)
- IMF Fund Facilities		19,075,330	(5,913,842)
- Special Drawing Rights of the IMF		4,449,394	(1,920,242)
		<u>36,362,958</u>	<u>11,308,392</u>
Exchange risk fee income		55,531	85,433
		<u>36,418,489</u>	<u>11,393,825</u>
37. OTHER OPERATING INCOME - NET			
Penalties levied on banks and financial institutions		3,454,707	755,735
License / Credit Information Bureau fee recovered		766,271	607,743
Gain / (loss) on sale of investment:			
Local - available-for-sale	37.1	103,120,956	31,618,976
Local - 'at fair value through profit or loss'		438,955	-
Foreign - 'at fair value through profit or loss'		838,220	(39,630)
		<u>104,398,131</u>	<u>31,579,346</u>
Fair value adjustment on recognition of subsidised loan		(2,952,536)	-
Loss on remeasurement of securities classified as 'fair value through profit or loss'		(2,571,399)	(980,609)
Others		248,312	(741,371)
		<u>103,343,486</u>	<u>31,220,844</u>
37.1	This primarily represents gain on sale of shares of Habib Bank Limited and Allied Bank Limited which have been disposed off during the current year.		
38. OTHER INCOME - NET			
		2015	2014
		------(Rupees in '000)-----	
Gain / (loss) on disposal of property and equipment		1,263	(17,734)
Liabilities and provisions written back - net		111,272	340
Grant income under foreign assistance program		20,505	9,976
Others		104,022	126,878
		<u>237,062</u>	<u>119,460</u>
39. BANK NOTES PRINTING CHARGES			
Bank notes printing charges are paid to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.			
40. AGENCY COMMISSION			
Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.12% (2014: 0.12%) of the total amount of collections and payments handled by NBP.			

	Note	2015 ------(Rupees in '000)-----	2014
41. GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		8,690,584	8,855,874
Retirement benefits and employees' compensated absences	41.1	11,106,849	10,025,142
Rent and taxes		47,080	36,118
Insurance		25,487	28,451
Electricity, gas and water		353,152	363,456
Depreciation	16.1	1,370,488	1,498,541
Amortisation of intangible assets	17	6,121	14,881
Repairs and maintenance		520,975	473,640
Auditors' remuneration	41.2	12,264	12,200
Legal and professional		43,663	27,323
Fund managers / custodian expenses		375,555	385,654
Travelling expenses		373,822	399,471
Daily expenses		88,040	60,869
Fuel		49,636	56,727
Conveyance		20,235	20,713
Postages, telegram / telex and telephone		226,390	198,205
Training		44,369	53,804
Stationery		22,853	24,320
Remittance of treasure		67,043	69,190
Books and newspapers		31,107	28,170
Advertisement		32,339	13,588
Uniforms		24,894	19,550
Others		338,422	311,947
		23,871,368	22,977,834

41.1 This includes an amount relating to defined contribution plan aggregating Rs. 286.763 million (2014: Rs. 183.879 million).

41.2 Auditors' remuneration

	2015			2014		
	A. F. Ferguson & Co.	Ernst & Young Ford Rhodes Sidat Hyder	Total	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co. Total
	------(Rupees in '000)-----					
State Bank of Pakistan						
Audit fee	2,610	2,610	5,220	2,610	2,610	5,220
Out of pocket expenses	415	415	830	415	415	830
	3,025	3,025	6,050	3,025	3,025	6,050
SBP Banking Services Corporation						
Audit fee	2,090	2,090	4,180	2,090	2,090	4,180
Out of pocket expenses	885	885	1,770	885	885	1,770
	2,975	2,975	5,950	2,975	2,975	5,950
NIBAF						
Audit fee	200	-	200	-	-	200
Out of pocket expenses	64	-	64	-	-	-
	264	-	264	-	-	200
	6,264	6,000	12,264	6,000	6,000	12,200

41.3 Staff retirement benefits

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

	2015	2014
- Discount rate for year end obligation	9.75% - 11.00% p.a.*	13.25% - 13.50% p.a.
- Salary increase rate	9.75% - 10.50% p.a.**	13.25% - 13.50% p.a.
- Pension indexation rate	7.25% p.a.	10.75% p.a.
- Medical cost increase rate	9.5%-11% p.a	13% p.a.
- Personnel turnover	4.5%-10% p.a.	2.1%-2.6% p.a.
- Normal retirement age	60 Years	60 Years

* In case of State Bank of Pakistan, 10.50% has been used for post retirement medical benefits, gratuity scheme and six months post retirement facility, whereas, for all other benefits rate of 9.75% has been used. For the purposes of SBP - Banking Services Corporation, 11.00% has been used for post retirement medical benefits and for all other benefits rate of 9.75% is used.

** In case of State Bank of Pakistan, 10.50% has been used for post retirement medical benefits, gratuity scheme and six months post retirement facility, whereas, for all other benefits rate of 9.75% has been used. For the purposes of SBP - Banking Services Corporation, rate of 9.75% is used for all benefits.

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

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

Discount rate risk

The risk of changes in discount rate since discount rate is based on corporate / government bonds. Any change in bond yields will impact plan liabilities.

Salary increase / inflation risk

The risk that the actual salary increase is higher / lower than the expected where benefits are linked with final salary at the time of cessation of employment.

Mortality risk

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

Withdrawal risk

The risk of actual withdrawals experience is different from assumed.

Medical inflation risk

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

41.3.3 Change in present value of defined benefit obligation

	2015				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Total				
	Rupees in '000				
Present value of defined benefit obligation July 1, 2014	46,802,418	19,040	14,903,244	1,301,936	322,618
Current service cost	1,232,677	4,643	345,396	62,241	24,235
Interest cost on defined benefit obligation	5,771,503	2,436	1,968,651	154,370	42,106
Benefits Paid	(6,480,627)	(1,940)	(641,286)	(273,770)	(9,665)
Remeasurements:					
Actuarial gains from changes in demographic assumptions	77,986	-	-	-	-
Experience adjustments	1,203,984	3,842	2,542,361	233,469	(694)
Present value of defined benefit obligation as on June 30, 2015	48,607,941	28,021	19,118,366	1,478,246	378,600
	2014				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Total				
	Rupees in '000				
Present value of defined benefit obligation as on July 1, 2013	38,982,073	36,761	8,914,110	2,410,117	218,306
Current service cost	988,881	2,060	325,843	107,774	14,849
Interest cost on defined benefit obligation	4,017,894	2,513	983,826	184,527	24,279
Benefits paid	(8,087,740)	(29,823)	(718,204)	(404,318)	(14,373)
Remeasurements:					
Actuarial losses from changes in financial assumptions	-	-	-	(920,535)	-
Experience adjustments	10,901,310	7,529	5,397,669	(75,629)	79,557
Present value of defined benefit obligation as on June 30, 2014	46,802,418	19,040	14,903,244	1,301,936	322,618

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

	2015	2014
	----(Rupees in '000)----	
- Actuarial (losses) / gains from changes in demographic / financial assumptions	(77,986)	920,535
- Experience adjustments	(3,982,962)	(16,310,436)
	(4,060,948)	(15,389,901)

41.3.4 Amount recognised in the consolidated profit and loss account

	2015				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Total				
	(Rupees in '000)				
Current service cost	1,232,677	4,643	345,396	62,241	24,235
Interest cost on defined benefit obligation	5,771,503	2,436	1,968,651	154,370	42,106
Contribution made by Employees	-	-	-	(12,815)	-
	7,004,180	7,079	2,314,047	203,796	66,341

	2014				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Total				
	------(Rupees in '000)-----				
Current service cost	988,881	2,060	325,843	107,774	14,849
Interest cost on defined benefit obligation	4,017,894	2,513	577,533	590,820	24,279
Contribution made by Employees	-	-	-	(22,121)	-
	5,006,775	4,573	903,376	676,473	39,128
					6,630,325

41.3.5 Movement of present value of defined benefit obligation

	2015				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Total				
	------(Rupees in '000)-----				
Net recognised liabilities at July 1, 2014	46,802,418	19,040	14,903,244	1,301,936	322,618
Amount recognised in the consolidated profit and loss account	7,004,180	7,079	2,314,047	203,796	66,341
Remeasurements	1,281,970	3,842	2,542,361	233,469	(694)
Benefits paid during the year	(6,480,627)	(1,940)	(641,286)	(273,770)	(9,665)
Employees contribution / amount transferred			12,815		12,815
Net recognised liabilities at June 30, 2015	48,607,941	28,021	19,118,366	1,478,246	378,600
					69,611,174

	2014				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	Total				
	------(Rupees in '000)-----				
Net recognised liabilities at July 1, 2013	38,982,073	36,761	8,914,110	2,410,117	218,306
Amount recognised in the consolidated profit and loss account	5,006,775	4,573	1,309,669	270,180	39,128
Remeasurements	10,901,310	7,529	5,397,669	(996,164)	79,557
Benefits paid during the year	(8,087,740)	(29,823)	(718,204)	(404,318)	(14,373)
Employees contribution / amount transferred	-	-	-	22,121	-
Net recognised liabilities at June 30, 2014	46,802,418	19,040	14,903,244	1,301,936	322,618
					63,349,256

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	------(Rupees in '000)-----		
Pension			
Discount rate	1%	(3,920,716)	3,940,248
Future salary increase	1%	1,635,579	(1,521,585)
Future pension increase	1%	2,537,019	(2,698,076)
Expected mortality rates	1 Year	(860,126)	443,479
Gratuity			
Discount rate	1%	(3,513)	4,205
Future salary increase	1%	4,144	(3,528)
Post retirement medical benefit scheme			
Discount rate	1%	(3,145,840)	2,568,060
Future Pre-Retirement medical cost increase	1%	1,400,253	(2,286,857)
Future Post-Retirement medical cost increase		786,837	(659,983)
Expected mortality rates	1 Year	(1,177,460)	833,500
Benevolent			
Discount rate	1%	1,037,242	(1,157,873)
Six months post retirement facility			
Discount rate	1%	(31,172)	35,730
Future salary increase	1%	35,861	20,800

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

41.3.7 Duration of defined benefit obligation

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
The weighted average duration of the defined benefit obligation is	8 Years	8-14 Years	13-16 Years	7-9 Years	6-10 Years

41.3.8 Estimated expenses to be charged to consolidated profit and loss account for the year ending June 30, 2016

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2016 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	-----Rupees in '000'-----					
Current service cost	4,106,019	7,085	1,795,254	178,358	36,523	6,123,239
Interest cost on defined benefit obligation	5,803,176	2,945	2,015,422	170,828	40,675	8,033,046
Amount chargeable to the consolidated profit and loss account	9,909,195	10,030	3,810,676	349,186	77,198	14,156,285

41.3.9 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 7,903.86 million (2014: Rs. 7,540.39 million). An amount of Rs. 1,218.08 million (2014: Rs. 3,259.53 million) has been charged to the consolidated profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2016 would be Rs 1,157.67 million. The benefits paid during the year amounted to Rs 854.61 million (2014: Rs 1,195.07 million).

	Note	2015 -----Rupees in '000)-----	2014
42. PROFIT FOR THE YEAR AFTER NON-CASH AND OTHER ITEMS			
Profit for the year		401,751,564	311,814,840
Adjustments for:			
Depreciation	16	1,370,488	1,498,541
Amortisation of intangible assets	17	6,121	14,881
Provision / (reversal) for / write-off:			
- retirement benefits and employees' compensated absences		11,106,849	10,025,142
- loans and advances		925,782	(685)
- claims		(1,489)	1,489
- other doubtful assets		(55,071)	32,835
- diminution in value of investments - local - net		-	(150,000)
(Gain) / loss on disposal of property, and equipment		(1,263)	17,734
(Gain) / loss on disposal of investments	37	(103,120,956)	(31,618,976)
Effect of exchange loss / (gain) on cash and cash equivalents		17,048,228	(2,701,106)
Dividend income		(15,429,445)	(12,127,927)
		<u>313,600,808</u>	<u>276,806,768</u>
43. CASH AND CASH EQUIVALENTS			
Local currency		365,231	417,880
Foreign currency accounts and investments		1,277,055,321	852,117,173
Earmarked foreign currency balances		1,274,786	7,453,502
Special Drawing Rights of the IMF		72,229,419	82,057,077
		<u>1,350,924,757</u>	<u>942,045,632</u>
44. RELATED PARTY TRANSACTIONS			

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

44.1 Governments and related entities

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

	2015	2014
	----- (Rupees in '000) -----	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>5,210,637,598</u>	<u>6,162,939,603</u>
- Retirement / rollover of MRTBs	<u>5,781,546,841</u>	<u>5,585,849,001</u>
- Investment purchased / matured and re-invested	<u>(173,279)</u>	<u>252,597</u>
- Commission income from sale of Market Treasury Bills, issuance of prize bonds, national saving certificates and management of public debt (refer note 35.1).		

44.2 Remuneration to key management personnel

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

	2015	2014
	----- (Rupees in '000) -----	
Short-term employee benefit	181,068	194,413
Post-employment benefit	63,899	64,227
Loans disbursed during the year	116,377	30,221
Loans repaid during the year	78,157	27,253
Directors' fees	11,349	9,854

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

45. RISK MANAGEMENT POLICIES

The Group is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 45.1 to 45.10. The Group has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

45.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Group's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled Groups and financial institutions are usually secured either by Government guarantees or by demand promissory notes. Equity exposures based on their nature are not exposed to credit risk. Geographical exposures are controlled by country limits and are updated as and when necessary with all limits formally reviewed on a periodic basis. The Group's exposure to credit risk associated with foreign investments is managed by monitoring compliance with investment limits for counterparties. The Group's credit risk mainly lies with exposure towards government sector and financial institutions.

45.2 Concentrations of risk

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

45.2.1 Geographical analysis

	2015					
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others
	(Rupees in '000)					
Financial assets						
Foreign currency accounts and investments	50,312,086	509,709,194	358,973,615	432,382,590	91,911,612	-
Earmarked foreign currency balance	1,274,786	-	-	-	-	-
Special Drawing Rights of International Monetary Fund	-	-	72,229,419	-	-	-
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	17,052	-	-	-
Securities purchased under agreement to resell	662,579,848	-	-	-	-	-
Current accounts of Governments	3,048,507	-	-	-	-	-
Investments - local	2,326,471,204	-	-	-	-	-
Securities given as collateral under repurchase agreements	-	-	-	-	-	-
Loans, advances and bills of exchange	348,654,656	423,249	-	-	-	-
Assets held with the Reserve Bank of India	-	1,448,247	-	-	-	-
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	8,561,790	-	-	-	-
Other assets	3,066,180	726,275	83,755	59,868	14,389	-
Total financial assets	3,395,407,267	520,868,755	431,303,841	432,442,458	91,926,001	-
	2014					
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others
	(Rupees in '000)					
Financial assets						
Foreign currency accounts and investments	40,493,507	221,121,291	414,828,024	252,741,587	29,450,055	-
Earmarked foreign currency balance	7,453,502	-	-	-	-	-
Special Drawing Rights of International Monetary Fund	-	-	82,057,077	-	-	-
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	18,194	-	-	-
Securities purchased under agreement to resell	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-
Investments - local	2,919,339,542	-	-	-	-	-
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-
Loans, advances and bills of exchange	308,128,926	423,249	-	-	-	-
Assets held with the Reserve Bank of India	-	1,503,318	-	-	-	-
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	7,957,658	-	-	-	-
Other assets	5,188,134	1,207,427	13,483	88,977	4,256	16,025
Total financial assets	3,299,470,426	232,212,943	496,916,778	252,830,564	29,454,311	16,025

45.2.2 Industrial analysis

2015						
Sovereign	Supranational	Public Sector Entities	Corporate	Banks & Financial Institutions	Others	Grand Total
(Rupees in '000)						
Financial assets						
Foreign currency accounts and investments	574,273,525	94,982,116	3,732,799	-	751,244,565	1,443,289,097
Earmarked foreign currency balance	1,274,786	-	-	-	-	1,274,786
Special Drawing Rights of International Monetary Fund	-	72,229,419	-	-	-	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,052	-	-	-	17,052
Securities purchased under agreement to resell	-	-	-	662,579,848	-	662,579,848
Current accounts of Governments	3,048,507	-	-	-	-	3,048,507
Investments - local	2,326,471,204	-	-	-	-	2,326,471,204
Securities given as collateral under repurchase agreements	-	-	-	-	-	-
Loans, advances and bills of exchange	805,876	-	99,248,696	-	230,023,996	349,077,905
Assets held with the Reserve Bank of India	1,448,247	-	-	-	-	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,561,790	-	-	-	-	8,561,790
Other assets	1,515,740	6,888	-	1,740,737	687,102	3,950,467
Total financial assets	2,917,399,675	167,235,475	102,981,495	-	1,645,589,146	4,871,948,322
2014						
Sovereign	Supranational	Public Sector Entities	Corporate	Banks & Financial Institutions	Others	Grand Total
(Rupees in '000)						
Financial assets						
Foreign currency accounts and investments	436,111,016	209,580,459	1,243,310	-	298,882,021	958,634,464
Earmarked foreign currency balance	7,453,502	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	18,194	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	802,315
Investments - local	2,919,339,542	-	-	-	-	2,919,339,542
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	18,064,500
Loans, advances and bills of exchange	3,689,415	-	96,120,848	-	190,912,081	308,552,175
Assets held with the Reserve Bank of India	1,503,318	-	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	-	-	-	-	7,957,658
Other assets	649,500	29,986	4	680	5,101,487	6,518,302
Total financial assets	3,395,570,766	291,685,716	97,364,162	680	494,895,589	4,310,901,047

45.3 Credit exposure by credit rating

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

	2015							
	Sovereign (45.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in '000)							
Financial assets								
Foreign currency accounts and investments	-	172,751,984	757,827,103	457,692,029	4,040,202	50,312,086	665,693	1,443,289,097
Earmarked foreign currency balance	1,274,786	-	-	-	-	-	-	1,274,786
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	72,229,419	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,052	17,052
Securities purchased under agreement to resell	-	-	-	661,627,223	-	952,625	-	662,579,848
Current accounts of Governments	3,048,507	-	-	-	-	-	-	3,048,507
Investments - local	2,326,471,204	-	-	-	-	-	-	2,326,471,204
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-	-
Loans, advances and bills of exchange	382,627	112,286,612	156,793,415	35,466,209	53,123	481,680	43,614,239	349,077,905
Assets held with the Reserve Bank of India	-	-	-	-	1,448,247	-	-	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	40,453	8,521,337	-	8,561,790
Other assets	1,515,740	-	-	688,457	-	703,154	1,043,116	3,950,467
Total financial assets	2,332,692,864	285,038,596	914,620,518	1,155,473,918	5,582,025	60,970,882	117,569,519	4,871,948,322
	2014							
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in '000)							
Financial assets								
Foreign currency accounts and investments	-	133,455,201	535,253,368	243,699,952	8,973,995	36,541,324	710,624	958,634,464
Earmarked foreign currency balance	-	-	-	-	-	-	7,453,502	7,453,502
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	82,057,077	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	18,194	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	-	802,315
Investments - local	2,919,339,542	-	-	-	-	-	-	2,919,339,542
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	3,266,166	104,898,677	137,060,183	29,929,057	1,899,528	-	31,498,564	308,552,175
Assets held with the Reserve Bank of India	-	-	-	-	1,503,318	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	7,957,658	-	-	7,957,658
Other assets	-	18,391	25,445	1,251,741	22,997	2,836,283	2,363,445	6,518,302
Total financial assets	2,941,472,523	238,372,269	672,338,996	274,880,750	20,357,496	39,377,607	124,101,406	4,310,901,047

45.3.1 Government securities and balances, pertaining to Pakistan are rated as sovereign. The international rating of Pakistan is B- (as per Standards & Poors).

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

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

	Gross Amount		Impairment Provision	
	2015	2014	2015	2014
(Rupees in '000)				
Available for sale investment - unlisted	2,431,758	2,431,758	856,863	856,863
Loans and advances - agriculture sector	18,587	18,587	18,587	18,587
Loans and advances - industrial sector	1,054,285	1,054,285	1,054,285	1,054,285
Loans and advances - others	4,276,319	4,276,974	4,276,319	4,276,974
Assets held with the Reserve Bank of India	1,448,247	1,503,318	1,448,247	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,985,069	8,380,907	8,985,017	8,380,907

45.5 Liquidity analysis with interest / mark-up rate risk

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

	2015						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	365,231	-	365,231	365,231
Foreign currency accounts and investments	170,050,602	1,241,628,124	1,411,678,726	1,968,460	30,657,429	32,625,889	1,444,304,615
Earmarked foreign currency balance	-	-	-	1,274,786	-	1,274,786	1,274,786
Special Drawing Rights of International Monetary Fund	72,229,419	-	72,229,419	-	-	-	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	17,052	-	17,052	17,052
Securities purchased under agreement to resell	662,003,377	-	662,003,377	576,471	-	576,471	662,579,848
Current accounts of Governments	5,048,507	-	5,048,507	(2,000,000)	-	(2,000,000)	3,048,507
Investments - local	2,281,539,043	2,740,000	2,284,279,043	131,262,225	-	131,262,225	2,415,541,268
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	291,409,419	35,868,371	327,277,790	5,532,811	16,267,304	21,800,115	349,077,905
Assets held with the Reserve Bank of India	-	-	-	1,448,247	-	1,448,247	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,701,413	-	7,701,413	860,377	-	860,377	8,561,790
Other assets	-	-	-	2,399,408	8,624	2,408,032	2,408,032
	3,489,981,780	1,280,236,495	4,770,218,275	143,705,068	46,933,357	190,638,425	4,960,856,700
Derivatives assets							
Other assets	-	-	-	1,542,435	-	1,542,435	1,542,435
Grand Total	3,489,981,780	1,280,236,495	4,770,218,275	145,247,503	46,933,357	192,180,860	4,962,399,135
Financial liabilities							
Bank notes issued	-	-	-	2,707,258,012	-	2,707,258,012	2,707,258,012
Bills payable	-	-	-	643,121	-	643,121	643,121
Current accounts of the Government *	-	-	-	394,020,378	-	394,020,378	394,020,378
Securities sold under an agreement to repurchase	-	-	-	-	-	-	-
Payable to Islamic banking institutions against Bai Muajjal transactions	182,216,340	-	182,216,340	7,702,781	-	7,702,781	189,919,121
Payable under bilateral currency swaps agreements	164,133,000	-	164,133,000	734,890	-	734,890	164,867,890
Deposits of banks and financial institutions	-	-	-	413,234,045	-	413,234,045	413,234,045
Other deposits and accounts	32,609,634	45,800,415	78,410,049	68,787,801	-	68,787,801	147,197,850
Payable to International Monetary Fund	141,234,198	412,289,078	553,523,276	-	649,706	649,706	554,172,982
Other liabilities	-	-	-	45,280,055	-	45,280,055	45,280,055
	520,193,172	458,089,493	978,282,665	3,637,661,083	649,706	3,638,310,789	4,616,593,454
Derivatives liabilities							
Foreign currency accounts and investments	-	-	-	1,015,518	-	1,015,518	1,015,518
	520,193,172	458,089,493	978,282,665	3,638,676,601	649,706.00	3,639,326,307	4,617,608,972
On balance sheet gap (a)	2,969,788,608	822,147,002	3,791,935,610	(3,493,429,098)	46,283,651	(3,447,145,447)	344,790,163
Foreign currency forward and swap contracts - sale	-	-	-	(554,583,226)	-	(554,583,226)	(554,583,226)
Foreign currency forward and swap contracts - purchase	-	-	-	382,060,837	-	382,060,837	382,060,837
Futures - sale	-	-	-	(13,330,298)	-	(13,330,298)	(13,330,298)
Futures - purchase	-	-	-	18,901,205	-	18,901,205	18,901,205
Capital Commitment	-	-	-	(47,508)	-	(47,508)	(47,508)
Off balance sheet gap	-	-	-	(166,998,990)	-	(166,998,990)	(166,998,990)
Total yield / interest risk sensitivity gap	2,969,788,608	822,147,002	3,791,935,610	(3,326,430,108)	46,283,651	(3,280,146,457)	511,789,153
Cumulative yield / interest risk sensitivity gap	2,969,788,608	3,791,935,610	7,583,871,220	4,257,441,112	4,303,724,763	1,023,578,306	1,023,578,306
Contingent liabilities in respect of guarantees given	-	-	-	-	22,467,561	22,467,561	22,467,561

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

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

	2014						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	Total
	(Rupees in '000)						
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	417,880	-	417,880	417,880
Foreign currency accounts and investments	744,917,914	162,525,387	907,443,301	46,856,785	-	46,856,785	954,300,086
Earmarked foreign currency balance	-	-	-	7,453,502	-	7,453,502	7,453,502
Special Drawing Rights of International Monetary Fund	82,057,077	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	18,194	-	18,194	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current account of the Government	802,100	-	802,100	215	-	215	802,315
Investments - local	2,835,047,675	2,786,087	2,837,833,762	81,505,780	234,786,762	316,292,542	3,154,126,304
Securities given as collateral under repurchase agreements	17,500,000	-	17,500,000	564,500	-	564,500	18,064,500
Loans, advances and bills of exchange	217,042,795	61,455,154	278,497,949	14,564,912	15,489,314	30,054,226	308,552,175
Assets held with the Reserve Bank of India	-	-	-	1,503,318	-	1,503,318	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,097,281	-	7,097,281	860,377	-	860,377	7,957,658
Other assets	-	1,620	1,620	1,464,542	5,811	1,470,353	1,471,973
	3,904,464,842	226,768,248	4,131,233,090	155,210,005	250,281,887	405,491,892	4,536,724,982
Derivatives assets							
Foreign currency accounts and investments	-	-	-	4,383,623	-	4,383,623	4,383,623
Other assets	-	-	-	5,046,329	-	5,046,329	5,046,329
Grand Total	3,904,464,842	226,768,248	4,131,233,090	164,639,957	250,281,887	414,921,844	4,546,154,934
Financial liabilities							
Bank notes issued	-	-	-	2,309,127,023	-	2,309,127,023	2,309,127,023
Bills payable	-	-	-	642,102	-	642,102	642,102
Current accounts of the Governments *	(12,705,375) *	-	(12,705,375)	544,511,918	-	544,511,918	531,806,543
Securities sold under an agreement to repurchase	17,194,695	-	17,194,695	-	-	-	17,194,695
Payable under bilateral currency swap agreement	105,248,797	-	105,248,797	-	-	-	105,248,797
Deposits of banks and financial institutions	10,807	-	10,807	530,735,549	-	530,735,549	530,746,356
Other deposits and accounts	48,293,741	34,581,610	82,875,351	62,897,356	-	62,897,356	145,772,707
Payable to International Monetary Fund	66,155,064	315,740,456	381,895,520	3,099,222	-	3,099,222	384,994,742
Other liabilities	-	-	-	55,793,974	-	55,793,974	55,793,974
	224,197,729	350,322,066	574,519,795	3,506,807,144	-	3,506,807,144	4,081,326,939
Derivatives liabilities							
Foreign currency accounts and investments	49,245	-	49,245	-	-	-	49,245
	224,246,974	350,322,066	574,569,040	3,506,807,144	-	3,506,807,144	4,081,376,184
On balance sheet gap (a)	3,680,217,868	(123,553,818)	3,556,664,050	(3,342,167,187)	250,281,887	(3,091,885,300)	464,778,750
Foreign currency forward and swap contracts - sale	-	-	-	(371,895,229)	-	(371,895,229)	(371,895,229)
Foreign currency forward and swap contracts - purchase	-	-	-	201,199,235	-	201,199,235	201,199,235
Futures - sale	-	-	-	(15,854,429)	-	(15,854,429)	(15,854,429)
Futures - purchase	-	-	-	10,826,777	-	10,826,777	10,826,777
Capital Commitment	-	-	-	(77,390)	-	(77,390)	(77,390)
Off balance sheet gap	-	-	-	(175,801,036)	-	(175,801,036)	(175,801,036)
Total yield / interest risk sensitivity gap	3,680,217,868	(123,553,818)	3,556,664,050	(3,166,366,151)	250,281,887	(2,916,084,264)	640,579,786
Cumulative yield / interest risk sensitivity gap	3,680,204,029	3,556,650,211	7,113,300,422	3,946,948,110	4,197,229,997	1,281,159,572	1,281,159,572
Contingent liabilities in respect of guarantees given	-	-	-	-	31,671,430	31,671,430	31,671,430

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

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

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

45.6 Interest rate risk

45.6.1 Cash flow interest rate risk

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

If interest rates had been 10 basis points higher/ lower and all other variables were held constant, the Group's profit for the year ended June 30, 2015 would increase / decrease by Rs 419 million (2014: Rs. 375.09 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments.

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

45.6.2 Fair value interest rate risk

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

The Group is exposed to fair value interest rate risk on its fixed income securities classified as 'financial assets at fair value through profit or loss'. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 45.10.

As at June 30, 2015, a 10 basis points shift in market value, mainly as a result of change in interest rates with all other variables held constant, would result in consolidated profit for the year to increase by Rs 946.54 million (2014: Rs 334.71 million) or decrease by Rs 945.52 million (2014: Rs 333 million) mainly as a result of a increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

45.7 Currency risk management

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

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

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

The sensitivity analyses calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the consolidated profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Group had significant exposure as at June 30, 2015 with all other variables constant profit for the year would have been Rs. 564,335.33 million higher / lower (2014: 320,361.76 million). Net foreign currency exposure of the Group is as follows:

	2015	2014
	----- (Rupees in '000) -----	
US Dollars	741,628,994	393,850,571
Pound	(31,545,052)	(23,123,079)
Chinese Yuan	5,099,612	704,551
EURO	(158,752,565)	(100,923,398)
Japanese Yen	(1,759,278)	8,045,452
United Arab Emirates Dirham	10,639,257	11,999,698
Australian Dollar	162,405	19,458,036
Canadian Dollar	68,078	8,570,318
Others	(1,206,126)	1,779,613
	<u>564,335,325</u>	<u>320,361,762</u>

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

The composition of the Group's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 45.6 and 45.7 prepared as of June 30, 2015 are not necessarily indicative of the effects on the Group's profit and loss of future movements in different variables.

45.8 Price Risk

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

The Group is exposed to equity securities price risk because of investment in listed equity securities by the Group classified as available-for-sale. These investments are held as per the specific directives of the Government of Pakistan in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. Accordingly, price risk on listed equity securities can not be managed by the Group.

In case of 5% increase or decrease in KSE 100 index on June 30, 2015, other comprehensive income would increase or decrease by Rs. 804.608 million (2014: Rs. 2,392.875 million) and equity of the Group would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Group's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Group's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2015 is not necessarily indicative of the effect on the Group's equity of future movements in the level of KSE 100 index.

45.9 Liquidity risk management

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

The risk arising out of the Group's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Group's financial assets and financial liabilities is given in note 45.5.1.

45.10 Portfolio risk management

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

46. Fair Value of Financial Instruments

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

	Carrying Value		Fair value	
	2015	2014	2015	2014
	(Rupees in '000)			
Financial assets				
Local currency - coins	365,231	417,880	365,231	417,880
Foreign currency accounts and investments	1,443,289,097	958,634,464	1,443,289,097	958,634,464
Earmarked foreign currency balances	1,274,786	7,453,502	1,274,786	7,453,502
Special Drawing Rights of the International Monetary Fund	72,229,419	82,057,077	72,229,419	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	17,052	18,194	17,052	18,194
Securities purchased under agreement to resell	662,579,848	-	662,579,848	-
Current accounts of Governments	3,048,507	802,315	3,048,507	802,315
Investments - local	2,415,541,268	3,154,126,304	2,415,545,020	3,154,125,953
Securities given as collateral under repurchase agreement	-	18,064,500	-	18,064,500
Loans, advances and bills of exchange	349,077,905	308,552,175	349,077,905	308,552,175
Assets held with the Reserve Bank of India	1,448,247	1,503,318	1,448,247	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,561,790	7,957,658	8,561,790	7,957,658
Other assets	3,950,467	6,518,302	3,950,467	6,518,302

	Carrying Value		Fair value	
	2015	2014	2015	2014
	(Rupees in '000)			
Financial Liability				
Bank notes in circulation	2,707,258,012	2,309,127,023	2,707,258,012	2,309,127,023
Bills payable	643,121	642,102	643,121	642,102
Current accounts of Governments	394,020,378	531,806,543	394,020,378	531,806,543
Securities sold under agreement to repurchase	-	17,194,695	-	17,194,695
Payable to Islamic Banking Institutions against Bai Muajjal transactions	189,919,121	-	189,919,121	-
Payable under bilateral currency swap agreement	164,867,890	105,248,797	164,867,890	105,248,797
Deposits of banks and financial institutions	413,234,045	530,746,356	413,234,045	530,746,356
Other deposits and accounts	147,197,850	145,772,707	147,197,850	145,772,707
Payable to the International Monetary Fund	554,172,982	384,994,742	554,172,982	384,994,742
Other liabilities	45,280,055	55,793,974	45,280,055	55,793,974

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

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

	2015			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	266,919,992	-	-	266,919,992
Investments - local	85,095,794	-	-	85,095,794
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	19,454,757	-	19,454,757
Gold reserves held by the Bank	247,150,713	-	-	247,150,713
	<u>599,166,499</u>	<u>19,454,757</u>	<u>-</u>	<u>618,621,256</u>
	2014			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	175,315,946	-	-	175,315,946
Investments - local	230,812,492	-	-	230,812,492
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	20,137,447	-	20,137,447
Gold reserves held by the Bank	269,307,930	-	-	269,307,930
	<u>675,436,368</u>	<u>20,137,447</u>	<u>-</u>	<u>695,573,815</u>

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

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

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2

Currently, no financial instruments are classified through level 2.

(c) Financial instruments in level 3

Currently, no financial instruments are classified through level 3.

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

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

47. Classification of financial instruments

	2015				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
----- (Rupees in '000) -----					
Financial assets					
Local currency - coins	365,231	-	-	-	365,231
Foreign currency accounts and investments	1,010,800,995	266,919,992	165,568,110	-	1,443,289,097
Earmarked foreign currency balances	1,274,786	-	-	-	1,274,786
Special Drawing Rights of the International Monetary Fund	72,229,419	-	-	-	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	17,052	-	-	-	17,052
Securities purchased under agreement to resell	662,579,848	-	-	-	662,579,848
Current accounts of Governments	3,048,507	-	-	-	3,048,507
Investments - local	2,325,787,495	-	683,709	89,070,064	2,415,541,268
Securities given as collateral under repurchase agreement	-	-	-	-	-
Loans, advances and bills of exchange	349,077,905	-	-	-	349,077,905
Assets held with the Reserve Bank of India	1,448,247	-	-	-	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,561,790	-	-	-	8,561,790
Other assets	2,408,032	1,542,435	-	-	3,950,467
2014					
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
----- (Rupees in '000) -----					
Financial assets					
Local currency - coins	417,880	-	-	-	417,880
Foreign currency accounts and investments	682,558,180	170,269,617	105,806,667	-	958,634,464
Earmarked foreign currency balances	7,453,502	-	-	-	7,453,502
Special Drawing Rights of the International Monetary Fund	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	18,194	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	802,315
Investments - local	2,919,292,930	-	46,612	234,786,762	3,154,126,304
Securities given as collateral under repurchase agreement	18,064,500	-	-	-	18,064,500
Loans, advances and bills of exchange	308,552,175	-	-	-	308,552,175
Assets held with the Reserve Bank of India	1,503,318	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	-	-	-	7,957,658
Other assets	1,471,973	5,046,329	-	-	6,518,302

	2015		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Financial liabilities			
Bank notes in circulation	2,707,258,012	-	2,707,258,012
Bills payable	643,121	-	643,121
Current accounts of Governments	394,020,378	-	394,020,378
Payable under bilateral currency swap agreement	164,867,890	-	164,867,890
Payable to Islamic Banking Institutions against Bai Muajjal transactions	189,919,121	-	189,919,121
Deposits of banks and financial institutions	413,234,045	-	413,234,045
Other deposits and accounts	147,197,850	-	147,197,850
Payable to the International Monetary Fund	554,172,982	-	554,172,982
Other liabilities	45,280,055	-	45,280,055
	2014		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	----- (Rupees in '000) -----		
Financial liabilities			
Bank notes in circulation	2,309,127,023	-	2,309,127,023
Bills payable	642,102	-	642,102
Current accounts of Governments	531,806,543	-	531,806,543
Securities sold under agreement to repurchase	17,194,695	-	17,194,695
Payable under bilateral currency swap agreement	105,248,797	-	105,248,797
Deposits of banks and financial institutions	530,746,356	-	530,746,356
Other deposits and accounts	145,772,707	-	145,772,707
Payable to the International Monetary Fund	384,994,742	-	384,994,742
Other liabilities	55,793,974	-	55,793,974

48. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on October 17, 2015 by the Central Board of Directors of the Bank.

49. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of better presentation and comparison. No significant reclassifications have been made during the current year except for the following:

FROM	TO	2014 Rupees in '000
Foreign currency accounts and investments	Other assets	
Unrealised gain / (loss) on derivative financial instruments	Unrealised gain on derivative financial instruments	5,046,329
Foreign currency accounts and investments	Foreign currency accounts and investments	
Current accounts	Deposit accounts	32,794,377
Other operating income - net	Exchange gain - net	
Loss on remeasurement of securities classified as 'fair value through profit or loss'	Gain / (loss) on Foreign currency placements, deposits, securities and other accounts - net	(2,718,491)

50. GENERAL

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

11 Unconsolidated Financial Statements of SBP

A. F. FERGUSON & CO.
Chartered Accountants
State Life Building No. 1-C,
I. I. Chundrigar Road
P.O. Box 4716, Karachi-74000

**ERNST & YOUNG FORD RHODES
SIDATHYDER**
Chartered Accountants
Progressive Plaza, Beaumont Road
P. O. Box 1554, Karachi

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying unconsolidated financial statements of the State Bank of Pakistan ("the Bank"), which comprise the unconsolidated balance sheet as at June 30, 2015, and the unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the "unconsolidated financial statements").

Management's responsibility for the unconsolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

A. F. FERGUSON & CO.
Chartered Accountants

**ERNST & YOUNG FORD RHODES
SIDATHYDER**
Chartered Accountants

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

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the Bank as at June 30, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The unconsolidated financial statements of the Bank for the year ended June 30, 2014 were audited by A.F. Ferguson & Co. and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 30, 2014.

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Salman Hussain
Audit Engagement Partner

Date: October 26, 2015

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

Omer Chughtai
Audit Engagement Partner

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2015

	Note	2015	2014
		----- (Rupees in '000) -----	
ASSETS			
Gold reserves held by the Bank	5	247,150,713	269,307,930
Local currency - coins	6	365,231	417,880
Foreign currency accounts and investments	7	1,443,289,097	958,634,464
Earmarked foreign currency balances	8	1,274,786	7,453,502
Special Drawing Rights of the International Monetary Fund	9	72,229,419	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	10	17,052	18,194
Securities purchased under agreement to resell	11	662,579,848	-
Current accounts of Governments	20.2	3,048,507	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		56,381	167,001
Investments - local	12	2,415,886,819	3,154,326,379
Securities given as collateral under repurchase agreements	12	-	18,064,500
Loans, advances and bills of exchange	13	338,500,048	297,974,259
Assets held with the Reserve Bank of India	14	5,450,937	5,866,879
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	8,561,790	7,957,658
Property and equipment	16	20,515,069	21,176,911
Intangible assets	17	4,149	8,927
Other assets	18	3,992,076	6,563,876
Total assets		<u>5,222,921,922</u>	<u>4,830,797,752</u>
LIABILITIES			
Bank notes in circulation	19	2,707,258,012	2,309,127,023
Bills payable		643,121	642,102
Current accounts of Governments	20.1	394,020,378	531,806,543
Current account with SBP Banking Services Corporation - a subsidiary		40,635,754	37,876,846
Securities sold under agreement to repurchase	21	-	17,194,695
Payable to Islamic Banking Institutions against Bai Muajjal transactions	22	189,919,121	-
Payable under bilateral currency swap agreement	23	164,867,890	105,248,797
Deposits of banks and financial institutions	24	413,234,045	530,746,356
Other deposits and accounts	25	147,177,988	145,409,982
Payable to the International Monetary Fund	26	554,172,982	384,994,742
Other liabilities	27	56,402,898	57,026,308
Deferred liability - unfunded staff retirement benefits	28	25,229,160	21,918,201
Total liabilities		<u>4,693,561,349</u>	<u>4,141,991,595</u>
Net assets		<u>529,360,573</u>	<u>688,806,157</u>
REPRESENTED BY			
Share capital	29	100,000	100,000
Reserves	30	175,919,871	175,919,871
Unrealised appreciation on gold reserves held by the Bank	31	243,367,310	265,639,648
Unrealised appreciation on remeasurement of investments - local	12.4	83,994,988	221,168,234
Surplus on revaluation of property and equipment		25,978,404	25,978,404
Total equity		<u>529,360,573</u>	<u>688,806,157</u>

CONTINGENCIES AND COMMITMENTS

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

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015 ------(Rupees in '000)-----	2014
Discount, interest / mark-up and / or profit earned	33	304,300,521	305,970,468
Less: interest / mark-up expense	34	<u>(21,000,191)</u>	<u>(15,337,891)</u>
		283,300,330	290,632,577
Commission income	35	1,628,668	1,727,194
Exchange gain - net	36	36,418,489	11,393,825
Dividend income		15,429,445	12,127,927
Other operating income - net	37	103,343,486	31,220,844
Other income - net	38	<u>383,381</u>	<u>200,130</u>
		440,503,799	347,302,497
Less: Operating expenses			
- Bank notes printing charges	39	6,690,484	6,146,145
- Agency commission	40	7,242,672	6,463,352
- General administrative and other expenses	41	23,949,202	22,993,836
Provision for / (reversal of provision against) / write-off:			
- loans and advances	13.1.2	926,437	-
- claims	27.3.2	(1,489)	1,489
- diminution in value of investments - local	12.3	-	(150,000)
- other doubtful assets	27.3.1.1	(55,071)	32,835
		869,877	(115,676)
		38,752,235	35,487,657
Profit for the year		<u><u>401,751,564</u></u>	<u><u>311,814,840</u></u>

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015

	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
Profit for the year		401,751,564	311,814,840
Other comprehensive income			
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised (diminution) / appreciation on remeasurement of investments - local			
- (Diminution) / appreciation during the year	12.4	(14,462,606)	93,285,053
- Reclassified to profit and loss account		(122,710,640)	(19,745,549)
		(137,173,246)	73,539,504
Unrealised (diminution) / appreciation on gold reserves held by the Bank	5	(22,272,338)	23,070,665
		(159,445,584)	96,610,169
Items that will not be reclassified subsequently to the profit and loss account:			
Remeasurements of staff retirement defined benefit plans - SBP	41.6.3.1	(1,986,999)	(2,417,425)
Remeasurements of staff retirement defined benefit plans allocated by - SBP			
Banking Services Corporation - a subsidiary	41.6.3.1	(2,073,949)	(12,972,476)
		(4,060,948)	(15,389,901)
Total comprehensive income for the year		<u>238,245,032</u>	<u>393,035,108</u>

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2015

Share capital	Reserves							Unrealised appreciation / (diminution) on gold reserves held by the Bank	Unrealised appreciation / (diminution) on remeasurement of investments - local	Surplus on revaluation of property and equipment	Total
	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unappropriated profit / (loss)				
(Rupees in '000)											
Balance as at July 1, 2013	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	(27,791,420)	242,568,983	147,628,730	564,404,568
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	311,814,840	-	-	311,814,840
Other comprehensive income											
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	(2,417,425)	-	-	(2,417,425)
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary (note 41.6.3.1)	-	-	-	-	-	-	-	(12,972,476)	-	-	(12,972,476)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	73,539,504	-	73,539,504
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	23,070,665	-	-	23,070,665
	-	-	-	-	-	-	-	296,424,939	23,070,665	73,539,504	393,035,108
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(268,623,519)	-	-	(268,623,519)
	-	-	-	-	-	-	-	(268,633,519)	-	-	(268,633,519)
Balance as at June 30, 2014	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	265,639,648	221,168,234	688,806,157
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	401,751,564	-	-	401,751,564
Other comprehensive income											
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	(1,986,999)	-	-	(1,986,999)
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary (note 41.6.3.1)	-	-	-	-	-	-	-	(2,073,949)	-	-	(2,073,949)
Unrealised diminution on remeasurement of investments - local	-	-	-	-	-	-	-	-	(137,173,246)	-	(137,173,246)
Unrealised diminution on gold reserves held by the Bank	-	-	-	-	-	-	-	(22,272,338)	-	-	(22,272,338)
	-	-	-	-	-	-	-	397,690,616	(22,272,338)	(137,173,246)	238,245,032
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(397,680,616)	-	-	(397,680,616)
	-	-	-	-	-	-	-	(397,690,616)	-	-	(397,690,616)
Balance as at June 30, 2015	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	243,367,310	83,994,988	529,360,573

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015	2014
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	42	306,281,567	269,904,892
(Increase) / decrease in assets:			
Foreign currency investments and placements		(59,716,485)	(1,402,874)
Reserve tranche with the International Monetary Fund under quota arrangements		1,142	(439)
Securities purchased under agreement to resell		(662,579,848)	198,787,435
Current account of National Institute of Banking and Finance (Guarantee)			
Limited - a subsidiary		110,620	8,398
Investments - local		592,722,862	(596,096,088)
Securities given as collateral under repurchase agreements		18,064,500	(18,064,500)
Payment of retirement benefits and employees' compensated absences		(2,583,376)	(2,734,479)
Loans, advances and bills of exchange		(41,452,226)	30,616,051
Assets held with the Reserve Bank of India and balances due from			
Governments of India and Bangladesh (former East Pakistan)		(549,061)	(593,455)
Other assets		2,571,800	(5,839,133)
		(153,410,072)	(395,319,084)
		152,871,495	(125,414,192)
Increase / (decrease) in liabilities:			
Bank notes issued - net		398,130,989	267,765,720
Bills payable		1,019	38,180
Current accounts of Governments		(140,147,478)	403,544,973
Current account with SBP Banking Services Corporation - a subsidiary		684,959	(1,080,123)
Securities sold under agreement to repurchase		(17,194,695)	17,194,695
Payable to Islamic Banking Institutions against Bai Muajjal transactions		189,919,121	-
Payable under bilateral currency swap agreement		59,619,093	23,634,070
Deposits of banks and financial institutions		(117,512,311)	55,098,555
Other deposits and accounts		1,768,006	(10,432,274)
Other liabilities		1,113,585	5,808,261
		376,382,288	761,572,057
Net cash generated from operating activities		529,253,783	636,157,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investments		111,664,408	37,688,507
Dividend received		15,429,445	12,127,927
Capital expenditure		(592,256)	(505,804)
Proceeds from disposal of property and equipment		3,913	6,231
Net cash generated from investing activities		126,505,510	49,316,861
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(399,000,180)	(326,185,728)
Receipts from International Monetary Fund		264,797,431	175,292,197
Payments made to International Monetary Fund		(95,619,191)	(222,091,458)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(229,831,940)	(372,994,989)
Increase in cash and cash equivalents during the year		425,927,353	312,479,737
Cash and cash equivalents at the beginning of the year		942,045,632	626,864,789
Effect of exchange gain on cash and cash equivalents		(17,048,228)	2,701,106
Cash and cash equivalents at the end of the year	43	1,350,924,757	942,045,632

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. STATUS AND NATURE OF OPERATIONS

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

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

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

1.3 These financial statements are unconsolidated (separate) financial statements of the Bank in which investments in subsidiaries are carried at cost. The consolidated financial statements of the Bank and its subsidiaries are presented separately.

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 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.

The head office of the Banking Services Corporation (BSC) is situated at I.I.Chundrigar Road, Karachi, in the province of Sindh, Pakistan.

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

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

The head office of the Institute is situated at Pitras Bukhari Road Islamabad, Pakistan.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 Impairment against loans and advances

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

3.3.2 Impairment of available-for-sale investments

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

3.3.3 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 41.6.1 to these financial statements.

3.3.4 Useful life and residual value of property and equipment

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

3.4 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The following amendments, improvements to accounting standards and interpretations of IFRSs became effective during the current year:

IAS 19 - Employee Benefits - (Amendment) - Defined Benefit Plans: Employee Contributions

Improvements to Accounting Standards Issued by the IASB

IFRS 2 Share-based Payment - Definitions of vesting conditions

IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination

IFRS 3 Business Combinations - Scope exceptions for joint ventures

IFRS 8 Operating Segments - Aggregation of operating segments

IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets

IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation / amortisation

IAS 24 Related Party Disclosures - Key management personnel

IAS 40 Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any material effect on the financial statements.

3.5 New and amended standards and interpretations that are not yet effective:

The following standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

Standards, amendments and interpretations	Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01 January 2016
IFRS 11 Joint Arrangements-Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IFRS 15 – Revenue from contracts with customers	01 January 2017
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 27–Separate Financial Statements–Equity Method in Separate Financial Statements (Amendment)	01 January 2016
Improvements to Accounting Standards Issued by the IASB	
IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal	01 January 2016
IFRS 7 Financial Instruments: Disclosures - Servicing contracts	01 January 2016
IFRS 7 Financial Instruments: Disclosures - Applicability of the off-setting disclosures to condensed interim financial statements	01 January 2016
IAS 19 Employee Benefits - Discount rate: regional market issue	01 January 2016
IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'	01 January 2016

The Bank expects that the adoption of the above standards and amendments will not have any material impact on the Bank's financial statements in the period of initial application other than the initial application of IFRS 15, 'Revenue from contracts with customers' as described below:

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The management is in the process of assessing the impact of IFRS 15 on the financial statements of the Bank.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Bank notes in circulation and local currency - coins

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

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

4.2 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include local currency - coins, foreign currency accounts and investments, earmarked foreign currency balances, investments - local, loans, advances and bills of exchange, current account with SBP Banking Services Corporation - a subsidiary, current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary, assets held with Reserve Bank of India (other than gold held by Reserve Bank of India), balances due from the governments of India and Bangladesh, other assets, bank notes in circulation, bills payable, deposits of banks and financial institutions, balances and securities under repurchase and reverse repurchase transactions, payable to Islamic banking institutions against Bai Muajjal transactions, current accounts of Governments, balances with the International Monetary Fund (IMF), payable under bilateral currency swap agreement, other deposits and accounts and other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

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

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the profit and loss account. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in note 4.4 is recognised in the profit and loss account.

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

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

These assets and liabilities are either acquired / assumed for generating a profit from short term fluctuations in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These are initially recognised at fair value and transaction costs associated with the instrument are taken directly to the profit and loss account. These instruments are subsequently re-measured at fair value. All related realised and unrealised gains and losses are recognised in the profit and loss account directly. Derivatives are also categorised as financial assets and financial liabilities at 'fair value through profit or loss'.

4.2.2 Held to maturity investments

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

4.2.3 Loans and receivables

These are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. Subsequent to initial recognition, these assets are carried at amortised cost less impairment losses, if any, and premiums and / or discounts are accounted for using the effective interest method.

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

4.2.4 Available-for-sale financial assets

These are the non derivative financial assets which are either designated in this category or which do not fall in any of the other categories. Subsequent to initial recognition, these securities are measured at fair value, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost. Gain or loss on changes in fair value is taken to and kept in equity until the investments are sold or disposed off, or until the investments are determined to be impaired. At that time, cumulative gain or loss is re-classified to the profit and loss account.

4.2.5 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits from banks and financial institution, other deposits and accounts, securities sold under agreement to repurchase, payable under bilateral currency swap agreement, current accounts of Governments, current account with SBP- Banking Services Corporation, payable to Islamic Banking Institutions against Bai Muajjal transactions, payable to the IMF, bank notes in circulation, bills payable and other liabilities.

4.3 Derecognition of financial asset and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.4 Fair value measurement principles

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

4.5 Impairment of financial assets

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

a) Financial assets carried at amortised cost

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

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

b) Available-for-sale financial assets

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

4.6 Offsetting

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

4.7 Derivative financial instruments

The Bank uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at fair value and are re-measured to fair value on subsequent reporting dates. Forwards, futures and swaps are shown under commitments in note 32.2. The resultant gains or losses from derivatives are included in the profit and loss account.

4.8 Collateralised borrowings / lending

4.8.1 Reverse repurchase and repurchase agreements

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

4.8.2 Payable under bilateral currency swap agreement

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 the applicable exchange rate (determined in accordance with the terms of the agreement). The actual use of facility by the Bank / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Bank and interest is charged / earned at agreed rates to the profit and loss account on a time proportion basis from the date of actual use. Any unutilised limit of the counterpart's drawing is reported as commitments in note 32.2.1.

4.9 Payable to Islamic Banking Institutions against Bai Muajjal transactions

The Bank purchases Government of Pakistan (GoP) Ijara sukuks on deferred payment basis (Bai Muajjal) from Islamic Banks. The deferred price is agreed at the time of purchase and such proceeds are paid to the Islamic Banks at the end of the agreed period. The difference between the fair value and deferred price represents financing cost and is recognised in profit and loss account on a time proportion basis as "markup expense". Amount payable to Islamic Banking Institutions under deferred payment basis on purchase of sukuks is reported at transaction value plus profit payable thereon (i.e. at amortised cost).

4.10 Gold reserves held by the Bank

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

4.11 Property and equipment

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

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

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. The assets' residual value, depreciation method and useful life are reviewed, and adjusted, if appropriate, at each balance sheet date.

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

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

4.12 Intangibles

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

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

4.13 Impairment of non-financial assets

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. The recoverable amount is higher of an asset's fair value less cost to sell and value in use. In assessing the value in use, future cash flows are estimated which are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount. Impairment loss on revalued assets is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

4.14 Compensated absences

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

4.15 Staff retirement benefits

The Bank operates:

- a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. The Bank provided an option to employees covered under old scheme to join the funded Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from June 1, 2007. Under this scheme, contribution is made both by the Bank and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Bank service after June 1, 2007 are covered under the new scheme.
- b) an unfunded General Provident Fund (GPF) scheme for all those employees who joined the Bank after 1975 and those employees who had joined prior to 1975 but opted for this scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.

c) following are other staff retirement benefit schemes:

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

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

Annual provisions are made by the Bank to cover the obligations arising under defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2015. The "remeasurements", which are made up of actuarial gains and losses and the difference between the actual investment returns and the returns implied by the net interest cost, are recognised in the "balance sheet" immediately with the charge or credit to "other comprehensive income" in the periods in which they occur.

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

4.16 Deferred income

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

4.17 Revenue recognition

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

4.18 Finances under profit and loss sharing arrangements

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

4.19 Taxation

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

4.20 Foreign currency translation

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

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 4.21, which are transferred to the Government of Pakistan account.

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

Commitments for outstanding foreign exchange forward and swap contracts disclosed in note 32.2 to these financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

4.21 Transactions and balances with the International Monetary Fund

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

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

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

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

4.22 Provisions

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

4.23 Cash and Cash Equivalents

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

	Note	Net content in troy ounces	2015 ------(Rupees in '000)-----	2014
5 GOLD RESERVES HELD BY THE BANK				
Opening balance		2,072,748	269,307,930	246,096,839
Additions during the year		964	115,121	140,426
(Diminution) / appreciation for the year due to revaluation	31		(22,272,338)	23,070,665
	19.1	<u>2,073,712</u>	<u>247,150,713</u>	<u>269,307,930</u>
	Note		2015	2014
			------(Rupees in '000)-----	
6 LOCAL CURRENCY - COINS				
Bank notes held by the Banking Department			142,373	110,890
Coins held as an asset of the Issue Department	6.1 & 19.1		<u>365,231</u>	<u>417,880</u>
			507,604	528,770
Less: bank notes held by the Banking Department	19		<u>(142,373)</u>	<u>(110,890)</u>
			<u>365,231</u>	<u>417,880</u>

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

7 FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2015 ----- (Rupees in '000) -----	2014
At fair value through profit or loss - held-for-trading:			
- Investments	7.1	267,935,510	170,981,568
- Unrealised loss on derivative financial instruments	7.2	(1,015,518)	(711,951)
Held to maturity investment	7.3	165,568,110	105,806,667
Loans and receivables			
- Deposit accounts	7.1	104,598,933	62,393,652
- Current accounts		26,790,460	19,605,091
- Securities purchased under agreement to resell	7.4	125,421,892	269,904,526
- Money market placements	7.5	753,989,710	330,654,911
		<u>1,443,289,097</u>	<u>958,634,464</u>
The above foreign currency accounts and investments are held as follows:			
Issue Department	19.1	753,989,710	330,654,911
Banking Department		<u>689,299,387</u>	<u>633,025,882</u>
		<u>1,443,289,097</u>	<u>958,634,464</u>

- 7.1 These represent investments made in international markets and balances maintained (on behalf of the Bank) through reputable Fund Managers. The activities of the Fund Managers are being monitored through a custodian. The market value of the investments and carrying amount of deposit accounts as on June 30, 2015 cumulatively amounts to USD 2,896.16 million (2014: USD 1,948.24 million).
- 7.2 This represents unrealised gain / (loss) on foreign currency swaps, futures and forward contracts (including transactions executed by the Fund Managers on behalf of the Bank) entered into with various counterparties.
- 7.3 This represents investment in sovereign bonds of a foreign country carrying yield ranging from 1.8% to 3.8% per annum and having maturities from July 08, 2015 to September 10, 2016 (2014: 2.80% to 3.74% per annum and having maturities from July 4, 2014 to June 12, 2015).
- 7.4 These represent lending under repurchase agreements and carry mark-up in USD at 0.15 % per annum (2014: 0.07% per annum) and are due to mature on July 01, 2015 (2014: July 1, 2014).
- 7.5 The balance includes money market placements carrying interest at various rates ranging between 0.09 % to 0.6 % per annum (2014: 0.04% to 2.81% per annum) and having maturities from July 1, 2015 to September 30, 2015 (2014: from July 1, 2014 to September 30, 2014).

8 EARMARKED FOREIGN CURRENCY BALANCES

These represent foreign currency cash balances held by the Bank to meet foreign currency commitments of the Bank.

9 SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Bank as at June 30, 2015. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

	Note	2015	2014
		----- (Rupees in '000) -----	
SDRs are held as follows:			
- By the Issue Department	19.1	7,143,400	7,625,850
- By the Banking Department		65,086,019	74,431,227
		<u>72,229,419</u>	<u>82,057,077</u>
10 RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS			
Quota allocated by the International Monetary Fund		147,980,285	157,895,380
Liability under quota arrangements		(147,963,233)	(157,877,186)
		<u>17,052</u>	<u>18,194</u>
11 SECURITIES PURCHASED UNDER AGREEMENT TO RESELL			
This represents collateralised lendings made to various financial institutions under repurchase arrangement carrying markup ranging between 6.51% per annum to 7.00% per annum and are due to mature from July 2, 2015 to July 3, 2015. The fair value of securities collateralised as on June 30, 2015 amounts to Rs. 664,325 million (2014: nil). The collaterals held by the Bank consist of Pakistan Investment Bonds and Market Treasury Bills.			
12 INVESTMENTS - LOCAL	Note	2015	2014
		----- (Rupees in '000) -----	
Loans and receivables originated by the Bank			
Government securities			
Market Related Treasury Bills (MRTBs)		2,323,047,495	2,933,834,857
Federal Government scrips		2,740,000	2,740,000
	12.1	<u>2,325,787,495</u>	<u>2,936,574,857</u>
Less: securities given as collateral under repurchase agreements		-	(18,064,500)
		<u>2,325,787,495</u>	<u>2,918,510,357</u>
Available-for-sale investments			
Investments in banks and other financial institutions			
Ordinary shares			
- Listed		85,095,794	230,812,492
- Unlisted		4,712,706	4,712,706
	12.2	<u>89,808,500</u>	<u>235,525,198</u>
Term Finance Certificates		84,722	84,722
Certificates of Deposits		33,705	33,705
		<u>89,926,927</u>	<u>235,643,625</u>
Provision against diminution in value of investments	12.3	(856,863)	(856,863)
		<u>89,070,064</u>	<u>234,786,762</u>
Investments in wholly owned subsidiaries			
SBP Banking Services Corporation		1,000,000	1,000,000
National Institute of Banking and Finance (Guarantee) Limited		29,260	29,260
		<u>1,029,260</u>	<u>1,029,260</u>
		<u>2,415,886,819</u>	<u>3,154,326,379</u>
The above investments are held as follows:			
Issue Department - MRTBs	19.1	1,693,300,394	1,695,364,463
Banking Department		722,586,425	1,458,961,916
		<u>2,415,886,819</u>	<u>3,154,326,379</u>
12.1 These represent investments guaranteed / issued by the Government. The profile of return on securities is as follows:			
		2015	2014
		% per annum	
Market Related Treasury Bills		6.64 to 8.39	8.92 to 9.98
Federal Government scrips		3	3
MRTBs are created for a period of six months where as Federal Government Scrips are of perpetual nature.			

12.2 Investments in shares of banks and other financial institutions

	Note	2015 % of holding	2014	2015 ----- (Rupees in '000) -----	2014
Listed					
- National Bank of Pakistan	12.2.2	75.20	75.20	85,095,794	99,558,400
- Allied Bank Limited		-	10.07	-	15,839,242
- Habib Bank Limited		-	40.60	-	115,414,850
				<u>85,095,794</u>	<u>230,812,492</u>
Unlisted - at cost					
Other investments with holding less than or equal to 50%				4,712,706	4,712,706
				<u>89,808,500</u>	<u>235,525,198</u>

12.2.1 Investments in above entities have been made under the specific directives of the Government of Pakistan in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. The Bank neither exercises significant influence nor has control over these entities except for any regulatory purposes or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates or joint ventures.

12.2.2 Cost of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2015 amounted to Rs. 1,100.8 million (2014: Rs. 1,100.8 million).

	Note	2015 ----- (Rupees in '000) -----	2014
12.3 Provision against diminution in value of investments			
Opening balance		856,863	1,006,863
Reversal during the year		-	(150,000)
Closing balance		<u>856,863</u>	<u>856,863</u>

12.4 Unrealised appreciation on remeasurement of investments - local

Opening balance		221,168,234	147,628,730
(Diminution) / appreciation during the year		(14,462,606)	93,285,053
Reclassified to profit and loss account	12.4.1	(122,710,640)	(19,745,549)
		<u>(137,173,246)</u>	<u>73,539,504</u>
Closing balance		<u>83,994,988</u>	<u>221,168,234</u>

12.4.1 This represents amount of surplus reclassified to the profit and loss account as a result of disposal of shares of Allied Bank Limited and Habib Bank Limited during the current year.

	Note	2015 ----- (Rupees in '000) -----	2014
13 LOANS, ADVANCES AND BILLS OF EXCHANGE			
Governments	13.1	382,627	3,266,166
Government owned / controlled financial institutions	13.2	103,923,657	100,795,810
Private sector financial institutions	13.3	231,113,109	192,001,193
		<u>335,036,766</u>	<u>292,797,003</u>
Employees		8,421,480	7,251,915
		<u>343,840,873</u>	<u>303,315,084</u>
Provision against doubtful balances		(5,340,825)	(5,340,825)
		<u>338,500,048</u>	<u>297,974,259</u>
13.1 Loans and advances to the Provincial Governments			
Provincial Government - Baluchistan	13.1.2	-	2,113,244
Provincial Government - Khyber Pakhtunkhwa	13.1.3	382,627	1,152,922
	13.1.1	<u>382,627</u>	<u>3,266,166</u>

13.1.1 During the year, mark-up on above balances due from the Provincial Government was charged at various rates ranging between 7.18 % to 9.98 % per annum (2014: 9.03% to 9.98% per annum).

13.1.2 During the current year, out of the total balance receivable from the government of Baluchistan, an amount of Rs. 1,188.80 million has been received while penal interest amount of Rs 926.44 million has been written off as per Finance Division mechanism duly incorporated in the agreement between the Government of Baluchistan and the Bank dated November 26, 2008 for recovery of blocked account.

- 13.1.3** This represents bridge financing facility extended to Government of Khyber Pakhtunkhwa under agreement dated December 28, 2010. This loan is repayable in 16 equal quarterly installments amounting to Rs. 187.5 million starting from December 31, 2011 along with mark-up at the rate of 3 months weighted average market treasury bill rate of the last auction of the preceding quarter. As at June 30, 2015 the principal outstanding balance of this loan amounts to Rs. 375 million (2014: Rs 1,125 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	
	2015	2014	2015	2014	2015	2014
	(Rupees in '000)					
Agricultural sector (13.2.1)	50,927,495	50,526,831	-	-	50,927,495	50,526,831
Industrial sector (13.2.1 & 13.2.3)	4,938,308	6,661,817	-	-	4,938,308	6,661,817
Export sector (13.3.1)	19,872,681	15,421,989	3,567	3,567	19,876,248	15,425,556
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
	92,677,790	89,549,943	11,245,867	11,245,867	103,923,657	100,795,810

- 13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2014: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2014: 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 (2014: Rs. 3,204 million) classified in other loans and advances. The entire exposure has been overdue since 2002.

In a tripartite meeting held on July 11, 2014 between Ministry of Finance (MoF), ZTBL and the Bank, it was decided that the total outstanding amount of Rs. 89,490 million, including suspended mark-up of Rs. 35,029 million, will be converted to an equity investment of the Bank in ZTBL. This was subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. As at June 30, 2015, the bank is in the process of finalising the fair valuation of the shares of ZTBL subsequent to which all the legal and statutory formalities will be completed. Pending completion of the conversion process, these balances would remain secured through the sovereign guarantee of the Government of Pakistan.

- 13.2.2** This represents loan receivable from House Building Finance Corporation Limited (HBFCL) against seven credit lines on profit and loss sharing basis. As at June 30, 2015 all of these credit lines are over due since 2006 amounting to Rs. 11,242 million (2014: Rs. 11,242 million). These credit lines are secured by the guarantee from the Federal Government.

It was decided in a tripartite meeting between MoF, HBFCL and the Bank held on July 11, 2014 that the total outstanding amount of Rs. 15,690 million, including suspended mark-up / share of profit / loss of Rs. 4,448 million, after immediate cash payment of Rs. 2,000 million i.e. Rs. 13,690 million will be converted to an equity investment of the Bank in HBFCL. The cash payment of Rs. 2,000 million has been received during the current year. The conversion process is subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. As at June 30, 2015, the bank is in the process of finalising the fair valuation of the shares of HBFCL subsequent to which all the legal and statutory formalities will be completed. Pending completion of the conversion process, these balances would remain secured through the sovereign guarantee of the Government of Pakistan.

- 13.2.3** This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) credit line amounting to Rs. 1,054 million (2014: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2014: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. In line with the Federal Cabinet decision of winding up, the bank has closed all of its branches except two branches operating in Karachi and Lahore as at June 30, 2015.

- 13.2.4** These balances include Rs. 423 million (2014: Rs. 423 million) which are recoverable from various financial institutions operating in Bangladesh (former East Pakistan). The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.3 Loans and advances to private sector financial institutions

	Scheduled banks		Other financial institutions		Total	
	2015	2014	2015	2014	2015	2014
	(Rupees in '000)					
Agricultural sector	1,057,571	1,379,816	109,837	121,999	1,167,408	1,501,815
Industrial sector	35,521,006	38,080,588	3,989,519	4,391,844	39,510,525	42,472,432
Export sector (13.3.1)	173,250,119	148,001,464	-	-	173,250,119	148,001,464
Others (13.3.2)	17,185,057	25,482	-	-	17,185,057	25,482
	227,013,753	187,487,350	4,099,356	4,513,843	231,113,109	192,001,193

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

13.3.2 During the current year, the Bank in continuation of a scheme of amalgamation of two commercial banks duly sanctioned by the Federal Government under Section 47 of the Banking Companies Ordinance 1962 and under Section 17 of the State Bank of Pakistan Act 1956, extended a 10-year financing facility of Rs.5,000 million and a 6-month liquidity support facility of Rs.15,000 million to an Islamic commercial bank (ICB). Both the facilities are secured against Government of Pakistan Ijara Sukuk. The 10-year facility was provided on the basis of Mudaraba to be remunerated at profit sharing ratio declared by the ICB on its remunerative current accounts on monthly basis (the last declared rate in this respect is 0.01% per annum). The 6-month facilities were also provided on the basis of Mudaraba with profit sharing ratio to be calculated based on the ICB's cost of funds on a monthly basis, which is currently 4.70% per annum. In accordance with the requirements of accounting framework of the Bank these facilities are recognized at fair value. Their amortized cost as of June 30, 2015 is Rs. 17,160 million. The principal amount (Rs. 20 billion) of the facilities along with the profit will be recovered at their respective maturities.

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

		2015 (% per annum)	2014
Government owned / controlled and private sector financial institutions		0 to 9	0 to 11
Employees loans		10	10
14 ASSETS HELD WITH THE RESERVE BANK OF INDIA	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
Gold reserves			
- Opening balance		4,363,561	3,989,634
- (Diminution) / appreciation for the year due to revaluation	27.3.1.1	(360,871)	373,927
		<u>4,002,690</u>	<u>4,363,561</u>
Sterling securities		528,722	555,687
Government of India securities		228,200	235,177
Rupee coins		4,698	4,835
	14.1	<u>4,764,310</u>	<u>5,159,260</u>
Indian notes representing assets receivable from the Reserve Bank of India	14.2	<u>686,627</u>	<u>707,619</u>
	19.1	<u><u>5,450,937</u></u>	<u><u>5,866,879</u></u>
14.1 These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Bank is subject to final settlement between the Governments of Pakistan and India (also refer note 27.3.1).			
14.2 These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 27.3.1).			
15 BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		837	837
		<u>40,453</u>	<u>40,453</u>
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	15.1	7,701,413	7,097,281
		<u>8,521,337</u>	<u>7,917,205</u>
	15.2	<u><u>8,561,790</u></u>	<u><u>7,957,658</u></u>
15.1 These represent interest bearing loans and advances (including commercial papers) provided to the Government of Bangladesh (former East Pakistan).			
15.2 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Government of Bangladesh (former East Pakistan) and India (also refer notes 27.1 and 27.3.1).			
16 PROPERTY AND EQUIPMENT	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
Operating fixed assets	16.1	20,020,465	20,515,804
Capital work-in-progress	16.3	494,604	661,107
		<u><u>20,515,069</u></u>	<u><u>21,176,911</u></u>

16.1 Operating fixed assets

	2015							Useful life / Rate of depreciation
	Cost / revalued amount at July 1, 2014	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2015	Accumulated depreciation at July 1, 2014	Depreciation for the year/ (deletions)	Accumulated depreciation at June 30, 2015	Net book value at June 30, 2015	
	(Rupees in '000)							
Freehold land*	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land*	16,811,005	-	16,811,005	1,769,457	427,549	2,197,006	14,613,999	30-99 years
Buildings on freehold land*	1,078,511	59,864	1,138,375	630,786	218,739	849,525	288,850	20 years
Buildings on leasehold land*	2,015,010	292,499	2,307,509	1,158,494	388,765	1,547,259	760,250	20 years
Furniture and fixtures	99,121	2,899	102,020	84,130	4,294	88,424	13,596	10%
Office equipment	693,143	13,481 (219)	706,405	564,335	55,779 (219)	619,895	86,510	20%
EDP equipment	1,379,301	124,301 (36)	1,503,566	1,267,529	84,403 (36)	1,351,896	151,670	33.33%
Motor vehicles	327,030	264,513 (167,483)	424,060	204,244	69,454 (163,570)	110,128	313,932	20%
	26,194,779	757,557 (167,738)	26,784,598	5,678,975	1,248,983 (163,825)	6,764,133	20,020,465	
	2014							
	Cost / revalued amount at July 1, 2013	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2014	Accumulated depreciation at July 1, 2013	Depreciation for the year/ (deletions)	Accumulated depreciation at June 30, 2014	Net book value at June 30, 2014	Useful life / Rate of depreciation
	(Rupees in '000)							
Freehold land*	3,791,658	-	3,791,658	-	-	-	3,791,658	-
Leasehold land*	16,811,005	-	16,811,005	1,179,568	589,889	1,769,457	15,041,548	30-99 years
Buildings on freehold land *	1,067,512	10,999	1,078,511	414,199	216,587	630,786	447,725	20 years
Buildings on leasehold land*	1,957,526	57,484	2,015,010	748,172	410,322	1,158,494	856,516	20 years
Furniture and fixtures	98,021	1,100 -	99,121	77,613	6,517 -	84,130	14,991	10%
Office equipment	632,465	60,678 -	693,143	494,059	70,276 -	564,335	128,808	20%
EDP equipment	1,284,282	133,220 (38,201)	1,379,301	1,235,782	50,736 (18,989)	1,267,529	111,772	33.33%
Motor vehicles	273,232	79,556 (25,758)	327,030	168,710	53,978 (18,444)	204,244	122,786	20%
	25,915,701	343,037 (63,959)	26,194,779	4,318,103	1,398,305 (37,433)	5,678,975	20,515,804	

* These represent revalued assets.

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

		2015	2014
		<u>(Rupees in '000)</u>	
Freehold land		39,124	39,124
Leasehold land		84,565	86,955
Buildings on freehold land		247,794	324,708
Buildings on leasehold land		405,707	580,258
		777,190	1,031,045
16.3 Capital work-in-progress			
Buildings on freehold land		110,338	85,736
Buildings on leasehold land		206,944	410,749
Furniture and fixtures		181	-
Office equipment		156,102	143,589
EDP equipment		21,039	21,039
		494,604	661,107
17 INTANGIBLE ASSETS			
		(Rupees in '000)	
		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 %
Software	2015	609,447	1,202
		610,649	600,520
		5,980	606,500
		4,149	33.33
Software	2014	601,880	7,567
		609,447	585,639
		14,881	600,520
		8,927	33.33
	Note	2015	2014
		<u>(Rupees in '000)</u>	
18 OTHER ASSETS			
Commission receivable and others		1,106,632	961,567
Unrealised gain on derivative financial instruments		1,542,435	5,046,329
Other advances, deposits and prepayments		1,343,009	555,980
		3,992,076	6,563,876
19 BANK NOTES IN CIRCULATION			
Total bank notes issued	19.1	2,707,400,385	2,309,237,913
Bank notes held with the Banking Department	6	(142,373)	(110,890)
Notes in circulation		2,707,258,012	2,309,127,023
19.1 The liability for bank notes issued by 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	2015	2014
		<u>(Rupees in '000)</u>	
Gold reserves held by the Bank	5	247,150,713	269,307,930
Local currency - coins	6	365,231	417,880
Foreign currency accounts and investments	7	753,989,710	330,654,911
Special Drawing Rights of the International Monetary Fund	9	7,143,400	7,625,850
Investments - local	12	1,693,300,394	1,695,364,463
Assets held with the Reserve Bank of India	14	5,450,937	5,866,879
		2,707,400,385	2,309,237,913
20 CURRENT ACCOUNTS OF GOVERNMENTS			
20.1 Current accounts of Governments - payable balances			
Federal Government	20.3	216,641,339	364,978,120
Provincial Governments			
- Punjab	20.4	74,882,601	70,067,226
- Sindh	20.5	25,465,469	11,043,372
- Khyber Pakhtunkhwa	20.6	29,475,678	51,663,856
- Baluchistan	20.7	42,786,314	30,356,035
Gilgit - Baltistan Administration Authority	20.8	4,768,977	3,697,934
		177,379,039	166,828,423
		394,020,378	531,806,543

	Note	2015	2014
		----- (Rupees in '000) -----	
20.2 Current accounts of Governments - receivable balance			
Government of Azad Jammu and Kashmir	20.9	<u>3,048,507</u>	<u>802,315</u>
		<u>3,048,507</u>	<u>802,315</u>
20.3 Federal Government			
Non-food account		996,737	235,195,428
Zakat fund accounts		5,398,534	4,825,613
Railways accounts		(27,004,869)	(36,345,798)
Other accounts		<u>237,250,937</u>	<u>161,302,877</u>
		<u>216,641,339</u>	<u>364,978,120</u>
20.4 Provincial Government - Punjab			
Non-food account		60,672,205	7,240,314
Zakat fund account		499,085	815,949
Other accounts		<u>13,711,311</u>	<u>62,010,963</u>
		<u>74,882,601</u>	<u>70,067,226</u>
20.5 Provincial Government - Sindh			
Non-food account		23,010,842	8,781,880
Zakat fund account		1,636,927	2,055,788
Other accounts		<u>817,700</u>	<u>205,704</u>
		<u>25,465,469</u>	<u>11,043,372</u>
20.6 Provincial Government - Khyber Pakhtunkhwa			
Non-food account		27,549,695	46,142,712
Zakat fund account		1,437,241	1,446,912
Other accounts		<u>488,742</u>	<u>4,074,232</u>
		<u>29,475,678</u>	<u>51,663,856</u>
20.7 Provincial Government - Baluchistan			
Non-food account		42,067,766	29,639,920
Zakat fund account		616,320	589,366
Other accounts		<u>102,228</u>	<u>126,749</u>
		<u>42,786,314</u>	<u>30,356,035</u>
20.8 Gilgit - Baltistan Administration Authority		<u>4,768,977</u>	<u>3,697,934</u>
		<u>4,768,977</u>	<u>3,697,934</u>
20.9 Government of Azad Jammu and Kashmir		(3,048,507)	(802,315)
Classified as receivable balance	20.10	<u>3,048,507</u>	<u>802,315</u>
		<u>-</u>	<u>-</u>

20.10 These balances carry mark-up at rates ranging from 7.18% to 9.98% per annum (2014: 9.98% to 12.15 % per annum).

21 SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

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

22 PAYABLE TO ISLAMIC BANKING INSTITUTIONS AGAINST BAI MUAJJAL TRANSACTIONS

This represents amount payable to various Islamic Banking Institutions against purchases of Government of Pakistan (GoP) Ijara Sukuks by the Bank on Bai Muajjal basis (deferred payment basis) having maturities ranging from October 23, 2015 to March 26, 2016.

23 PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT**23.1 Payable under bilateral currency swap agreement with the People's Bank of China (PBoC)**

A bilateral currency swap agreement was entered between the Bank and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was for tenure of 3 years with overall limit of CNY 10,000 million and equivalent PKR, which has been renewed on 23rd December, 2014 for a further period of three years. The Bank has purchased CNY 5,000 million, CNY 1,500 million and CNY 3,500 million against PKR during the year with maturity buckets of six months, three months and two months respectively (2014: CNY 1,500 million, CNY 3,500 million and CNY 1,500 million with maturity buckets of one year, six months and six months respectively). These purchases have been fully utilized as on June 30, 2015 and the same amounts are outstanding as on June 30, 2015. Interest is charged on outstanding balance at agreed rates. As at June 30, 2015, the Bank's commitment under this agreement is PKR 165,000 million (2014: PKR 140,000 million).

24 DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

	Note	2015	2014
		----- (Rupees in '000) -----	
Foreign currency			
Scheduled banks		15,059,625	23,305,097
Held under Cash Reserve Requirement	24.1	137,278,452	136,200,819
		<u>152,338,077</u>	<u>159,505,916</u>
Local currency			
Scheduled banks	24.1	257,566,828	368,623,750
Financial institutions		3,255,946	2,546,620
Others		73,194	70,070
		<u>260,895,968</u>	<u>371,240,440</u>
		<u>413,234,045</u>	<u>530,746,356</u>

24.1 This includes cash deposited with the State Bank of Pakistan by the scheduled banks under regulatory requirements.

25 OTHER DEPOSITS AND ACCOUNTS

	Note	2015	2014
		----- (Rupees in '000) -----	
Foreign currency			
Foreign central banks		45,822,174	44,483,210
International organisations	25.2	25,656,686	24,902,682
Others		11,370,901	13,712,458
	25.1	<u>82,849,761</u>	<u>83,098,350</u>
Local currency			
Special debt repayment	25.3	24,074,660	24,074,660
Government	25.4	17,850,348	17,850,348
Foreign central banks		1,946	1,904
International organisations		6,261,043	6,330,362
Others		16,140,230	14,054,358
		<u>64,328,227</u>	<u>62,311,632</u>
		<u>147,177,988</u>	<u>145,409,982</u>

	2015	2014
	(% per annum)	
25.1 The interest rate profile of the interest bearing deposits is as follows:		
Foreign central banks	0.31 to 0.54	0.32 to 0.57
International organisations	2.08 to 2.11	1.35 to 2.47
Others	0.02 to 0.09	0.03 to 0.12

25.2 This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2014) and June 2012 (rolled-over in June 2014) carrying interest at six months LIBOR plus 100 bps and twelve months LIBOR plus 100 bps respectively, both payable semi-annually. These deposits of USD 500 million each have been set off against the rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantees whereby the MoF has agreed to assume all liabilities and risks arising from the Bank's agreement with SAFE China.

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

25.4 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.

	Note	2015	2014
		----- (Rupees in '000) -----	
26 PAYABLE TO THE INTERNATIONAL MONETARY FUND			
Borrowings under:			
- Fund facilities	26.1 & 26.4	412,926,950	231,569,547
- Other credit schemes	26.2	-	2,627,563
- Allocation of SDRs	26.3	141,245,999	150,797,597
		554,172,949	384,994,707
Current account for administrative charges		33	35
		554,172,982	384,994,742
26.1	IMF provides financing to its member countries from General Resources Account (GRA) held in its General Department. GRA credit is normally governed by the IMF's general lending policies (also known as "credit tranche" policies, which provide financing for Balance of Payments [BoP] needs).		
	Under GRA financing, IMF granted Stand By Arrangement Facility (SBAF) amounting to SDR 5,168.50 million in FY 2008-09, having repayment period of 3¼–5 years, with repayments in eight equal quarterly installments. The facility was extended in FY 2009-10 up to SDR 7,235.90 million which includes financing for Budget Support for the Government of Pakistan amounting to SDR 951.10 million. The amount was to be disbursed by IMF in 8 tranches starting from November 26, 2008 to November 30, 2011. However, a total amount of SDR 4,936.04 million, including GoP Budgetary Support, was disbursed under five (5) tranches of SBAF up to June 30, 2010. The Bank's BoP share in the disbursement was SDR 3,984.94 million.		
	The repayment of the facility had commenced from February 2012 and continued till May 2015 and the entire amount of SDR 3,984.94 million representing Bank's BoP share has been repaid. The facility including share of Budget Support for GoP has also been fully repaid in May 2015.		
	Further, another 36-month extended arrangement under GRA financing i.e. Extended Fund Facility (EFF) was granted by IMF in FY 2013-14; the total facility amounts to SDR: 4,393 million having repayment period of 4½–10 years, with repayments in twelve equal semi-annual installments. A total amount of SDR: 2,880 million has been disbursed under seven (7) tranches of EFF up to June 30, 2015 (2014: SDR 1,080 million). The repayments under this facility would start in March 2018 and would continue till June 2025.		
26.2	IMF provides concessional financial assistance to low-income members from Special Disbursement Account (SDA) held in its General Department. Under IMF's lending to Low Income Countries (LICs) from SDA resources i.e. Poverty Reduction and Growth Facility (PRGF), a total amount of SDR: 861.42 million was disbursed to Pakistan from December 2001 to July 2004. Upto June 30, 2015 the entire amount of SDR 861.42 million has been repaid (2014: SDR: 844.19 million).		
26.3	This represents amount payable against allocation of SDRs. A charge is levied by the IMF on the SDR allocation of the Bank at weekly interest rate applicable on daily product of SDR.		
	Note	2015	2014
26.4		(% per annum)	
Interest profile of amount payable to the IMF is as under:			
Fund facilities	26.4.1	1.03 to 1.08	1.06 to 1.14
26.4.1	The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding. Interest rates are determined by the IMF on weekly basis. Charges are, however, payable on quarterly basis.		
	Note	2015	2014
27 OTHER LIABILITIES		----- (Rupees in '000) -----	
Local currency			
Provision against overdue mark-up	27.1	7,307,260	6,703,128
Remittance clearance account		2,348,970	1,377,735
Exchange loss payable under exchange risk coverage scheme		230,352	214,485
Balance profit payable to the Government of Pakistan		17,591,141	18,910,705
Dividend payable	27.2	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		1,377,691	1,377,691
Other accruals and provisions	27.3	23,380,102	21,119,500
Others	27.4	4,157,382	7,313,064
		56,402,898	57,026,308
27.1	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).		

27.2	This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to Rs. 9.99 million (2014: Rs. 9.99 million).			
	<i>Note</i>	2015	2014	
27.3	Other accruals and provisions	----- (Rupees in '000) -----		
		10,613,915	8,691,248	
	Agency commission			
	Provision for employees' compensated absences	41.6.9	2,528,235	2,137,720
	Provision for other doubtful assets	27.3.1	6,350,295	6,766,237
	Other provisions	27.3.2	2,848,933	2,850,422
	Others		1,038,724	673,873
			23,380,102	21,119,500
27.3.1	Provision for other doubtful assets			
	Provision against assets held with / receivable from Government of India and the Reserve Bank of India			
	- Issue Department		5,450,937	5,866,879
	- Banking Department		40,483	40,483
			5,491,420	5,907,362
	Provision against assets receivable from Government of Bangladesh (Former East Pakistan)			
	- Issue Department		-	-
	- Banking Department		858,875	858,875
			858,875	858,875
		27.3.1.1	6,350,295	6,766,237
27.3.1.1	Movement of provisions for other doubtful assets			
	Opening balance		6,766,237	6,359,475
	(Reversal) / charge during the year		(55,071)	32,835
	(Diminution) / appreciation relating to gold reserves held by the Reserve Bank of India		(360,871)	373,927
	Closing balance		6,350,295	6,766,237
27.3.2	Movement of other provisions			
	Opening balance		2,850,422	2,848,933
	(Reversal) / charge during the year		(1,489)	1,489
	Closing balance		2,848,933	2,850,422
		Home remittance	Specific claims (note 27.3.2.1)	Others (note 27.3.2.2)
		----- (Rupees in '000) -----		
	Balance as at July 1, 2013	260,363	1,600,000	988,570
	Charge for the year	-	-	1,489
	Reversal during the year	-	-	-
	Payment during the year	-	-	-
	Balance as at June 30, 2014	260,363	1,600,000	990,059
	Charge for the year	-	-	-
	Reversal during the year	-	-	(1,489)
	Payment during the year	-	-	-
	Balance as at June 30, 2015	260,363	1,600,000	988,570
27.3.2.1	This represents provision made against a claim under arbitration.			
27.3.2.2	This represents provision made in respect of various litigations and claims against the Bank.			
27.4	This includes liability maintained against balances due from Government of Bangladesh (former East Pakistan) amounting to Rs. 778.399 million (2014: Rs. 778.399 million).			

	Note	2015	2014
		----- (Rupees in '000) -----	
28 DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS			
Pension		17,827,447	16,125,506
Gratuity scheme		26,441	17,763
Benevolent fund scheme		369,979	284,914
Post retirement medical benefits		6,489,738	5,020,474
Six months post retirement facility		290,624	245,940
	41.6.3	25,004,229	21,694,597
Provident fund scheme		224,931	223,604
		<u>25,229,160</u>	<u>21,918,201</u>

29 SHARE CAPITAL

2015	2014		2015	2014
---- (Number of shares) ---			----- (Rupees in '000)-----	
Authorised share capital				
<u>1,000,000</u>	<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid-up capital				
<u>1,000,000</u>	<u>1,000,000</u>	Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>

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

30 RESERVES**30.1 Reserve fund**

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

30.2 Other funds

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

	Note	2015	2014
		----- (Rupees in '000) -----	
31 UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK			
Opening balance		265,639,648	242,568,983
(Diminution) / appreciation for the year due to revaluation	5	(22,272,338)	23,070,665
		<u>243,367,310</u>	<u>265,639,648</u>

32 CONTINGENCIES AND COMMITMENTS**32.1 Contingencies**

a) Contingent liability in respect of guarantees given on behalf of:			
Federal Government	32.1.1	14,644,118	23,710,102
Federal Government owned / controlled bodies and authorities		7,823,443	7,961,328
		<u>22,467,561</u>	<u>31,671,430</u>
b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme amounting to Rs. 157 million approximately. The Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. In prior years, the Honorable Bench of the Supreme Court of Pakistan set aside the judgment of FST and allowed employees to avail proper forum. The employees have filed an appeal in the Honorable Lahore High Court, Rawalpindi Bench, the decision of which is pending. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.			

	Note	2015 ----- (Rupees in '000) -----	2014
c) Other claims against the Bank not acknowledged as debts	32.1.2	<u>703,534</u>	<u>588,500</u>
32.1.1 Above guarantees are secured by counter guarantees either from the Government of Pakistan or local financial institutions.			
32.1.2 These represent various claims filed against the Bank's role as a regulator and certain other cases.			
32.2 Commitments		2015 ----- (Rupees in '000) -----	2014
32.2.1 Foreign currency forward and swap contracts - sale		<u>554,583,226</u>	<u>371,895,229</u>
32.2.2 Foreign currency forward and swap contracts - purchase		<u>382,060,837</u>	<u>201,199,235</u>
32.2.3 Futures - sale		<u>13,330,298</u>	<u>15,854,429</u>
32.2.4 Futures - purchase		<u>18,901,205</u>	<u>10,826,777</u>
32.2.5 Commitments in respect of bilateral currency swap agreements with People's Bank of China have been disclosed in note 23.			
32.2.6 The Bank has made commitments to extend advance under ways and means limits to the Provincial Governments of Pakistan, Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority in the normal course of its operations. The unutilised limits as on June 30, 2015 amounted to Rs. 70,400 million (2014: Rs. 74,097.69 million).			
In case the Governments exceed their respective ways and means limits, the Bank charges a penal rate of 4% over and above the normal rate of return on the amount exceeding the ways and means limit.			
33 DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED	Note	2015 ----- (Rupees in '000) -----	2014
Discount, interest / mark-up on:			
- Market Related Treasury Bills		240,613,420	267,818,472
- Federal Government Scrips		82,200	81,401
- Loans and advances to and current accounts of Governments	33.1	194,825	961,322
Securities purchased under agreement to resale		38,031,409	10,586,285
Return on loans and advances to financial institutions		16,104,176	17,916,861
Foreign currency deposits		1,718,097	1,038,950
Foreign currency securities		7,222,459	6,411,353
Profit on sukuks purchased under Bai Muajjal agreement		333,857	-
Others		78	1,155,824
		<u>304,300,521</u>	<u>305,970,468</u>
33.1 Interest profile on loans and advances to facilities are as under:		2015 (% per annum)	2014
Mark-up on facility		7.18 to 9.98	9.03 to 9.98
Additional mark-up (where ways and means facility limit is exceeded)		4	4
34 INTEREST / MARK-UP EXPENSE		2015 ----- (Rupees in '000) -----	2014
Deposits		12,551,575	11,627,200
Securities sold under agreement to repurchase		502,698	3,544,415
Return on Sukuks purchased under Bai Muajjal agreement		7,857,943	-
Charges on allocation of Special Drawing Rights of the IMF		78,425	156,918
Others		9,550	9,358
		<u>21,000,191</u>	<u>15,337,891</u>

	Note	2015	2014
35 COMMISSION INCOME		------(Rupees in '000)-----	
Market Treasury Bills	35.1	353,678	664,242
Draft / payment orders		8,061	149,338
Prize Bonds and National Saving Certificates	35.1	404,948	363,208
Management of public debts	35.1	861,926	550,359
Others		55	47
		<u>1,628,668</u>	<u>1,727,194</u>
35.1	These represent commission income earned from services provided to the Federal Government.		
36 EXCHANGE GAIN - NET	Note	2015	2014
		------(Rupees in '000)-----	
Gain / (loss) on:			
- Foreign currency placements, deposits, securities and other accounts - net		12,837,447	19,157,162
- Forward covers under Exchange Risk Coverage Scheme		787	(14,686)
- IMF Fund Facilities		19,075,330	(5,913,842)
- Special Drawing Rights of the IMF		4,449,394	(1,920,242)
		<u>36,362,958</u>	<u>11,308,392</u>
Exchange risk fee income		55,531	85,433
		<u>36,418,489</u>	<u>11,393,825</u>
37 OTHER OPERATING INCOME - NET			
Penalties levied on banks and financial institutions		3,454,707	755,735
License / Credit Information Bureau fee recovered		766,271	607,743
Gain / (loss) on disposal of investment:			
Local - available-for-sale	37.1	103,120,956	31,618,976
Local - 'at fair value through profit or loss'		438,955	-
Foreign - 'at fair value through profit or loss'		838,220	(39,630)
		<u>104,398,131</u>	<u>31,579,346</u>
Fair value adjustment on recognition of subsidised loan		(2,952,536)	-
Loss on remeasurement of securities classified as 'fair value through profit or loss'		(2,571,399)	(980,609)
Others		248,312	(741,371)
		<u>103,343,486</u>	<u>31,220,844</u>
37.1	This primarily represents gain on sale of shares of Habib Bank Limited and Allied Bank Limited which have been disposed off during the current year.		
38 OTHER INCOME - NET	Note	2015	2014
		------(Rupees in '000)-----	
Loss on disposal of property and equipment		-	(20,295)
Liabilities and provisions written back - net		110,056	340
Grant income under foreign assistance program		20,505	9,976
Income from subsidiaries	38.1	179,176	142,635
Others		73,644	67,474
		<u>383,381</u>	<u>200,130</u>
38.1 Income from subsidiaries			
SBP Banking Services Corporation		50,491	50,109
National Institute of Banking and Finance (Guarantee) Limited		128,685	92,526
		<u>179,176</u>	<u>142,635</u>

The above represents income of subsidiaries for the year ended June 30, 2015 transferred to the Bank in accordance with the arrangements mentioned in note 41.4.

39 BANK NOTES PRINTING CHARGES

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

40 AGENCY COMMISSION

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.12 % (2014: 0.12%) of the total amount of collections and payments handled by NBP.

	Note	2015	2014
		------(Rupees in '000)-----	
41 GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		2,911,133	2,810,452
Retirement benefits and employees' compensated absences	41.1	3,907,336	3,220,256
Rent and taxes		25,554	18,353
Insurance		17,648	21,553
Electricity, gas and water		40,951	36,578
Depreciation	16.1	1,248,983	1,398,305
Amortisation of intangible assets	17	5,980	14,881
Repairs and maintenance		356,048	337,879
Auditors' remuneration	41.5	6,050	6,050
Legal and professional		37,359	24,583
Fund managers / custodian expenses		375,555	385,654
Travelling expenses		158,219	157,527
Daily expenses		58,643	38,803
Fuel		46,687	51,441
Conveyance		7,322	6,656
Postages, telegram / telex and telephone		200,631	178,452
Training		35,445	16,779
Stationery		9,818	9,110
Books and newspapers		29,442	26,712
Advertisement		14,732	2,815
Uniforms		1,443	1,771
Others		77,729	64,127
		<u>9,572,708</u>	<u>8,828,737</u>
Expenses allocated by:			
SBP Banking Services Corporation	41.2	7,305,776	6,893,244
National Institute of Banking and Finance (Guarantee) Limited		15,383	11,878
		<u>7,321,159</u>	<u>6,905,122</u>
Expenses reimbursed to:			
SBP Banking Services Corporation	41.3	6,873,983	7,086,827
National Institute of Banking and Finance (Guarantee) Limited		181,352	173,150
		<u>7,055,335</u>	<u>7,259,977</u>
		<u><u>23,949,202</u></u>	<u><u>22,993,836</u></u>

41.1 This includes an amount relating to defined contribution plan aggregating Rs. 256.393 million (2014: Rs. 120.978 million).

	2015	2014
	------(Rupees in '000)-----	
41.2 Expenses allocated by SBP Banking Services Corporation		
Retirement benefits and employees' compensated absences	7,199,513	6,804,886
Depreciation	106,263	88,358
	<u>7,305,776</u>	<u>6,893,244</u>

	Note	2015	2014
		----- (Rupees in '000) -----	
41.3 Expenses reimbursed to SBP Banking Services Corporation			
Salaries and other benefits		5,686,410	5,955,069
Rent and taxes		20,952	17,142
Insurance		6,197	5,374
Electricity, gas and water		288,219	302,524
Repairs and maintenance		149,793	124,422
Auditors' remuneration	41.5	5,950	5,950
Legal and professional		6,266	2,665
Travelling expenses		16,918	15,791
Daily expenses		29,397	22,066
Recreation allowance		192,225	217,782
Fuel		2,949	3,843
Conveyance		12,913	14,057
Postage and telephone		24,590	18,650
Training		70,270	37,915
Remittance of treasure		67,043	69,190
Stationery		10,542	12,796
Books and newspapers		1,504	1,292
Advertisement		17,607	10,773
Bank guards		124,618	120,676
Uniforms		23,451	17,779
Others		116,169	111,071
		6,873,983	7,086,827

41.4 SBP Banking Services Corporation (the Corporation), a wholly owned subsidiary of the Bank, carries out certain functions and activities principally relating to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly, under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while profit of the Corporation for the year ended June 30, 2015, as mentioned in note 38.1, has also been transferred to the Bank. Similar treatment is also followed by the other subsidiary, National Institute of Banking and Finance (Guarantee) Limited, under arrangements mutually agreed with the Bank.

41.5 Auditors' remuneration

	2015			2014		
	Ernst & Young Ford Rhodes Sidat Hyder & Co.	A. F. Ferguson & Co.	Total	KPMG Taseer Hadi & Co.	A. F. Ferguson & Co.	Total
	----- (Rupees in '000) -----					
State Bank of Pakistan						
Audit fee	2,610	2,610	5,220	2,610	2,610	5,220
Out of pocket expenses	415	415	830	415	415	830
	3,025	3,025	6,050	3,025	3,025	6,050
SBP Banking Services Corporation						
Audit fee	2,090	2,090	4,180	2,090	2,090	4,180
Out of pocket expenses	885	885	1,770	885	885	1,770
	2,975	2,975	5,950	2,975	2,975	5,950
	6,000	6,000	12,000	6,000	6,000	12,000

41.6 Staff retirement benefits

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

	2015	2014
-Discount rate for year end obligation	9.75% - 10.50% p.a.*	13.25% - 13.50% p.a.
-Salary increase rate	9.75% - 10.50% p.a.*	13.25% - 13.50% p.a.
-Pension indexation rate	7.25% p.a.	10.75% p.a.
-Medical cost increase rate	9.5% p.a.	13% p.a.
-Personnel turnover	4.5% p.a.	2.6% p.a.
-Normal retirement age	60 Years	60 Years

* 10.50% has been used for post retirement medical benefits, gratuity scheme and six months post retirement facility. For all other benefits rate of 9.75% has been used.

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

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

Discount rate risk

The risk of changes in discount rate since discount rate is based on corporate / government bonds. Any change in bond yields will impact plan liabilities.

Salary increase / inflation risk

The risk that the actual salary increase is higher / lower than the expected where benefits are linked with final salary at the time of cessation of employment.

Mortality risk

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

Withdrawal risk

The risk of actual withdrawals experience is different from assumed.

Medical inflation risk

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

41.6.3 Change in present value of defined benefit obligation

	2015				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	----- (Rupees in '000) -----				
Present value of defined benefit obligation July 1, 2014	16,125,506	17,763	5,020,474	284,914	245,940
Current service cost	276,996	4,417	100,183	12,345	19,566
Interest cost on defined benefit obligation	2,036,503	2,267	658,471	34,408	32,243
Benefits Paid	(1,511,349)	(1,940)	(285,821)	(50,469)	(5,187)
Remeasurements:					
Actuarial (gains) / losses from changes in demographic assumption	77,986	-	-	-	-
Experience adjustments	821,805	3,934	996,431	88,781	(1,938)
Present value of defined benefit obligation as on June 30, 2015	17,827,447	26,441	6,489,738	369,979	290,624
	----- (Rupees in '000) -----				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	----- (Rupees in '000) -----				
Present value of defined benefit obligation July 1, 2013	13,864,007	17,754	4,139,720	621,515	159,043
Current service cost	214,752	1,697	62,237	20,669	11,905
Interest cost on defined benefit obligation	1,505,890	2,042	460,575	67,569	17,501
Benefits Paid	(1,538,631)	-	(269,434)	(67,910)	(13,729)
Remeasurements:					
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(238,732)	-
Experience adjustments	2,079,488	(3,730)	627,376	(118,197)	71,220
Present value of defined benefit obligation as on June 30, 2014	16,125,506	17,763	5,020,474	284,914	245,940

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

	2015	2014
	----- (Rupees in '000) -----	
State Bank of Pakistan		
- Actuarial (gains) / losses from changes in demographic / financial assumptions	(77,986)	238,732
- Experience adjustments	(1,909,013)	(2,656,157)
	(1,986,999)	(2,417,425)
Allocated by SBP Banking Services Corporation - a subsidiary*	(2,073,949)	(12,972,476)

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

41.6.4 Amount recognised in the profit and loss account

	2015				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	----- (Rupees in '000) -----				
Current service cost	276,996	4,417	100,183	12,345	19,566
Interest cost on defined benefit obligation	2,036,503	2,267	658,471	34,408	32,243
Contribution made by Employees	-	-	-	(3,773)	-
	2,313,499	6,684	758,654	42,980	51,809

	2014				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	----- (Rupees in '000) -----				
Current service cost	214,752	1,697	62,237	20,669	11,905
Interest cost on defined benefit obligation	1,505,890	2,042	460,575	67,569	17,501
Contribution made by Employees	-	-	-	(3,850)	-
	1,720,642	3,739	522,812	84,388	29,406
	311,260	2,053,577	(3,850)	2,360,987	

41.6.5 Movement of present value of defined benefit obligation

	2015				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	----- (Rupees in '000) -----				
Net recognised liabilities at July 1, 2014	16,125,506	17,763	5,020,474	284,914	245,940
Amount recognised in the profit and loss account	2,313,499	6,684	758,654	42,980	51,809
Remeasurements	899,791	3,934	996,431	88,781	(1,938)
Benefits paid during the year	(1,511,349)	(1,940)	(285,821)	(50,469)	(5,187)
Employees contribution / amount transferred	-	-	-	3,773	-
Net recognised liabilities at June 30, 2015	17,827,447	26,441	6,489,738	369,979	290,624
	21,694,597	3,173,626	1,986,999	(1,854,766)	3,773

	2014				
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	----- (Rupees in '000) -----				
Net recognised liabilities at July 1, 2013	13,864,007	17,754	4,139,720	621,515	159,043
Amount recognised in the profit and loss account	1,720,642	3,739	522,812	84,388	29,406
Remeasurements	2,079,488	(3,730)	627,376	(356,929)	71,220
Benefits paid during the year	(1,538,631)	-	(269,434)	(67,910)	(13,729)
Employees contribution / amount transferred	-	-	-	3,850	-
Net recognised liabilities at June 30, 2014	16,125,506	17,763	5,020,474	284,914	245,940
	21,694,597	2,417,425	(1,889,704)	3,850	

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	(Rupees in '000)		
Pension			
Discount rate	1%	(1,388,033)	1,437,953
Future salary increase	1%	377,207	(347,275)
Future pension increase	1%	1,161,858	(1,158,354)
Expected mortality rates	1 Year	(503,535)	351,048
Gratuity			
Discount rate	1%	(3,397)	4,078
Future salary increase	1%	4,018	(3,411)
Post retirement medical benefit scheme			
Discount rate	1%	(747,128)	933,788
Future Pre-Retirement medical cost increase	1%	155,330	(136,605)
Future Post-Retirement medical cost increase	1%	786,837	(659,983)
Expected mortality rates	1 Year	(228,474)	232,659
Benevolent			
Discount rate	1%	(19,913)	45,406
Six months post retirement facility			
Discount rate	1%	(25,878)	29,827
Future salary increase	1%	29,811	26,325

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

41.6.7 Duration of defined benefit obligation

	Pension	Gratuity scheme	Post retirement medical benefit	Benevolent fund scheme	Six months post retirement facility
Weighted average duration of the defined benefit obligation	8 Years	14 Years	13 Years	9 Years	10 Years

41.6.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2016

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2016 would be as follows:

	Pension	Gratuity scheme	Post retirement medical benefit	Benevolent fund scheme	Six months post retirement facility	Total
	(Rupees in '000)					
Current service cost	262,354	6,639	120,665	15,825	22,480	427,963
Interest cost on defined benefit obligation	1,738,176	2,776	681,422	36,073	30,515	2,488,962
Amount chargeable to profit and loss account	2,000,530	9,415	802,087	51,898	52,995	2,916,925

41.6.9 Employees' compensated absences

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 2,528.24 million (2014: Rs. 2,137.72 million). An amount of Rs. 470.75 million (2014: Rs. 644.68 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2016 would be Rs 411.93 million. The benefits paid during the year amounted to Rs 80.24 million (2014: Rs 140 million).

	Note	2015 ----- (Rupees in '000) -----	2014
42 PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS			
Profit for the year		401,751,564	311,814,840
Adjustments for:			
Depreciation	16	1,248,983	1,398,305
Amortisation of intangible assets	17	5,980	14,881
Provision / (reversal) for / write-off:			
- retirement benefits and employees' compensated absences		3,907,336	3,220,256
- loans and advances		926,437	-
- claims		(1,489)	1,489
- other doubtful assets		(55,071)	32,835
- diminution in value of investments - local - net		-	(150,000)
Loss on disposal of property and equipment		-	20,295
Gain on disposal of investments	37	(103,120,956)	(31,618,976)
Effect of exchange loss / (gain) on cash and cash equivalents		17,048,228	(2,701,106)
Dividend income		(15,429,445)	(12,127,927)
		<u>306,281,567</u>	<u>269,904,892</u>
43 CASH AND CASH EQUIVALENTS			
Local currency - coins		365,231	417,880
Foreign currency accounts and investments		1,277,055,321	852,117,173
Earmarked foreign currency balances		1,274,786	7,453,502
Special Drawing Rights of the International Monetary Fund		72,229,419	82,057,077
		<u>1,350,924,757</u>	<u>942,045,632</u>
44 RELATED PARTY TRANSACTIONS			

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

44.1 Governments and related entities

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

	2015	2014
	----- (Rupees in '000) -----	
<i>Transactions during the year</i>		
- Creation of MRTBs	5,210,637,598	6,162,939,603
- Retirement / rollover of MRTBs	5,781,546,841	5,585,849,001
- Commission income from sale of Market Treasury Bills, issuance of prize bonds, national saving certificates and management of public debt (refer note 35.1)		

44.2 Subsidiaries of the Bank

Material transactions with the subsidiaries have already been disclosed in the financial statements in note 38.1 and 41. The subsidiaries of the Bank and their primary activities are as follows:

44.2.1 SBP Banking Services Corporation ("the Corporation") - wholly owned subsidiary

It is responsible for carrying out certain statutory and administrative functions and activities principally relating to public dealing on behalf of the State Bank of Pakistan.

44.2.2 National Institute of Banking and Finance (Guarantee) Limited ("the Institute") - wholly owned subsidiary

The Institute is engaged in providing education and training in the field of banking, finance and allied areas.

44.3 Remuneration to key management personnel

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

	2015	2014
	----- (Rupees in '000) -----	
Short-term employee benefit	181,068	194,413
Post-employment benefit	63,899	64,227
Loans disbursed during the year	116,377	30,221
Loans repaid during the year	78,157	27,253
Directors' fees	11,349	9,854

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

45 RISK MANAGEMENT POLICIES

The Bank is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 45.1 to 45.10. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

45.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Bank's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by Government guarantees or by demand promissory notes. Equity exposure based on their nature are not exposed to credit risk. Geographical exposures are controlled by country limits and are updated as and when necessary with all limits formally reviewed on a periodic basis. The Bank's exposure to credit risk associated with foreign investments is managed by monitoring compliance with investment limits for counterparties. The Bank's credit risk mainly lies with exposure towards government sector and financial institutions.

45.2 Concentrations of risk

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

45.2.1 Geographical analysis

	2015						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
(Rupees in '000)							
Financial assets							
Foreign currency accounts and investments	50,312,086	509,709,194	358,973,615	432,382,590	91,911,612	-	1,443,289,097
Earmarked foreign currency balance	1,274,786	-		-	-	-	1,274,786
Special Drawing Rights of International Monetary Fund	-	-	72,229,419	-	-	-	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	17,052	-	-	-	17,052
Securities purchased under agreement to resell	662,579,848	-	-	-	-	-	662,579,848
Current accounts of Governments	3,048,507	-	-	-	-	-	3,048,507
Current account with National Institute of Banking and Finance (Guarantee) Limited	56,381	-	-	-	-	-	56,381
Investments - local	2,325,787,495	-	-	-	-	-	2,325,787,495
Securities given as collateral under repurchase agreements	-	-	-	-	-	-	-
Loans, advances and bills of exchange	338,076,799	423,249	-	-	-	-	338,500,048
Assets held with the Reserve Bank of India	-	1,448,247	-	-	-	-	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	8,561,790	-	-	-	-	8,561,790
Other assets	3,050,781	726,275	83,755	59,868	14,389	-	3,935,068
Total financial assets	3,384,186,683	520,868,755	431,303,841	432,442,458	91,926,001	-	4,860,727,738
2014							
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
(Rupees in '000)							
Financial assets							
Foreign currency accounts and investments	40,493,507	221,121,291	414,828,024	252,741,587	29,450,055	-	958,634,464
Earmarked foreign currency balance	7,453,502	-		-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	18,194	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited	167,001	-	-	-	-	-	167,001
Investments - local	2,918,510,357	-	-	-	-	-	2,918,510,357
Securities given as collateral under repurchase agreement	18,064,500	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	297,551,010	423,249	-	-	-	-	297,974,259
Assets held with the Reserve Bank of India	-	1,503,318	-	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	7,957,658	-	-	-	-	7,957,658
Other assets	5,172,960	1,207,427	13,483	88,977	4,256	16,025	6,503,128
Total financial assets	3,288,215,152	232,212,943	496,916,778	252,830,564	29,454,311	16,025	4,299,645,773

45.2.2 Industrial analysis

	2015						
	Sovereign	Supranational	Public Sector Entities	Corporate	Banks & Financial Institutions	Others	GrandTotal
	(Rupees in '000)						
Financial assets							
Foreign currency accounts and investments	574,273,525	94,982,116	3,732,799	-	751,244,565	19,056,092	1,443,289,097
Earmarked foreign currency balance	1,274,786	-	-	-	-	-	1,274,786
Special Drawing Rights of International Monetary Fund	-	72,229,419	-	-	-	-	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,052	-	-	-	-	17,052
Securities purchased under agreement to resell	-	-	-	-	662,579,848	-	662,579,848
Current accounts of Governments	3,048,507	-	-	-	-	-	3,048,507
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	56,381	-	-	-	56,381
Investments - local	2,325,787,495	-	-	-	-	-	2,325,787,495
Loans, advances and bills of exchange	805,876	-	99,248,696	-	230,023,996	8,421,480	338,500,048
Assets held with the Reserve Bank of India	1,448,247	-	-	-	-	-	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,561,790	-	-	-	-	-	8,561,790
Other assets	1,515,740	6,888	-	-	1,740,737	671,703	3,935,068
Total financial assets	2,916,715,966	167,235,475	103,037,876	-	1,645,589,146	28,149,275	4,860,727,738

	2014						Grand Total
	Sovereign	Supranational	Public Sector	Corporate	Banks &	Others	
	Entities			Financial Institutions			
----- (Rupees in '000) -----							
Financial assets							
Foreign currency accounts and investments	436,111,016	209,580,459	1,243,310	-	298,882,021	12,817,658	958,634,464
Earmarked foreign currency balance	7,453,502	-	-	-	-	-	7,453,502
Special Drawing Rights of International Monetary Fund	-	82,057,077	-	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	18,194	-	-	-	-	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	167,001	-	-	-	167,001
Investments - local	2,918,510,357	-	-	-	-	-	2,918,510,357
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	3,266,166	-	96,518,615	-	190,937,563	7,251,915	297,974,259
Assets held with the Reserve Bank of India	1,503,318	-	-	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	-	-	-	-	-	7,957,658
Other assets	649,500	29,986	4	680	5,101,487	721,471	6,503,128
Total financial assets	3,394,318,332	291,685,716	97,928,930	680	494,921,071	20,791,044	4,299,645,773

45.3 Credit exposure by credit rating

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

	2015							
	Sovereign (45.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in 000')							
Financial assets								
Foreign currency accounts and investments	-	172,751,984	757,827,103	457,692,029	4,040,202	50,312,086	665,693	1,443,289,097
Earmarked foreign currency balance	1,274,786	-	-	-	-	-	-	1,274,786
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	72,229,419	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,052	17,052
Securities purchased under agreement to resell	-	-	-	661,627,223	-	952,625	-	662,579,848
Current accounts of Governments	3,048,507	-	-	-	-	-	-	3,048,507
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	-	-	-	56,381	56,381
Investments - local	2,325,787,495	-	-	-	-	-	-	2,325,787,495
Loans, advances and bills of exchange	382,627	112,286,612	156,793,415	35,466,209	53,123	481,680	33,036,382	338,500,048
Assets held with the Reserve Bank of India	-	-	-	-	1,448,247	-	-	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	40,453	8,521,337	-	8,561,790
Other assets	1,515,740	-	-	688,457	-	703,154	1,027,717	3,935,068
Total financial assets	2,332,009,155	285,038,596	914,620,518	1,155,473,918	5,582,025	60,970,882	107,032,644	4,860,727,738

	2014							
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in 000')							
Financial assets								
Foreign currency accounts and investments	-	133,455,201	535,253,368	243,699,952	8,973,995	36,541,324	710,624	958,634,464
Earmarked foreign currency balance	-	-	-	-	-	-	7,453,502	7,453,502
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	82,057,077	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	18,194	18,194
Securities purchased under agreement to resell	-	-	-	-	-	-	-	-
Current accounts of Governments	802,315	-	-	-	-	-	-	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	-	-	-	167,001	167,001
Investments - local	2,918,510,357	-	-	-	-	-	-	2,918,510,357
Securities given as collateral under repurchase agreements	18,064,500	-	-	-	-	-	-	18,064,500
Loans, advances and bills of exchange	3,266,166	104,898,677	137,060,183	29,929,057	1,899,528	-	20,920,648	297,974,259
Assets held with the Reserve Bank of India	-	-	-	-	1,503,318	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	7,957,658	-	-	7,957,658
Other assets	-	18,391	25,445	1,251,741	22,997	2,836,283	2,348,271	6,503,128
Total financial assets	2,940,643,338	238,372,269	672,338,996	274,880,750	20,357,496	39,377,607	113,675,317	4,299,645,773

45.3.1 Government securities and balances, pertaining to Pakistan, are rated as sovereign. The international rating of Pakistan is B- (as per Standards & Poors).

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

45.4 Details of financial assets impaired and provisions recorded thereagainst:

	Gross Amount		Impairment Provision	
	2015	2014	2015	2014
	(Rupees in '000)			
Available for sale investment - unlisted	2,431,758	2,431,758	856,863	856,863
Loans and advances - agriculture sector	18,587	18,587	18,587	18,587
Loans and advances - industrial sector	1,054,285	1,054,285	1,054,285	1,054,285
Loans and advances - others	4,267,953	4,267,953	4,267,953	4,267,953
Assets held with the Reserve Bank of India	1,448,247	1,503,318	1,448,247	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,985,069	8,380,907	8,985,069	8,380,863

45.5 Liquidity analysis with interest / mark-up rate risk

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

	2015						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	365,231	-	365,231	365,231
Foreign currency accounts and investments	170,050,602	1,241,628,124	1,411,678,726	1,968,460	30,657,429	32,625,889	1,444,304,615
Earmarked foreign currency balance	-	-	-	1,274,786	-	1,274,786	1,274,786
Special Drawing Rights of International Monetary Fund	72,229,419	-	72,229,419	-	-	-	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	17,052	-	17,052	17,052
Securities purchased under agreement to resell	662,003,377	-	662,003,377	576,471	-	576,471	662,579,848
Current accounts of Governments	5,048,507	-	5,048,507	(2,000,000)	-	(2,000,000)	3,048,507
Current account with National Institute of Banking and Finance (Guarantee) Limited	-	-	-	56,381	-	56,381	56,381
Investments - local	2,280,855,859	2,740,000	2,283,595,859	131,261,700	1,029,260	132,290,960	2,415,886,819
Loans, advances and bills of exchange	291,396,876	35,837,736	327,234,612	3,803,453	7,461,983	11,265,436	338,500,048
Assets held with the Reserve Bank of India	-	-	-	1,448,247	-	1,448,247	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,701,413	-	7,701,413	860,377	-	860,377	8,561,790
Other assets	-	-	-	2,392,633	-	2,392,633	2,392,633
	3,489,286,053	1,280,205,860	4,769,491,913	142,024,791	39,148,672	181,173,463	4,950,665,376
Derivatives assets							
Other assets	-	-	-	1,542,435	-	1,542,435	1,542,435
Grand Total	3,489,286,053	1,280,205,860	4,769,491,913	143,567,226	39,148,672	182,715,898	4,952,207,811
Financial liabilities							
Bank notes issued	-	-	-	2,707,258,012	-	2,707,258,012	2,707,258,012
Bills payable	-	-	-	643,121	-	643,121	643,121
Current accounts of the Governments*	-	-	-	394,020,378	-	394,020,378	394,020,378
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	40,635,754	-	40,635,754	40,635,754
Payable to Islamic Banking Institutions against Bai Muajjal transactions	182,216,340	-	182,216,340	7,702,781	-	7,702,781	189,919,121
Payable under bilateral currency swaps agreements	164,133,000	-	164,133,000	734,890	-	734,890	164,867,890
Deposits of banks and financial institutions	-	-	-	413,234,045	-	413,234,045	413,234,045
Other deposits and accounts	32,609,634	45,800,415	78,410,049	68,767,939	-	68,767,939	147,177,988
Payable to International Monetary Fund	141,234,198	412,289,078	553,523,276	-	649,706	649,706	554,172,982
Other liabilities	-	-	-	44,902,919	-	44,902,919	44,902,919
	520,193,172	458,089,493	978,282,665	3,677,899,839	649,706	3,678,549,545	4,656,832,210
Derivative Liabilities							
Foreign currency accounts and investments	-	-	-	1,015,518	-	1,015,518	1,015,518
	520,193,172	458,089,493	978,282,665	3,678,915,357	649,706	3,679,565,063	4,657,847,728
On balance sheet gap (a)	2,969,092,881	822,116,367	3,791,209,248	(3,535,348,131)	38,498,966	(3,496,849,165)	294,360,083
Foreign currency forward and swap contracts - sale	-	-	-	(554,583,226)	-	(554,583,226)	(554,583,226)
Foreign currency forward and swap contracts - purchase	-	-	-	382,060,837	-	382,060,837	382,060,837
Futures - sale	-	-	-	(13,330,298)	-	(13,330,298)	(13,330,298)
Futures - purchase	-	-	-	18,901,205	-	18,901,205	18,901,205
Off balance sheet gap	-	-	-	(166,951,482)	-	(166,951,482)	(166,951,482)
Total yield / interest risk sensitivity gap	2,969,092,881	822,116,367	3,791,209,248	(3,368,396,649)	38,498,966	(3,329,897,683)	461,311,565
Cumulative yield / interest risk sensitivity gap	2,969,092,881	3,791,209,248	7,582,418,496	4,214,021,847	4,252,520,813	922,623,130	922,623,130
Contingent liabilities in respect of guarantees given	-	-	-	-	22,467,561	22,467,561	22,467,561

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

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

	2014						Grand Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
(Rupees in '000)							
Financial assets							
Non-derivatives assets:							
Local currency - coins	-	-	-	417,880	-	417,880	417,880
Foreign currency accounts and investments	744,917,914	162,525,387	907,443,301	46,856,785	-	46,856,785	954,300,086
Earmarked foreign currency balance	-	-	-	7,453,502	-	7,453,502	7,453,502
Special Drawing Rights of International Monetary Fund	82,057,077	-	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	18,194	-	18,194	18,194
Current accounts of the Governments	802,100	-	802,100	215	-	215	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	167,001	-	167,001	167,001
Investments - local	2,834,265,102	2,740,000	2,837,005,102	81,505,255	235,816,022	317,321,277	3,154,326,379
Securities given as collateral under repurchase agreements	17,500,000	-	17,500,000	564,500	-	564,500	18,064,500
Loans, advances and bills of exchange	217,029,835	61,398,114	278,427,949	13,070,996	6,475,314	19,546,310	297,974,259
Assets held with the Reserve Bank of India	-	-	-	1,503,318	-	1,503,318	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,097,281	-	7,097,281	860,377	-	860,377	7,957,658
Other assets	-	-	-	1,456,799	-	1,456,799	1,456,799
	3,903,669,309	226,663,501	4,130,332,810	153,874,822	242,291,336	396,166,158	4,526,498,968
Derivatives assets							
Foreign currency accounts and investments	-	-	-	4,383,623	-	4,383,623	4,383,623
Other assets	-	-	-	5,046,329	-	5,046,329	5,046,329
Grand Total	3,903,669,309	226,663,501	4,130,332,810	163,304,774	242,291,336	405,596,110	4,535,928,920
Financial liabilities							
Bank notes issued	-	-	-	2,309,127,023	-	2,309,127,023	2,309,127,023
Bills payable	-	-	-	642,102	-	642,102	642,102
Current accounts of the Governments*	-	-	-	531,806,543	-	531,806,543	531,806,543
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	37,876,846	-	37,876,846	37,876,846
Securities sold under an agreement to repurchase	17,194,695	-	17,194,695	-	-	-	17,194,695
Payable under bilateral currency swap agreement	105,248,797	-	105,248,797	-	-	-	105,248,797
Deposits of banks and financial institutions	10,807	-	10,807	530,735,549	-	530,735,549	530,746,356
Other deposits and accounts	48,293,741	34,581,610	82,875,351	62,534,631	-	62,534,631	145,409,982
Payable to International Monetary Fund	66,155,064	315,740,456	381,895,520	3,099,222	-	3,099,222	384,994,742
Other liabilities	-	-	-	55,648,615	-	55,648,615	55,648,615
	236,903,104	350,322,066	587,225,170	3,531,470,531	-	3,531,470,531	4,118,695,701
Derivative Liabilities							
Foreign currency accounts and investments	49,245	-	49,245	-	-	-	49,245
	236,952,349	350,322,066	587,274,415	3,531,470,531	-	3,531,470,531	4,118,744,946
On balance sheet gap (a)	3,666,716,960	(123,658,565)	3,543,058,395	(3,368,165,757)	242,291,336	(3,125,874,421)	417,183,974
Foreign currency forward and swap contracts - sale	-	-	-	(371,895,229)	-	(371,895,229)	(371,895,229)
Foreign currency forward and swap contracts - purchase	-	-	-	201,199,235	-	201,199,235	201,199,235
Futures - sale	-	-	-	(15,854,429)	-	(15,854,429)	(15,854,429)
Futures - purchase	-	-	-	10,826,777	-	10,826,777	10,826,777
Off balance sheet gap	-	-	-	(175,723,646)	-	(175,723,646)	(175,723,646)
Total yield / interest risk sensitivity gap	3,666,716,960	(123,658,565)	3,543,058,395	(3,192,442,111)	242,291,336	(2,950,150,775)	592,907,620
Cumulative yield / interest risk sensitivity gap	3,666,716,960	3,543,058,395	7,086,116,790	3,893,674,679	4,135,966,015	1,185,815,240	1,185,815,240
Contingent liabilities in respect of guarantees given	-	-	-	-	31,671,430	31,671,430	31,671,430

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

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

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

45.6 Interest rate risk

45.6.1 Cash flow interest rate risk

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

If interest rates had been 10 basis points higher / lower and all other variables were held constant, the bank's profit for the year ended June 30, 2015 would increase by Rs. by Rs 419 million (2014: Rs. 375.09 million). This is mainly attributable to the Bank's exposure to interest rates on its variable rate instruments.

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

45.6.2 Fair value interest rate risk

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

The Bank is exposed to fair value interest rate risk on its fixed income securities, classified as financial assets at fair value through profit or loss. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 45.10.

As at June 30, 2015, a 10 basis points shift in market value, mainly as a result of change in interest rates with all other variables held constant, would result in profit for the year to increase by Rs 946.54 million (2014: Rs 334.71 million) or decrease by Rs 945.52 million (2014: Rs 333 million) mainly as a result of a increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

45.7 Currency risk management

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

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

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

The sensitivity analysis calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Bank had significant exposure as at June 30, 2015 with all other variables constant profit for the year would have been Rs. 564,335.33 million higher / lower (2014: 320,361.76 million). Net foreign currency exposure of the Bank is as follows:

	2015	2014
	(Rupees in '000)	
US Dollar	741,628,994	393,850,571
Pound Sterling	(31,545,052)	(23,123,079)
Chinese Yuan	5,099,612	704,551
Euro	(158,752,565)	(100,923,398)
Japanese Yen	(1,759,278)	8,045,452
United Arab Emirates Dirham	10,639,257	11,999,698
Australian Dollar	162,405	19,458,036
Canadian Dollar	68,078	8,570,318
Others	(1,206,126)	1,779,613
	<u>564,335,325</u>	<u>320,361,762</u>

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

The composition of the Bank's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 45.6 and 45.7 prepared as of June 30, 2015 are not necessarily indicative of the effects on the Bank's profit and loss of future movements in different variables.

45.8 Price Risk

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

The Bank is exposed to equity securities price risk because of investment in listed equity securities by the Bank classified as available-for-sale. These investments are held as per the specific directives of the Government of Pakistan in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. Accordingly, price risk on listed equity securities can not be managed by the Bank.

In case of 5% increase or decrease in KSE 100 index on June 30, 2015, other comprehensive income would increase or decrease by Rs. 804.608 million (2014: Rs. 2,392.875 million) and equity of the Bank would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Bank's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Bank's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2015 is not necessarily indicative of the effect on the Bank's equity instruments of future movements in the level of KSE 100 index.

45.9 Liquidity risk management

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

The risk arising out of the Bank's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Bank's financial assets and financial liabilities is given in note 45.5.1.

45.10 Portfolio risk management

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

46 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Carrying Value		Fair value	
	2015	2014	2015	2014
	----- (Rupees in '000) -----			
Financial assets				
Local currency - coins	365,231	417,880	365,231	417,880
Foreign currency accounts and investments	1,443,289,097	958,634,464	1,443,289,097	958,634,464
Earmarked foreign currency balances	1,274,786	7,453,502	1,274,786	7,453,502
Special Drawing Rights of the International Monetary Fund	72,229,419	82,057,077	72,229,419	82,057,077
Reserve tranche with the International Monetary Fund under quota arrangements	17,052	18,194	17,052	18,194
Securities purchased under agreement to resell	662,579,848	-	662,579,848	-
Current accounts of Governments	3,048,507	802,315	3,048,507	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	56,381	167,001	56,381	167,001
Investments - local	2,415,886,819	3,154,326,379	2,415,886,819	3,154,326,379
Securities given as collateral under repurchase agreement	-	18,064,500	-	18,064,500
Loans, advances and bills of exchange	338,500,048	297,974,259	338,500,048	297,974,259
Assets held with the Reserve Bank of India	1,448,247	1,503,318	1,448,247	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,561,790	7,957,658	8,561,790	7,957,658
Other assets	3,935,068	6,503,128	3,935,068	6,503,128

	Carrying Value		Fair value	
	2015	2014	2015	2014
	(Rupees in '000)			
Financial Liability				
Bank notes in circulation	2,707,258,012	2,309,127,023	2,707,258,012	2,309,127,023
Bills payable	643,121	642,102	643,121	642,102
Current accounts of Governments	394,020,378	531,806,543	394,020,378	531,806,543
Current account with SBP Banking Services Corporation	40,635,754	37,876,846	40,635,754	37,876,846
Securities sold under agreement to repurchase	-	17,194,695	-	17,194,695
Payable to Islamic Banking Institutions against Bai Muajjal transactions	189,919,121	-	189,919,121	-
Payable under bilateral currency swap agreement	164,867,890	105,248,797	164,867,890	105,248,797
Deposits of banks and financial institutions	413,234,045	530,746,356	413,234,045	530,746,356
Other deposits and accounts	147,177,988	145,409,982	147,177,988	145,409,982
Payable to the International Monetary Fund	554,172,982	384,994,742	554,172,982	384,994,742
Other liabilities	44,902,919	55,648,615	44,902,919	55,648,615

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

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

	2015			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	266,919,992	-	-	266,919,992
Investments - local	85,095,794	-	-	85,095,794
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	19,454,757	-	19,454,757
Gold reserves held by the Bank	247,150,713	-	-	247,150,713
	599,166,499	19,454,757	-	618,621,256
	2014			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
Recurring Fair Value Measurements				
Financial Assets				
Foreign currency accounts and investments - held for trading	175,315,946	-	-	175,315,946
Investments - local	230,812,492	-	-	230,812,492
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	20,137,447	-	20,137,447
Gold reserves held by the Bank	269,307,930	-	-	269,307,930
	675,436,368	20,137,447	-	695,573,815

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

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

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2

Currently, no financial instruments are classified through level 2.

(c) Financial instruments in level 3

Currently, no financial instruments are classified through level 3.

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

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

47 CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2015				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	------(Rupees in '000)-----				
Financial assets					
Local currency - coins	365,231	-	-	-	365,231
Foreign currency accounts and investments	1,010,800,995	266,919,992	165,568,110	-	1,443,289,097
Earmarked foreign currency balances	1,274,786	-	-	-	1,274,786
Special Drawing Rights of the International Monetary Fund	72,229,419	-	-	-	72,229,419
Reserve tranche with the International Monetary Fund					
under quota arrangements	17,052	-	-	-	17,052
Securities purchased under agreement to resell	662,579,848	-	-	-	662,579,848
Current accounts of Governments	3,048,507	-	-	-	3,048,507
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	56,381	-	-	-	56,381
Investments - local	2,325,787,495	-	-	90,099,324	2,415,886,819
Loans, advances and bills of exchange	338,500,048	-	-	-	338,500,048
Assets held with the Reserve Bank of India	1,448,247	-	-	-	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,561,790	-	-	-	8,561,790
Other assets	2,392,633	1,542,435	-	-	3,935,068
	2014				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	------(Rupees in '000)-----				
Financial assets					
Local currency - coins	417,880	-	-	-	417,880
Foreign currency accounts and investments	682,558,180	170,269,617	105,806,667	-	958,634,464
Earmarked foreign currency balances	7,453,502	-	-	-	7,453,502
Special Drawing Rights of the International Monetary Fund	82,057,077	-	-	-	82,057,077
Reserve tranche with the International Monetary Fund					
under quota arrangements	18,194	-	-	-	18,194
Current accounts of Governments	802,315	-	-	-	802,315
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	167,001	-	-	-	167,001
Investments - local	2,918,510,357	-	-	235,816,022	3,154,326,379
Securities given as collateral under repurchase agreement	18,064,500	-	-	-	18,064,500
Loans, advances and bills of exchange	297,974,259	-	-	-	297,974,259
Assets held with the Reserve Bank of India	1,503,318	-	-	-	1,503,318
Balances due from the Governments of India and Bangladesh (former East Pakistan)	7,957,658	-	-	-	7,957,658
Other assets	1,456,799	5,046,329	-	-	6,503,128

	2015		
	Carried at amortised cost	Liabilities at fair value through profit or loss (Rupees in '000)	Total
Financial liabilities			
Bank notes in circulation	2,707,258,012	-	2,707,258,012
Bills payable	643,121	-	643,121
Current accounts of Governments	394,020,378	-	394,020,378
Current account with SBP Banking Services Corporation - a subsidiary	40,635,754	-	40,635,754
Payable to Islamic Banking Institutions against Bai Muajjal transactions	189,919,121	-	189,919,121
Payable under bilateral currency swap agreement	164,867,890	-	164,867,890
Deposits of banks and financial institutions	413,234,045	-	413,234,045
Other deposits and accounts	147,177,988	-	147,177,988
Payable to the International Monetary Fund	554,172,982	-	554,172,982
Other liabilities	44,902,919	-	44,902,919
	2014		
	Carried at amortised cost	Liabilities at fair value through profit or loss (Rupees in '000)	Total
Bank notes in circulation	2,309,127,023	-	2,309,127,023
Bills payable	642,102	-	642,102
Current accounts of Governments	531,806,543	-	531,806,543
Current account with SBP Banking Services Corporation - a subsidiary	37,876,846	-	37,876,846
Securities sold under agreement to repurchase	17,194,695	-	17,194,695
Payable under bilateral currency swap agreement	105,248,797	-	105,248,797
Deposits of banks and financial institutions	530,746,356	-	530,746,356
Other deposits and accounts	145,409,982	-	145,409,982
Payable to the International Monetary Fund	384,994,742	-	384,994,742
Other liabilities	55,648,615	-	55,648,615

48 DATE OF AUTHORISATION

These financial statements were authorised for issue on October 17, 2015 by the Central Board of Directors of the Bank.

49 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of better presentation and comparison. No significant reclassifications have been made during the current year except for the following:

FROM	TO	2014 Rupees in '000
Foreign currency accounts and investments	Other assets	
Unrealised gain / (loss) on derivative financial instruments	Unrealised gain on derivative financial instruments	5,046,329
Foreign currency accounts and investments	Foreign currency accounts and investments	
Current accounts	Deposit accounts	32,794,377
Other operating income - net	Exchange gain - net	
Loss on remeasurement of securities classified as 'fair value through profit or loss'	Gain / (loss) on Foreign currency placements, deposits, securities and other accounts - net	(2,718,491)

50 GENERAL

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

Ashraf Mahmood Wathra
Governor

Riaz Riazuddin
Deputy Governor

Noman Ahmed Qureshi
Executive Director

12 Financial Statements of SBP-BSC (Bank)

A. F. FERGUSON & CO.

Chartered Accountants
State Life Building No. 1-C
I. I. Chundrigar Road
P.O. Box 4716
Karachi-74000

ERNST & YOUNG FORD

RHODES SIDATHYDER
Chartered Accountants
Progressive Plaza, Beaumont
Road, P. O. Box 15541
Karachi

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of SBP Banking Services Corporation ("the Corporation") which comprise the balance sheet as at June 30, 2015, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the "financial statements").

Management's Responsibility for the Financial Statements

Management of the Corporation is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

A. F. FERGUSON & CO.
Chartered Accountants

**ERNST & YOUNG FORD
RHODES SIDATHYDER**
Chartered Accountants

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Corporation for the year ended June 30, 2014 were audited by A.F. Ferguson & Co. and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 30, 2014.

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Salman Hussain
Audit Engagement Partner

Date: October 26, 2015

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

Omer Chughtai
Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2015

	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
ASSETS			
Current account with the State Bank of Pakistan		40,635,754	37,876,846
Investments	5	571,720	569,449
Employee loans	6	10,577,857	10,577,916
Advances, deposits and prepayments	7	39,107	32,283
Medical and stationery consumables	8	132,479	125,061
Property and equipment	9	284,665	237,867
Total assets		52,241,582	49,419,422
LIABILITIES			
Deposits and other liabilities	10	5,752,762	5,900,571
Deferred liabilities - unfunded staff retirement benefits	11	45,488,820	42,518,851
Total liabilities		51,241,582	48,419,422
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	12	1,000,000	1,000,000
CONTINGENCIES AND COMMITMENTS	13		

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2015

	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
Discount and interest earned	14	48,573	48,907
Net operating expenses	15	14,179,759	13,980,071
Reimbursable from the State Bank of Pakistan		(6,873,983)	(7,086,827)
Allocated to the State Bank of Pakistan		(7,305,776)	(6,893,244)
		-	-
Operating profit		48,573	48,907
Gain on disposal of property and equipment		1,263	121
Other income		655	1,081
Profit for the year		50,491	50,109

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015

	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
Profit for the year		50,491	50,109
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Loss on remeasurements of defined benefit plans	15.1.5	(2,073,949)	(12,972,476)
Allocated to the State Bank of Pakistan		2,073,949	12,972,476
		-	-
Total comprehensive income for the year		50,491	50,109

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2015

	Share capital	Unappropriated profit	Total
	-----	(Rupees in '000)	-----
Balance as at July 1, 2013	1,000,000	-	1,000,000
Total comprehensive income for the year	-	50,109	50,109
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(50,109)	(50,109)
Balance as at June 30, 2014	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total comprehensive income for the year	-	50,491	50,491
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(50,491)	(50,491)
Balance as at June 30, 2015	<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	<i>Note</i>	2015	2014
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	16	139,379	131,943
Profit transferred to the State Bank of Pakistan		(50,491)	(50,109)
Retirement benefits and employees' compensated absences paid during the year		2,942,921	11,329,509
Income on Government securities received during the year		31,767	34,390
		3,063,576	11,445,733
(Increase) / decrease in assets			
Current account with the State Bank of Pakistan		(2,758,908)	(11,892,353)
Medical and stationery consumables		(7,418)	(5,469)
Employee loans		59	446,734
Advances, deposits and prepayments		(6,824)	3,647
Increase / (decrease) in liabilities			
Deposits and other liabilities		(120,761)	(199,350)
Net cash generated from / (used in) operating activities		169,724	(201,058)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		(17,926)	329,205
Capital expenditure		(154,608)	(130,964)
Proceeds from disposal of property and equipment		2,810	2,817
Net cash (used in) / generated from investing activities		(169,724)	201,058
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at end of the year		-	-

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs), requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of International Financial Reporting Standards (IFRSs) and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

3.3.1 Retirement benefits

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

3.3.2 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. Rates of depreciation are given in note 9.1.

3.3.3 Provision against obsolete medical and stationery consumables

The Corporation exercises judgment and makes provision for obsolete items based on their future usability. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

3.4 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

New Standards, Interpretations and Amendments

The Corporation has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 - Employee Benefits - (Amendment) - Defined Benefit Plans: Employee Contributions

Improvements to Accounting Standards Issued by the IASB

IFRS 2 Share-based Payment - Definitions of vesting conditions

IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination

IFRS 3 Business Combinations - Scope exceptions for joint ventures

IFRS 8 Operating Segments - Aggregation of operating segments

IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets

IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation / amortisation

IAS 24 Related Party Disclosures - Key management personnel

IAS 40 Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any material effect on the financial statements.

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

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The management is in the process of assessing the impact of IFRS 15 on the financial statements of the Bank.

The following standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01 January 2016
IFRS 11 Joint Arrangements-Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 27–Separate Financial Statements–Equity Method in Separate Financial Statements (Amendment)	01 January 2016

The above standards and amendments are not expected to have any material impact on the Bank's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2016. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented.

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

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

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

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

b) Loans and receivables

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

c) Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation has a positive intent and ability to hold till maturity.

d) Available for sale financial assets

These are the non derivative financial assets which are either designated in this category or which do not fall in any of the other categories.

4.1.1.2 Initial recognition and measurement

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

4.1.1.3 Subsequent measurement

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

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

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

'Available for sale' financial assets are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are recognised in other comprehensive income, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost.

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

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

4.1.1.4 Impairment

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

a) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through profit and loss account.

b) Assets classified as 'available for sale'

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

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

4.1.2 Financial liabilities

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

4.1.3 Derecognition of financial assets and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.1.4 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

4.2 Employee loans

These are stated at cost less estimates made for any doubtful receivables based on a review of all outstanding amounts at the balance sheet date.

4.3 Medical and stationery consumables

Medical and stationery consumables are valued at lower of weighted average cost and the net realisable value.

Provision for obsolete items is determined based on the management's assessment regarding their future usability.

Net realisable value represents estimated selling prices in the ordinary course of business less the estimated cost necessary to make the sale.

4.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any. Historical cost includes expenditure that are directly attributable to the acquisition of the items.

Depreciation on property and equipment is charged to profit and loss account by applying the straight-line method at the rates specified in note 9.1 to the financial statements, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation on additions is charged to the profit and loss account from the month in which the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. The assets' residual value, depreciation method and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property and equipment are recognised in the profit and loss account.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

4.5 Impairment of non-financial assets

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

4.6 Compensated absences

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

4.7 Staff retirement benefits

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

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

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 2015. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur. The amount arising as a result of remeasurement is allocated to the State Bank of Pakistan however, the liability is retained in the balance sheet of the Corporation.

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

4.8 Revenue recognition

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

4.9 Taxation

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

4.10 Provisions

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

	Note	2015	2014
		----- (Rupees in '000) -----	
5. INVESTMENTS			
Held to maturity			
Market Treasury Bills	5.1	524,942	522,837
Pakistan Investment Bond	5.2	46,778	46,612
		<u>571,720</u>	<u>569,449</u>

5.1 Market Treasury Bills carry mark-up at the rate of 6.79% to 9.48% per annum (2014: 9.98% to 9.99% per annum) and are due to mature by March 2016 (2014: June 2015).

5.2 Pakistan Investment Bond carry mark-up at the rate of 9.60% per annum (2014: 9.60% per annum) and is due to mature by June 2016 (2014: June 2016).

	Note	2015	2014
		----- (Rupees in '000) -----	
6. EMPLOYEE LOANS			
Considered good		10,577,857	10,577,916
Considered doubtful		8,366	9,021
	6.1	<u>10,586,223</u>	<u>10,586,937</u>
Provision against doubtful loans	6.2	<u>(8,366)</u>	<u>(9,021)</u>
		<u>10,577,857</u>	<u>10,577,916</u>

6.1 Represent loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 43.178 million (2014: Rs. 70 million) that carry mark up at 10% per annum (2014: 10% per annum). Maximum maturity of loans is upto year 2052 (2014: year 2051).

These loans have been given in respect of:-

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

	Note	2015	2014
		----- (Rupees in '000) -----	
6.2 Provision held against employee loans			
Opening balance		9,021	9,706
Charge for the year		-	-
Reversals		(655)	(685)
Closing balance		<u>8,366</u>	<u>9,021</u>

7. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances, deposits and prepayments		30,483	26,472
Others		8,624	5,811
		<u>39,107</u>	<u>32,283</u>

8. MEDICAL AND STATIONERY CONSUMABLES

Medical and stationery consumables	8.1	133,584	126,166
Provision against obsolete items		(1,105)	(1,105)
		<u>132,479</u>	<u>125,061</u>

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

9. PROPERTY AND EQUIPMENT

Operating fixed assets	9.1	<u>284,665</u>	<u>237,867</u>
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9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2015						Net book value as at June 30, 2015	Annual rate of depreciation %
	Cost		Accumulated Depreciation					
	As at July 01, 2014	Additions / (deletions) / adjustment*	As at June 30, 2015	As at July 01, 2014	Charge for the year / (deletions) / adjustment*	As at June 30, 2015		
	----- (Rupees in '000) -----							
Furniture and fixtures	128,938	10,022 (1,323) (75) *	137,562	83,716	9,669 (1,306) 678 *	92,757	44,805	10
Office equipment	933,340	60,231 (4,723) 311 *	989,159	787,112	56,357 (3,740) 4,403 *	844,132	145,027	20
EDP equipment	352,554	52,516 (94) 15,873 *	420,849	329,334	26,856 (91) 17,367 *	373,466	47,383	33.33
Motor vehicles	108,676	31,839 (13,214) 245 *	127,546	85,479	13,381 (12,670) (6,094) *	80,096	47,450	20
	1,523,508	154,608 (19,354) 16,354 *	1,675,116	1,285,641	106,263 (17,807) 16,354 *	1,390,451	284,665	
	2014							
	Cost		Accumulated Depreciation			Net book value as at June 30, 2014	Annual rate of depreciation %	
	As at July 01, 2013	Additions / (deletions)	As at June 30, 2014	As at July 01, 2013	Charge for the year / (deletions)			As at June 30, 2014
	----- (Rupees in '000) -----							
Furniture and fixtures	115,291	15,057 (1,410)	128,938	76,893	8,233 (1,410)	83,716	45,222	10
Office equipment	858,580	75,846 (1,086)	933,340	736,591	51,369 (848)	787,112	146,228	20
EDP equipment	328,729	25,712 (1,887)	352,554	322,099	9,122 (1,887)	329,334	23,220	33.33
Motor vehicles	99,777	14,349 (5,450)	108,676	68,837	19,634 (2,992)	85,479	23,197	20
	1,402,377	130,964 (9,833)	1,523,508	1,204,420	88,358 (7,137)	1,285,641	237,867	

* Adjustments represents reclassification within different categories of assets incorporated during the current year as a result of reconciliation exercise.

	Note	2015	2014
		------(Rupees in '000)-----	
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	15.1.9	5,375,626	5,402,674
Deposits		200,070	362,725
Others		177,066	135,172
		<u>5,752,762</u>	<u>5,900,571</u>
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
Gratuity		1,580	1,277
Pension		30,780,494	30,676,912
Benevolent fund scheme		1,108,267	1,017,022
Post retirement medical benefits		12,628,628	9,882,770
Six months post retirement benefits		87,976	76,678
	15.1.3	<u>44,606,945</u>	<u>41,654,659</u>
Provident fund scheme		881,875	864,192
		<u>45,488,820</u>	<u>42,518,851</u>
12. SHARE CAPITAL			
2015 2014		2015	2014
(Number of shares)		------(Rupees in '000)-----	
	Authorised share capital		
<u>1,000</u> <u>1,000</u>	Ordinary shares of Rs. 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>
	Issued, subscribed and paid-up capital		
	Fully paid-up ordinary shares of		
	Rs. 1,000,000 each		
509 509	- issued for cash	509,000	509,000
491 491	- issued against consideration in kind	491,000	491,000
<u>1,000</u> <u>1,000</u>		<u>1,000,000</u>	<u>1,000,000</u>
13. CONTINGENCIES AND COMMITMENTS			
13.1 Contingencies			
13.1.1	The Corporation does not have any contingencies as at June 30, 2015 and June 30, 2014.		
13.2 Commitments			
Capital commitments	13.2.1	<u>47,508</u>	<u>77,390</u>
13.2.1	This represent amounts committed by the Corporation to purchase assets from successful bidders.		
14. DISCOUNT AND INTEREST EARNED		2015	2014
		------(Rupees in '000)-----	
Discount income on Government securities		47,713	48,229
Interest on employee loans		860	678
		<u>48,573</u>	<u>48,907</u>

15. NET OPERATING EXPENSES	Note	2015	2014
		------(Rupees in '000)-----	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		5,686,410	5,955,069
Rent and taxes		20,952	17,142
Insurance		6,197	5,374
Electricity, gas and water		288,219	302,524
Repair and maintenance		149,793	124,422
Auditors' remuneration	15.2	5,950	5,950
Legal and professional		6,266	2,665
Travelling		16,918	15,791
Daily expenses		29,397	22,066
Passages / rest and recreational allowance		192,225	217,782
Fuel		2,949	3,843
Conveyance		12,913	14,057
Postages and telephone		24,590	18,650
Training		70,270	37,915
Remittance of treasure		67,043	69,190
Stationery		10,542	12,796
Books and newspapers		1,504	1,292
Advertisement		17,607	10,773
Bank guards charges		124,618	120,676
Uniforms		23,451	17,779
Others		116,169	111,071
		6,873,983	7,086,827
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	15.1 to 15.1.10	7,199,513	6,804,886
Depreciation	9.1	106,263	88,358
		7,305,776	6,893,244
		14,179,759	13,980,071

15.1 Staff retirement benefits

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

	2015	2014
- Discount rate for year end obligation	9.75% - 11.00% p.a.*	13.25% - 13.50% p.a.
- Salary increase rate	9.75% p.a.	13.25% p.a.
- Pension indexation rate	7.25% p.a.	10.75% p.a.
- Medical cost increase rate	11% p.a.	13% p.a.
- Personnel turnover	10% p.a.	2.1% p.a.
- Normal retirement age	60 Years	60 Years

* 11.00% has been used for post retirement medical benefits. For all other benefits rate of 9.75% is used.

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

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

Discount rate risks

The risk of changes in discount rate since discount rate is based on corporate / government bonds. Any change in bond yields will impact plan liabilities.

Salary increase / inflation risks

The risk that the actual salary increase is higher / lower than the expected where benefits are linked with final salary at the time of cessation of employment.

Mortality risks

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

Withdrawal risks

The risk of actual withdrawals experience is different from assumed.

Medical inflation risks

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

15.1.3 Change in present value of defined benefit obligation

	2015					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	Rupees in '000					
Present value of defined benefit obligation as on July 1, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659
Current service cost	226	955,681	49,896	245,213	4,669	1,255,685
Interest cost on defined benefit obligation	169	3,735,000	119,962	1,310,180	9,863	5,175,174
Benefits paid	-	(4,969,278)	(223,301)	(355,465)	(4,478)	(5,552,522)
Remeasurements:						-
Actuarial (gains)/losses from changes in financial assumptions	-	-	-	-	-	-
Experience adjustments	(92)	382,179	144,688	1,545,930	1,244	2,073,949
Present value of defined benefit obligation as on June 30, 2015	1,580	30,780,494	1,108,267	12,628,628	87,976	44,606,945

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

15.1.4 Amount recognised in the profit and loss account

2015						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Current service cost	226	955,681	49,896	245,213	4,669	1,255,685
Interest cost on defined benefit obligation	169	3,735,000	119,962	1,310,180	9,863	5,175,174
Contribution made by employees	-	-	(9,042)	-	-	(9,042)
	395	4,690,681	160,816	1,555,393	14,532	6,421,817

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

15.1.5 Movement of present value of defined benefit obligation

2015						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Net recognised liabilities at July 1, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659
Amount recognised in the profit and loss account	395	4,690,681	160,816	1,555,393	14,532	6,421,817
Remeasurements	(92)	382,179	144,688	1,545,930	1,244	2,073,949
Benefits paid during the year	-	(4,969,278)	(223,301)	(355,465)	(4,478)	(5,552,522)
Employees contribution / amount transferred	-	-	9,042	-	-	9,042
Net recognised liabilities at June 30, 2015	1,580	30,780,494	1,108,267	12,628,628	87,976	44,606,945

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

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

Impact on defined benefit obligation - Increase / (Decrease)			
	Change in Assumption	Increase in assumption	Decrease in assumption
	-----Rupees in '000-----		
Gratuity			
Discount rate	1%	(116)	127
Future salary increase	1%	126	(117)
Pension			
Discount rate	1%	(2,532,683)	2,502,295
Future salary increase	1%	1,258,372	(1,174,310)
Future pension increase	1%	1,375,161	(1,539,722)
Expected mortality rates	1 Year	(356,591)	92,431
Benevolent fund scheme			
Discount rate	1%	1,057,155	1,203,279
Post retirement medical benefits			
Discount rate	1%	(2,398,712)	1,634,272
Future medical cost increase	1%	1,244,923	(2,150,252)
Expected mortality rates	1 Year	(948,986)	600,841
Six months post retirement benefits			
Discount rate	1%	(5,294)	5,903
Salary increase	1%	6,050	(5,525)

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

15.1.7 Duration of defined benefit obligation

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits
The weighted average duration of the defined benefit obligation is	8 Years	8 Years	7 Years	16 Years	6 Years

15.1.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2016

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2016 would be as follows:

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	-----Rupees in '000-----					
Current service cost	241	842,567	54,477	285,440	5,465	1,188,190
Interest cost on defined benefit obligation	205	3,001,098	108,056	1,389,149	8,578	4,507,086
Amount chargeable to profit and loss account	446	3,843,665	162,533	1,674,589	14,043	5,695,276

15.1.9 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 5,375.626 million (2014: Rs. 5,402.674 million). An amount of Rs. 747.326 million (2014: Rs. 2,614.851 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2016 would be Rs. 745.741 million. The benefits paid during the year amounted to Rs. 774.374 million (2014: Rs. 1,055.070 million).

15.1.10 Charge for the year in respect of defined contribution plan amounted to Rs. 30.370 million (2014: Rs. 62.901 million).**15.2 Auditors' remuneration**

	2015			2014		
	E&Y Ford Rhodes Sidat Hyder & Co.	A.F. Ferguson & Co.	Total	KPMG Taseer Hadi & Co.	A.F. Ferguson & Co.	Total
	----- (Rupees in '000) -----					
Audit fee	2,090	2,090	4,180	2,090	2,090	4,180
Out of pocket expenses	885	885	1,770	885	885	1,770
	2,975	2,975	5,950	2,975	2,975	5,950

16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS

	2015	2014
	----- (Rupees in '000) -----	
Profit for the year	50,491	50,109
Adjustments for:		
Amortisation of discount on Government securities	(16,112)	(13,839)
Amortisation of premium on Government securities	-	7,436
Gain on disposal of property and equipment	(1,263)	(121)
Depreciation	106,263	88,358
	88,888	81,834
	139,379	131,943

17. RELATED PARTY TRANSACTIONS

The Corporation is a wholly owned subsidiary of the State Bank of Pakistan (parent entity), therefore all subsidiaries and associated undertakings of the Parent entity are the related parties of the Corporation. Other related parties comprise of key management personnel of the Corporation which include members of the Board of Directors, Managing Director and other executives of the Corporation who have responsibilities for planning, directing and controlling the activities of the Corporation.

The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance. The accounting treatment of assets, liabilities, income and expenditure relating to such activities are detailed in note 1.1 to these financial statements (also refer note 15).

Transaction and balances with related parties are as follows:

Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity	2015	2014
	----- (Rupees in '000) -----	
Balances at the year end - transferred to State Bank of Pakistan		
Payable against training programs	34,658	3,995
Transactions during the year - reimburseable from State Bank of Pakistan		
Training expense charged during the year	67,561	7,868

18. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest / mark-up rate and credit risks. The policies and procedures for managing these risks are outlined in notes 18.1 to 18.7 to these financial statements. The Corporation has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Managing Director on the monitoring and management of these risks.

18.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. Advances to employees are made in the normal course of business for various business expenses and security deposit held with entities for ensuring future services and there is low chance of default on suspension of services. The remaining balances are recorded as recoverable from the State Bank of Pakistan and accordingly are not subject to any significant

18.2 Concentrations of risk

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

18.2.1 Geographical analysis

All the financial instruments of the Corporation at the balance sheet date are present in Pakistan only.

18.2.2 Industrial analysis

2015				
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	(Rupees in '000)			
Financial assets				
Current account with the State Bank of Pakistan	-	40,635,754	-	40,635,754
Investments	571,720	-	-	571,720
Employee loans	-	-	10,577,857	10,577,857
Advances and deposits	-	-	15,399	15,399
	<u>571,720</u>	<u>40,635,754</u>	<u>10,593,256</u>	<u>51,800,730</u>
2014				
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	(Rupees in '000)			
Financial assets				
Current account with the State Bank of Pakistan	-	37,876,846	-	37,876,846
Investments	569,449	-	-	569,449
Employee loans	-	-	10,577,916	10,577,916
Advances and deposits	-	-	7,743	7,743
	<u>569,449</u>	<u>37,876,846</u>	<u>10,585,659</u>	<u>49,031,954</u>

18.2.3 Credit exposure by credit rating:

Financial assets of the Corporation essentially represents amounts due from the State Bank of Pakistan (central bank of the country), sovereign investments and amounts due from Corporation's own employees as detailed below:

2015			
	Sovereign (18.2.3.1)	Unrated	Grand Total
	(Rupees in '000)		
Financial Assets			
Current account with the State Bank of Pakistan	-	40,635,754	40,635,754
Investments	571,720	-	571,720
Employee loans	-	10,577,857	10,577,857
Advances and deposits	-	15,399	15,399
	<u>571,720</u>	<u>51,229,010</u>	<u>51,800,730</u>
2014			
	Sovereign (18.2.3.1)	Unrated	Grand Total
	(Rupees in '000)		
Financial Assets			
Current account with the State Bank of Pakistan	-	37,876,846	37,876,846
Investments	569,449	-	569,449
Employee loans	-	10,577,916	10,577,916
Advances and deposits	-	7,743	7,743
	<u>569,449</u>	<u>48,462,505</u>	<u>49,031,954</u>

18.2.3.1 Government securities and balances are rated as sovereign. The international rating of Pakistan is B- (as per Standards and Poor's).

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

	Gross amount		Impairment / Provision	
	2015	2014	2015	2014
	(Rupees in '000)			
Employee loans	10,586,223	10,586,937	8,366	9,021

18.4 Liquidity analysis with interest rate risk

Interest rate risk is the risk that the value of a financial instrument or its cash flow will fluctuate due to changes in the market interest rates. The Corporation has adopted appropriate policies to minimize its exposure to this risk.

	2015						Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity	Maturity	Sub total	Maturity	Maturity	Sub total	
	upto one	after one		upto one	after one		
	year	year		year	year		
<hr style="border-top: 1px dashed black;"/>							
(Rupees in '000)							
<hr style="border-top: 1px dashed black;"/>							
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	40,635,754	-	40,635,754	40,635,754
Investments	571,195	-	571,195	525	-	525	571,720
Employee loans	12,543	30,635	43,178	1,729,358	8,805,321	10,534,679	10,577,857
Advances and deposits	-	-	-	6,775	8,624	15,399	15,399
	583,738	30,635	614,373	42,372,412	8,813,945	51,186,357	51,800,730
<hr style="border-top: 1px dashed black;"/>							
Financial liabilities							
Deposits and other liabilities	-	-	-	377,136	-	377,136	377,136
	583,738	30,635	614,373	41,995,276	8,813,945	50,809,221	51,423,594
<hr style="border-top: 3px double black;"/>							
<hr style="border-top: 1px dashed black;"/>							
2014							
Interest / mark-up bearing			Non interest / mark-up bearing			Total	
Maturity	Maturity	Sub total	Maturity	Maturity	Sub total		
upto one	after one		upto one	after one			
year	year		year	year			
<hr style="border-top: 1px dashed black;"/>							
(Rupees in '000)							
<hr style="border-top: 1px dashed black;"/>							
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	37,876,846	-	37,876,846	37,876,846
Investments	522,837	46,087	568,924	525	-	525	569,449
Employee loans	12,960	57,040	70,000	1,493,916	9,014,000	10,507,916	10,577,916
Advances and deposits	-	-	-	1,932	5,811	7,743	7,743
	535,797	103,127	638,924	39,373,219	9,019,811	48,393,030	49,031,954
<hr style="border-top: 1px dashed black;"/>							
Financial liabilities							
Deposits and other liabilities	-	-	-	497,897	-	497,897	497,897
	535,797	103,127	638,924	38,875,322	9,019,811	47,895,133	48,534,057

*All cash settlements of the Corporation are routed through the current account maintained with the State Bank of Pakistan as the Corporation functions and acts on behalf of the SBP.

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

18.6 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. However, at balance sheet date all of the Corporation's financial instruments are denominated in local currency.

18.7 Liquidity risk management

Liquidity risk is the risk that the Corporation will encounter difficulties in raising funds to meet commitments associated with the financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk as all its settlements are routed through the State Bank of Pakistan.

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	Carrying value		Fair value	
	2015	2014	2015	2014
	----- (Rupees in '000) -----			
Financial assets				
Current account with the State Bank of Pakistan	40,635,754	37,876,846	40,635,754	37,876,846
Investments	571,720	569,449	575,472	569,098
Employee loans	10,577,857	10,577,916	10,577,857	10,577,916
Advances and deposits	15,399	7,743	15,399	7,743
Financial Liability				
Deposits and other liabilities	377,136	497,897	377,136	497,897

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2015		
	Loans and receivables	Held to maturity	Total
	----- (Rupees in '000) -----		
Financial assets			
Current account with the State Bank of Pakistan	40,635,754	-	40,635,754
Investments	-	571,720	571,720
Employee loans	10,577,857	-	10,577,857
Advances and deposits	15,399	-	15,399
	2014		
	Loans and receivables	Held to maturity	Total
	----- (Rupees in '000) -----		
Financial assets			
Current account with the State Bank of Pakistan	37,876,846	-	37,876,846
Investments	-	569,449	569,449
Employee loans	10,577,916	-	10,577,916
Advances and deposits	7,743	-	7,743
	2015		Total
	Carried at amortised cost		
	----- (Rupees in '000) -----		
Financial liabilities			
Deposits and other liabilities		377,136	377,136
	2014		Total
	Carried at amortised cost		
	----- (Rupees in '000) -----		
Financial liabilities			
Deposits and other liabilities		497,897	497,897

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 17, 2015 by the Board of Directors of the Corporation.

22. CORRESPONDING FIGURES

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

23. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

13 Financial Statements of NIBAF

A. F. FERGUSON & CO.

Chartered Accountants

State Life Building No. 1-C

I. I. Chundrigar Road

P.O. Box 4716, Karachi-74000

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **National Institute of Banking and Finance (Guarantee) Limited** as at June 30, 2015 and the related income and expenditure account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

A. F. FERGUSON & CO.

Chartered Accountants

- iii.* the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c.* in our opinion and to the best of our information and according to the explanation given to us, balance sheet, income and expenditure account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2015 and of the deficit, its cash flows and changes in equity for the year then ended; and
- d.* in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Other matter paragraph

The financial statements for the year ended June 30, 2014 were audited by another firm of Chartered Accountants who had expressed an unmodified opinion thereon vide their report dated September 26, 2014.

Chartered Accountants

Engagement Partner: **Salman Hussain**

Dated: October 28, 2015

Karachi

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
BALANCE SHEET
AS AT JUNE 30, 2015

	Note	2015	2014
		Rupees in '000	
NON CURRENT ASSETS			
Fixed Assets	4	39,942	38,866
Long term deposits		1,632	1,620
CURRENT ASSETS			
Stock of stationery and consumables		972	663
Receivable against training programs	5	52,336	11,236
Advances, prepayments and other receivables	6	1,571	318
Short term investments	7	22,598	177,930
Assets relating to Endowment fund	8	89,391	81,711
Cash and bank balances	9	46	183
		166,914	272,041
		208,488	312,527
SHAREHOLDERS' EQUITY			
Authorized share capital		200,000	200,000
(20,000,000 Ordinary shares of Rs.10 each)			
Issued, subscribed and paid up capital	10	29,261	29,261
Accumulated surplus		24,367	24,367
		53,628	53,628
NON-CURRENT LIABILITIES			
Endowment Fund - Deferred Grant	11	89,391	81,711
CURRENT LIABILITIES			
Creditors, accrued expenses and other payables	12	9,089	10,187
Due to State Bank of Pakistan (Parent entity)	13	56,380	167,001
		65,469	177,188
		208,488	312,527
CONTINGENCIES AND COMMITMENTS			
	14		
The annexed notes 1 to 28 form an integral part of these financial statements.			

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2015

	Note	2015	2014
		Rupees in '000	
INCOME			
Hostel and training halls	15	74,851	20,991
Training and education fee	16	40,897	54,333
Other income	17	12,937	17,202
		<u>128,685</u>	<u>92,526</u>
EXPENDITURE			
Operating, administrative and general expenses	18	(196,735)	(185,028)
Operating deficit for the year		<u>(68,050)</u>	<u>(92,502)</u>
Provision for taxation	19	-	-
Deficit for the year		<u>(68,050)</u>	<u>(92,502)</u>
Other comprehensive income for the year		-	-
Total comprehensive deficit for the year		<u><u>(68,050)</u></u>	<u><u>(92,502)</u></u>

The annexed notes 1 to 28 form an integral part of these financial statements.

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2015

	2015	2014
	Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating deficit for the year	(68,050)	(92,502)
Adjustments for non cash items		
Income from investments	(21)	(5,097)
Liabilities no longer required written back	(1,216)	-
Depreciation	15,242	11,878
Amortisation	141	-
Gain on disposal of fixed assets	-	(2,440)
	14,146	4,341
Operating deficit before working capital changes	(53,904)	(88,161)
Changes in working capital		
(Increase) / decrease in current assets		
Stock of stationery and consumables	(309)	148
Short term investments	155,353	(9,883)
Assets relating to Endowment fund	-	-
Receivable against training programs	(41,100)	21,471
Advances, prepayments and other receivables	(1,253)	1,458
	112,691	13,194
Increase / (decrease) in current liabilities		
Creditors, accrued expenses and other payables	118	393
Due to State Bank of Pakistan (Parent entity)	(42,571)	84,104
	(42,453)	84,497
Net changes in working capital	70,238	97,691
Long term security deposits	(12)	(666)
Net cash generated from operating activities	16,322	8,864
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(16,459)	(11,309)
Sale proceeds of fixed assets disposed off	-	2,594
Net cash used in investing activities	(16,459)	(8,715)
Net (decrease) / increase in cash and cash equivalents	(137)	149
Cash and cash equivalents at beginning of the year	183	34
Cash and cash equivalents at end of the year	46	183

The annexed notes 1 to 28 form an integral part of these financial statements.

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2015

	Share Capital	Accumulated Surplus	Total
	Rupees in '000		
Balance at July 01, 2013	29,261	24,367	53,628
Total comprehensive deficit for the year	-	(92,502)	(92,502)
Deficit allocated to the State Bank of Pakistan (Parent Entity)		92,502	92,502
Balance at June 30, 2014	29,261	24,367	53,628
Total comprehensive income for the year	-	(68,050)	(68,050)
Deficit allocated to the State Bank of Pakistan (Parent Entity)		68,050	68,050
Balance at June 30, 2015	29,261	24,367	53,628

The annexed notes 1 to 28 form an integral part of these financial statements.

MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

1 STATUS AND NATURE OF BUSINESS

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

2 BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 New and amended standards, interpretations and amendments to published approved accounting standards that are effective in the current year

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

2.3 New and amended standards and interpretations to published approved accounting standards that are not yet effective in the current year

There are certain new and amended standards and interpretations to published approved accounting standards that are mandatory for the Institute's accounting periods beginning on or after July 1, 2015 but are considered not to be relevant or do not have any material effect on the Institute's financial statements and are therefore not detailed in these financial statements.

2.4 Basis of measurement

These financial statements have been prepared under the historical cost convention.

2.5 Significant accounting estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. It also requires management to exercise judgment in application of the Institute's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and 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 the current and future periods.

The areas where various assumptions and estimates are significant to the Institute's financial statements or where judgment was exercised in application of accounting policies are as follows:

(a) Property, plant and equipment

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

(b) Impairment

The Institute's assessment relating to impairment of assets is discussed in note 3.3.

(c) Provision for slow moving stocks and other receivables

The Institute exercises judgment and makes provision for slow moving stocks based on their future usability. Provision for other receivables is determined using judgment based on past business practices, probability of recovery and lapsed time period of due balance. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

(d) Provision for doubtful receivables

The Institute makes provisions for doubtful debts when the collection of full amount is not probable. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any.

Depreciation is charged to income and expenditure account applying the straight line method, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal. The rates of depreciation are stated in note 4.1 to these financial statements.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Institute and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to income as and when incurred.

Gains and losses on sale or retirement of property, plant and equipment are included in the income and expenditure account.

3.2 Intangible - computer software

Computer software are stated at cost less accumulated amortisation. Software costs are capitalised only when it is probable that future economic benefits attributable to the software will flow to the Institution and the same is amortised applying the straight line method at the rates stated in note 4.1 to these financial statements.

3.3 Impairment

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

3.4 Deferred grants

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

3.5 Stock

Stock and other consumables are valued at the lower of cost and net realizable value. Cost comprises cost of purchases and other costs incurred in bringing the items to their present location and condition. Replacement cost of the items is used to measure the net realizable value. The valuation is done on moving average basis. Provision is made for stocks which are not used for a considerable period of time or stocks which are not expected to be used in future.

3.6 Receivable against training programs and other receivables

Receivable against training programs are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful trade debts and other receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

3.7 Financial Instruments

Financial Assets

3.7.1 Classification

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

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

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

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Institute's loans and receivables comprise of trade debts, loans and advances, deposits, cash and bank balances and other receivables in the balance sheet.

c) Held to maturity

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

d) Available for sale financial assets

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

Currently, the financial assets of the Institute have been classified as under "loans and receivable" and "held to maturity" categories.

3.7.1.1 Initial recognition and measurement

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

3.7.1.2 Subsequent measurement

Subsequent to initial recognition, financial assets categorised as "loans and receivables" and "held to maturity" are valued at amortised cost

3.7.1.3 Impairment

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

a) Assets carried at amortised cost

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

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

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

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

3.7.1.4 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is a intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.7.2 Financial liabilities

All financial liabilities are recognised at the time when the Institute becomes a party to the contractual provisions of the instrument.

3.7.3 Derecognition

Financial assets are derecognised at the time when the Institute loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised at the time when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of financial assets and financial liabilities is taken to the income and expenditure account.

3.8 Trade and other payables

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

3.9 Cash and cash equivalents

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

3.10 Provisions

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

3.11 Revenue recognition

- (i) Training, education and hostel services are charged on accrual basis. Training & allied services including hostel facility are provided free of cost to trainee officers of State Bank of Pakistan (parent entity).
- (ii) Interest on bank accounts and income on investment is accounted for on a time proportion basis using the applicable rates.

3.12 Allocation of deficit to the State Bank of Pakistan (Parent Entity)

The Institute has an arrangement with the State Bank of Pakistan (SBP) whereby deficit incurred by the Institute is allocated to the SBP. This allocation is credited directly to the Statement of Changes in Equity as transaction with owners.

3.13 Taxation

The Institute is eligible for hundred percent (100%) tax credit on taxes payable by Institute under clause (d) of sub-section 2 of Section 100C of the Income Tax Ordinance, 2001, introduced under the Finance Act, 2014. Previously, the income of the institute was exempt under clauses (59) and (60) of Part I of Second Schedule to the Income Tax Ordinance, 2001 (which has now been omitted by the Finance Act 2014).

3.14 Endowment fund - Deferred Grant

The Institute has established an Endowment fund effective from July 1, 2011 for utilisation of the amount in line with purpose of grant received from SBP.' The terms of references / rules and regulations of the Endowment fund are being formulated.

3.15 Retirement benefits

The permanent employees of the Institute represents employees who are either deputed by the State Bank of Pakistan (Parent entity) or State Bank of Pakistan - Banking Service Corporation (related entity). All the employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and is not charged to the Institute.

	Note	2015 (Rupees in '000)	2014 (Rupees in '000)
4 FIXED ASSETS			
Property, plant and equipment	4.1	39,888	38,866
Intangible assets		54	-
		<u>39,942</u>	<u>38,866</u>

4.1 The following is a statement of tangible operating assets and intangible assets:

	Property, plant and equipment					Intangible assets
	Furniture and fixtures	Electronic data processing equipment	Office equipment	Vehicles	Total	Computer software
	-----Rupees in '000 -----					
Cost						
Balance as at July 01, 2013	18,465	18,328	56,414	29,111	122,318	-
Additions during the year	1,390	199	4,447	5,273	11,309	-
Transfer in during the year	-	174	-	-	174	-
Disposals during the year	(6,659)	(299)	(9,040)	(2,602)	(18,600)	-
Balance as at June 30, 2014	<u>13,196</u>	<u>18,402</u>	<u>51,821</u>	<u>31,782</u>	<u>115,201</u>	<u>-</u>
Balance as at July 01, 2014	13,196	18,402	51,821	31,782	115,201	-
Additions during the year	572	400	7,858	4,750	13,580	-
Transfer in during the year	-	2,220	464	-	2,684	195
Disposals during the year	-	-	-	-	-	-
Balance as at June 30, 2015	<u>13,768</u>	<u>21,022</u>	<u>60,143</u>	<u>36,532</u>	<u>131,465</u>	<u>195</u>
Allowance for depreciation						
Balance as at July 01, 2013	12,966	17,610	37,257	14,897	82,730	-
Depreciation charge for the year	782	611	5,422	5,063	11,878	-
Transfer in during the year	-	174	-	-	174	-
Disposals during the year	(6,606)	(205)	(9,034)	(2,602)	(18,447)	-
Balance as at June 30, 2014	<u>7,142</u>	<u>18,190</u>	<u>33,645</u>	<u>17,358</u>	<u>76,335</u>	<u>-</u>
Balance as at July 01, 2014	7,142	18,190	33,645	17,358	76,335	-
Depreciation charge for the year	920	281	6,127	5,307	12,635	141
Transfer in during the year	-	2,220	387	-	2,607	-
Disposals during the year	-	-	-	-	-	-
Balance as at June 30, 2015	<u>8,062</u>	<u>20,691</u>	<u>40,159</u>	<u>22,665</u>	<u>91,577</u>	<u>141</u>
Carrying amounts - 2015	<u>5,706</u>	<u>331</u>	<u>19,984</u>	<u>13,867</u>	<u>39,888</u>	<u>54</u>
Carrying amounts - 2014	<u>6,054</u>	<u>212</u>	<u>18,176</u>	<u>14,424</u>	<u>38,866</u>	<u>-</u>
Rate of depreciation	<u>10%</u>	<u>33%</u>	<u>20%</u>	<u>20 - 25%</u>		<u>33%</u>

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

4.3 The depreciation charge for the year has been allocated to administrative and general expenses - (Refer note 18).

	Note	2015	2014
		Rupees in '000	
5 RECEIVABLE AGAINST TRAINING PROGRAMS UNSECURED			
Associated undertaking			
SBP Banking Services Corporation		34,658	3,995
State Bank of Pakistan		6,954	1,653
		41,612	5,648
Others			
Considered good		10,724	5,588
Considered doubtful		1,454	1,435
		12,178	7,023
Provision for doubtful receivables	5.1	(1,454)	(1,435)
		10,724	5,588
		52,336	11,236
5.1 Provision for doubtful receivables			
Opening Balance		1,435	1,435
Addition during the year		29	-
Reversal during the year		(10)	-
		1,454	1,435
6 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES			
Advances to staff - unsecured, considered good		405	223
Prepayments		88	70
Taxation recoverable		1,078	25
		1,571	318
7 SHORT TERM INVESTMENTS			
Held to maturity			
Government Treasury Bills			
Cost	7.1	22,577	172,833
Accrued profits		21	5,097
		22,598	177,930
7.1	These investments are for a period 12 months or less and are shown at amortized cost using effective rate of interest of 6.93% per annum (2014: ranging between 9.97% to 10% per annum).		
8 ASSETS RELATING TO ENDOWMENT FUND		2015	2014
		Rupees in '000	
Government Treasury Bills			
Cost		87,709	79,763
Accrued profits		1,682	1,948
		89,391	81,711
8.1	These are for a period 12 months or less and are shown at amortized cost using effective rate of interest of 7.82% per annum (2014: 9.96% per annum).		
9 CASH AND BANK BALANCES	Note	2015	2014
		Rupees in '000	
Cash in Hand		42	88
Cash in Bank		4	95
		46	183
10 ISSUED, SUBSCRIBED AND PAID UP CAPITAL			
Issued, subscribed and paid-up capital			
2,926,077 ordinary shares of Rs.10 each issued for cash	10.1	29,261	29,261
10.1	State Bank of Pakistan hold 2,926,076 (2014: 2,926,076) ordinary shares and Governor of State Bank of Pakistan holds 1 (2014: 1) share of the Institute as at the balance sheet date.		

11	ENDOWMENT FUND - DEFERRED GRANT	2015	2014
		Rupees in '000	
	Opening balance	81,711	74,490
	Interest income on investments	7,680	7,221
	Closing balance	<u>89,391</u>	<u>81,711</u>
<p>This represented capital grant amounting to US dollar one million received by the Institute in January 2005 from State Bank of Pakistan (Parent Entity) for establishment of Rural Finance Resource Centre. The grant was disbursed by the State Bank of Pakistan out of the proceeds of loan received by the Government of Pakistan (GoP) from Asian Development Bank vide loan agreement No. 1987-PAK dated December 23, 2002. The Institute has established an Endowment fund effective from July 1, 2011 for utilisation of the amount in line with purpose of grant received from SBP.</p>			
12	CREDITORS, ACCRUED EXPENSES AND OTHER PAYABLES	2015	2014
		Rupees in '000	
	Creditors	3,697	3,205
	Traveling and training cost	205	158
	Accrued expenses	1,728	2,644
	Retention money/deposits	3,459	4,180
		<u>9,089</u>	<u>10,187</u>
13	DUE TO STATE BANK OF PAKISTAN (PARENT ENTITY)		
	State Bank of Pakistan (Parent entity)	<u>56,380</u>	<u>167,001</u>
	Opening balance	167,001	175,400
	(Payments) / Received during the year	(42,571)	84,103
	Allocation of the Deficit	(68,050)	(92,502)
	Closing balance	<u>56,380</u>	<u>167,001</u>
<p>This represents the current account of the Institute with the State Bank of Pakistan (Parent entity) to manage the financial affairs of the Institute.</p>			
14	CONTINGENCIES AND COMMITMENTS		
	There were no contingencies and commitments outstanding as at the year end (2014: Nil).		
15	HOSTEL AND TRAINING HALLS INCOME	2015	2014
		Rupees in '000	
	Rental income	48,824	14,487
	Service charges	2,054	795
	Food and beverages	23,973	5,709
		<u>74,851</u>	<u>20,991</u>
16	TRAINING AND EDUCATION FEE		
	International courses	5,578	26,202
	Domestic courses	22,243	23,125
	Islamic banking courses	13,076	5,006
		<u>40,897</u>	<u>54,333</u>
17	OTHER INCOME		
	Interest on investments	11,577	15,076
	Liabilities no longer required written back	1,216	-
	Reversal of provision against bad debts - net	10	-
	Gain on disposal of fixed assets	-	2,440
	Others - net	134	(314)
		<u>12,937</u>	<u>17,202</u>

18	OPERATING, ADMINISTRATIVE AND GENERAL EXPENSES	Note	2015	2014
			Rupees in '000	
	Salaries, wages and other benefits		92,656	89,956
	Training cost		16,488	15,112
	Repairs and maintenance		13,781	11,339
	Lodging, catering and allied services		16,372	12,882
	Traveling and conveyance		6,460	8,371
	Printing and stationery		2,493	2,414
	Medical		385	397
	Provision for Bad Debts		29	-
	Electricity, gas and water		23,982	24,354
	Telephone and fax		804	794
	Vehicles running and maintenance		1,353	1,443
	General consumables		467	305
	Security charges		2,183	1,680
	Insurance		1,642	1,524
	Newspapers, books and periodicals		161	166
	Postage and courier		365	309
	Entertainment		613	574
	Auditors' remuneration		264	200
	Rent, rates and taxes		574	623
	Legal and professional		38	75
	Depreciation	4.1	15,242	11,878
	Amortisation	4.1	141	-
	Other		242	632
			<u>196,735</u>	<u>185,028</u>

19 TAXATION

The income of the Institute was exempt from tax under clause (92) of Part I of Second Schedule to the Income Tax Ordinance, 2001 upto tax year 2013 and for the tax year 2014 under clauses (59) and (60) of Part I of Second Schedule to the Income Tax Ordinance, 2001. During the current year, the Finance Act 2014 (applicable for tax year 2015) has deleted clauses (59) and (60) as mentioned above and has introduced a new section 100C in the Income Tax Ordinance, 2001. As per Section 100C, non profit organisations, trusts or welfare organisations as mentioned in sub section 2 of section 100C shall be allowed a tax credit equal to the one hundred percent of the tax payable, including minimum and final tax payable under any of the provisions of the Income Tax Ordinance, 2001, subject to the following conditions, namely-

- (a) return has been filed;
- (b) tax required to be deducted or collected has been deducted or collected and paid; and
- (c) withholding tax statements for the immediately preceding tax year have been filed.

The operations of the Institute falls within the purview of clause (d) of sub-section 2 of Section 100C of the Income Tax Ordinance, 2001 and the Institute intends to comply with the above-mentioned requirements, hence the Institute is eligible to claim tax credit equal to 100 percent of the tax payable by the Institute. The Institute has recorded a net deficit amounting to Rs 68.050 million during the year ended June 30, 2015. Tax credit of hundred percent is allowed under section 100C of the Income Tax Ordinance, 2001 in respect of minimum tax liability and consequently no charge has been recognised in these financial statements for the year ended June 30, 2015.

20 REMUNERATION OF CHIEF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

	2015		2014	
	Chief Executive	Non-Executive Directors	Chief Executive	Non-Executive Directors
	(Rupees in '000)			
Managerial remuneration	17,974	60	16,577	10
Retirement benefits	-	-	-	-
Medical expenses	-	-	-	-
	<u>17,974</u>	<u>60</u>	<u>16,577</u>	<u>10</u>
Number of persons	1	3	1	2

20.1 The Chief Executive has been provided free use of the Institute maintained car.

21 FINANCIAL RISK MANAGEMENT

The Institute is primarily subject to credit risk, liquidity risk and market risks. The policies and procedures for managing these risks are outlined. The Institute has designed and implemented a framework of controls to identify, monitor and manage these risks.

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

(a) Credit risk

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

(i) Receivable against training programs and other receivables

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

(ii) Investments

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

(b) Liquidity risk

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

(c) Market risk

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

(i) Currency risk

The Institute is not exposed to currency risk.

(ii) Interest rate risk

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

(iii) Other market price risk

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

Currently, the Institute is not exposed to price risks as the investments are currently being carried at amortised cost.

21.1 Financial instruments by category

As at June 30, 2015			
Loans and receivables	Held to maturity	Financial assets at 'fair value through profit or loss'	Total
Rupees in '000			
Assets			
Long term deposits	1,632	-	1,632
Receivable against training programs	52,336	-	52,336
Advances to staff	405	-	405
Short term investments	-	22,598	22,598
Assets relating to Endowment fund	-	89,391	89,391
Cash and bank balances	46	-	46
	54,419	111,989	166,408

As at June 30, 2015			
	Liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Rupees in '000			
Liabilities			
Creditors, accrued expenses and other payables	-	9,089	9,089
Due to State Bank of Pakistan (Parent entity)	-	56,380	56,380
	-	65,469	65,469

As at June 30, 2014			
Loans and receivables	Held to maturity	Financial assets at 'fair value through profit or loss'	Total
Rupees in '000			
Assets			
Long term deposits	1,620	-	1,620
Receivable against training programs	11,236	-	11,236
Advances to staff	223	-	223
Short term investments	-	177,930	177,930
Assets relating to Endowment fund	-	81,711	81,711
Cash and bank balances	183	-	183
	13,262	259,641	272,903

As at June 30, 2014			
	Liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Rupees in '000			
Liabilities			
Creditors, accrued expenses and other payables	-	10,187	10,187
Due to State Bank of Pakistan (Parent entity)	-	167,001	167,001
	-	177,188	177,188

22 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**22.1 Credit risk****Exposure to credit risk**

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

	2015	2014
	Rupees in '000	
Long term deposit	1,632	1,620
Receivable against training programs	52,336	11,236
Advances to staff	405	223
Short term investments	22,598	177,930
Assets relating to Endowment fund	89,391	81,711
	166,362	272,720

22.1.1 The receivable against training programs includes Rs. 41.6 million (2014: Rs. 5.6 million) due from the Parent entity and its subsidiary which are not significantly exposed to credit risk.

- 22.1.2** Short term investments and assets relating to endowment fund represents investments in treasury bills (Refer notes 7 and 8) which carries insignificant credit risk.

22.2 Impairment losses

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

	2015	2014
	Rupees in '000	
Domestic	52,336	11,236
Other regions	-	-
	<u>52,336</u>	<u>11,236</u>

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

	2015		2014	
	Gross	Provision	Gross	Provision
	Rupees in '000			
Not past due	-	-	-	-
Past due 0-30 days	40,557	-	6,218	-
Past due 31-90 days	4,990	-	4,395	-
Past due 90-180 days	1,745	-	354	-
Past due 180-365 days	1,421	-	-	-
More than one year	5,077	1,454	1,704	1,435
	<u>53,790</u>	<u>1,454</u>	<u>12,671</u>	<u>1,435</u>

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

22.3 Liquidity risk

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

	Contractual cash flows				
	Carrying amount	Total	Upto three months	Over three months and upto one year	Over one year
	Rupees in '000				
June 30, 2015					
Creditors, accrued expenses and other payables	9,089	9,089	5,630	3,459	-
Due to State Bank of Pakistan (Parent entity)*	56,380	56,380	56,380	-	-
	<u>65,469</u>	<u>65,469</u>	<u>62,010</u>	<u>3,459</u>	<u>-</u>
June 30, 2014					
Creditors, accrued expenses and other payables	10,187	10,187	6,007	4,180	-
Due to State Bank of Pakistan (Parent entity)*	167,001	167,001	167,001	-	-
	<u>177,188</u>	<u>177,188</u>	<u>173,008</u>	<u>4,180</u>	<u>-</u>

*The analysis of financial liabilities aging is based on management best estimate

22.4 Market risk

The Institute is not exposed to market risk.

22.5 Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. Consequently, differences can arise between carrying value and the fair value estimates.

Underlying the definition of fair value is the presumption that the Institute is a going concern without any intention or requirement to curtail materiality the scale of its operations or to undertake a transaction on adverse terms.

The estimated fair value of all other financial assets and liabilities is not considered to be significantly different from carrying values as the items are either short term in nature or are periodically repriced.

As per the requirements of IFRS 7 (Financial Instruments Disclosure), the Institute shall classify fair value instruments using a fair value hierarchy that reflects the significance of inputs in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets were identical assets or liabilities (level 1);
- Inputs other than quoted prices within level 1 that are observable for the asset or liabilities, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

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

23 CAPITAL MANAGEMENT

The Institute's objective when managing capital, is to safeguard the Institute's ability to continue as a going concern and maintain a strong capital base to support the sustained development of its business activities. The Institute is not subject to externally imposed capital requirements. Further, the parent's support is available to continue its operations.

24 TRANSACTIONS WITH RELATED PARTIES

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

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

	2015	2014
State Bank of Pakistan (Parent Entity)	Rupees in '000	
Balances at the year end		
Receivable against training programs	6,954	1,653
Due to the Parent entity	56,380	167,001
Transactions during the year		
Revenue charged	10,273	8,135
Reimbursement of Operational deficit	68,050	92,502
(Payments) / Receipts	(42,571)	84,103
Associated undertaking - SBP - Banking Services Corporation (Subsidiary of Parent entity)		
Balances at the year end		
Receivable against training programs	34,658	3,995
Transactions during the year		
Revenue charged	67,561	7,868
Remuneration to chief executive officer and key management personnel		
Transactions during the year		
Salaries, wages and other benefits to:		
- Chief executive officer	17,974	16,577
- Key management personnel	39,601	33,346
- No. of key management persons	10	10

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

25 NUMBER OF EMPLOYEES

The average number of employees for the year ended June 30, 2015 were 22 (2014: 22) and number of employees as at June 30, 2015 were 22 (2014: 22).

26 CORRESPONDING FIGURES

- 26.1** Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison. There have been no significant re-arrangements or reclassifications during the current year except as mentioned below:

Note	Reclassification from component	Note	Reclassification to component	Rupees '000
7	Short term investments	9	Cash and bank balances	95

27 GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

28 DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on October 28, 2015 by the Board of Directors of the Institute.

MANAGING DIRECTOR

DIRECTOR

A Chronology of Important Policy Announcements

A-1 Banking Policy & Regulation Group

Financial Consumer Protection: The Banks/DFIs/MFBs were advised to develop and implement their own Financial Consumer Protection Framework, duly approved by their BoDs (CPD Circular # 04¹ dated August 29, 2014).

Strengthening of Internal Controls for Processing of Payment Orders / Demand Drafts / Cash Deposit Receipts / Bankers' Cheques: The banks/MFBs were advised to strictly observe a list of controls, in addition to the controls already in vogue (CPD Circular # 05 dated October 17, 2014).

Guidelines for Banking Services to Visually Impaired/Blind Persons: In order to provide visually impaired/blind persons with equitable access to banking and financial services, guidelines were issued on opening and operation of bank account, cash withdrawal, issuance of cheque books, Credit Cards and ATM/Debit Cards, phone/internet banking, lockers' operations and extension of loans, etc (CPD Circular # 06 dated December 05, 2014).

Questionnaires for Self-Assessment-IRAF: The submission of IRAF Self Assessment Questionnaires to SBP was discontinued. However, Banks / DFIs / MFBs / IBs would continue to fill in IRAF Self Assessment Questionnaires on half yearly basis and obtain the approval of Board of Directors within forty-five days of the cutoff date (OSED Circular # 01 dated January 06, 2015).

Guiding Principles on Fairness of Service Charges: Broader guiding principles for determining charges for various banking services were issued. The principles require banks to ensure that the service charges commensurate with the service provided and are disclosed/presented in a simple and easy to understand manner. (CPD Circular # 01 dated January 26, 2015)

Amendment in Prudential Regulation G-1: In order to further enhance the independence of Audit function the banks / DFIs were advised that Audit Committee of a bank / DFI shall be chaired by an Independent Director (BPRD Circular No. 08 dated September 09, 2014).

Exit Control List Policy 2014: The policy instructions for placement of names of bank loan defaulters & bank's employees / staff involved in fraud / forgeries etc were withdrawn. However, for all fresh placements on ECL, banks / DFIs were advised to avail remedy available under Exit from Pakistan (Control) Rules 2010 (BPRD Circular No. 09 dated September 10, 2014).

Minimum Capital Requirements for Islamic Banking Subsidiary: To encourage conventional banks to upscale their Islamic banking operations by establishing Islamic banking subsidiaries, the initial paid-up capital requirement was revised to Rs6 billion subject to raising the paid-up capital (net of losses) to Rs10 billion within a period of 5 years from the date of commencement of operations (BPRD Circular No. 10 dated October 17, 2014).

Financial Integrity Requirements for Service Providers: To further strengthen and enhance the regime of financial integrity, the banks / DFIs / MFB's were advised to ensure fulfillment of certain minimum requirements at the time of acquiring of the services, consultancy or advisory service from any company / firm / individuals (BPRD Circular No. 13 dated December 11, 2014).

¹ The circular numbers are based on calendar year i.e. at the start of each calendar year the circular number of each department starts with #1.

Currency Transaction Report (CTR) under Anti-Money Laundering Act, 2010: The amount of Rs 2 million was set-out for CTR reporting to Financial Monitoring Unit under Section 7 of the *Anti Money Laundering Act, 2010* (BPRD Circular Letter No. 04 dated January 28, 2015).

Fit and Proper Test Criteria: Banks / DFIs were advised to formulate and implement rotation policy for their key executives and conduct prior self assessment of the fitness and propriety of their Directors, Presidents / CEOs and Key Executives (BPRD Circular No. 05 dated March 12, 2015).

AML / CFT Regulations: Banks were advised to install bio-metric machines by 31-12-2015 at all their branches for efficient and instant verification of their customers (BPRD Circular Letter No. 13 of June 08, 2015).

Guidelines on Low Risk Bank Accounts with Simplified Due Diligence - Aasan Account: To enhance outreach of financial services to un-served segments of the society under financial inclusion program, banks were advised to open 'Aasan Account' of low risk customers with simplified due diligence procedures and minimum initial deposit of Rs 100 with no minimum balance requirement (BPRD Circular No. 11 dated June 22, 2015).

A-2 Development Finance Group

Refinance Scheme for Revival of SMEs & Agricultural Activities in Flood Affected Areas of 2014: Under the scheme, financing has been provided at concessional mark-up rates through banks/DFIs for which Rs 10 billion has been allocated (IH&SMEFD Circular No. 7 dated 2014).

Guidelines for Value Chain Contract Farmer Financing: Banks have been advised to use the guidelines for developing their own products for providing credit to contract farmers according to bank's credit policy, operational and marketing requirements and compliance with SBP's regulations (AC&MFD Circular No. 05 dated September 30, 2014).

Relief Measures for Agricultural and Microfinance Borrowers of Flood Affected Areas: To provide relief to the borrowers of flood affected areas as reported by National Disaster Management Authority (NDMA), Banks/DFIs/MFBs were encouraged to reschedule/restructure agricultural and micro loans/advances of such borrowers, as per existing Prudential (PRs) of Agriculture and Microfinance (AC&MFD Circular No. 06 dated October 23, 2014).

Amendment in Prudential Regulation R-5 for Microfinance Banks (MFBs): SBP directed the MFBs to limit their aggregate loan exposure against the gold backed loans upto 35 percent of their gross loan portfolio (AC&MFD Circular No. 02 dated June 18, 2015).

Changes in Section 4.8 of Guidelines for Value Chain Contract Farmer Financing: In order to encourage banks to lend to individual farmers, corporate guarantee was added to the eligible securities/collateral under section 4.8 of the guidelines for value chain contract farmer financing (AC&MFD Circular Letter No. 01 dated January 02, 2015).

A-3 Financial Market/Reserve Management Group

Outright Purchase or Sale by SBP of GOP Ijara Sukuk (GIS) as part of Open Market Operations: It has been decided that SBP may outright purchase or sale Government of Pakistan Ijara Sukuk (GIS) either on deferred payment basis (Bai-Muajjal) or on ready payment basis through Open Market Operations (OMOs) based on multiple price competitive bidding auction process (DMMD Circular No. 17 dated October 15, 2014).

Derivative Transaction Reporting System (DTRS): SBP launched the Derivative Transactions Reporting System (DTRS) to automate the data collection and monitoring processes of derivative transactions executed by banks (DMMD Circular No. 6 dated April 6, 2015).

SBP's Policy Rate and Overnight Repo / Reverse-Repo Facilities: In order to enhance the effectiveness of monetary policy and better manage liquidity in the interbank market, SBP improved the structure of its Interest Rate Corridor (IRC) framework (DMMD Circular No. 9 dated May 23, 2015).

Revised Reporting Format for Hotels having Restricted Authorization to Deal in Foreign Currencies: To improve supervision and monitoring of hotels having restricted authorization for purchasing foreign currencies, the format for reporting requirement for hotels has been revised as per International Statistical Standards (EPD Circular Letter No. 06 dated July 25, 2014).

Allowing Branchless Banking Business to Exchange Companies as agents of Authorized Financial Institutions: Exchange Companies are allowed to conduct branchless banking activities as agents of authorized financial institutions (commercial/Islamic/microfinance banks) offering these services (FE Circular No. 04 dated April 02, 2015).

Change in Buying/Selling Spreads of Foreign Currencies: The instructions related to the buying/selling spread of foreign currencies have been modified (FE Circular No. 06 dated May 12, 2015).

Reimbursement of T.T Charges against Home Remittances: With a view to rationalize the scheme, reimbursement charges have been revised downward from Saudi Riyals 25 to Saudi Riyals 20 per transaction. Further, minimum amount of remittance to qualify for reimbursement of T.T. Charges has also been revised from US\$ 100/- to US\$ 200/- or equivalent foreign currency (EPD Circular Letter No. 12 of 2015 dated June 01, 2015).

Duration of Renewed license: The duration of the renewed licenses of exchange companies (Category A) has been increased from three to five years from the date of expiry of the license (FE No. 01 dated February 03, 2015).

Collection of Utility Bills and Installation of ATMs: In order to enhance their scope of business, exchange companies have been allowed to collect utility bills on behalf of utility companies (FE Circular No. 07 dated June 03, 2015).

A-4 Operations Group

Circular on Machine Fitness Sorting Parameters of Pakistan Rupee Banknotes: The Machine Fitness Sorting Parameters will ensure that banknotes will be sorted through a defined criteria leading to standardization in sorting of clean and soiled notes (FD Circular No. 1 dated September 9, 2014).

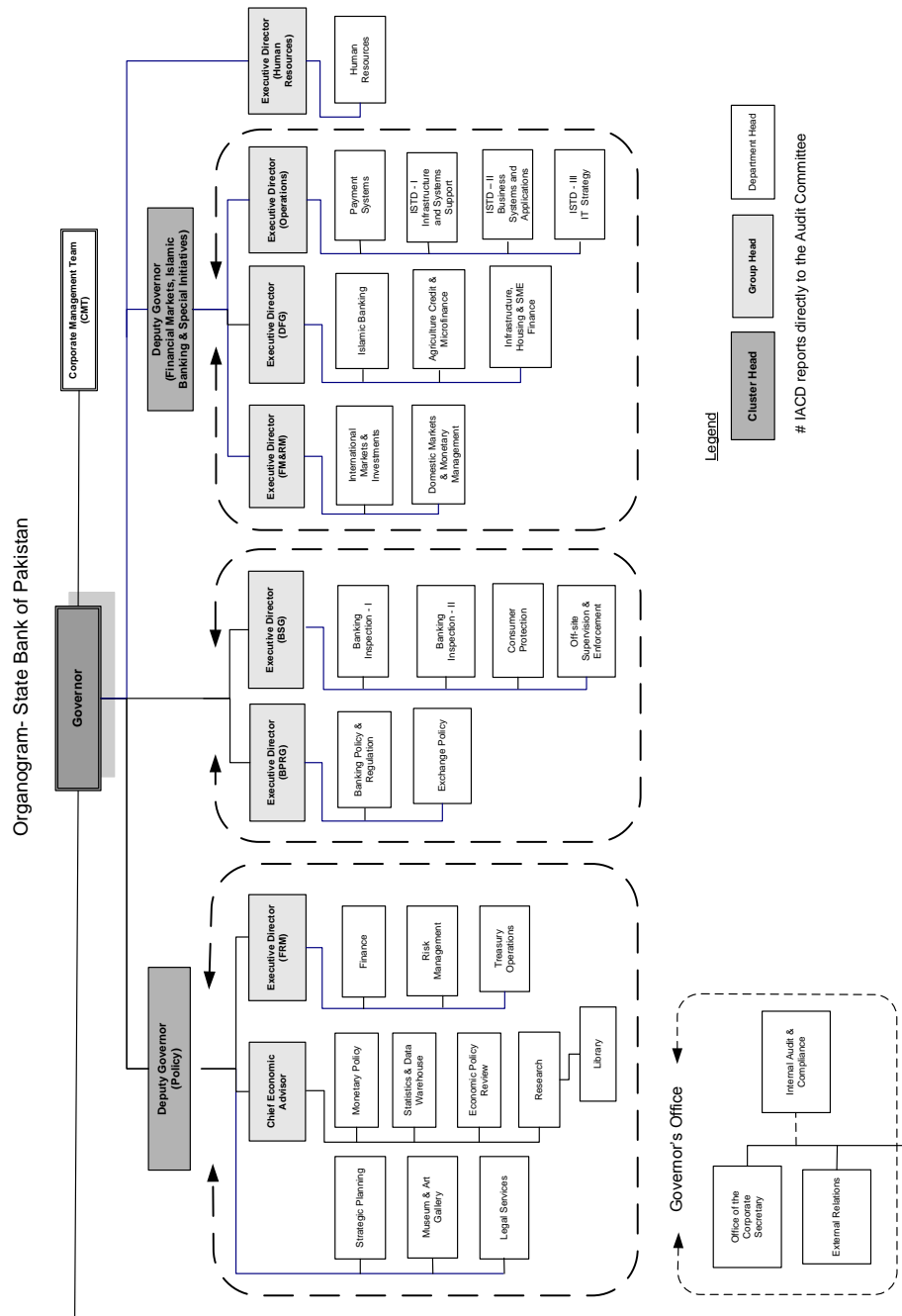
Demonetization of All Old Design Banknotes (Rs 10, 50, 100 & 1000): Effective from December 1, 2016, old design banknotes of Rs 10, 50, 100 and 1000 will cease to be Legal Tender. Commercial / microfinance banks shall exchange the old design banknotes with the new designs up to November 30, 2016. From December 1, 2016, onwards, the old design banknotes will only be exchangeable from SBP Banking Services Corporation field offices up to December 31, 2021 (FD Circular No. 2 dated June 11, 2015).

Standardization of Customer's Cheque Layout: The deadline of June 30, 2014 for compliance of Circular No.1 dated January 31, 2014 for 'Individual' and 'Corporate' customers extended to December 31, 2014 and March 31, 2015 respectively (PSD Circular Letter No. 4 dated

October 31, 2014)

Rules for Payment System Operators (PSO) and Payment Service Providers (PSPs): SBP issued detailed rules for PSOs and PSPs which will not only bring existing payment systems operators under a formal regulatory ambit but would also provide conducive environment for establishment of new payment processing institutions for automated clearing house, electronic payment gateway for e-commerce, ATM switches, domestic POS and pay card schemes (PSD Circular Letter No 4 dated October 23, 2014).

B.Organizational Chart



D-Management Directory

Name	Designation	Email Address	Phone
Governor/Deputy Governors			
Mr. Ashraf Mahmood Wathra	Governor	ashraf.wathra@sbp.org.pk	021-99212447
Mr. Riaz Riazuddin	DG - Policy	riaz.riazuddin@sbp.org.pk	021-99221535
Mr. Saeed Ahmad	DG - FM, IB&SIs	Saeed.Ahmad@sbp.org.pk	021-99212451
Executive Directors/Managing Directors			
Kazi Abdul Muktadir	ED	kazi.abdalmuktadir@sbp.org.pk	On Leave
Mr. Jameel Ahmad	ED - BSG	jameel.ahmed@sbp.org.pk	021-99221952
Mr. Amer Aziz	MD -NIBAF	amer.aziz@sbp.org.pk	051-8435581
Mr. Noman Ahmed Qureshi	ED - FRM	noman.qureshi@sbp.org.pk	021-99212499
Mr. Muhammad Ashraf Khan	ED - Operations	ashraf.khan@sbp.org.pk	021-99217216
Mr. Qasim Nawaz	MD - SBP (BSC)	qasim.nawaz@sbp.org.pk	021-99221349
Mr. Inayat Hussain	ED	Inayat.hussain@sbp.org.pk	On Leave
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Mr. Asim Iqbal	Director - PSD	asim.iqbal@sbp.org.pk	021-99221549
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Mr. Asif Mahmood	Director - SPD	Asif.Mahmood@sbp.org.pk	021-99221130
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Heads (Acting)			
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Mr. Noor Ahmed	Head (Acting)	noor.ahmed@sbp.org.pk	021-99221579

Note: Data reflecting positions as on October 12, 2015