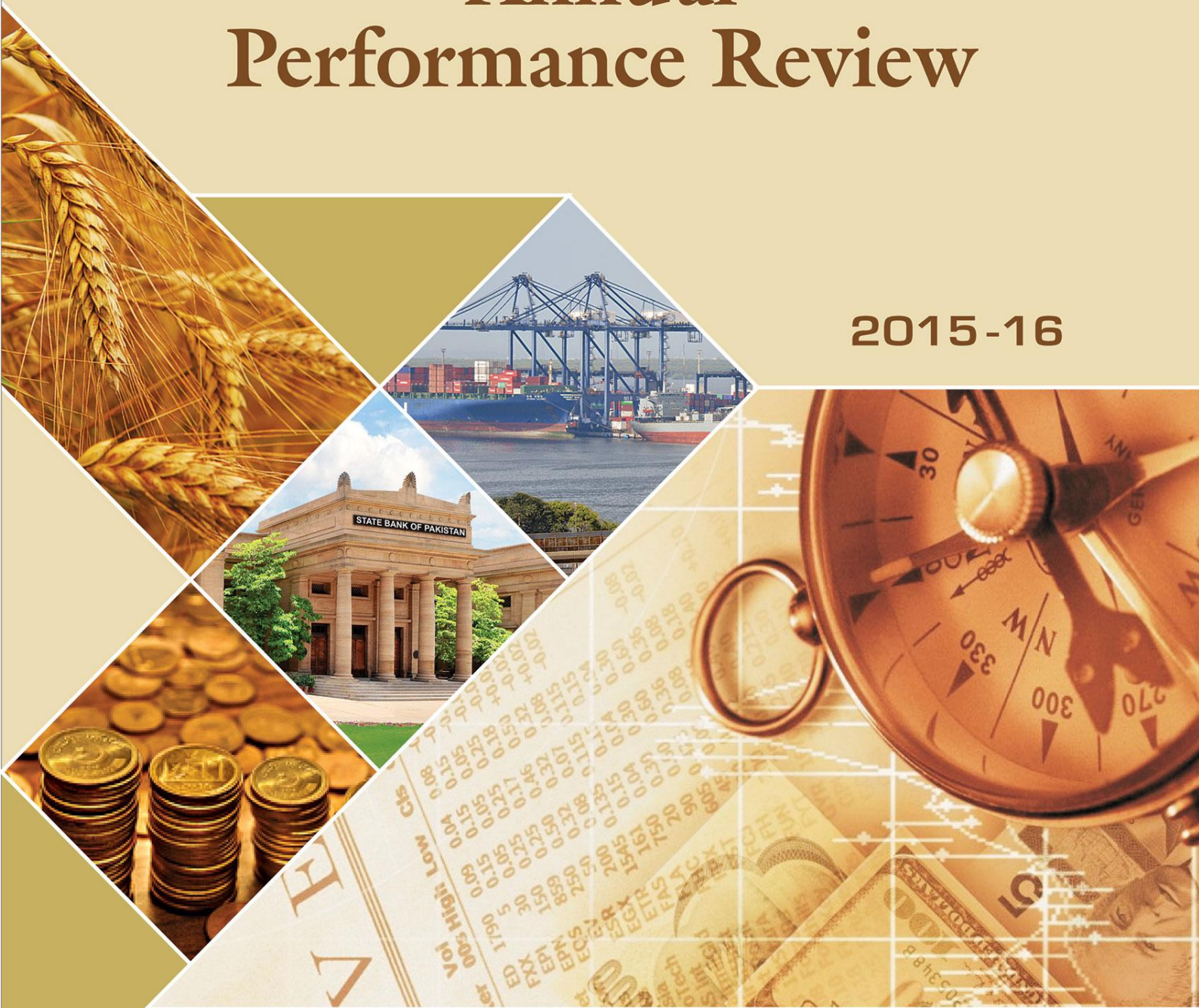


# Annual Performance Review

2015-16



STATE BANK OF PAKISTAN

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# STATE BANK OF PAKISTAN ANNUAL PERFORMANCE REVIEW FY2015-16

## *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**

October 31, 2016

Honorable Federal Minister Ishaq 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, 2016 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, 2016.

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

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I am pleased to present the performance review of SBP for FY16 which was another promising year in the recent economic history of the country. Macroeconomic indicators continued to improve during the year with average annual headline CPI inflation declining to a historic low of 2.9 percent, the real GDP growing by 4.7 percent, the highest level in the last eight years and foreign exchange reserves touching an all time high of USD 23.1 billion. The credit to private sector almost doubled and the net Foreign Direct Investment increased to USD 1.9 billion during the year as compared to USD 0.9 billion in the previous year, largely due to the ongoing CPEC related projects.

The low inflation environment also provided space to further reduce the policy rate by 75bps to 5.75 percent to facilitate investment and business activities, while keeping the real rate of return on deposits positive. During the year, Pakistan became the first major country in the South Asian region to have an independent Monetary Policy Committee (MPC) after requisite amendments in the SBP Act, 1956 were promulgated in November, 2015. The MPC has three external economists, three SBP Board members and three SBP executives, with the Governor as its chairperson. It has been mandated to independently formulate monetary policy. The minutes of the MPC meetings are also publicly disclosed to ensure transparency and to allow the public and the concerned stakeholders to better appreciate the MPC's decisions-making process.

The foreign exchange market also remained stable after witnessing some volatility in the first quarter of the year. After depreciating by about 3 percent against the USD in the first quarter, the Rupee-USD parity stabilized at around 105/USD in the last three quarters. While exports declined by 8.8 percent, remittances grew by 6.4 percent to reach USD19.92 billion by the year end. The market also remained liquid which not only helped in maintaining exchange rate stability but also enabled SBP to strengthen the FX reserves that reached a record high level, equivalent to the country's over five months import bill. These reserves have been invested in well-diversified instruments, managed both internally and externally, keeping in view the overall guiding principles of safety, liquidity and return.

During the year, the banking industry experienced some pressure on its profits due to declining interest rates and spreads, however, the outlook remained stable with high solvency levels, a strong capital base, contained Non Performing Loans and improving risk management systems. The banking industry grew by 16.1 percent during the year. The doubling of private sector credit was the most encouraging development during the year that contributed significantly in achieving the 4.7 percent growth in real GDP. This was despite a major setback in the agriculture sector due to the 27 percent decline in the cotton crop. The sharp surge in private sector credit is a reflection of increasing trust and confidence of the business community in the overall improvement in the investment climate of the country.

The year also witnessed continued double digit growth of Islamic banking with 16.8 percent and 14.1 percent growth in its assets and deposits respectively. As of end June 2016, its asset base grew to Rs 1,745 billion, representing 11.4 percent of the banking system assets, whereas deposits at Rs 1,461 billion were equivalent to 13.2 percent of the banking industry's deposit base. The outreach of the Islamic banking industry has also expanded considerably with its branch network increasing to 2146 branches in 98 districts across the country. This is well above the target of 2000 branches set in the second Strategic Plan 2014-18 of Islamic Banking Industry.

In line with “SBP Vision 2020”, SBP has initiated work on strengthening the Financial System Stability Framework. A separate ‘*Financial Stability Department*’ was established during the year to focus and steer all financial stability related issues and initiatives including crises management, consolidated supervision and identification and supervision of D-SIBs in the country. A Financial Stability Executive Committee has also been constituted to serve as an internal forum for discussion and coordination of financial stability issues, while the constitution of National level Financial Stability Council is in process.

The regulatory and supervisory framework for banks is reviewed on an ongoing basis to ensure its conformity with the internationally recognized Core Principles and Standards. During the year two regulatory liquidity standards i.e. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) along with a set of five risk monitoring tools were issued for implementation from 2017. This would enable banks to objectively measure liquidity risk and take necessary corrective actions. A Risk Based Supervision project has also been initiated, to graduate to the next level of risk based supervision. This would help in prioritizing resources, improving responses to financial stress conditions and enhancing our understanding of the risks at the institution level. The long awaited deposit insurance scheme is also planned to be launched in the near future, as both the National Assembly and the Senate approved the proposed Deposit Protection Corporation Act, 2015 during the year. The law is in line with International Association of Deposit Insurers’ (IADI) Core Principles for an effective deposit insurance system. It envisages the establishment of the Deposit Protection Corporation (DPC) as a subsidiary of SBP to provide coverage to all the depositors up to a certain limit, to be decided by the DPC Board. The membership of DPC will be mandatory for all banks operating in the country. With the establishment of DPC, a major gap in the financial stability infrastructure will be filled and would serve to further enhance the confidence and trust of the general public in the banking system.

Consumer protection and ensuring fair treatment of consumers has been a major focus of SBP’s regulatory and supervisory policies and initiatives. A number of guidelines and regulations were issued during the year to ensure fair treatment of consumers by banks. Further, to facilitate banks in having a reliable mechanism to assess their conduct with customers, a Conduct Assessment Framework (CAF) was developed and shared with the banks. The CAF, besides enabling the banks to objectively assess their conduct, will also serve as the conduct monitoring tool for SBP. The campaign for improving financial literacy has also been intensified, as better consumer awareness about financial products and services would serve as the first line of defense against any unfair treatment of consumers by banks.

The development of a modern and robust Payment System in the country is one of the key Strategic Goals of SBP’s Vision 2020 which includes: i) development of the National Payment System Strategy ii) modernizing and expanding payments, clearing and settlements infrastructure to improve efficiency, security, costs and access, iii) implementing a robust regulatory and supervisory framework for Financial Markets Infrastructure and iv) maintaining the quality, security and adequate supply of banknotes and coins in circulation. To promote usage of PRISM by banks’ customers, banks were advised to ensure availability of PRISM funds transfer facility at their branches and create awareness among general public about its usage. In order to ensure timely interbank transfer of home remittances, the use of PRISM system has been allowed free of charges. Further, to enhance the capacity of PRISM and address systemic risks inherent in the Large Value Payment System, the PRISM System upgradation project was initiated during the year, which will be completed during FY17. SBP also facilitated the launch of the first domestic payment card PayPak by 1-Link to provide a low cost card-based payment solution to customers in the country. This is expected to boost the use



of cards as an important payment instrument in the country and will thus be instrumental in modernizing the payment system.

The implementation of the National Financial Inclusion Strategy (NFIS), developed last year in collaboration with the World Bank, continued with full vigor during the year. The introduction of Low Risk "Asaan Account" with simplified due diligence requirements brought 1.13 million more people in the banking system. Branchless banking has been another key instrument for increasing financial inclusion. The industry added about one million mobile wallets during the year thus increasing the total mobile wallets to 14.6 million spread across the country. Further, 55,000 biometric devices have been installed at agent locations to facilitate paperless and hassle-free account opening for customers, which will help in achieving the goal of developing an inclusive financial system. The expansion of agriculture and rural finance has also been an important component of the financial inclusion strategy. Despite negative growth in the agricultural sector during the year, agri-finance continued its growth momentum, increasing by 16 percent to Rs599 billion. Encouragingly, the agri-finance sector added over 200,000 new borrowers during the year, thus increasing the total outreach of the sector to 2.4 million active borrowers from 2.2 million in the previous year.

Some encouraging activity has been seen in the housing finance sector, which grew by almost 17 percent during the year with all time high disbursements of Rs 20.13 billion. This could be attributed to the low interest rate environment prevailing in the country. During the year, SBP also succeeded in getting the Financial Institutions Recovery Ordinance, 2001 amended to provide legal cover to banks to take legal action against housing finance defaulters. This has addressed one of the key concerns of banks and would thus give a boost to the housing finance market. SBP is also promoting 'Green Banking', which would help to address energy shortages and environment degradation issues being faced by the country. A special unit has been created in the Development Finance Group to work as a focal point for all Green Banking initiatives.

Progress on strategic goals is not possible without building the necessary institutional capacity. As envisaged in Vision 2020, SBP made focused efforts to strengthen HR and IT systems' capacity and improve organizational efficiency. To attract quality human resources from the market particularly at entry level, the Bank's HR team visited reputed business and management schools across the country to promote 'SBP' as an 'Employer of first choice'. Further, being a knowledge based organization, SBP is investing heavily on training and development to ensure compatibility of the skills mix of its HR with the industry dynamics. During the year, 8058 man-days of in-house trainings were completed, besides sending 170 officers on foreign training to reputed international institutions and central banks. To sharpen the leadership skills of middle and senior management officers, several iterations of the world renowned 'Management Grid' program were completed, enabling around 125 officers of middle to senior management level to enhance their leadership skills. Further, 35 officers completed the International Certification of Enterprise Risk Management, from the faculty of George Washington University.

Besides HR development, continuous improvement and strengthening of IT systems is also an important component of SBP's institutional development strategy. During the year, several major projects were initiated to upgrade IT systems, including up-gradation of core Banking System (Globus G11) to its latest version Temenos-T24 R15, replacement of underlying servers, storage area network systems and operating systems for catering to the requirements of hosting new / upgraded Business Systems and Applications. Further, in view of incidents of high profile regional cyber attacks, a detailed review of IT Security infrastructure and SWIFT systems was undertaken and adjustments in technology and business processes were made.

In conclusion, I would like to express my gratitude to the SBP Board of Directors for their continuous support and guidance. I would also like to place on record my deepest appreciation of the senior management team members and the staff of SBP who work tirelessly to achieve the organizational objectives.

**Ashraf Mahmood Wathra**  
Governor/Chairman

October 31, 2016

# Governance Structure

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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 and to foster its economic growth in the best national interest with a view to securing monetary stability and to fully maximize utilization of the country's productive resources.

## Board of Directors

The SBP is governed by a Board of Directors, which is responsible for the general supervision and direction of the affairs of the Bank. The Board is chaired by the Governor SBP and comprises of eight non-executive Directors and Federal Secretary Finance. Non-executive members of the Board are appointed by the Federal Government for a period of 3 years, under Section 9(2) (c) of the SBP Act, 1956 (as amended). The Governor is also the Chief Executive Officer and manages the affairs of the Bank. Nine meetings of the Board were held during FY16.

In the first half of March FY16, Mr. Mehmood Mandviwalla, Mr. M. Nawaz Tiwana, Mr. Iskander Mohammed Khan, Mr. Khawaja Iqbal Hassan, Mr. Muhammad Hidayatullah and Mr. Zafar Masud completed their three years' tenure as Director of the Board. The positions vacated by Mirza Qamar Beg and Mr. Shahid Ahmed Khan in FY15 were already vacant. Accordingly, the Federal Government appointed Dr. Tariq Hassan, Hafiz Mohammad Yousaf, Mr. Zubyr Soomro, Mr. Khawaja Iqbal Hassan, Mr. Zafar Masud, Mr. Ardeshir Khursheed Marker, Mr. Mohammad Riaz and Mr. Sarmad Amin as member of the SBP Board on March 22, 2016.

In November 2015, amendments in the SBP Act, 1956 were promulgated, the most significant among which was the establishment of the independent Monetary Policy Committee (MPC). The first meeting of the MPC was held in January, FY16. MPC meetings are regularly held once every other month

## Executive Management

The Governor being the Chief Executive heads the executive management. He is assisted by one or more Deputy Governors. In addition to the Governor and Deputy Governors, the management hierarchy includes Executive Directors, Chief Economic Advisor, and Directors of various departments. (Organogram is placed at **Annexure-B**).

## 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 has been the Governor, SBP from April 29, 2014.

## Deputy Governors

The Governor is assisted by one or more Deputy Governors appointed by the Federal Government for a period not exceeding five years. Presently, Mr. Saeed Ahmad and Mr. Riaz Riazuddin are serving as Deputy Governors since their appointment on January 21, 2014 and March 30, 2015 respectively.

## Board of Directors<sup>1</sup>



**Mr. Ashraf Mahmood Wathra**, Governor; Chairman Board of Directors and Chairman Monetary Policy Committee

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 SBP Board. Dr. Khan has served as Special Secretary to the Prime Minister, Secretary, Economic Affairs Division, and Additional Secretary, Prime Minister's Secretariat. He did his PhD in Economics from Boston University, USA.



**Dr. Tariq Hassan** (Member, SBP Board since March 22, 2016)  
Attorney and advocate, Supreme Court of Pakistan. Dr. Hassan is a former Chairman, Securities and Exchange Commission of Pakistan, who had previously been advisor to the Finance Minister of Pakistan. He has also been associated as legal Counsel with the World Bank in Washington, DC, International Fund for Agriculture Development in Rome, and Shearman & Sterling in New York. In addition to practicing law, he has been teaching law as an adjunct professor at George Washington University and Fletcher School of Law & Diplomacy, USA; and Departments of Law at LUMS University and International Islamic University, Pakistan. He did his PhD in Juridical Science from Harvard University, USA.



**Hafiz Mohammad Yousaf** (Member, SBP Board since March 22, 2016)  
A Chartered Accountant by profession with professional experience of over 30 years. Presently, he is also serving as Member SECP Board and is the President of the Institute of Chartered Accountants of Pakistan, besides holding other important responsibilities. He is Fellow member of Institute of Chartered Accountants of Pakistan (FCA).

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<sup>1</sup> Board Composition is as of June 30, 2016.



**Mr. Zubyr Soomro** (Member, SBP Board since March 22, 2016)

Educated at the London School of Economics and SOAS, Zubyr Soomro has been a career international banker with over 40 years at Citibank with assignments in the Middle East, Turkey, UK and Pakistan. In 1997 he was appointed as Chairman and President of United Bank and tasked with restructuring it for Privatization after which he stayed on to head Citibank's Pakistan franchise. He has been Chairman / President of Pakistan Banks Association, American Business Council and OICCI. Currently he is the Chairman of the Pakistan Microfinance Investment Company and on the Boards of Acumen, Grameen Foundation USA, LRBT and Aitchison College and a Member of the Finance Minister's Economic Advisory Council.



**Mr. Khawaja Iqbal Hassan** (Member, SBP Board since March 22, 2016)

A seasoned banker who established a commercial bank and a leading investment banking firm, with 35 years' experience in the financial sector. He is serving on the Boards 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. Zafar Masud** (Member, SBP Board since March 22 - August 24, 2016)<sup>2</sup>

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 Boards of leading public sector organizations. He holds an MBA degree from the Institute of Business Administration (IBA), Karachi.



**Mr. Ardeshir Khursheed Marker** (Member, SBP Board since March 22, 2016)

A businessman by profession, Mr. Ardeshir Khursheed Marker is partner and Director at Green Bean Coffee Company Ltd. He is also a partner in Merck Marker Pvt. Ltd. and manages its financial and business development areas. Mr. Marker holds a Master Degree in Economics from the London School of Economics.



**Mr. Mohammad Riaz** (Member, SBP Board since March 22, 2016)

A public servant of long standing, Mr. Mohammad Riaz has served as Secretary, National Assembly of Pakistan. He has successfully undertaken various assignments at the Federal Board of Revenue in the capacity as Member, Director General and Head of the Customs & Excise. Mr. Riaz has also served as Counsel General of Pakistan at Turkey and Commercial and Economic Counselor at Embassy of Pakistan in France. He holds a Masters Degree in Development Economics from Williams College, USA.

<sup>2</sup> Pursuant to his appointment as Director General, Central Directorate of National Savings (CDNS), Mr. Zafar Masud resigned from the SBP Board on August 24, 2016, in line with Section 13(1)(b) of the SBP Act, 1956 (as amended).



**Mr. Sarmad Amin** (Member, SBP Board since March 22, 2016)

A progressive entrepreneur and a businessman, Mr. Sarmad Amin is a member of Lahore Chamber of Commerce and Industry (LCCI) and All Pakistan Textile Mills Association (APTMA). He has remained Vice President of LCCI and member Executive Committee of APTMA. Presently, Mr. Amin is Chairman of Samin Textiles Limited besides being member of the Boards of several conglomerates. He is also honorary Consul of the Republic of Austria for Pakistan. He graduated from the University of the Punjab, Lahore.

**Corporate Secretary**

The Corporate Secretary is the Secretary to the Board and the Committees of the Board and acts as a focal person for communication between the Board and the management. The position 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 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.

**Monetary Policy Committee (MPC)**

The Monetary Policy Committee is an independent, statutory body responsible for formulating the Monetary Policy. The MPC consists of ten members, with the Governor as Chairman, three members of the Board nominated by the SBP Board, three senior executives of the SBP nominated by the Governor, and three External Members (economists) appointed by the Federal Government on the recommendation of the SBP Board. The External Members are appointed for a term of three years.

Present composition of the MPC includes Mr. Ashraf Mahmood Wathra, Governor SBP as Chairman MPC, Mr. Khawaja Iqbal Hassan, Mr. Mohammad Riaz and Mr. Ardeshir Khursheed Marker, members SBP Board. Dr. Asad Zaman, Dr. Qazi Masood Ahmad and Dr. Aliya Hashmi Khan are the three external members on the MPC whereas Mr. Saeed Ahmad Deputy Governor (FM, IB & SI), Mr. Riaz Riazuddin Deputy Governor (Policy) and Mr. Jamil Ahmad Executive Director (FS & BSG) are the three executive members of MPC.

Brief profiles of external members of the MPC are as follows:



**Dr. Asad Zaman** (Member, MPC since January 25, 2016)

[BS Math MIT (1974), Ph.D. Econ Stanford (1978)] has taught at leading universities like Columbia, U. Penn., Johns Hopkins, Cal. Tech. and Bilkent University, Ankara. Currently he is Vice Chancellor of Pakistan Institute of Development Economics. His textbook Statistical Foundations of Econometric Techniques (Academic Press, NY, 1996) is widely used as a reference in advanced graduate courses. He is managing editor of International Econometric Review and Pakistan Development Review. His publications in top ranked journals like Annals of Statistics, Journal of Econometrics, Econometric Theory, Journal of Labor Economics, etc. have over 900 citations as per Google Scholar.





**Dr. Qazi Masood Ahmed** (Member, MPC since January 25, 2016)

Professor and the Director, Centre for Business and Economic Research, Institute of Business Administration (IBA), earlier also served the institute as the Chairperson, Centre for Executive Education (CEE). Other current assignment includes member Tax Advisory Council, the Federal Board of Revenue, Government of Pakistan. Dr Qazi also served Government of Sindh as its Chief Economist for two years. His research and teaching experience spread over 25 years and published over 50 papers in international and national journals. Also served the Social Policy and Development Centre for more than seven years as its Technical Adviser.



**Dr. Aliya Hashmi Khan** (Member, MPC since March 22, 2016)

Professor of Economics and Dean Faculty of Social Sciences at Quaid e Azam University. Dr. Aliya Hashmi Khan has research interests in the areas of Macro Economics, Labor Economics and HR Development. She has been contributing as Director/ Member on Boards of several organizations and advisory bodies. She has been awarded the President's Medal in 2010 for services rendered in the economic empowerment of women.

### Committees of the Board<sup>3</sup>

Committees of the 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 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 Board. The Committee met six times during the year. It is chaired by Hafiz Mohammad Yousaf, with M/s Khawaja Iqbal Hassan, Ardeshir Khursheed Marker and Sarmad Amin as members since April 2, 2016. Previous Audit Committee was chaired by Mr. Muhammad Hidayatullah, with M/s Khawaja Iqbal Hassan and Iskander Mohammed Khan as members<sup>4</sup>.

#### Committee on Investment

The Committee assists the Board in fulfilling its oversight responsibilities relating to management of foreign exchange reserves. Besides reviewing the strategy and policy for management of the reserves, it also approves operational guidelines for investment, appointment of asset managers, custodians, investment consultants and the broad investment framework for the Bank. It also reviews the performance of the foreign exchange 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 five times during the year. It is chaired by Dr. Waqar Masood Khan, with M/s Khawaja Iqbal Hassan and Sarmad Amin as members since April 2, 2016. Previous Investment Committee was chaired by Dr. Waqar Masood Khan, with M/s Khawaja Iqbal Hassan, Iskander Mohammed Khan and Zafar Masud as members.

<sup>3</sup> The Composition of the Committees has been updated to reflect Mr. Zafar Masud's resignation from the SBP Board of Directors.

<sup>4</sup> After appointment of new members on the Board on March 22, 2016, the Board met on April 2, 2016 where the Board Committees were reconstituted.

### **Committee on Human Resources**

The Committee assists the Board in reviewing and approving HR policies prepared by the management. It reviews all the proposals requiring approval of the Board on formulation, revision, modification or interpretation of HR policies, and submits its recommendations to the Board. The Committee also reviews the terms and conditions of employment of senior level Bank officers including those reporting directly to the Governor. The Committee met five times during the year. It is chaired by Mr. Zubyr Soomro, with Mr. Mohammad Riaz as members since April 2, 2016. Previous HR Committee was chaired by Mr. Mehmood Mandviwalla with M/s M. Nawaz Tiwana and Zafar Masud as its members.

### **Publications Review Committee (PRC)**

Publications Review Committee of the Board assists the 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 four times during the year. Its members include M/s Ardeshtir Khursheed Marker and Mohammad Riaz since April 2, 2016. Previous PRC was chaired by Mr. Zafar Masud with M/s Muhammad Hidayatullah and M. Nawaz Tiwana as its members.

### **Enterprise Risk Management Committee**

The Committee assists the 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 when required with the ERM Committee of the Management and with other Committees of the Board. The Committee is also mandated to oversee risks emerging from the subsidiaries, i.e., SBP-BSC and NIBAF until such time that the subsidiaries set up their own ERM framework. The Committee met six times during the year. It is chaired by Mr. Khawaja Iqbal Hassan, with Mr. Zubyr Soomro and Dr. Tariq Hassan as members since April 2, 2016. Previous ERM Committee was chaired by Mr. Khawaja Iqbal Hassan with M/s Muhammad Hidayatullah and Zafar Masud as members.

### **Financial Law Reform Committee (FLRC)**

The Committee assists 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 also takes into account comments and observations of the various departments on inconsistencies and anomalies in the legal framework, where they exist. The Committee met seven times during the year. It is chaired by Dr. Tariq Hassan, with M/s Hafiz Mohammad Yousaf as member since April 2, 2016. Previous FLRC was chaired by Mr. Mehmood Mandviwalla with M/s Khawaja Iqbal Hassan, Muhammad Hidayatullah and Zafar Masud as members.

### **Corporate Management Team (CMT) and CMT-HoDs forum**

The Corporate Management Team (CMT) serves as the principal forum for discussion and consultation 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 Chief Economic Adviser, 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.

### Corporate Management Team



Mr. Ashraf Mahmood Wathra  
Governor



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



Mr. Riaz Riazuddin  
Deputy Governor (Policy)



Mr. Jameel Ahmad  
Executive Director (FS & BSG)



Mr. Amer Aziz  
Managing Director (NIBAF)



Mr. Qasim Nawaz  
Managing Director (SBP-BSC)



Mr. Inayat Hussain  
Executive Director  
(Operations)



Mr. Muhammad Haroon  
Rasheed Malik  
Executive Director (FRM)



Syed Samar Hasnain  
Executive Director (DFG)



Syed Irfan Ali  
Executive Director (BPRG)



Dr. Saeed Ahmed  
Chief Economic Advisor



Mr. Amjad Manzoor  
Executive Director (HR)



Mr. Muhammad Ali Malik  
Executive Director (FMRM)



Ms. Sahar Z. Babar  
Corporate Secretary

## 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
- Monetary Operations Committee
- Budget Committee of Management
- Business Continuity Planning Committee
- Data Warehouse Committee
- Derivatives Approval & Review Team
- Strategic Plan Steering Committee
- 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 are: 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 SBP Board and the Managing Director of SBP-BSC.

### NIBAF

National Institute of Banking and Finance (NIBAF) is the training arm of SBP with the mandate to develop, design and conduct training and capacity building programs for the employees of SBP and SBP BSC. The subsidiary also conducts international courses on central and commercial banking in collaboration with the Federal Government. Further, NIBAF also conducts training programs for banks and financial institutions.

# 1 Enhancing Effectiveness of Monetary Policy

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## 1.1 Monetary Policy Formulation

Macroeconomic conditions continued to improve during FY16 with average annual headline CPI inflation declining to historic low of 2.9 percent, well below its annual average target of 6 percent. Real GDP grew by 4.7 percent, the highest in the last eight years. Foreign exchange reserves maintained their upward trajectory reaching to an all time high of USD 23.1 billion. The exchange rate also remained stable particularly during the second half of FY16 after showing some fluctuation in the first half. Credit to private sector almost doubled from last year and gross domestic fixed capital investment increased by 5.7 percent during FY16. Net foreign direct investment also increased by over 100 percent in FY16 largely due to the ongoing CPEC related projects.

Given the benign inflationary outlook, SBP continued with the gradual reduction in the policy rate during the year to augment investment and growth. The policy rate was reduced by 75bps to 5.75 percent in FY16 compared to over 300bps reduction in FY15. Further, the process for developing a roadmap for implementing the flexible inflation targeting framework, which is an important component of the SBP Vision 2020, started during the year. This would include extensive research to ensure smooth transition to inflation targeting in the coming years and would make the SBP monetary policy function more effective and transparent.

### 1.1.1 Constitution of Monetary Policy Committee

The constitution of the Monetary Policy Committee (MPC) was a major milestone achieved during the year after enactment of necessary amendments in SBP Act, 1956 in November 2015. It will strengthen the monetary policy formulation process and ensure its independence in line with international best practices. The MPC comprises three external economic experts, three SBP executives and three SBP Board members with the Governor SBP as its Chairperson. The Committee has been mandated to independently formulate monetary policy based on assessment of macroeconomic conditions, including inflation outlook, economic growth indicators, balance of payment, exchange rate and foreign exchange reserves position. It also has powers to make regulations for implementation of its monetary policy stance. After constitution, the MPC held three meetings during FY16 and approved bimonthly monetary policy statements issued by SBP. In order to bring greater transparency in monetary policy decision making, SBP has also started publishing minutes of MPC meetings, as this would facilitate the market and general public in better appreciating and understanding the central bank's monetary policy stance.

### 1.1.2 Improvements in Transmission of Monetary Policy

To further improve the implementation of monetary policy, the Interest Rate Corridor (IRC) framework was revised in May 2015 in line with international best practices. The revised framework introduced SBPs Policy Rate as an explicit Target Rate to unambiguously signal the central bank's monetary policy stance and to align the operational target of overnight money market repo rate with it. Due to implementation of the explicit target rate in FY16, volatility in the money market overnight repo rate reduced significantly. The standard deviation of the overnight repo rate has come down to 0.45 in FY16 from 1.28 in FY15. As a result, the transmission of policy rate improved across the other market interest rates as well. For instance, 6-month KIBOR (corporate benchmark for lending) started to follow closely the trends in target rate rather than the ceiling of IRC (penal rate) that it broadly used to follow earlier. On average the 6-month KIBOR during the year remained 03bps below the ceiling of IRC as compared to 16bps above the ceiling in FY15. In order to keep the interest rate

closer to the target rate, Open Market Operations (OMOs) were conducted more frequently in FY16 with significantly higher volumes than the last year.

## 1.2 Exchange Markets and Reserve Management

The ongoing monitoring of financial markets, routine liquidity operations in the money market and calibrated interventions in the FX market continued during the year to implement the monetary policy stance, to ensure stability and smooth functioning of both money and FX market and to build up foreign exchange reserves. In line with SBP Strategic Plan 2016-2020 (Vision 2020), a number of measures were taken to improve the efficiency and effectiveness of FX regime in the country (see **Box 1.1**).

### Box 1.1: Initiatives taken to improve effectiveness of foreign exchange regime during FY16:

- To enhance efficiency in trade transactions, SBP in collaboration with Pakistan Customs, automated issuance of Form E for declaration of Exports to Pakistan Customs with effect from November 2, 2015. However, declaration on physical Form E shall continue in areas where Web-based software for custom clearance i.e. WeBOC is not available.
- With a view to further streamline regulatory instructions, Authorized Dealers were advised to convert export proceeds in PKR, where the concerned exporter had failed to do so within prescribed time period of three working days, at the 'buying' rate of weighted average exchange rate that prevailed on the third day of receipt of such funds, as available on SBP website under advice to the concerned exporter.
- With a view to facilitate Hajj Group Organizers (HGO) during Hajj operations the year 2015, Authorized Dealers (ADs) were allowed to remit foreign exchange (Saudi Riyals) on behalf of the HGOs that have been allocated quota by the Ministry of Religious Affairs (MORA) under the Private Hajj Scheme.
- In order to ensure meticulous compliance of foreign exchange rules & regulations and to further improve efficiency in enforcement process, a dedicated 'Compliance and Enforcement Division' was established in Exchange Policy Department.
- To facilitate exchange companies, an SBP-Customs Joint Booth was established at International Departure Lounge of Bacha Khan International Airport, Peshawar, to export permissible foreign currencies from Peshawar and adjoining areas. Such booths are already working at Karachi, Lahore and Islamabad airports.
- In order to improve liquidity of US Dollar in the market, Exchange Companies have been allowed to import cash US Dollars from Jinnah International Airport, Karachi and Allama Iqbal International Airport, Lahore against export of permissible foreign currencies.
- In order to facilitate stakeholders, the Foreign Exchange Manual was updated and placed on SBP website.

### 1.2.1 Introduction of New GoP Debt Instruments

In Pakistan, both the primary and secondary markets for conventional government securities are liquid and efficient. However, the market for Islamic instruments is relatively less mature owing primarily to lack of regular issuances of government debt instruments over the years. In order to give the Government of Pakistan (GOP) an additional avenue to raise funds from the domestic markets and to facilitate Islamic Banking Institutions (IBIs) in their liquidity management, SBP in consultation with GOP introduced the *Bai-Muajjal* of GOP *Ijara Sukuk* (GIS) and Fixed Rental Rate GIS by GoP. During the years, the GOP raised amounts of Rs 208.6 billion and Rs 197 billion respectively through these instruments.

### 1.2.2 Management of Foreign Exchange (FX) Markets

The Foreign Exchange market remained stable during the year after witnessing some downward adjustment in the first quarter of FY16. With no major spikes, the USD/PKR exchange rate witnessed only a moderate depreciation of 3 percent in FY16. The stability and ample liquidity in the FX market also significantly contributed in continued buildup of FX reserves, which increased by USD 4.4 billion during FY16 to reach to a record high level of USD 23.1 billion as at the close of the fiscal year.



### **1.2.3 Foreign Exchange Reserve Management**

Global financial markets were marked by three major themes in FY16: low-to-negative interest rates, high market volatility and heightened risk perceptions. In line with the overall guiding investment principles of safety, liquidity and return and taking cognizance of the prevalent ‘three main themes’ in the global markets, the returns were optimized through diversification into new markets. In this vein, funds were deployed into international Islamic Sukuk adding to diversification gains from investment in Chinese government bonds, already in place. Efforts to optimize returns through portfolio diversification, effective FX Management, effective market strategies and favorable market developments have resulted in higher returns on SBP’s foreign currency investment portfolio in FY16, compared to FY15. Further, to support diversification in FX reserves management, two new Nostro accounts in CNY and JPY are being opened. A Code of Conduct for Back Office operations has also been developed and implemented.

### **1.3 Home Remittances**

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 into the country through formal channels. The Home remittances continued to grow though at a reduced rate of 6.4 percent and increased to USD 19.9 billion during FY16 compared with USD 18.7 billion in FY15. The reduction in growth rate of remittances could be attributed to economic difficulties being faced by Saudi Arabia and Gulf countries due to the steep reduction in oil prices. The remittances have been a very important component of our external sector as the trade deficit is largely funded by the remittances; in FY16 they funded nearly 50 percent of the country’s imports and were equivalent to 7.0 percent of GDP. During the year following major steps were taken, under the auspices of PRI, to facilitate the flow of remittances:

- A financial training and awareness program for intended emigrant workers was launched at all seven Protectorate of Emigration Offices and departure lounges of international airports in coordination with Bureau of Emigration & Overseas Employment, commercial banks and Civil Aviation Authority.
- To further enhance domestic outreach of remittance distribution network, ZTBL and Pakistan Post were added in the network through an arrangement with a commercial bank. Similarly, AJK Bank also entered into remittance distribution arrangement with a commercial bank.
- To increase the overseas outreach, 36 new overseas tie ups were added during the year in different overseas corridors including South Africa.
- In order to further streamline the process, comprehensive instructions were issued on ‘Reimbursement of TT Charges scheme on Home Remittance in May 2016.

### **1.4 Research**

The SBP has an elaborate research function to conduct research on key macroeconomic issues and challenges faced by the country and in key areas of focus of the central bank, which forms the basis for its policy and regulatory interventions. The following major research activities were completed during FY16.

- Inputs and forecasts from the customized Forecasting and Policy Analysis System (FPAS) model for Pakistan were prepared and provided to the Monetary Policy Committee (MPC). The studies on open economy DSGE model including external balance assessment approach of exchange rate misalignment, dominant borrower syndrome, comparison of various RBC models and estimation of financial conditions index were also completed.

- A study on “Monetary Policy Effectiveness in Pakistan: Evidence from “Factor Augmented Bayesian Structural Vector Autoregression (FABSVAR) model” was also conducted. This study used Pakistan’s monthly time series data covering July 1992 to June 2015 period to assess impact of monetary policy and exchange rate dynamics on inflation in the country. Combining a set of relevant variables (including different interest rates, monetary aggregates, exchange rates) in one factor, this study found significant impact of monetary policy and exchange rate dynamics on inflation; however the impact of global commodity prices was even higher.
- The role of money *vis-à-vis* interest rate as policy instruments on their relative effectiveness in terms of taming inflation was conducted. Results suggest not to completely deemphasize the role of monetary aggregates, and to vitalize the interest rate instrument. In another analysis to see if SBP’s response to inflation across high and low inflation regimes is asymmetric; it was found that it is more aggressive during the high inflation regime than in the low inflation regime.
- To understand the dynamics of agriculture credit in Pakistan, field experiments in Matiari (Sindh) were carried out during the last couple of years. The study helped in identifying the constraints holding back credit supply to small and medium sized growers. This study has been extended in order to understand the mechanisms that encourage growers to fully settle their loans.
- The first phase of Management and Organizational Practices Survey (MOPS) was completed in collaboration with Pakistan Bureau of Statistics and the London School of Economics (LSE) for the manufacturing sector firms located in Punjab. After US, Pakistan is the first country to organize a MOPS. This will help in understanding the management practices of manufacturing sector firms in Pakistan and the role of such practices in firms’ productivity growth. On completion of the first phase, this survey has been extended to rest of the provinces in Pakistan.

#### Box 1.2: Initiatives under SAARCFINANCE

- A joint study on “Managing Capital and Remittance Flows in SAARC Region for Safeguarding Financial Stability” by Reserve Bank of India and State Bank of Pakistan was completed. This study of SAARC countries assessed causes of capital flight and gave policy recommendations to member countries.
- The 22nd SAARCFINANCE Coordinators’ meeting was held on August 17, 2015 at Islamabad. As a chairman of SAARCFINANCE Network, Governor SBP attended the 7th SAARC Finance Ministers’ Meeting held in Kathmandu, Nepal on 20th August 2015. A progress report of the SAARCFINANCE (the Network of SAARC Central Bank Governors and Finance Secretaries of the region) was presented by the Governor. He highlighted some recent initiatives undertaken by the SAARCFINANCE Network for fostering closer relationships and building human capability (in the field of central banking) amongst SAARC partners.
- SBP also organized 31<sup>st</sup> SAARCFINANCE Group meeting on October 8, 2015 at Lima, Peru, alongside the IMF/World Bank annual meetings. Governor SBP chaired the meeting. During the meeting, the SAARCFINANCE Chair was transferred from the SBP to Central Bank of Sri Lanka.
- Two SAARCFINANCE seminars were organized on: i) Internal Audit in Central Banks: Methodologies & Practices (in November 2015); and ii) Payment Systems and Correspondent Banking in the SAARC Region (in May 2016). The first seminar focused on sharing knowledge on internal audit practices, standards, systems, and latest developments/issues facing internal audit functions in the central banks across the SAARC region. Whereas the second seminar focused on exploring ways to develop a robust payment systems and correspondent banking in the SAARC region which could play an important role in achieving secure, safe, and reliable mechanisms for financial transactions. The delegates from participating member central banks also shared their respective country experiences on the aforesaid areas.

### **1.5 Economic Analysis / Publications**

The annual and quarterly reports on the State of Pakistan's economy are the flagship publications of SBP that provided in-depth analysis of economic issues, trends and challenges. Economic analysis presented in these reports and assessments on a number of topical issues are well recognized by the stakeholders. Some of the important issues covered in the reports included; why credit-to-GDP ratio is falling? ; An analysis of deflation; why Pakistan's exports are stagnant? ; and Impact of decline in global oil prices.

In addition to the regular reports, a Staff Note was released on an important issue of low savings and investment in the country. This note attempted to explore underlying factors behind low investment rates and resource mobilization in Pakistan. Further, the feedback was provided to external stakeholders on different policy issues, like; Investment Policy and the Strategic Trade Policy Framework, CPEC Long Term Plan on Financial Cooperation 2016-2030, and budgetary proposals.

### **1.6 Data Management System**

In light of SBP Vision 2020, almost all data compilation processes at SBP have been automated. In addition to the internal use in research based policy formulation, the SBP statistics are widely used by cross section of stakeholders for research etc. The statistics compiled and disseminated over different periods mostly relate to monetary, financial and external sectors. Of late, SBP has brought about numerous improvements in data compilation and dissemination including:

- Improvement in the data coverage of Pakistan's balance of payments statistics as per IMF guidelines.
- Adoption of the latest international data compilation standards in the compilation and dissemination of International Investment Position (IIP) of Pakistan.
- Improvement in the scope of monetary statistics compiled under IMF's MFS Manual (2000) & Guide (2008) with inclusion of money market mutual funds data.
- Enhancement in the scope of monetary statistics by compilation of demand side information on number of loan applications and amount of loan demanded under International Standard Industrial Classification (ISIC 3.1) sectoral classification.
- Publication of new set of information on advances for private sector business and SME sector by type of finance in monthly statistical bulletin from December, 2015 onwards.
- Revamp of the annual publication 'Financial Statements Analysis of companies (Non-financial) listed at Karachi Stock Exchange.
- Initiation of the process of Compilation of Rent and Price Index of commercial properties.

## 2 Payment System

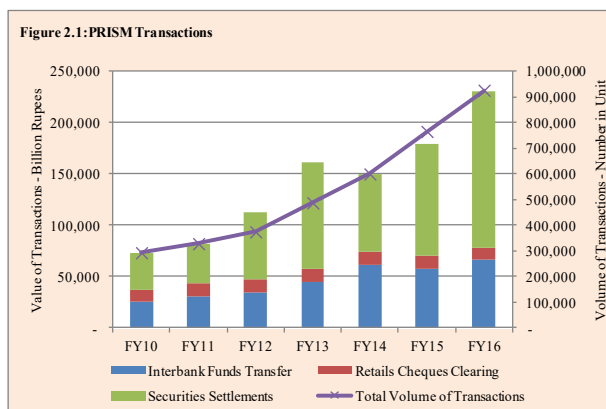
The development of a modern and robust Payment System” in the country is one of the key Strategic Goals of “SBP Vision 2020” adopted during the year. This Strategic Goal has been subdivided into four tactical objectives i.e. i) development of Pakistan’s National Payments Systems Blueprint, ii) modernizing payments, clearing and settlements infrastructure to improve efficiency, security, costs and access, iii) implementing a robust regulatory and supervisory framework for Financial Markets Infrastructure and iv) maintaining the quality, security and adequate supply of banknotes and coins in circulation. Furthermore, key activities have been identified for each tactical objective for ensuring smooth progress towards development of a robust payment system as envisaged in SBP Vision 2020.

A two pronged strategy has been developed to facilitate adoption of electronic/digital payments by the general public. First part of the strategy is expansion of infrastructure at three different levels i.e. electronic payment instruments (like cards and wallets), access points (like ATMs, Point of Sale and mobile devices) and central payment processors (like switches and gateways). The second part would focus on strengthening the regulatory and oversight frameworks for ensuring safety and soundness of these payment infrastructures. This will, in turn, enhance the trust and confidence of consumers on these alternate payment methods and promote their usage. Further, a comprehensive payment systems strategy is also being formulated to develop a robust, cost efficient, effective, secure and ubiquitous payments infrastructure in the country.

### 2.1 Large Value Payment System (PRISM)

Pakistan’s RTGS system known as “Pakistan Real-Time Interbank Settlement Mechanism” (PRISM) is used for large value interbank funds transfers by the financial institution as well as for settlements of trades of government securities and paper instruments. Presently, there are 43 direct participants of PRISM comprising 34 banks, 7 Development Finance Institutions (DFIs), 1 Microfinance Bank (MFB) and Central Depository Company (CDC).

Since its launch in 2008, a growing trend in the volume and value of transactions has been witnessed which shows that the system has been adopted by the financial institutions for their large value transactions. The value processed by the PRISM increased from Rs 179.6 trillion in FY15 to Rs 231.7 trillion in FY16 showing an increase of 29 percent; while the volume of transactions grew by 21 percent from 766 thousand in FY15 to 930 thousand in FY16 (see **Figure 2.1**).



To promote customers’ Fund Transfers using PRISM, all participant banks were advised to take immediate measures for ensuring availability of PRISM fund transfers facility at their branches from 9:00 am till 3:00 pm on working days and create awareness among general public through print media about the usage of this facility. Further, guidelines were issued for enabling Straight-Through-Processing (STP) capability between banks’ core banking systems and PRISM. This would enable large value payments of banks’ customers to be transferred in the inter-bank market in real time and will thus provide a safe alternative to cheques and other paper-based payment instruments.

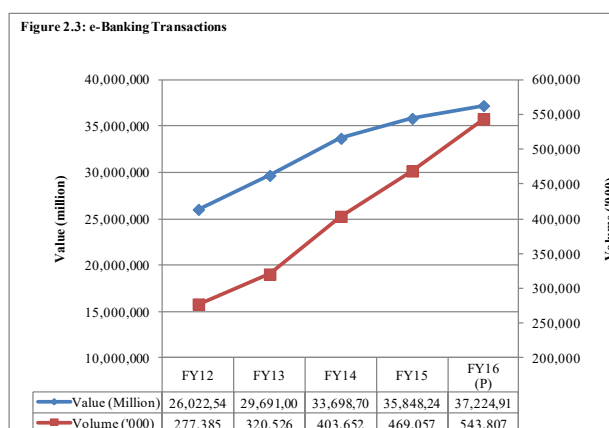
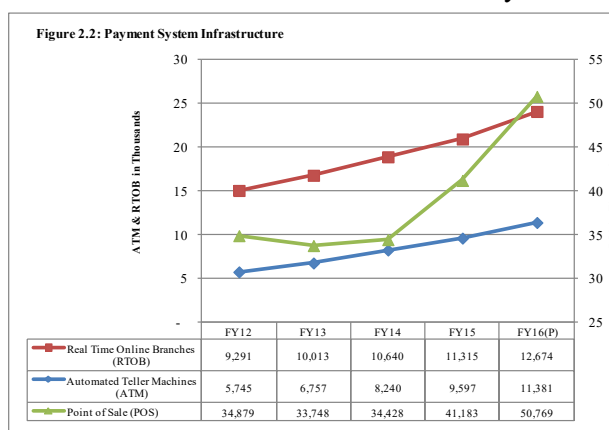
In order to ensure timely interbank transfer of home remittances under the arrangement of Pakistan Remittances Initiative (PRI), the use of message type MT 102 in PRISM system was allowed free of charge<sup>1</sup>. Banks receiving funds from abroad have been instructed to use this facility for immediately transferring the funds to beneficiary banks whereas the beneficiary banks have been advised to ensure timely credit to beneficiary accounts after they receive funds through PRISM. To further address the systemic risks inherent in the Large Value Payment System, the PRISM System up gradation project was initiated during the year to make it more robust, scalable and dependable. The up gradation project would be completed during FY17.

## 2.2 Development of Retail Payments Infrastructure

Development of safe, efficient and ubiquitous retail payment systems is not only a critical pre-requisite for ensuring a well functioning and growth oriented financial sector but is also a key enabler for promoting financial inclusion. SBP is, therefore, committed to transform the retail level digital payments landscape in the country in order to enable efficient delivery of financial services to all segments of population across the country.

### 2.2.1 Progress in Retail Payments

The retail payments are smaller in value but huge in volumes as general consumers make payments for their routine day to day purchases of goods and services using retail payment instruments. In Pakistan Cash is still a dominant retail payment instrument, though the non cash electronic and card based payments are growing at a fast pace. The SBP being the payment system regulator has been promoting use of electronic and card based payments to improve efficiency of the payments system. The number of electronic transactions has increased significantly over the last few years, both in terms of value and volumes. During the year, the value and volume of e-banking transactions increased to 37 trillion and 550 million respectively. Similarly, there has been a steady growth in the infrastructure (like ATMs and POS machines) processing these transactions. As evident from the graphs (see **Figure 2.2**), since FY12, the ATM network grew by almost 100 percent and POS network by 46 percent. E-banking transactions have seen a rise of 96 percent and 43 percent in terms of value and volume respectively. Detailed statistics of of payment system are given in **Table 2.1**.



**Table 2.1 Payment & Settlements Systems**

Item		FY12	FY13	FY14	FY15	FY16p	CAG%*
1. Paper Based Instruments (Cheques, Pay Orders, Demand Drafts and others)							
No. of Transactions	Million	357.00	359.00	362.04	361.59	339.72	-1.01
Value of Transactions	Trillion Rs	99.00	107.00	115.16	127.16	134.41	6.36
2. Electronic Banking and its Composition							
No. of Transactions	Million	277.38	320.53	403.65	469.06	543.81	14.41
Value of Transactions	Trillion Rs	26.02	29.69	33.71	35.85	37.22	7.42
3. Real-time Online Banking (RTOB)							
No. of Transactions	Million	83.07	89.06	98.49	113.80	135.36	10.26
Value of Transactions	Trillion Rs	24.00	27.10	30.20	31.60	32.34	6.17
4. Automated Teller Machines (ATMs)							
No. of Transactions	Million	166.16	199.78	258.48	300.25	342.88	15.59
Value of Transactions	Trillion Rs	1.60	2.00	2.60	3.20	3.68	18.31
5. Point of Sale (POS)							
No. of Transactions	Million	17.45	17.31	24.29	32.11	39.22	17.59
Value of Transactions	Billion Rs	80.00	87.00	124.61	172.14	199.75	20.05
6. Internet Banking							
No. of Transactions	Million	6.93	9.59	15.55	16.00	18.99	22.36
Value of Transactions	Billion Rs	365.00	498.82	675.60	797.65	880.47	19.23
7. Mobile Banking							
No. of Transactions	Million	3.12	4.15	6.17	6.14	6.64	16.29
Value of Transactions	Billion Rs	12.00	27.02	67.44	106.89	112.53	55.85
8. Call Center & IVR Banking							
No. of Transactions	Thousand	663.00	639.23	666.01	765.56	714.81	1.51
Value of Transactions	Billion Rs	7.00	8.15	9.54	9.52	10.11	7.10
9. Numbers of:							
i. Online Branches	Thousand	9.29	10.01	10.64	11.32	12.67	6.41
ii. ATMs	Thousand	5.75	6.76	8.24	9.60	11.38	14.65
iii. Credit Cards	Million	1.20	1.20	1.33	1.37	1.45	3.33
iv. Debit Cards	Million	16.00	20.20	23.06	25.02	27.41	11.39
v. Point of Sale (POS)	Thousand	34.88	33.75	34.43	41.18	50.77	7.80

P - Provisional as on June 30, 2016

\* Compound Annual Growth Rate(CAGR)

## 2.2.2 Launch of First Domestic Payment Scheme, PayPak

The relatively low acceptance of payment cards and high cost associated with card based payments particularly in the form of high Merchant Discount Rate (MDR) have been amongst the major impediments to the expansion of cash-less payments. The people who want to make purchases through their cards have to pay the MDR in addition to the cost of their purchases. In order to provide less expensive and independent card solution to customers in Pakistan, 1-Link (Pvt) Ltd. was allowed to launch the first domestic payment card- the PayPak in Pakistan. The domestic card will allow the local transactions to be routed, recorded and settled within Pakistan. It will be highly cost effective for issuing banks, merchants and ultimately for the consumers and thus will be instrumental in greater acceptance and expansion of card based payments. A number of banks are at an advanced stage of finalization of negotiations with 1-Link to issue PayPak; it is highly likely that at least a few of them will issue the domestic payment card during FY17.



### **2.2.3 Membership of NIFT for Microfinance Banks (MFBs)**

The cheques being cleared through NIFT system are settled on country-wide multilateral net settlement basis in PRISM. The direct membership of NIFT is linked with the membership of PRISM in order to address the systemic risk associated with non-settlement of clearing batches. Since MFBs were indirect members of the Clearing House, they were experiencing delays in receiving funds for their customers especially in remote areas. To address the issue, a mechanism for providing direct membership of NIFT to MFBs was devised and launched during the year in consultation with all stakeholders. This would give further boost to MFBs business enabling them to better serve the low income population and micro enterprises that are largely un-served or underserved by commercial banks.

### **2.2.4 Regulations for Prepaid Cards**

Globally, issuance of prepaid cards is a fast growing business. These cards are typically used for low value purchases and do not require a bank account. Customers can walk to a bank branch or the authorized sellers of a bank and purchase a prepaid card. In Pakistan, prepaid cards are being used for a variety of purposes including but not limited to payroll, travel, Hajj, Umra and education etc. Keeping in view the need for issuing standard regulations governing the issuance and usage of such cards the “Regulations for Prepaid Cards” were issued during the year to provide an enabling and level playing field for all the existing and potential issuers of such cards. These regulations were developed as per the international recommendations such as those issued by FATF to minimize the risks related to Money Laundering and Terrorist Financing.

### **2.2.5 Standardization of Financial Articles**

In order to bring uniformity and standardization and mitigate the risk of counterfeiting of financial articles i.e. Cheques, Pay orders, Demand drafts etc, the task of standardizing the financial articles was initiated during the year and standardized layout and security features of cheques, Pay orders and Demand Drafts were introduced. The standardization and enhancement in security features of financial articles will reduce the risk of frauds in these instruments besides being useful in implementing automated systems for processing these instruments.

### **2.2.6 Enhancing the Security of Retail Payments Infrastructure**

The cyber attacks on banking and payment channels have steadily increased in the recent past. To ensure the safety and security of the financial system, SBP has been issuing instructions to banks for improving security of IT systems. During the year, two important set of instructions relating to the Security of Payment Cards and Internet Banking were issued. The ‘*Regulations for Payment Card Security*’ issued under Payment Systems and Electronic Fund Transfers Act, 2007 prescribed the minimum operational, administrative, technical and physical safeguards to secure Payment Card operations in Pakistan. The regulations are in line with international best practices and standards and are applicable on all Financial Institutions, Payment System Operators and Payment Service Providers who are in the business of issuing, acquiring and processing Payment Cards in Pakistan. The social transfer cards such as Benazir Income Support Program cards are however excluded from the application of these regulations. Similarly the ‘*Regulations for the Security of Internet Banking*’ issued during the year required banks to develop formal Internet Banking Security Framework containing administrative, technical and physical safeguards based on best international practices. The regulations will bring much needed improvement in internet banking security infrastructure and thus would lead to expansion of internet banking services in the country at an increased pace.

### 2.2.7 Improved Data Collection and Revamping

In order to provide timely information about the trends in payment systems, SBP collects and compiles data about various payment channels and instruments in the country and disseminates it for the general public. Further, the data is also used for oversight purposes by SBP. Recently, after detailed discussions and deliberations, new data reporting templates covering the increased number of variables were issued for collecting detailed information from banks and other payment service providers about all the channels and participants of the payment system. This would enable SBP to perform proactive oversight of the payment channels and instruments while providing enhanced information about trends and developments in the country's payment system.

### 2.3 Improving efficiency of Government Receipts and Payments

Improving efficiency of government receipts and payments system is an important component of SBP vision 2020. This will be achieved through diversification of tax payment options for the tax payers and optimum use of innovations and developments in Information and Communication Technology. As a first step towards diversification of tax payment options for general public, 'The Bank of Punjab (BOP) was engaged as SBP agent during the year in addition to NBP to collect Punjab Government taxes and duties. This is the first time SBP appointed an agent other than NBP and based on the experience with BOP, other commercial banks could also be considered for collection of government taxes and duties. The diversification is aimed at facilitating the tax payers and bringing much needed competition in government banking business and thus improving efficiency and customer service quality.

Similarly to enhance efficiency in processing government payments the 'E-Cheque Reconciliation System' developed by PIFRA<sup>2</sup> was implemented at SBP-BSC Islamabad on a pilot project basis. For this purpose, a dedicated fiber optic line was laid between SBP-BSC Islamabad and AGPR. Through this connection between AGPR and SBP BSC Islamabad, all SBP BSC offices across the country have been connected with AGPR. After the successful completion of pilot project in Islamabad, the system was implemented in SBP BSC offices in the four provincial capitals. The implementation of the system in other SBP BSC offices is under process and would be completed during FY17. The NBP, an important SBP agent for government banking business, is also being pursued to implement the system in all its branches dealing with government payments. The system not only eliminates the hassle of manually searching the cheque numbers from the manual schedule but also addresses the reconciliation issues between SBP/NBP and AGPR/provincial treasuries. This would also minimize the possibilities of frauds in government payments. The initiation of implementation E-Cheque reconciliation system in SBP BSC offices across the country is a step towards SBP's plans to minimize the usage of paper cheques in government payments and directly pay the funds in the beneficiaries' bank accounts on receipt of government advice.

### 2.4 Regional/International Cooperation in Payment Systems

The Secretariat of SAARC Payment Council (SPC) is currently housed at State Bank of Pakistan. The SPC is taking forward the vision of SAARCFINANCE Group for improving the payment and settlement systems in the SAARC region. So far, 17 meetings of the SPC have been held in member countries (on rotation basis). SBP being the secretariat, works with the host country in arranging the meetings and other events that are held on sidelines. The Secretariat organized following events during FY16:

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<sup>2</sup> Project to Improve Financial Reporting and Auditing

- 17<sup>th</sup> SPC meeting was organized on 3<sup>rd</sup> December, 2015 at Cox's Bazar, Bangladesh. During the meeting, member countries discussed the progress of SPC Road Map and expressed satisfaction on the progress made by the Secretariat in imparting knowledge and skills through workshops and seminars. The Forum also discussed current issues and developments pertaining to payment systems technology, security, virtual currencies and financial inclusion in the SAARC region and explored possible solutions. The meeting also reviewed the draft Concept Paper on Single Harmonized Payments Mechanism (SHPM) and the Payment Systems Risk Matrix for the SAARC countries developed by the Secretariat for evaluating the causes of existing risks that central banks of the region are facing in the area of payment systems. The Secretariat would move to Reserve Bank of India (RBI) by the end of December 2016. The 18<sup>th</sup> SPC Meeting is scheduled to be held in Maldives in October 2016.
- The Secretariat also conducted 3rd SPC Seminar alongside the 17th Meeting in Bangladesh and invited experts from Reserve Bank of Australia and National Payments Council of India to talk on "Virtual Currencies" and "Cyber Security in Payment Systems".
- SBP also organized a Seminar on Correspondent Banking and Payment Systems in the SAARC region in March 2016 in Islamabad for central bankers of SAARC member countries.

## **2.5 Implementation of Currency Management Strategy**

Notwithstanding the efforts and initiatives to develop a robust infrastructure to promote and facilitate electronic payments, cash is a dominant component of our payment system and is likely to remain so in the foreseeable future. Thus concerted efforts are being made to modernize the currency management system to ensure adequate supply of good quality banknotes across the country. In order to reform and transform the currency management function both in the banking industry and the Central Bank, a detailed Currency Management Strategy was issued in August 2015. The key objectives of the strategy include: i) automation of cash management function in the banking industry to ensure disbursement of machine authenticated good quality banknotes to general public, ii) rationalization of SBP BSC currency management operations and increasing role and participation of commercial banks in currency management, iii) rigorous supervision of commercial banks and cash processing centers for assuring good quality banknotes in circulation, iv) promoting interbank trading of cash, and v) introduction of modern, reliable and easily recognizable security features in banknotes.

The strategy inter alia requires banks to issue only machine sorted and authenticated banknotes to public to ensure that no counterfeit banknote passes through the banking system. In the first phase starting from Jan-2017, the requirement of issuance of machine authenticated banknotes would be applicable on higher denomination banknotes (Rs 500 and above) in 30 big cities; whereas in the second phase starting from Jan-2018, all denomination banknotes to be issued by banks from their branches and ATMs across the country shall be machine authenticated. The implementation of the strategy is well on track as almost all the banks except a few public sector banks have got their machines tested and certified by SBP and were at advanced stage of installation of cash processing machines in their CPCs and/or branches in the 30 big cities. The banks not installing their own machines by the given dead line will have to make arrangements with other banks/CPCs to get their cash processed to disburse machine processed cash to their clients. Thus from January 2017, a new era of cash processing would start bringing Pakistan at par with regional and international best practices in currency management.

### **2.5.1 Enhancement of Security Features of Higher Denomination Banknotes**

In order to further strengthen the security features of higher denomination banknotes (Rs 500 and above) that are more attractive for counterfeiters, a joint committee of SBP, Pakistan Security Printing Corporation, Security Papers Limited and SICPA Inks Pakistan recommended addition of some advanced Level-I and Level-II security features in the higher denomination banknotes. The committee's proposal after approval by SBP Board was also approved by the Federal Cabinet. The higher denomination banknotes with enhanced security features will be issued by the end of first quarter of CY2017.

### **2.5.2 Awareness Campaign Regarding Security Features of Banknotes**

To enhance public awareness and understanding about security features of banknotes, SBP during the year launched videos and Smartphone Application about the security features. The awareness about the security features is the first line of defense against counterfeits as it enables the public to easily differentiate between the genuine and fake notes. These videos have been aired by PTV and other TV channels as public service message and are also available on SBP's and commercial banks' websites. Similarly, the smart phone application "Pakistani Banknotes" can be downloaded from Apple Store and Google Play Store. The banks have also been advised to publicize these videos and smart phone application on their ATMs and in waiting areas of their branches. Furthermore, the awareness campaign was launched across the country through SBP BSC field offices wherein seminars were held in chambers of commerce, trade bodies, market committees, schools, colleges and universities on security features of our banknotes.

# 3 Strengthening Financial System Stability and Effectiveness

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Strengthening the financial system stability and improving the efficiency, effectiveness, and fairness of the banking system are amongst the SBP's core strategic objectives. Presently, SBP's supervisory framework adequately complies with the internationally recognized Core Principles of effective banking supervision. The framework is reviewed on an ongoing basis to ensure its compatibility with dynamic global and local environment, to ward off any risks to the financial stability and to improve the efficiency of the system. This chapter discusses the key initiatives taken by the Bank during the year to achieve these strategic objectives.

## 3.1 Regulatory Initiatives for Enhancing Financial Stability and Efficiency

### 3.1.1 Implementation of Basel III Liquidity Standards

For measuring liquidity risk, two regulatory liquidity standards namely Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) along with a set of five risk monitoring tools were issued during the year for implementation from January, 2017. The computation of LCR & NSFR involves detailed assessment of a bank's assets, liabilities and off-balance sheet activities. The LCR measures stressed liquidity ratio on monthly basis and is aimed at promoting short-term resilience of liquidity risk profile of banks. This will ensure that banks maintain enough unencumbered high quality liquid assets (HQLA) to effectively manage total net cash outflows for the next 30 days calculated under certain assumptions. Similarly, the objective of NSFR is to reduce funding risk over a longer time horizon and is computed on quarterly basis. This requires banks to support its activities with sufficiently stable sources of funding in order to mitigate the risk of future funding problems.

### 3.1.2 Supervisory Review and Evaluation Process (SREP)

The banking industry is generally exposed to many risks which are not covered by the rule based capital requirements of Basel III, therefore, the same are covered under: i) Internal Capital Adequacy Assessment Process (ICAAP) and ii) Supervisory Review and Evaluation Process (SREP). While the instructions on ICAAP were already in place, SBP during the year devised a broad set of guidelines to facilitate the key stakeholders during the course of SREP. These guidelines are primarily meant for internal consumption, however, subsequently, if deemed appropriate, the same may be shared with the banking industry as supervisory expectations during the implementation of SREP. The key objectives of SREP guidelines include:

- To provide procedural guidance and a basic supervisory assessment framework to the relevant SBP staff for conducting the SREP.
- To provide prudential/supervisory measures to remove in-efficiencies in the bank's risk governance structure etc.
- To ensure that banks have sufficient capital to cover all the material risks under pillar 1 and 2.

Due to its inherent linkages and common assessment methodologies, SREP guidelines may also feed into the Risk Based Supervision (RBS) framework being developed by the Bank.

## 3.2 Progress towards Risk Based Supervision Framework

The project on Risk Based Supervision was conceived with the objective to graduate to the next level risk based supervision. The proposed supervisory approach would help in prioritizing our resources, improving our responses to financial stress conditions and enhancing our understanding of the risks at

the institution level. The Project among others includes development of methodology for determining the relationship between the macroeconomic indicators and business models of the financial institutions.

A concept paper was prepared during the year outlining the broad architecture of the Risk Based Supervision Framework. The concept paper sets forth steps and direction of the study, including stock taking of legal and regulatory environment of Pakistan, key supervisory frameworks prevalent around the globe and proposed supervisory framework for Pakistan. The project team has prepared proposed framework for evaluation of business model of banks. The draft methodologies for assessment of strategic risk and identification of significant banking activities have been developed. Moreover, broader parameters for assessing credit, market and liquidity risks have been identified. The development of framework is likely to be finalized by FY18.

### **3.2.1 Communication Paper on the SBP's Supervisory Regime**

SBP has a comprehensive framework for supervision and regulation of financial institutions under its domain. The supervisory authorities and regulators particularly in advanced economies publicize their supervisory regimes to create awareness amongst the stakeholders and ensure transparency in their supervisory decisions. In line with international best practices, a communication paper on SBP's supervisory regime was prepared and placed on SBP website in May 2016. The objective of the paper is to share broad contours of the supervisory framework with the general public and other stakeholders. This will enable the stakeholders and general public to better understand and appreciate SBP's supervisory decisions.

### **3.2.2 Prudential Meetings with Banks' BODs**

The prudential meetings with BODs and senior management of the problem banks and financial institutions, performing below the average thresholds are held to resolve supervisory concerns on strategic direction, governance, capital planning, credit portfolios, administrative costs, and control environment. During FY16, prudential meetings were held with the BODs of banks and financial institutions facing financial distress and prudential measures were suggested to ensure soundness and stability of such banks.

### **3.2.3 Thematic Reviews**

Thematic reviews initiated last year continued during the year and the reviews of selected banks in different areas such as Anti-money laundering and combating the terrorism financing (AML/CFT), corporate governance, service quality standards, foreign trade operations, profit distribution mechanisms of Islamic banks, and out of books transactions of exchange companies were conducted. On the basis of these thematic reviews, a number of enforcement measures and policy initiatives were taken for strengthening the regulatory and supervisory framework.

### **3.2.4 Enhanced vigilance of Overseas Operations of Banks**

Overseas operations of Pakistani banks have increased rapidly over the years. This situation entailed more stringent regulatory monitoring, thus new comprehensive formats for collection of overseas operations data on quarterly basis were introduced. This would enable SBP to assess the associated risks and take necessary preemptive measures to effectively supervise the foreign business units of the banks incorporated in Pakistan.

### **3.2.5 Regulation of Exchange Companies**

Enforcement and compliance regime of Exchange Companies was strengthened and several measures were taken against the noncompliant companies giving a clear signal to the industry that non-



compliance of the rules and regulations shall lead to initiation of regulatory actions. This has brought visible improvement in regulatory compliance level of Exchange Companies. Moreover a program was conducted to enhance Exchange Companies understanding of SBP's regulatory and supervisory concerns.

### **3.2.6 Study on De-Risking in Pakistan**

De-risking is a phenomenon where banks exit relationships with or close the accounts of clients considered as 'high risk'. De-risking trend has been observed toward money service businesses, nonprofit organizations, and correspondent banks, thus resulting in refusal of banking services to such customers or closure of their accounts. Reputational concerns and rising AML/CFT scrutiny contribute to de-risking. De-risking can further isolate communities from the global financial system and thus may undermine financial inclusion objectives. A qualitative study was undertaken during the year in collaboration with the Intergovernmental Group of Twenty Four and Alliance for Financial Inclusion on the potential or existing effects of de-risking on financial inclusion. The overall findings of the study revealed that globally the phenomenon of de-risking is taking place at large scale, but Pakistani banks have not been significantly affected.

## **3.3 Institutionalization of Financial Stability Framework**

The SBP vision 2020 envisages designing and implementation of a formal Financial Stability structure in the country. With a view to institutionalize the financial stability function in SBP, a new department namely Financial Stability Department (FSD) was established during the year to monitor and assess financial system wide risks and to take measures to mitigate such risks. The Financial Stability Review for the Calendar year 2015 was also published to give an assessment of system wide stability levels, the key macro and system level risks faced by the banking industry and the risk management infrastructure in place to monitor, assess and mitigate the risks. Further, the Financial Stability Executive Committee has also been constituted under the chairmanship of the Governor to serve as an internal forum for discussions and coordination on financial system stability issues.

### **3.3.1 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, the resilience analysis of the banking system is conducted under a two pronged strategy. Under the top-down approach, the resilience of the system is assessed 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.

To strengthen the stress testing regime, an assessment framework for stress testing of MFBs and Islamic Banks has been developed for conducting their periodic resilience analysis. A Workshop on Macro Stress Testing for Large Banks was also conducted to assimilate their awareness and learning and improving scenario analysis and stress testing capabilities. The SBP also disseminated stress test results on baseline and stressed scenarios for the credit risk in its Financial Stability Review of 2015.

### **3.3.2 Compliance with Basel Core Principles of Effective Banking Supervisions (BCPs)**

The Core Principles for Effective Banking Supervision (Core Principles) are used by countries as a benchmark for assessing the quality of their supervisory systems and for identifying future work to

achieve a baseline level of sound supervisory practices. Post global financial crisis, the Basel committee on banking supervision revisited the earlier BCPs with the objective to strengthen the supervisory practices and came up with certain enhancements in their September 2012 document. The review has taken account of several key trends including systemically important banks, a macro-perspective in supervision of individual banks and banking groups, crisis management, recovery and resolution measures to reduce probability and impact of bank failure. With the revision in the BCPs, SBP has initiated Self-Assessment of Compliance with the principles. Completion of this assessment will allow SBP to initiate policy interventions and realign the supervisory and regulatory practices with international best practices.

### **3.3.4 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 assessment framework for Identification, of Domestic Systemically Important Banks (D-SIBs) in Pakistan based on BCBS methodology for constructing criteria for identifying D-SIBs. It is now working on framework for designation and supervision of D-SIBs. 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 risks and thus ensuring financial sector stability.

### **3.4 Implementation of Deposit Insurance Scheme**

The implementation of deposit insurance scheme is an important goal of SBP Strategic Plan 2016-2020. The SBP Act, 1956, was amended during the year to allow for creation of Deposit Protection Corporation (DPC) as a subsidiary of SBP. The DPC act 2016 is in line with International Association of Deposit Insurers (IADI) Core Principles for effective deposit insurance system. The Corporation will compensate the depositors for losses incurred by them to the extent of protected amount in the event of failure of a member Institution. All banks operative in the country shall mandatorily be the members of DPC. The annual premium to be charged to the member banks shall determined by DPC Board once established.

### **3.5 Strengthening of Corporate Governance Regime**

The corporate governance regime for the banking industry was further strengthened during the year in line with the international standards and best practices. Major initiatives taken on this front included:

- The definition of Key Executives was revised whereby the banks/DFIs were made responsible to conduct self-assessment of their Directors, CEO and Key Executives and furnish a declaration to SBP in this regard. Further, the appointment/ removal, compensation packages and promotion of Key Executives shall be approved by the bank's Board of Directors. The banks were also advised to devise a rotation policy for meaningful succession planning for the key posts.
- Revised instructions on Board committees were issued whereby Chairman of the Board may chair and/or be a member of any one of the Board Committees except Audit and Risk Management Committees. Further, the Audit Committee of the Board shall invariably be chaired by an Independent Director.

#### **3.5.1 FAQs on Prudential Regulations for Corporate/Commercial Banking**

In order to improve the understanding about its Prudential Regulations, FAQs on Prudential Regulations for Corporate & Commercial Banking were issued during the year.

#### **3.5.2 Debt Property Swap (DPS)**

In order to minimize risks in the settlement of non-performing loans (NPLs) by the banks/DFIs through Debt Property Swap (DPS) and to set minimum standards, comprehensive Debt Property Swap regulations were issued during the year. The regulations require banks/DFIs to have in place Board of Directors (BODs) approved policy for DPS encompassing acceptable limits for the real estate exposure, procedure for valuation, documentation requirements, approving levels etc. The regulations cover the general requirements for DPS, monitoring, accounting treatment, disclosure/reporting and other relevant issues affecting the conduct of DPS transactions.

### **3.5.3 Report on Training Assessment in Banks**

The SBP, in addition to strengthening its legal, regulatory and supervisory oversight has also been taking initiatives to address the capacity issues in banks to improve the quality of their staff. A quantitative study was completed during the year to investigate the training and development needs of banking industry. Keeping in view the banks' responses and assessment, a number of initiatives have been recommended in the report to strengthen the function of training and development in the country's banking industry.

## **3.6 Improvement in AML/CFT Framework**

### **3.6.1 Amendments in AML Act 2010**

The AML Act, 2010 was amended during the year after the parliamentary approval to streamline the existing AML law with international standards prescribed by FATF and also to bring consistency and clarity in the enforcement provisions. The amended act brought fiscal offences under the purview of AML Act. The SBP played a key role in finalization of the amendment Bill approved by both houses of the parliament.

### **3.6.2 National Risk assessment**

As a part of the National Risk Assessment (NRA) of Pakistan, SBP conducted Pakistan's banking sector assessment on ML/TF as per agreed mechanism at national level. The results and recommendations of the NRA will help towards effective risk based supervision of financial institutions.

## **3.7 On-Site Inspections**

The on-site inspection of banks, financial institutions and exchange companies as per approved inspection plan is a regular function of SBP. The inspection of banks and financial institution were conducted during the year as per approved inspection plan. Based on the inspection findings, major areas of supervisory concerns and violations of regulatory instructions were taken up with the banks' BODs and senior management for corrective actions. In addition, statutory reports on written-off loans, mark-up and other dues were prepared. Further, keeping in view the huge risks originating from information systems, specialized human resources were hired to enhance SBP's capacity to review banks' IT systems and assess the risks associated with these systems and the banks' capacity to manage/mitigate such risks.

## **3.8 Strengthening of Regime for Fair Treatment to Consumers (FTC)**

As per SBP Vision-2020, SBP would gradually step back from direct consumer complaint handling and focus more on regulating and overseeing the conduct of banks to ensure fair treatment and deals to Consumers. Accordingly, the name of Consumer Protection Department (CPD) was changed to Banking Conduct & Consumer Protection Department (BC&CPD) with effect from November 30, 2015 along with requisite enhancement in its mandate to regulate the conduct of banks in their service

delivery. This section discusses the key initiatives taken during the year to ensure fair treatment to consumer.

### **3.8.1 Guiding principles on Fairness of Service Charges**

To ensure fairness and transparency in service charges, 'Guiding Principles on fairness of service charges' were issued during the year. While being non-prescriptive, the principles have not only significantly brought down the number of complaints against service charges but have also helped in inculcating the culture of responsible pricing within the banks.

### **3.8.2 Consumer Grievance Handling Mechanism**

The vision 2020, envisages banks to serve as the first forum of redressal for consumer complaints. Accordingly, comprehensive guidelines on complaint handling mechanism were issued during the year requiring banks to setup effective complaints/disputes redressal/resolution mechanism that should include a problem solving approach, comforting attitude of dealing staff, appropriate turnaround time (TATs), record retention policy, annual disclosures and regulatory returns.

### **3.8.3 Effective Disclosures**

In order to improve transparency and ensure truth in lending and savings products of banks, standardized Product Disclosure Requirements (PDRs) were introduced for all types of Personal, Housing and Auto Finance products being offered and marketed by banks. Moreover, the banks were advised to provide a Product Key Fact Statement (PKFS) to the banking consumers who have availed or are planning to avail consumer finance products from banks. This will significantly enhance transparency and disclosure in the financial products.

### **3.8.4 Legal and Regulatory framework for Credit Bureaus**

A credit Information agency plays an important role in promoting financial discipline, better credit risk management and making prudent lending decisions. The Credit Information Bureau under the aegis of SBP has been providing reliable credit information to member financial institutions. However, private sector credit bureaus have also been operating for quite some time but without any formal regulatory framework. In order to have an effective and enabling legal and regulatory framework for the credit bureaus in private sector, the Credit Bureaus Act, 2015 (CBA) was enacted on August 25, 2015. Under the Act the power to grant license, issue regulation and on-going supervision of private Credit Bureaus has been vested with SBP. By virtue of the Act a bureau can procure financial information of a person from member institutions. Besides, it empowers general public to access their credit information from a bureau. SBP has also notified regulatory framework which sets forth minimum standards with respect to Governance, Operational efficiency, Data integrity & Security and Dispute Resolution to ensure smooth functioning of credit bureaus.

### **3.8.5 Guidelines of Business Conduct**

In order to exert self-discipline on the banks with respect to responsible banking and promote healthy competition and ethical practices, SBP has issued Guidelines of Business Conduct for Banks. These Guidelines will promote good banking practices, increase transparency in the provision of banking services, ensure compliance of prudential Regulations/laws by the banks and enhance customers' confidence in banking system.

### **3.8.6 Conduct Assessment Framework (CAF)**

To ensure that banks treat their customers fairly and justly, the banks must have a formal conduct policy and a mechanism to monitor the conduct in a systematic way to avoid Conduct Risk i.e. such behaviors/practices that are detrimental to the bank's reputation and relationship with the customers. To

help ensure banks to have a reliable mechanism to assess their conduct with their customers, SBP developed a Conduct Assessment Framework (CAF) to be used by banks themselves. A pilot run of the framework was also conducted and the same will soon be formally rolled out. CAF will also serve as conduct monitoring tool for SBP whereby the data on the conduct of banks would be collected and analyzed to identify the gaps, if any, in the banks' conduct and to address the gaps/issues through different regulatory interventions.

### **3.8.7 Consumer Awareness**

Consumer awareness and understanding about different products and services being offered by banks is not only important for improving financial inclusion but also to improve banks' conduct and promote prudent and ethical banking practices. A rigorous Consumer Awareness campaign has been launched wherein awareness seminars/session are being held with a cross section of stakeholders including Chambers of Commerce, Trade Bodies, Market Committees, Academia across the country.

## **3.9 International Cooperation in Banking Supervision**

### **3.9.1 FSB Regional Consultative Group for Asia (FSB RCG ASIA)**

SBP is a member of Financial Stability Board (FSB)-Regional Consultative Group of Asia (RCG-Asia) since its inception in 2011. The purpose of the RCG is to bring together financial authorities from FSB member and non-member countries to exchange views on vulnerabilities affecting financial systems, policy initiatives to promote financial stability and implementation of these initiatives. The Governor SBP became co-chair of RCG Asia from July 1, 2015 for two years. During the year, FSB RCG Asia conducted two meetings; 9<sup>th</sup> meeting of RCG in Hong Kong in November, 2015 and 10<sup>th</sup> meeting in Kuala Lumpur, Malaysia in May, 2016.

### **3.9.2 Workshop on Financial Technology and Cyber Security**

FSB-RCG-Asia conducted a Workshop on Financial Technology and Cyber Security on May 19, 2016 in Hong Kong. The workshop was co-Chaired by SBP and HKMA. It covered an overview of the latest global developments of financial technology, its potential benefits and possible risks to the financial sector and implications for financial stability. The workshop also discussed cyber threats to the banking sector and ways to mitigate those risks including enhancing the IT risk management within financial institutions. The outcomes of the workshop were shared in the 10th FSB-RCG Asia meeting held in Kuala Lumpur, Malaysia.

### **3.9.3 Correspondent Banking Coordination Group (CBCG)**

The FSB established Correspondent Banking Coordination Group (CBCG) to assess and address the decline in correspondent banking. The FSB also created four work streams (WSs) of technical experts to coordinate at a more detailed level the work pertaining to (i) Data collection and analysis(WS-1), (ii) Clarifying regulatory expectations(WS-2), (iii) Domestic capacity-building in jurisdictions that are home to affected respondent banks(WS-3), and (iv) Strengthening tools for due diligence by correspondent banks(WS-4). SBP also has representation in this group.

### **3.9.3 Memorandum of Understanding**

An MOU was signed between the Central Bank of Jordan and SBP during the year to increase bilateral cooperation in the field of banking and finance between the countries. The process for signing Memorandum of Understanding with the Central Bank of Belarus was also initiated during the year.

## 4 Broadening Access to Financial Services

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The SBP in collaboration with all stakeholders is working to develop a market based inclusive financial system, catering to financial needs of all segments of the economy, especially agriculture, microfinance, SMEs and low cost housing, which are commercially less attractive but strategically important areas. During FY16, the Bank took a number of policy decisions and regulatory initiatives to provide a conducive environment for enhancing the outreach of financial system to less privileged and so far unbanked/under banked segments of the society.

### 4.1 National Financial Inclusion Strategy (NFIS)

The strategy approved and adopted last year aims to enhance access to formal financial system to 50 percent of the adult population by 2020. The NFIS covers priority areas such as i) Digital Financial Services & Payment Systems, ii) Microfinance, Agricultural finance, & Housing finance, iii) SME finance, iv) Islamic finance, v) Financial Literacy and Consumer Protection, vi) Insurance, and vii) Pensions. In order to implement the strategy, a coordination mechanism has been established with participation from both the public and private sector stakeholders. It consists of the following governance bodies:

- NFIS Council, chaired by the Federal Finance Minister, as the primary platform for achieving Pakistan's financial inclusion objectives and vision.
- NFIS steering committee, chaired by SBP Governor, with the overall responsibility of implementing the strategy.

Technical Committees (TCs) in seven focus areas with more than 160 members from the private sector, Ministers, Government Departments, Regulatory Bodies, Associations & Networks have been formed to identify plans, address technical issues and propose solutions to the steering committee to achieve the NFIS targets.

#### 4.1.1 NFIS Action Plan

These Technical Committees have further been partitioned into 18 working groups for focused and concrete deliberations to firm up action plans. The Technical Committees, after series of deliberations, have come up with a holistic set of actions. The complete set of activities consists of around 100 actions which have been categorized into following five thematic areas:

- Legal, regulatory and policy reforms
- Financial, payment and information technology infrastructure
- Risk sharing facilities
- Capacity building of financial service providers, clients & industry
- Increasing levels of financial capability and market development

#### 4.1.2 Initiatives taken to implement NFIS

The major initiatives taken during the year to implement the NFIS include the following:-

##### *Introduction of Asaan Account*

In order to enhance the outreach of basic financial services to unbanked or underserved segments of the population and achieve the targets set out in NFIS, the Low Risk "Asaan Account" with

simplified due diligence requirements, minimum initial deposits (Rs 100) and monthly debit limit of Rs 500,000 and overall credit limit of Rs 500,000 was introduced. The initiative resulted in addition of 1.13 million accounts in the banking system within two quarters of issuance of guidelines by the Bank.

### **Branchless Banking (BB)**

Branchless Banking (BB) has emerged as an easy-to-access distributional channel for offering basic banking services to millions of unbanked/under banked individuals. The branchless banking industry is expanding with persistent growth trends and is now spread out across almost all the districts of the country. The combined network of 346,716 agents of nine BB players as of June 30, 2016 is engaged in providing basic banking services to millions of unbanked/under banked. The quarterly number of BB transactions reached 118 million in volume and Rs 543 billion in value. The mobile wallets (branchless banking accounts) as on June 30, 2016 have been reported around 14.6 million. **Table 4.1** contains key indicators showing growth in BB business. To further strengthen the BB regulatory environment following regulations were issued during the year:

- Branchless Banking Regulations (revised)
- Framework for branchless banking Agent Acquisition and Management
- Regulations for Mobile Banking Interoperability

**Table 4.1 Key Indicators Showing Growth in BB Business**

Indicators	Jan-Mar 16	Apr-Jun 16	Growth
Number of agents	341,403	346,716	1.56%
Deposits as on quarter end (Rs in millions)	10,885	13,734	26.18%
Number of transactions ('000')	115,927	118,772	2.45%
Value of transactions (Rs in millions)	509,126	543,609	6.77%
Average size of transactions (Rs)	4,392	4,577	4.21%
Average daily transactions	1,288,083	1,319,684	2.45%
Number of Accounts	13,673,442	14,576,387	6.60%
Average deposit in accounts (Rs)	796	942	18.37%

## **4.2 Agricultural Finance**

The agriculture financing continued its strong growth momentum as disbursements to the sector grew by 16 percent despite overall negative growth, particularly due to a significant reduction in cotton production. Banks disbursed Rs 598.3 billion, achieving 99.7 percent of their annual indicative agri-credit disbursement target of Rs 600 billion for the year. The banks added 200,000 new agri-borrowers during the year thus increasing the total number of outstanding agri-borrowers to 2.4 million. This is very encouraging and will help in achieving the NFIS targets. The SBP during the year continued pursuing banks to increase their penetration in the sector through suitable regulations, guidelines and incentives. Some of the major initiatives taken by SBP during the year include, implementation of credit guarantee scheme for small & marginalized farmers, successful execution of livestock & crop loan insurance schemes, national roll out of agriculture-value chain financing project, capacity building & awareness programs and rigorous monitoring of agri-credit disbursement targets, etc.

An emerging trend in agriculture financing is the increasing interest of private banks in the agriculture sector with their share in agri-financing increasing to 20.6 percent during the year. This growth is not limited to the top tier commercial banks, as small banks, microfinance banks and Islamic banks have also started pursuing agri-financing as a viable business line. The increase in agri-finance outreach could not have been possible without this interest in the sector by private commercial banks. The **Box 4.1** gives the key initiatives taken during the year for promotion of agri-finance

**Box 4.1: Initiatives for Promotion of Agricultural Finance**

Following measures/key steps carried out during FY16 for the promotion of agri/ rural finance in the country:

- **Implementation of Credit Guarantee Scheme for Small and Marginalized Farmers:** The Credit Guarantee Scheme for Small & Marginalized Farmers was implemented in line with the Government's budgetary announcement. Under the scheme, credit disbursement targets of Rs 2 billion were assigned to 14 Participating Financial Institutions for disbursement to 20,000 borrowers across the country (four provinces, FATA, AJK & GB). The scheme aims to encourage financial institutions to lend to small farmers who do not have adequate collateral (acceptable to banks) in order to meet their working capital requirements.
- **SOPs for Crop Loan Insurance Scheme (CLIS) & Livestock Loan Insurance (LLIS):** To simplify the verification process of premium subsidy claims of banks and bring transparency, Standard Operating Procedures (SOPs) on CLIS and LLIS were developed.
- **Publication of Value Chain (VC) Reports and National Rollout of VC Financing:** The Bank published reports of six main value chains in the country: i) Potato, ii) Tobacco, iii) Beef, iv) Dairy, v) *Basmati* Rice, and vi) Aquaculture and Inland Fishery. The aim of these reports is to enable financial institutions to more clearly understand the specific value chain dynamics and develop products and services for increasing agri. financing through VCF. In line with this strategy, the Bank successfully rolled out agri. value chain financing, wherein, disbursement targets of Rs 5.8 billion have been assigned to 11 banks/ MFBs for FY16. The number of borrowers targeted under value chain financing is 13,412.
- **Enhancement of Produce Index Unit Value:** In order to meet financing needs of farmers in the wake of increasing cost of agri. inputs, the value of Produce Index Units (PIU) has been increased from Rs 2,000 to Rs 4,000 enabling farmers to obtain more credit for the same land-holding.
- **Workshops/ Trainings/ Capacity & Awareness Building Sessions:**
  - 04 Training of trainers (ToT) programs on Warehouse Receipt Financing, Agriculture Loan Analysis and Contract Farmer Financing were organized in collaboration with Food & Agriculture Organization (FAO) in Karachi and Lahore in which over 120 bankers were trained by international experts.
  - In order to learn international best practices in agriculture finance, three Exchange Learning Programs (ELPs) were arranged during the year to visit Philippine, Kenya, Netherland/Serbia in collaboration with APRACA, AFRACA and FAO respectively. These ELPs were attended by 25 officials of banks and SBP.
  - The Bank conducted two leadership seminars on Warehouse Receipt Financing and Value Chain Financing. The purpose of these programs was to showcase the successful models in the industry to sensitize agri. lending banks about new and innovative financing methods.
  - Conducted 08 Farmers Financial Literacy and Awareness Programs (FFLP) in different agri. intensive districts across the country. Over 300 field officers of banks were trained in these programs, alongside farmers, for onward financial literacy of farmers.

### 4.3 Microfinance

Microfinance banks' (MFBs) credit portfolio grew by a record 60 percent during the year to reach Rs 72.8 billion as at end June, 2016 as against Rs 45.5 billion at the end of preceding year. The outreach also registered a strong growth of 31 percent with number of borrowers increasing to over 1.7 million.

The MFBs injected fresh equity of Rs 6 billion during FY16, which increased to Rs 22.7 billion during the year. The enhanced capital base has not only significantly improved the MFBs' solvency levels but has also increased their capacity to expand and leverage the enhanced

**Table 4.2: Microfinance Banking Indicators** *(Rs in billions)*

Indicators	Jun-15	Jun-16
No of Borrowers (million)	1.30	1.70
Gross Loan Portfolio	45.58	72.86
Deposits	52.02	87.02
No of Depositors (million)	11.60	12.78
Equity	16.63	22.68
Assets	82.53	133.32
Borrowings	8.95	14.58
NPLs	1.76%	1.28%

Source: Agricultural Credit & Microfinance Department, SBP.



capital base. The deposits also registered an impressive growth of 67 percent reaching Rs 87 billion as at the close of the year. Similarly, the number of MFBs' depositors increased to 12.8 million from 11.6 million last year (see **Table 4.2**).

#### Box 4.2: Initiatives for Promotion of Microfinance Banking

- **Enhanced Corporate Governance Framework for MFBs:** The governance framework was further strengthened to ensure compliance with legal and regulatory framework. The new instructions require MFBs to submit an additional undertaking (E-4) at the time of inducting new Presidents, Board Members and Key Executives to validate their educational and proprietary fitness.
- **Commencement of Sindh MFB's Operations:** After being licensed in October, 2015 on a province-wide basis, Sindh Microfinance Bank commenced its banking operations during last quarter of FY16. This has brought the number of MFBs to eleven. Sindh MFB is expected to play an important role in improving access to financial services in rural Sindh.
- **Support for Digital Credit:** Two MFBs have been allowed to extend digital credit to their existing BB customers who lack access to branches to facilitate real-time disbursements with aggregate exposure (of an individual borrowers) from all the MFBs not exceeding Rs 30,000. Digitization of credit shall reduce cumbersome paper work and turnaround time for processing of credit applications for subsequent disbursement.
- **Credit Enhancement Facilities**
  - Microfinance Credit Guarantee Facility (MCGF) a £15 million a credit enhancement facility established under DFID funded Financial Inclusion Program in 2008 provides 25 percent first loss or 40 percent partial guarantee (pari passu) coverage to Banks. So far, 53 guarantees have been issued under MCGF enabling MFBs to mobilize Rs 20 billion (£145m) from commercial bank and capital markets/retail investors for onward lending to more than 800,000 micro borrowers.
  - Credit Guarantee Scheme (CGS), worth £13 million launched in 2010 to facilitate credit to small and rural businesses for greater outreach. So far, the participating banks have sanctioned loans of Rs 4.573 billion (£33m) under the scheme to more than 20,000 small & rural enterprises and the Bank issued guarantees for risk coverage of Rs 1.822 billion (£13.2m).
- **Very Small (Micro) Enterprise Lending Workshop:** A workshop was jointly organized by SBP & International Finance Corporation (IFC) in collaboration with DFID – UK. The workshop was attended by the Presidents/CEOs of microfinance banks along with their relevant key executives. The event was aimed to sensitize the audience over specific needs/issues/concerns related to Micro-Enterprise Lending and to emphasize the need for MFBs to strengthen their internal controls and risk management practices for sustainably venturing in this area under both Islamic and conventional modes.

#### 4.4 Small and Medium Enterprises (SMEs) Finance

The SME sector contributes significantly in economic and social development especially through employment generation and poverty alleviation. Financial sector penetration in general remains very low in Pakistan and SMEs are no different. The key reason for this includes banks' reluctance to lend to SMEs. A number of factors contribute to this reluctance including a high risk perception and high transaction cost. Equally important are the demand side issues which result in low financial usage by SMEs. These issues include low level of financial literacy; high transaction costs associated with accessing formal finance and inappropriate products that do not match the business needs of SMEs.

Despite the aforesaid challenges faced by SMEs, the outstanding finance to SME sector grew by 14 percent to Rs 297 billion during the year. The number of SME borrowers also increased from 152,495 in June, 2015 to 164,733 in June, 2016 registering a growth of 8 percent. Non-Performing Loans to SME sector also declined from 31.36 percent in June, 2015 to 27.41 percent in June, 2016.

**Box 4.3: Major Initiatives to Promote SME Finance**

- **Introduction of SME Financing Targets:** The SME financing targets were introduced for banks in line with National Financial Inclusion Strategy. The targets would be monitored regularly and banks will have to explain slippages, if any. The targets would give the much needed push to banks to build their SME financing related capacity and increase their penetration in SME sector.
- **Issuance of Revised Prudential Regulations (PRs) for SME Financing:** To improve the SME Finance Regulatory environment in line with changing needs of SME market and to provide boost to the financial institutions for improving outreach of credit facilities to the SMEs, the Bank made revisions in PRs for SME Financing in May 2016.
- **Strengthening Secured Transaction Framework:** The enactment of Secured Transaction Act during the year was a major development that would go a long way in enhancing SMEs' access to formal financial system. The act has provided a framework for registration of moveable assets, which would particularly help SMEs to obtain financing against the registered charge on their movable assets. Now after enactment of the secured transaction law, the work on establishment of electronic secured transactions registry is being initiated.
- **Credit Guarantee Scheme (CGS) for Small and Rural Enterprises:** The Scheme was launched in March 2010 in collaboration with DFID. It provides 40 percent coverage to banks against losses on their short to medium term loans to Small and Rural Enterprises. Only fresh and collateral deficient borrowers are entertained under the Scheme. In order to increase the effectiveness of the scheme, a sector specific approach was introduced in July 2015 under which the participating financial institutions are required to lend 30 percent of the allocated limit to specific sectors identified by them. Every year the share of sector specific lending would increase. The main purpose of introducing this feature is to encourage more focused lending under the scheme.
- **Credit Guarantee and Risk Sharing Scheme for Rice Husking Mills in Sindh:** This scheme is specifically for the rice husking mills of Sindh to undertake projects of BMR. Under this facility Government of Sindh provides mark-up subsidy as well as risk coverage of 30 percent against the loans extended to the rice husking mills of Sindh. In order to incentivize the banks to enhance their efforts for the promotion of this facility, Government of Sindh increased the mark-up share of participating institutions from 2.75 percent to 4.25 percent in May 2016.
- **Special incentives for SME exporters under EFS:** Recognizing the economic significance of SMEs, special markup rate incentives for both participating banks and SME exporters were introduced to enhance SMEs share in EFS. The banks' spread against lending to SMEs was increased to 2 percent whereas markup rate rebate for SMEs on achieving high level of exports was increased by 0.5 percent for each level of export performance under EFS Part II. Further, the banks have been advised to allocate at least 10% of their assigned limit for SMEs out of the total limit available under EFS.
- **Refinancing Facility for Modernization of SMEs:** It is a medium to long term financing facility provided to SME borrowers for modernization of their existing units and setting up of new SME mills/units to produce quality products. Under this facility financing is available against local purchase/import of new machinery for BMR at subsidized rate for a maximum period of upto 10 years. During FY16, efforts were undertaken to collaborate with the provincial governments to initiate a modified form of this scheme for specific sectors dominating in the respective provinces. The purpose of approaching the provincial governments was to seek their support in offering mark-up subsidies to the financial institutions thus encouraging them to enhance their efforts on increased lending to SME sector.
- **Permission to Banks/DFIs to Issue Guarantees against Counter Guarantee of foreign banks:** Banks/DFIs were allowed during the year to issue guarantees up to USD 500,000 against the back-to-back/counter guarantee of an unrated, or rated below 'A' foreign bank/DFI. This will enable banks to entertain small business needs of the entrepreneur in line with their risk appetite. The aggregate amount of all such guarantees at any point in time was capped at 5 percent of the bank/DFI's own equity. Further, the banks were also advised to have a Board of Directors (BODs) approved policy for acceptance of such counter guarantees.

- **Prime Minister Youth Business Loan Scheme (PMYBL):** The Federal Government has provided an opportunity to banks to increase their outreach and capture new SME clients/startups especially Small Enterprises through the PMYBL Scheme. SBP supervises this scheme and closely monitors performance of banks under this Scheme. Eighteen banks are working as PMYBL executing agencies. As of June 30, 2016, cumulative number of applications received under PMYBL was 71,644 out of which, 61,689 (86 percent) applications were from male and 9,955 (14 percent) applications were received from female applicants. Under PMYBL 8,472 beneficiaries had been disbursed an amount of Rs 8,145 million. Automated PMYBL Central Portal for data reporting by Executing Agencies (EAs) was also developed by SBP to prevent the occurrence of multiple financing by same individual or multiple guarantors from different PMYBL EAs.
- **Soft Loans under PM National Health Program (PMNHP):** The Bank also supervises recently launched soft loans scheme for private hospitals empanelled under Prime Minister's National Health Program (PMNHP) to facilitate them in up gradation of their facilities for providing better treatment facilities to less privileged segments of population having health insurance card in 23 districts.
- **SME Melas:** The Bank in coordination with SBP-BSC organized six Melas (Expos) during the year. These events saw an active participation from the banking industry, SMEDA, chambers of commerce & industries and SMEs. These Melas provided an effective mean of interaction between the SMEs and the banking sector resulting in increased awareness at both ends. These Expos provided the banks an opportunity to market their SME specific financing products and better understand the needs and requirements of SMEs for bringing about further improvement.
- **Capacity Building/Training Sessions:** During FY16 various training programs including 'Making SMEs Bankable', 'Financing SME Value Chains' and specialized training program for DFIs officials on SME Financing were organized. Besides, ten awareness sessions during Focus Group meetings at SBP BSC offices across country were conducted for creating awareness about SBP initiatives and schemes for enhancing flow of funds to SMEs.

#### 4.5 SBP Refinance Facilities

The markup rate on loans under Export Finance Scheme (EFS) was gradually brought down to 4.5 percent to facilitate exporters in enhancing exports; for textile sector the rates were even reduced to 3.5 percent in November, 2015. Effective 1st July 2016, mark up rate under EFS has been further reduced to 3 percent for all sectors. Moreover, to support rice and leather exporters facing problems in making exports, 6 months additional export performance period was provided under EFS for the year 2014-15. The outstanding export finance as of June 30, 2016 was Rs 203.4 billion which is 6.4 percent higher than the previous year.

##### 4.5.1 Long Term Financing Facility

Mark up rate under Long Term Financing Facility (LTFF) for export oriented projects was reduced to 6 percent; for Textile Sector including Spinning and Ginning Sectors, the markup rate was reduced to 5 percent. During FY16, Rs 24.7 billion were disbursed under the LTFF whereas, the total outstanding financing under the LTFF as on June 30, 2016 stood at Rs 44.1 billion.

##### 4.5.2 Other SBP Refinance Facilities

To reduce financial cost for exporters and to support overall exports of the country, the markup rates for following long term schemes were also reduced to 6 percent p.a.:

- Financing Facility for Storage of Agricultural Produce
- Refinancing Facility for Modernization of SMEs
- Scheme for Financing Power Plants Using Renewable Energy

## 4.6 House Finance Market

The Housing Finance market in the country is gradually increasing its size and penetration. The current low interest rate environment has also given a boost to housing finance sector, which grew by 17 percent (an impressive increase of Rs 9.59 billion in gross outstanding) during the year to Rs 65.69 billion. The cumulative disbursements witnessed a very healthy increase of Rs 22.27 billion during the year which were highest in last five years. The NPLs also started showing declining trends and decreased to Rs 12.74 billion in June 2016 from Rs 13.48 billion in June 2015; a 5 percent YOY decrease. The **Box 4.4** gives major initiatives undertaken during the year for promotion of housing finance.

### Box 4.4: Major Initiatives to Promote Housing Finance

- Pakistan Mortgage Refinance Company (PMRC):** The establishment of the mortgage refinance company will provide long term funding to banks and financial institutions against their housing finance portfolio. This would address a major issue hindering the growth of primary mortgage market in the country. The PMRC would serve as a secured source of long-term funding at attractive rates for banks. It was incorporated with SECP during the year and its Board was also constituted. Further, the Federal Government and banks contributed their respective share of capital in the company's equity. Moreover, multilaterals are also being pursued to participate in the equity of PMRC.
- Diagnostic Survey of Housing Finance:** A diagnostic survey on housing finance in Pakistan was initiated during the year in collaboration with DFID. It was a national-level survey encompassing major urban and rural areas of Pakistan. Objective of this survey was to further drill down on demand and supply side issues that are hindering the growth of housing finance in the country. Through this survey, not only the opinion of the borrowers (general public) was recorded but also the view point of mortgage lenders was taken in to account. The results yielded from the survey have been compiled and would be used to further strengthening the policy framework and to make the policy environment for housing finance more enabling.
- Capacity Building of Banking Court Judges:** Banking Courts are major stakeholders for housing finance in Pakistan. Being the decision-maker of mortgage finance foreclosure cases, it is necessary for banking court judges to be abreast of the current developments in housing finance industry. Realizing this and in continuation with capacity building initiatives of the mortgage banking industry, an interactive session among bankers and banking court judges at Punjab Judicial Academy Lahore was organized in coordination with Ministry of law, justice and human rights. The session was appreciated by the judges terming it very useful in refreshing their memories and enhancing their understanding of current issues and developments in the industry.
- Amendments in Foreclosure Laws:** After concerted efforts by SBP, the amendments in Financial Institutions (Recovery of Finances) Ordinance, (FIRO) 2001 were approved by the National Assembly and Senate during the year. The amendment has provided much needed legal cover to banks to proceed against defaulters and thus is likely to give a big boost to housing finance market in the country.

## 4.7 Infrastructure Finance

Infrastructure plays a pivotal role in the development of a country by improving the national productivity and economic growth. Improved quality and service coverage in power, communication, water supply, sewerage treatment and transport are also important for improving the living standards of citizens. The banks/DFIs' infrastructure financing portfolio registered an impressive growth of about 65 percent during the year and increased to Rs 541.6 billion. This increase was largely observed in the power generation, road infrastructure, petroleum, and Oil & Gas (O&G) sectors.

### 4.7.1 Green Banking

Pakistan is considered one of the most vulnerable countries to the climate changes. The fast meltdown of glaciers, frequent flooding and heat waves are manifestations of these dangers. The Green Banking

envisioned reorientation of banking practices to incorporate resource efficiency, renewable energy and environmental protection in their policies, products, services and operations. The Green Banking, therefore, has the potential to address two major concerns of Pakistan i.e. energy shortfall and climate change. Considering the importance of green banking for the country and rising interest of global financial system towards it, a special Green Banking Unit was established in the SBP's Development Finance Group to focus on green banking initiatives. The Unit developed a detailed Concept Paper on Green Banking which provides a framework of recommendations to be issued to banks for implementation. The SBP has also formally obtained membership of IFC's Sustainable Banking Network (SBN) which is an association of bank regulators globally for knowledge exchange and learning on sustainable banking.

#### **4.7.2 Development of Green Banking Guidelines**

The Green Banking Guidelines are used by banking regulators as a tool for enhancing strategic focus of banks/ DFIs and improving availability of financing facilities for green and environmentally friendly activities, businesses and projects. In line with this objective, the draft Green Banking Guidelines were prepared with the support of international consultant engaged by GIZ (the German Development Cooperation Agency). The Guidelines would be issued in FY17 after incorporating feedback of internal and external stakeholders.

#### **4.7.3 Revision of Scheme for Financing Power Plants Using Renewable Energy**

The revised Scheme for Financing of Renewable Energy was issued in June 2016. Under this Scheme, the end borrowers can avail financing of up to Rs 6 billion at a relatively subsidized rate of 6 percent for up to 12 years for installation of small scale hydro, solar, wind, bagasse and other renewable energy projects. Further, the scheme also incentivizes establishment of small scale renewable energy solutions of less than 1 MW in line with the NEPRA's Net Metering Regulations of 2015. The revised Scheme is expected to create role models of profitable investments in renewable energy and encourage banks to align their financing strategies and products/ services to capture their due share in this emerging market.

#### **4.7.4 Coordination with Multilateral Agencies on Green Banking**

The SBP is actively collaborating with multilateral agencies to promote green banking initiatives. The following collaborations were affected during the year:

- Partnered with GIZ for implementation of fourth phase of its Renewable Energy and Energy Efficiency (RE-EE) program
- The AFD (French Development Cooperation Agency) showed interest for establishment of Green Credit Line for financing of Renewable Energy Projects in Pakistan. The AFD is in process of engaging consultants to conduct a feasibility study for ascertaining demand for such a credit line.
- Coordinated with World Bank for organizing roundtable discussion on scaling up renewable energy.
- Supported IFC for completion of their survey on Environmental and Social Risk Management (ESRM) practices in the banks/ DFIs in Pakistan.

#### **4.7.5 Awareness Sessions on Green Banking, Renewable Energy and Energy Efficiency Financing**

Several awareness sessions on green banking were organized in coordination with GIZ in Karachi, Islamabad, Lahore, Faisalabad and Sialkot during the year. These sessions were attended by around 250 senior regional managers, risk heads, credit heads and field staff of banks/ DFIs and

representatives of regional chambers/ associations. In addition, a training program on energy efficiency financing for banks/ DFIs was organized in Karachi in coordination with GIZ. These trainings/awareness sessions were facilitated by international green banking experts engaged by GIZ.

# 5 Islamic Banking

## 5.1 Overview

Islamic banking industry (IBI) continued its double digit growth during FY16 with 16.8 percent and 14.1 percent year-on-year (YoY) growth in assets and deposits respectively. As of end June 2016, the industry's asset base reached Rs 1,745 billion, which is equivalent to 11.4 percent of the country's banking system's assets. Similarly, the IBI's deposits increased to Rs 1,461 billion constituting 13.2 percent of the overall banking industry's deposits

(see **Table 5.1**). The outreach of Islamic banking industry has also expanded considerably and as of end June 2016, the network of IBI consists of 22 Islamic Banking Institutions (IBIs) (6 full-fledged Islamic banks and 16 conventional banks having standalone Islamic banking branches). The industry added 444 branches in its network during the year, which increased to 2146 branches in 98 districts across the country thus surpassing the target of 2000 branches as set in the second Strategic Plan 2014-18 of Islamic banking industry in the third year of the plan. The fast paced expansion of the industry's outreach could among others be attributed to the supportive and enabling role of SBP, which was voted as the best central bank in the world in 2015 for Promoting Islamic Finance in an international poll conducted by Islamic Finance News, an arm of Redmoney Group Malaysia.

The Current growth trajectory coupled with the strong commitment being demonstrated by the Central Bank and Government gives optimism that the Islamic Banking Industry Strategic Plan 2014-18 target of increasing the market share to 15 percent by 2018 will be conveniently achieved.

## 5.2 Steering Committee for Promotion of Islamic Banking

The Bank provided extensive support to the high level Steering Committee (SC) formed by the Government of Pakistan (GOP) for Promotion of Islamic banking in December 2013. The Steering Committee that was comprised of renowned Shariah scholars, senior government officials, industry experts (local and international) and business leaders has completed its tenure of two years in December 2015. The committee has compiled a comprehensive set of recommendations for laying sound foundations for sustainable growth of Islamic finance industry. Some of these recommendations have already been implemented such as establishment of Centers of Excellence in Islamic Finance Education, launch of All Share Islamic Index, establishment of Islamic Finance Department at Securities & Exchange Commission of Pakistan and issuance of Sukuk Regulations etc. Further, in order to execute recommendations of the Committee, an implementation committee has been constituted.

### 5.2.1 Establishment of Centers of Excellence in Islamic Finance Education (CEIFEs)

To ensure adequate supply of trained human resources to the industry as well as to act as an incubator for research on contemporary issues, the Bank in collaboration with GOP, Industry and other stakeholders has led and facilitated the establishment of three Centers of Excellence at leading

**Table 5.1: Industry Progress and market share**

	Rs in billions					
	Islamic Banking Industry Progress		Growth (YoY)		Share in Overall Banking Industry	
	15-Jun	16-Jun	15-Jun	16-Jun	15-Jun	16-Jun
Total Assets	1495	1745	37.3%	16.8%	11.3%	11.4%
Deposits	1281	1461	37.4%	14.1%	12.8%	13.2%
Total IBIs	22	22	—	—	—	—
Total Branches*	1702	2146	—	—	—	—

Source: Data/information submitted by banks under quarterly Reporting Charts of Accounts (RCOA)

\*Number includes sub-branches

business schools i.e. Institute of Business Administration (IBA), Karachi; Lahore University of Management Science (LUMS), Lahore and Institute of Management Sciences (IMS), Peshawar.

### **5.3 Liquidity Management Solutions for Islamic Banking Industry**

The Bank in its efforts towards providing multiple liquidity management solutions for the industry, started conducting Shariah compliant Open Market Operations (OMOs) by utilizing Ijara Sukuk (*Bai Muajjal* of *Sukuk*) issued by the GOP during FY15. Following this, GOP has offered similar mechanism/product to the industry for its liquidity deployment during FY16.

#### **5.3.1 Bai-Muajjal of GIS by GOP**

Under this transaction, GOP purchased GOP Ijara Sukuk (GIS) from market on deferred payment basis through competitive auction process. Since, Bai-Muajjal of GIS by GOP represents payment obligations of GOP thus it has also provided IBIs (as well as conventional banks) another eligible instrument for meeting statutory liquidity requirement. During FY16, GOP purchased GIS worth Rs 208.6 billion from IBIs on *Bai-Muajjal* basis for a period of one year.

#### **5.3.2 Fixed Rental Rate GIS**

In February 2016, a Fixed Rental Rate (FRR) GIS was introduced. As compared to the Variable Rental Rate GIS, where rental rate is determined on the basis of latest 6-month MTB weighted average rate, the rate on FRR GIS remains fixed for the entire tenor of the Sukuk. SBP conducted auctions of FRR-GIS on February 8, 2016 and March 24, 2016 to raise Rs 116.3 billion and Rs 80.4 billion respectively for the Government.

### **5.4 Implementation of Shariah Governance Framework**

A comprehensive Shariah Governance Framework was notified for IBIs which has come to effect from July 01, 2015. The Framework aims at strengthening *Shariah* compliance environment at IBIs and explicitly defines the roles and responsibilities of various organs of IBIs including the Board of Directors, Executive management, Shariah Board, Shariah Compliance Department and internal and external auditors. As per the requirement of the Framework, the Shariah Boards of all 22 IBIs have been established after due diligence carried-out by the Bank.

### **5.5 Initiation of Islamic Microfinance Operations by Microfinance Bank**

In a major development, a Microfinance bank started offering Islamic microfinance products during the year by establishing a dedicated Islamic microfinance division during FY16. Given the numerous similarities between the objectives of Islamic finance and Microfinance, this could be a first big step towards expanding the outreach of Islamic finance to the low income segments of our society. This would also enable the MF clientele to have access to just and transparent Shariah compliant financial services.

### **5.6 Awareness Creation and Capacity Building Programs for Islamic Banking Industry**

The mass media campaign for promotion of Islamic banking initiated last year by the Islamic banking industry with full support of the Bank continued during the year and a number of promotional advertisements in print and electronic media were given. In order to reinforce the message of the media campaign, numerous seminars, lectures, training programs and workshops were organized in collaboration with reputed national and international institutions. An international course on 'Liquidity Management in Islamic Banks' was also organized at Karachi in collaboration with Islamic Research and Training Institute (IRTI). The course was attended by foreign and local participants from Islamic finance industry. Similarly, a seminar on "Islamic Hedging and Liquidity Management" was organized at Karachi in partnership with Bahrain based International Islamic Financial Market



(IIFM). Further, National Institute of Banking and Finance (NIBAF), the training arm of the Bank, arranged training programs in 6 districts for the IBIs' field staff including branch managers, operation managers and relationship managers as well as academia and local Shariah scholars. Further, as a part of its strategy to build the capacity of *Madaris* (Religious Schools) in Islamic finance, the Bank organized comprehensive training programs for *Madaris* in Sheikhpura and Lahore, which were well received by the faculty and students of the *Madaris*.

### 5.7 Tax Neutrality

The tax neutrality for Shariah compliant banking is an essential component of the overall policy environment for development of Islamic banking and finance. To address the taxation issues being faced by Islamic banking industry, detailed tax proposals have been developed after extensive deliberations with key stakeholders such as Institute of Chartered Accountants of Pakistan, Securities and Exchange Commission of Pakistan, Pakistan Banks' Association, renowned tax consultants and Federation of Pakistan Chambers of Commerce & Industry and sent to the relevant authorities. Hopefully, the proposals would soon be incorporated in the tax laws giving much needed tax neutrality to Islamic finance products *vis-à-vis* conventional products. The removal of tax related anomalies/bottlenecks will give big boost to Islamic banking industry from both demand and supply sides.

### 5.8 Strengthening of *Shariah* Compliance Inspection

The *Shariah* Compliance Inspection Manual developed in 2006 was revised during the year to make the inspection process more objective and effective in assessing the *Shariah* non-compliance levels in IBIs and risk associated with the non compliance. This revision was identified as one of the action goals in the Industry's Strategic Plan for 2014-18 to enhance *Shariah* compliance levels in the industry. The findings of *Shariah* inspections among others are an important source of information about *Shariah* related issues prevalent in the industry for SBP and its *Shariah* Board.

### 5.9 Global Participation

The SBP actively participated at various international forums on Islamic finance, such as meetings and events of Islamic Financial Service Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Research & Training Institute (IRTI)/Islamic Development Bank (IDB) etc. Besides, collaboration and cooperation with International Monetary Fund (IMF) and World Bank, regulatory bodies of various jurisdictions and other international entities have been enhanced in areas of Islamic banking and finance. AAOIFI & Islamic banking industry of Pakistan initiated a landmark project of "Urdu Translation of AAOIFI's *Shariah* Standards" which will enable an Urdu literate large population to get the benefit from these standards. Further, in its efforts to promote development of global Islamic finance industry, the Bank provided Technical Assistance to the Central Bank of Mozambique (CBM) by conducting a 5-days training program for their officials in collaboration with IRTI-IDB.

## 6 Institutional Strengthening

### 6.1 HR Developments

The HR function in SBP is institutionalized with a long term vision of having a well qualified and trained human resource base to enable the organization to achieve its strategic objectives. Under the SBP vision 2020, a comprehensive roadmap to achieve the institutional objectives was developed by strengthening strategic partnerships with line departments across the Bank; reorganization of business functions for improved efficiency, realignment of HR policies with changing organizational needs, reviewing job descriptions of each position, revitalizing training function to improve skills mix in line with vision 2020.

#### *HR Profile*

Grade-wise comparison of headcount in FY16 and FY15 is given in Table 6.1. The change in grade-wise composition of working strength is mainly due to absorption of employees in SBP BSC under its Absorption Policy; these employees were already working on deputation with SBP BSC. The work force has over 10 percent female representation, which is improving gradually and is indicative of positive gender diversity in the work force. The Employee turnover was recorded at 11 percent which was mainly due to resignations under Absorption policy of SBP BSC.

**Table 6.1: HR Profile of State Bank of Pakistan**

Grade	FY 2016	FY 2015
Governor/DG	3	3
OG-8	12	11
OG-7	37	41
OG-6	51	55
OG-5	108	95
OG-4	218	255
OG-3	272	320
OG-2	298	279
OG-1	70	96
Support Staff	114	123
Contractual Employees	7	2
<b>Total</b>	<b>1,190</b>	<b>1,280</b>

#### *Reorganization*

In line with strategic objectives of the bank, a new department namely Financial Stability Department was created, whereas Information Systems & Technology Department was bifurcated into three separate departments based on their distinct functions and responsibilities. Bifurcated departments include Information Systems Department (ISD), Information Technology Department (ITD) and IT Strategy & Project Management Department.

#### *Realignment of HR Policies*

In line with strategic objectives a comprehensive review of HR Policies was initiated last year wherein eleven policies were revised. In FY16, continuing with the same intent of making policies more dynamic, five policies i.e. Leave policy, Deputation/secondment policy, reward & Recognition policy, performance improvement & separation policy and internship policy were reviewed and updated to bring them in conformity with the overall direction and approach of the HR policies.

#### *HR Automation Initiatives*

To improve service delivery and bring transparency, various HR operations were automated with active cooperation of IT team. Towards this end, following high impact HR processes were automated through self service kiosks and web-enabled HR administration:

**Biometric Access Control and E-attendance System (BACES):** BACES was formally launched during the year to ensure that only the authorized persons have access to the Bank's buildings and premises, and replace manual attendance system with biometric and e-attendance system. It has been

integrated with Leave workflow system and has eliminated the manual attendance registers for all intent and purposes.

**HR Dashboard:** HR Dashboard is a concise, real-time user interface showing graphical presentation of current status and historical trends of HR key performance indicators for instant and informed decision-making.

**Performance Measurement and Improvement System (PMIS):** To improve robustness and rigor of the system, mid-year performance review was launched this year. The objective was to ensure timely feedback to employees by their appraisers on various assignments and goals for helping them take timely corrective actions. This will also help in better expectation management of the employees.

**Enhancement in Payroll Automation:** The payment of monthly salaries to employees has started through RTGS which has significantly increased the speed, efficiency and accuracy of the process. The automation of Payroll System has eliminated numerous manual processes and registers.

### HR Planning

The annual bank-wide exercise was conducted to assess manpower requirements in light of business needs, departmental structure, existing working strength and workload and manpower requirements were rationalized. Further, over 650 job descriptions of all the departments were also updated after several rounds of consultations between line departments and HRD.

### Recruitments

Based on manpower requirements, induction of 26 fresh graduates was completed through the State Bank Officers Training Scheme (SBOTS) 19th Batch. Apart from regular entry level recruitments through SBOTS, 29 experienced professionals of different areas including IT, Economics, library sciences, law etc were also hired during the year in regular and contractual cadre. Grade-wise recruitments made during FY16 are shown in **Table 6.2**.

### Employer Branding

In order to attract best talent from the job market, branding organization's image as a potential employer is important. Therefore, together with positioning itself internally as a strategic partner of the line departments, the Bank's HR team has also made its presence felt in the Academia and HR community of the country. HR team visited various business schools of national and international repute to represent itself as an 'Employer of Choice'. Such events also provided an opportunity to the students to learn about SBP functions, working environment and career opportunities. Further, students from 36 domestic educational institutions and 6 foreign universities participated in a six weeks Summer Internship Program, which has also been an important instrument for promoting SBP as the "Employer of Choice" in the country's business, economics and management schools.

**Table 6.2: Recruitments during FY16**

Grade & Designation	Appointments
<b>OG-2</b>	
Assistant Director	38
Assistant Librarian	4
Junior Software Engineer	4
<b>OG-3</b>	
Deputy Director	2
Law Officer	1
<b>OG-4</b>	
Joint Director	1
<b>Contractual Hiring</b>	
Corporate Secretary	1
Research Analyst	2
Translator	2
<b>Grand Total</b>	<b>55</b>

### **Training and Development**

The SBP being a knowledge based organization has extensive focus on training and development to ensure that the skills mix of its HR remains compatible and responsive to the industry's dynamics. The SBP Board has accordingly made it mandatory for lower management (up to OG-4) to have at least 100 hours of training each year and minimum 50 hours of training for middle to senior management (OG-5 and above). To make these trainings effective, a Bank-wide TNA (Training Need Analysis) was conducted to identify training requirements at different levels. Based on the TNA results, training calendar for the year was developed and 8058 man days of in-house trainings were completed. In addition to the in house trainings, 170 officials were sent on foreign trainings/ seminars/study visit programs in reputed training institutes and Central Banks etc in FY16 (Table 6.3). Further, a number of institution-wide specialized training programs on topics like Leadership Grid, Internal Assessor Certification Program, Job Descriptions, Aligning What and How of PMS, Leadership Development and Leading High performance Teams and COSO Risk Framework were organized. Besides, 35 officers completed the International Certification of Enterprise Risk Management by the faculty of George Washington University.

**Table 6.3: Foreign Trainings/ Seminars**

Organization/ Institute	Participants
Institute of Monetary Fund (IMF)	47
Deutsche BundesBank	11
Federal Reserve Bank of New York	9
Bank Negara, Malaysia	7
SEACEN Centre	7
Bank of England – CCBS	6
Boulder Institute of Finance	6
Financial Stability Institute – BIS	4
Study Centre of Gerzensee	4
Asian Development Bank	3
<b>Others</b>	66
<b>Total</b>	<b>170</b>

### **Signing of MoU with Chartered Financial Analyst Institute (CFAI)**

Considering the relevance of CFA qualification with the SBP's core business areas and growing interest of its officers in enrolling for CFA certifications every year, a Memorandum of Understanding was signed with CFAI during the year. The institute will now offer discounted rates to SBP employees and its subsidiaries across Pakistan for registration in CFA, CIPM and /or Claritas Investment Certifications.

## **6.2 Strengthening IT Systems**

With bulk of SBP's operations including banking, financial accounts, procurement, payroll, payments etc have been automated, the reliability and robustness of IT Systems and infrastructure has become critically important for ongoing operations of the Bank. Thus continuous improvement and strengthening of IT systems and infrastructure is the most important component of SBP's institutional strengthening strategies along with HR development. During the year several major projects were initiated to upgrade the IT systems including migration of core Banking System (Globus G11) to its latest version Temenos-T24 R15, and replacement of underlying servers, Storage Area Network Systems and Operating Systems for catering to the requirements of hosting new / upgraded Business Systems and Applications. Further, the deployment of high-speed 10 Gigabits/second Fiber Optic network infrastructure was completed and IT Security infrastructure was strengthened by employing latest network security solution. In order to assess the readiness and effectiveness of Disaster Recovery-DR site to continue operations in case of disasters a series of "Live Disaster Recovery-DR" exercises were successfully conducted. Moreover the IT Operations Center was strengthened for 24 by 7 integrated monitoring and support of IT Infrastructure and related Systems including all Data Centers across the country.

The automation of remaining business operations as identified and prioritized by the business groups also continued during the year to improve the organizational efficiency. The major business operations/routines automated during the year included incorporation of technical solution for

liquidity Management Framework of Islamic Banking industry in the Bank's core Banking System, and implementation of AgentChex- the Agent monitoring System for capturing and analysis of data from fast growing Branchless Banking Agents. Further, the Federal Government initiative and schemes like PM's Youth Business Loan Program, Subsidy Scheme on export of wheat and sugar, Drawback of Local Taxes and Levies (DLTL) etc were implemented by developing suitable IT based solutions. The automation of HR functions and implementation of E-attendance system discussed in the previous section were also possible due to active role of IT team in developing IT based business solutions.

Another significant operational efficiency measure under-taken during the year was installation of state of the art high definition Video Conferencing and Tele-presence Systems in Lahore and Islamabad offices for official meetings thereby reducing significant operational cost. Further, the consultancy work on developing and designing a modern and state of the art Main Data Center as per best industry standards was initiated during the year. The new Main Data Center once developed will replace the existing data center, which needs a complete overhaul.

Further, under Vision 2020, a comprehensive Knowledge Management Program has been initiated under which a centralized electronic repository of documents and records would be established and an Automated Business Workflow System would be implemented to promote the culture of knowledge sharing and collaboration. The program is likely to bring unprecedented improvement in the organizational efficiency and productivity.

## **6.3 Risk Management**

### **6.3.1 Enterprise Risk Management (ERM)**

The SBP has made significant progress in implementation of the Enterprise Risk Management (ERM) framework. The ERM framework has been prepared covering all business and organizational areas after extensive consultation with all key internal stakeholders including the two SBP subsidiaries. The certification program on ERM attended and completed by 35 SBP officials during the year also helped a lot in developing the framework for SBP. World Bank also completed its need assessment program during the year to assess existing ERM process at SBP on non-lending technical assistance basis.

### **6.3.2 Investment Risk Management**

In order to address risks inherent in the SBP's reserve management activities in a holistic manner, several initiatives were taken to align Investment Risk Measurement and Monitoring function with international best practices. The initiatives include: i) development and implementation of 'Investment Risk/Return Analysis Framework' for evaluation of proposed investment avenues; ii) development & institution of 'Fund Managers Selection and Performance Evaluation Mechanism' to mitigate risk of poor manager selection and also to monitor the effectiveness of existing external fund managers; and iii) strengthening systemic risk monitoring framework through institution of 'Early Warning System' for monitoring trends and developments in financial and macroeconomic risk factors that may severely impact our investment portfolios.

### **6.3.3 IT Security**

In order to strengthen local control environment of high value payment system, a security control review was carried out during the year to assess the control weaknesses/gaps, if any. The gaps/weaknesses identified during the review were filled/removed, which significantly reduced the risks associated with high value payments. Moreover, to address IT security issues at the operational

level, key baseline security policies have been developed which are under review phase and will be finalized in FY17.

#### **6.4 Business Continuity Management**

The Business Continuation management (BCM) aims at ensuring continuity of critical functions and preventing any major disruption in the country's financial system under unforeseen circumstances. The BCP at SBP has come a long way since its conceptualization. Currently, the Bank boasts fully functional backup sites for all the critical departments and critical support departments. These sites are equipped with all necessary equipments and facilities required to perform the critical time sensitive functions of SBP and SBP-BSC. Additionally, SBP has also developed a state of the art Disaster Recovery Site for backing up of all critical data and applications. To increase the level of readiness at SBP, following initiatives were taken:

- Around 200 BCP exercises conducted in SBP. Additionally a surprise test exercise of the Critical Time Sensitive Functions of the Bank was also conducted at the primary Backup Site.
- A fresh Business Impact Analysis (BIA) has been planned; the Terms of Reference for the BIA has been developed and would be initiated in FY17.
- A Critical Functions Review Committee (CFRC) was formed to review the critical functions of field offices.
- In order to standardize all backup sites, a minimum criterion for a backup site was developed.
- Three BCP awareness sessions for departmental BCP Coordinators and key persons were conducted.
- Institute of Bankers Pakistan (IBP) arranged BCI certification training for the first time in Pakistan. Also a BCP training module was developed and included in the flagship training modules of NIBAF.

#### **6.5 Risk Based Audit Function**

The effectiveness of the Bank's governance, risk management and control processes is assessed through audit function. During FY16 audit of financial, operational, and IT systems and operations was conducted. As an additional check, ongoing quality assurance of audit activities is undertaken through Quality Assurance Unit (QAU) that ensures that the audit approach, methodology and activities are in conformance with the international standards and best practices. Further, a dedicated Compliance Unit was established to follow up with the departments to get audit recommendations implemented and report the outstanding issues on periodic basis. The major initiatives and achievements of the audit function during FY16 included the following:

- A study of Governance / Hierarchical Structure & Control / Operational Issues of IT operations of five major banks was conducted and comparative evaluation with SBP was made in the form of a review report.
- IT Stakeholder Satisfaction Survey was carried out within the Bank for assessing IT/ IS (Information Technology/Systems) operations for stakeholder satisfaction.
- Improvements in working methodology of audit function were introduced by reviewing the Risk Assessment Framework for Audit Universe and modified the structure of audit reports accordingly.
- Make preparations for adopting criteria based audit reporting.
- As required in the IMF Safeguard Assessment, monetary program data was reviewed by IACD on quarterly basis, the reports of which were submitted to IMF Safeguard team as an independent assessment.

- Hosted ‘SAARC Conference on Internal Audit practices in Central Banks’ under aegis of SAARC Finance.

## 6.6 Legal Services Function

The SBP has an elaborate Legal Services function to ensure that all at its operations, policies, regulations, decisions are in full conformity with the law. For the purpose all major policies and initiatives are reviewed by the law professionals in the Bank’s Legal Services Department (LSD) before issuance. It also advises the line departments on different legal issues being faced by them. Similarly the proposals for amendments in the existing laws and for development of new laws are finalized with the active support and advice of LSD. The laws recently promulgated after rigorous pursuance and follow up by the Bank include i) Credit Bureaus Act, 2016, ii) Offences in Respect of Banks (Special Courts) (Amendment) Act, iii) The State Bank of Pakistan (Amendment) Act, 2015, iv) Financial Institutions (Secured Transactions) Bill, 2016, v) Deposit Protection Corporation Bill, 2016, vi) Financial Institutions (Recovery of Finances) (Amendment) Bill, 2016, and vii) Foreign Exchange Regulation (Amendment) Bill, 2016.

LSD also partners with stakeholder departments in formulating rules, regulations, and policies to carry out the Bank’s business in accordance with applicable laws. Besides, LSD has been offering expert advice with regard to various functions of the Bank and its subsidiaries. As being legal arm of the Bank, LSD effectively represented the Bank in various courts of law and other such forums during FY16.

## 6.7 Enhancing Knowledge-base of the Organization

Throughout the year SBP Library remained active to support the research, training and learning endeavors of SBP employees, the banking community, and the general public through provision of high quality information resources and services. During the year the library initiated and completed an important project of withdrawal and disposal of all periodical issues that meet the weeding criteria set out in the weeding policy to create room for future procurements. **Table 6.4** sheds some light on operational routines of the library including enhancement of resource-base, technical processing of the acquired resources and their dissemination to the users during the year.

Operational Areas			FY12	FY13	FY14	FY15	FY16
Procurement	a) Books	i. Purchased	2,124	2,061	1,560	1,633	1,650
		ii. Complimentarily acquired	192	253	250	204	160
	b) Periodical issues		3,598	3,291	2,649	2,719	2,542
Technical processing	a) Books catalogued		2,183	2,460	2,401	1,948	1,837
	b) Articles indexed		8,047	4,697	3,561	4,069	3,300
Circulation (Books loaned)	a) The SBP employees (active and retired)		27,139	16,612	26,653	25,844	26,334
	b) General public		2,242	2,175	2,146	2,211	1,885
Membership	a) The SBP employees (active and retired)		125	45	60	106	85
	b) General public		160	184	180	143	106
Visitation	a) The SBP employees (active and retired)		17,522	17,874	17,703	16,693	14,598
	b) General public		9,007	8,873	7,619	7,056	7,217
Documents Downloads	a) Downloaded documents delivery through email		2,621	2,767	3,343	1,745	3,503
	b) Bank-wide article downloads through subscribed resources		---	---	18,555	9,747	12,178



## 6.8 Strengthening External Relations

In line with its strategic objectives, the Bank has adopted a multidimensional approach to strengthen communications and external relations to ensure that the intent and objectives of all policy, regulatory, supervisory and developmental initiatives being taken by the bank are clearly understood by the concerned stakeholders including media. The first component of the strategy is development of a formal communication policy to improve understanding and confidence of public about the SBP role in economic management and policy making; the communication policy was developed during the year, which is being reviewed internally and will be issued and implemented during FY17. The second important component of the strategy was the revamping of SBP website, which was successfully completed during the year with the launch of revamped website on 14<sup>th</sup> August, 2016. Moreover, the development of an Urdu version of the SBP website was largely completed during the year and will be launched in FY17. Improving presence on social media particularly on twitter was also part of the strategy, the twitter account was accordingly opened and being used frequently to disseminate SBP initiatives and decisions.

Further, to communicate SBP stance on different strategic economic issues several interviews of the Governor with the national and international media were arranged that enabled the stakeholders to better appreciate and understand SBP stance on key economic issues/indicators. A significant number of press releases were also issued to inform the masses about SBP affairs. The other key initiatives taken during the year to improve communication with public are given in the **Box 6.1**.

### Box 6.1: Key Activities for strengthening external relations during FY16

- The Bank established its official twitter account in July-2015. This is primarily aimed at informing journalists and general public about any information/data dissemination through SBP's website.
- Training workshop for journalists titled "Understanding Monetary and Financial Stability" was organized in Islamabad in April 2016. A total of 30 media representatives attended the workshop.
- Awareness campaign i) for obtaining fresh currency notes through SMS facility, ii) for ATM users, iii) on list of unclaimed deposits, iv) on financial inclusion and SME financing initiatives, v) on subsidized financing facility for storage of agricultural produce, and vi) on business with unauthorized Money Changers, was carried out during the year.
- A media campaign/public service message *Rupee Ko Pechano* was negotiated for and subsequently run on PTV Network.
- Monthly in-house journal State Bank News was revamped in order to bring it closer to the international standards in terms of its size, printing, formatting and lay out. The magazine has been expanded beyond a record of history; making it a forum where more varied information could be shared. The magazine's current size is at par with recognized international standards whereas several new features have also been added to maximize staff contribution.
- Occasional and regular publications were printed and disseminated to more than 37,000 inland and foreign recipients to broaden the access to information. The major achievement, in this regard was simultaneous release of SBP flagship publications along with their Urdu versions.

## 6.9 Museum & Art Gallery

The SBP is maintaining a well reputed Museum and Art Gallery to educate visitors particularly the students about the history of currency, coins and State Bank of Pakistan. The Museum and Art Gallery comprises: Coin Galleries, Stamp Gallery, Currency Gallery, History of State Bank, Governors' Gallery, and Art Gallery. The coin galleries have coinage from its evolution till the contemporary period, stamps which were used as Currency in the interim period between Coinage to Currency, and the Currency Gallery from very early time period to present paper/polymer notes.

History of SBP depicts the History of SBP from its establishment since 1948, and the Governors' Gallery displays brief profiles of the Ex-Governors with their photographs. The Art Gallery is one of



the most attractive parts of the Museum, displaying Sadequain's four huge murals and collages of metal and wood and one mural of Zahoor-ul-Ikhlāq. The Contemporary Art Gallery, holds temporary exhibitions of young artists on quarterly basis. During the year, four paintings of Jimmy Engineer were added in the Art Gallery. Archives Section is dealing with the acquisition of Archival Material related to historical manuscripts, History of Pakistan, Art, Historical Books etc.

The Museum also has a Technical Section comprising Conservation Lab, Modeling Section and Replica Section. The lab and modeling section are responsible for conservation of coins, archival materials etc. for their preservation and consolidation. The Replica Section is unique, as it prepares replicas/models of antiquities to sell to the visitors as souvenirs. The replicas are also used for education purposes and discourage the smuggling of original ones. The Shop includes replicas of the materials and some size specific products, publications and interactive videos and demos.

#### **Visitors Flow and Souvenir Shop**

During the year 6633 visitors (1,982 Male, 1,743 Female and 2,908 children) visited the Museum and learned about the coins' and SBP's history. The special occasions also provided a chance to a large number of visitors to visit the SBP Museum.

#### **Major Initiatives**

To support the Museum's mission of the enhancement of education for the youth and the public, different workshops/activities were arranged in SBP Museum.

#### ***Independence Day Celebration***

State Bank Museum celebrated the Independence Day with a special exhibition of currency notes and stamps. The exhibition was inaugurated by the Governor SBP. This exhibition was unique in many ways, displaying the procedure of currency notes and stamp designing by a renowned artist, Mr. Adil Salahuddin, S.I., who also donated a huge collection of stamps to SBP Museum. A large number of bank officers/employees with their families and public visited the exhibition arranged on the Independence Day.

#### ***International Women's Day***

Women's Day is celebrated on March 8 every year to highlight the social, economic, cultural and political achievements of women. To make this day memorable State Bank Museum organized a Workshop of Calligraphy for the female employees of SBP and SBP BSC. A large number of female employees attended the workshop and learnt unique calligraphic techniques by renowned calligraphers.

#### ***Summer Camps***

The Museum as per its tradition organized Summer Camp-2016 for the children of SBP and SBP BSC employees. Since 2011 educational summer camp is organized each year where the children are taught about Calligraphy. This year Museum also engaged parents (SBP and SBP BSC employees) and conducted a survey to design the Summer Camp events and activities. Based on the survey response, this year's summer camp focused on improving 'creative writing' and 'drawing & painting' skills of the participants. The services of experienced trainers were hired for both the areas.

## 7 SBP Subsidiaries

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### 7.1 SBP Banking Services Corporation (SBP-BSC)

SBP Banking Services Corporation (SBP BSC), a wholly-owned subsidiary and operational arm of SBP, is committed and fully onboard for implementation of SBP initiatives and policies in line with the Vision 2020. A number of initiatives have been taken by SBP-BSC to bring further improvement in its major operational areas i.e. currency management, foreign exchange operations and government banking. The initiatives include procurement of High Speed Banknote Processing and Authentication System, use of SMS based services for issuance of fresh cash, efforts to initiate automation of government payments in collaboration with AGPR and provincial treasuries and replacement of paper-based E-Form with electronic E-form to facilitate exporters in partnership with Exchange Policy Department of SBP and Customs authorities.

#### 7.1.1 Currency Management

The SBP-BSC in collaboration with the Bank has embarked on implementation of the SBP Currency Management Strategy in commercial banks as well as all SBP-BSC field offices. During the year, two high speed Banknote Processing and Authentication System (BPAS) were installed at SBP BSC Karachi for processing banknotes. Each of these machines can process up to 100,000 notes per hour, which includes authentication, sorting, packing into packets and bundles and destruction of soiled/unfit notes. The BPAS has also been connected with a modern briquetting system to convert the destroyed banknotes material into small bricks for subsequent use in landfills and/or power plants. The installation of BPAS is a major step towards reforming the cash processing function in SBP BSC as it will not only significantly enhance its capacity to process large quantities of cash but also enable it to detect even finest quality of counterfeit banknotes. Similar machines will also be installed in Lahore, Rawalpindi and Peshawar to cover central and northern regions respectively.

In order to facilitate general public in obtaining fresh banknotes from banks on Eid festivals, SBP BSC had initiated an SMS based service last year. Under the facility any citizen could avail fresh notes of small denomination in a specified quantity from designated branches of commercial banks, by sending his/her CNIC in an SMS to 8877. This year the service was expanded to 500 branches of commercial banks in 115 cities across the country enabling over 1.1 million citizens to obtain fresh banknotes from banks in a transparent and dignified manner. The SMS based service has helped SBP BSC in expanding the outreach of availability of fresh banknotes of small denomination to smaller cities and towns as earlier in the commercial banks based model, the outreach was largely restricted to big cities and people in smaller cities had only limited opportunities to obtain fresh banknotes from banks. The service will be expanded to at least 1000 branches next year covering maximum possible districts and tehsils across the country.

#### 7.1.2 Automation of Foreign Exchange Operations

The automation of E-Form (Export Form) completed and launched during the year was a flagship project of SBP BSC, which will not only facilitate exporters in hassle free system based filing of E-form with Customs Authorities after verification by his/her bank but would also bring transparency and eliminate circulation of fake E-Forms. After smooth automation of E-Form in WeBOC (i.e. Web-based software for custom clearance), the automation of Import Form (I-Form) was also initiated through the said system by linking the payment module with the customs' cleared consignments. Once completed the electronic I-Form would help in curbing malpractices in the form of multiple payments against single import consignments and use of 'Hawala' to settle import payments.

Furthermore, in order to automate the Part-II (Performance based facility) of the Export Finance Scheme, the verification and scrutiny process of EE-1/EF-1 statements has also been initiated through the system-based calculation of total Export Earnings (EE-1) and subsequently Export Performance (EF-1) of the exporters, which is expected to mitigate financial risks and lead towards a robust system-based performance and limit allocation for exporters.

### **7.1.3 Capacity Building in International Trade**

In order to deepen and broaden the understanding of SBP BSC staff in international trade and foreign exchange markets, a number of in-house training programs were organized on the subject. Further, the concept of attachment program was introduced wherein BSC staff was attached with foreign exchange operations of designated commercial banks to have hands on experience in the area thus improving their knowledge and understanding of international trade and foreign exchange markets. Further, considering the overall modest capacity of Authorized Dealers in foreign exchange, a specialized training program was designed and is being offered in collaboration with National Institute of Banking & Finance (NIBAF) for the officers of Authorized Dealers to enhance their capacity in foreign exchange business.

### **7.1.4 Resolution of Foreign Exchange Overdue Cases**

The non receipt of export proceeds for considerably long periods has been a challenge for SBP-BSC. A special dedicated department i.e. Foreign Exchange Adjudication Department exists in the BSC to adjudicate cases of non-receipts of export proceeds by the exporters and levy fines and penalties on the exporters who failed to bring the export proceeds within the time lines given by the department. During FY16 an amount of USD 57.7 million was repatriated in the country through judicial proceedings as against the repatriation of USD 49.4 million in the previous year. The number of complaints registered, have reduced to 3,718, out of which 2,782 were disposed of, compared to 4,669 complaints received during previous financial year (FY15) out of which 2,085 were disposed of. The ratio of complaints received and disposed of improved significantly from 45 per cent (FY 15) to 75 per cent in FY 16.

### **7.1.5 Promotion of Financial Inclusion / Access to Finance**

The presence of SBP-BSC in 15 regions across the country gives it an inherent advantage to promote SBP initiatives for development of an inclusive financial system amongst the relevant stakeholders at local level. During the year, it remained actively involved in assisting SBP to disseminate and implement its financial inclusion policies and strategies through regular focus groups meetings and rigorous follow up with all stakeholders particularly the banks' regional management thus enabling SBP to monitor the challenging target of disbursements of Rs 600 billion to the agriculture sector. The BSC also implements SBP's Export Finance Schemes (EFS) and disbursed a sum of Rs 500 billion under the schemes during FY16. It also prepared a set of standardized documents for on-site verification of EFS cases by its teams to ensure consistent reporting. Further, under Credit Guarantee Scheme (CGS) for Small and Rural Enterprises launched by SBP in 2010, the BSC issued guarantees to 13 Participating Financial Institutions (PFIs) during the year against 8,572 loans aggregating to Rs 6.009 billion sanctioned by them.

### **7.1.6 Strengthening Humane Resource Capacity**

The SBP-BSC human resource mix has been undergoing a major change since last 4-5 years wherein the old staff having skills mix incompatible with the current business needs of the organization are being replaced by young professionals and graduates of reputed business schools and educational institutions. Only during FY16, 550 employees opted for early retirement and 369 young professionals were recruited to replace them. This transformation in the employees mix has

significantly improved the skills mix thus enabling BSC to improve its performance. This trend is likely to continue during next 3-4 years when bulk of employees having incompatible skills mix would be replaced by young professionals under the ongoing voluntary early retirement scheme. The challenge now is to ensure effective utilization of the significantly improved skills set to achieve organizational objectives.

To improve efficiency and effectiveness, an organization wide work load analysis project was initiated in BSC during the year with the help of an external consultant to determine the ideal head count for different functional areas. Further, a comprehensive organization wide restructuring plan was prepared which was approved by the SBP BSC Board. Moreover, in order to have more flexibility and operational mandate, the BSC Ordinance 2001 was reviewed and certain amendments were proposed, which were approved by BSC Board. The proposed amendments were sent to Ministry of Finance Government of Pakistan for initiating the process to get these amendments approved by the Parliament. An Employee Engagement Survey for all officers was also successfully conducted during the year to gauge employees' satisfaction and motivation levels. All these initiatives are aimed at transforming the BSC into a robust and vibrant organization having the capacity to help SBP in implementing its policies and strategies for development of an inclusive financial system in the country.

## 7.2 National Institute of Banking and Finance (NIBAF)

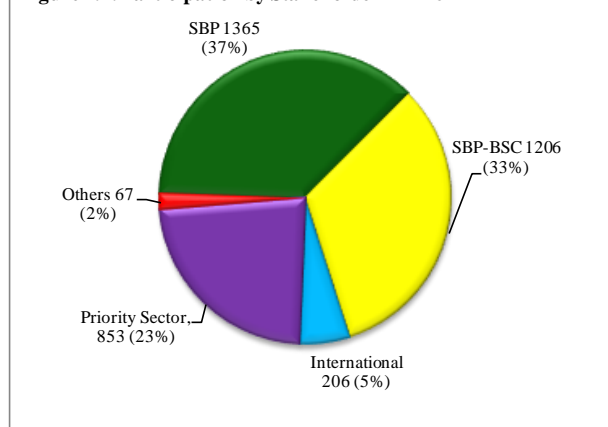
The successful attainment of SBP's strategic goals critically hinges upon the capacity of its human resource to deliver. With its primary mandate to develop and nurture the human resource base of SBP and SBP-BSC, under its renewed initiatives, NIBAF structured its 137.2 training weeks Business Plan for FY 16, to address the capacity building needs as envisaged in the SBP and SBP-BSC Training & Development policies introduced during the year. Further, NIBAF leverage its facilities to better serve the financial sector through specialized and advanced level trainings aimed to augment SBP's regulatory efforts most importantly in the area of Islamic banking, AML, SME, Microfinance, etc.

Aligned with the SBP Vision 2020, NIBAF in collaboration with HR teams of SBP and SBP-BSC carried out training need analysis as part of the business plan by holding meetings at department/cluster level to ascertain their training needs, identify skill-gaps and accordingly structure/design course contents.

As against the target, NIBAF conducted 158.56 weeks of trainings during the year out of which SBP received 60.9 weeks, SBP-BSC 42.5 weeks, priority sectors 34.4 weeks, International 15.9 weeks while other financial institutions 4.8 weeks of trainings (**Figure 7.1**). The total training activity was 21.4 weeks higher than the last year largely due to significant increase in international trainings and Islamic banking trainings.

Further, the institute engaged with Pakistan's Bank Association and Financial Monitoring Unit to explore the possibility of launching courses on Anti Money Laundering and Combating Terrorist Financing for commercial banks & financial institutions. Toward this end, an MoU was signed

**Figure 7.1: Participation by Stakeholder FY-16**



between NIBAF and Financial Monitoring Unit whereby FMU will provide technical expertise for conducting the programs to be rolled-out shortly for frontline staff of commercial banks/financial institutions.

### **7.2.1 International Training Program**

International programs are regular feature of NIBAF business Plan. In FY16 NIBAF successfully conducted the 46<sup>th</sup> course on central banking for international participants, held under the aegis of SBP and Economic Affairs Division as part of Technical Economic Assistance Program. The course received a good response and total 13 friendly developing countries participated in the program. The objective of program was to share and discuss latest trends and technological developments in central banking, major economic developments around the world that impact central banks' policies, and strengthen bilateral relations. Further, due to strong demand for Islamic banking programs combined with international programs this year NIBAF also introduced some special customized programs delivered to bankers/ officials of the region including from Afghanistan. Moreover, while working closely with Ministry of Economic Affairs Division, NIBAF also organized a three weeks English language course for central bankers and mid-level officers from the Central Asian Republics (CARs) under the Pakistan Technical Assistance Program (PTAP). The program focused in particular on improving the English language proficiency of the participants through interactive learning sessions and participation.

Apart from conducting these training programs, NIBAF hosts and facilitates the SAARC Finance seminars and conferences organized by SBP and attended by central banks and ministries of Finance representatives from SAARC countries. Further, as a strategic partner of International Centre for Education in Islamic Finance (INCEIF-Global Islamic University Malaysia), NIBAF continued to conduct examinations of Masters in Islamic Finance Practice (MIFP) of INCEIF.

### **7.2.2 Priority Sector**

SBP Vision 2020 has a special emphasis on improving financial inclusion levels through promotion and development of Islamic Finance, SME & IH finance, Agri Finance and microfinance etc. NIBAF as training arm, is actively engaged with different stakeholders to create necessary capacity for growth and development of these sectors. In FY16, a number of iterations of Islamic Banking Certificate Course (IBCC) and Fundamentals of Islamic Banking & Operations (FIBO) were conducted. Similarly specialized and focused program were developed in the area of Microfinance to facilitate the growth of the microfinance sector by enhancing the skill levels of human resource working in the microfinance institutions and banks. A total of 3.6 weeks of trainings were conducted at Islamabad and Lahore wherein 113 officials from Microfinance Banks/Microfinance Institutions participated. A number of programs were also conducted for SME & Housing finance including SME Lending techniques, non-performing loans, Recovery/Foreclosure and risks in housing finance, processing & documentation etc, wherein 100 commercial bankers participated.

# 8 Financial Performance

## 8.1 Overview

The SBP profit reduced by over 43 percent during the year to Rs 229,353 million from Rs 401,751 million last year. After accounting for the onetime non recurring profit on sale of ABL and HBL shares of Rs 103,121 million in FY 15, the reduction in the current year's profit was Rs 69,277 million or 23 percent. This decline is primarily attributable to reduction in the discount income by approximately Rs 90,367 million partly offset by increase of Rs 42,682 million in income on reverse repo transactions.

**Table 8.1** gives a comparative summary of Bank's annual profit and loss account for FY16 and FY15.

<b>Table 8.1: Summary Statement of Profit and Loss</b>		(million rupees)	
<b>Description</b>	<b>2016</b>	<b>2015</b>	
<b>Income</b>			
Discount / interest /markup and/or return earned	252,831	304,368	
Less: Interest/mark-up expense	25,454	21,000	
<b>Net discount / interest /markup and/or return income</b>	<b>227,377</b>	<b>283,368</b>	
Commission income	1,909	1,629	
Exchange gain – net	25,779	36,419	
Dividend Income	12,226	15,429	
Other operating income/(loss) – net	2,756	103,343	
Other income – net	161	237	
<b>Total income net of interest expenses</b>	<b>270,208</b>	<b>440,425</b>	
<b>Expenditure</b>			
Bank notes printing charges	7,731	6,691	
Agency commission	8,969	7,243	
General administrative and other expenses	24,250	23,871	
(Reversal of Provisions) / Provisions - net	(95)	869	
<b>Less: Total expenditure- net of reversal of provisions</b>	<b>40,855</b>	<b>38,674</b>	
<b>Profit for the year</b>	<b>229,353</b>	<b>401,751</b>	
Less: Loss on re-measurement of defined retirement benefits	15,327	4,061	
<b>Surplus Profit for the year after charge of re-measurement of defined retirement benefits</b>	<b>214,026</b>	<b>397,690</b>	

## 8.2 Income

### 8.2.1 Net Discount / Interest / Markup and/or Return Income

The discount income earned on the government borrowings from the Bank through market related treasury bills (MRTBs) has been the major source of income of the Bank. Besides this, the interest/markup earned on: i) short term lending to banks under reverse repo arrangements, ii) FCY investments and placements, and iii) loans to banks under export finance and related schemes of the central bank, also contribute significantly in the Bank's profits.

<b>Table 8.2: Interest/Discount/Return Income on Foreign and Domestic Assets</b>			(million rupees)	
<b>Description</b>	<b>2016</b>	<b>2015</b>		
Discount, interest / mark-up on:				
- Government Securities	150,313	240,680		
-Securities purchased under agreement to resell	80,713	38,031		
-Others (EFF etc)	9,164	16,716		
-Foreign assets	12,641	8,941		
<b>Total</b>	<b>252,831</b>	<b>304,368</b>		

The discount income registered a steep decline of over Rs 90 billion, which is attributed to reduced quantum of government borrowings from the Bank coupled with 75 bps reduction in the policy rate. The average government borrowings from the Bank for FY16 and average yields on MRTBs during the year were Rs 2,216 billion and 5.89 to 6.24 percent respectively as compared to the borrowings and MRTBs yields of Rs 2,542 billion and 6.64 to 8.39 percent in FY15 (Table 8.2 and 8.3).

Similarly the interest earned on Export Finance (EFF) and other related refinance facilities declined to Rs 9,164 million from Rs 16,716 million last year primarily due to reduction in the interest/mark-up rates. The average outstanding loans to banks under the schemes were Rs 199,188 million and average interest/mark-up rate was 3.50 percent in FY16 as compared to the loans of Rs 191,206 million and interest mark-up rates of 6.20 percent during FY15. The significant reduction in discount earned on government borrowings and interest mark-up income on loans to banks under various schemes was partly off-set by Rs 43 billion increase in interest earned on lending to banks under reverse repo arrangements. The steep rise in the interest earned on the reverse repo based lending to banks is attributed to more than 180 percent rise in average balance under the facility during the year; the average rate on the facility though reduced to 6.18 percent from 8.77 percent last year. The increase in interest income on FCY assets is largely attributed to the increase in reserves, improvement in interest rate environment in US market and modest depreciation of PKR against USD.

The Bank incurs interest/ markup expense on FCY and domestic liabilities. FCY liabilities include deposits of international organizations and central banks, International Monetary Fund liabilities and currency swap arrangements. The domestic liabilities include *Sukuk* purchased under *Bai Muajjal* agreement and repo transactions. The interest/ markup expense of the Bank increased by 21 percent during the year primarily due to increase in expense on currency swap arrangement, expenses on SDR allocation and *bai muajjal* transactions.

### 8.2.2 Commission Income

The Bank earns commission income through management of public debt, market treasury bills, prize bonds, national saving schemes and government securities as well as issuing drafts and payment orders. The commission income increased by 17 percent as compared with the previous year.

**Table 8.3: Lending to Government, Banks and Financial Institutions**

(million rupees)		
Description	2016	2015
Government securities	2,050,957	2,326,471
Overdraft /loans to Governments	955	3,431
Securities purchased under agreement to resell	1,533,574	662,580
Banks and financial institutions	335,244	335,037
<b>Total</b>	<b>3,902,730</b>	<b>3,327,519</b>
<b>Yield on Treasury Bills</b>	<b>5.89% to 6.24%</b>	<b>6.64% to 8.39%</b>
<b>Mark-up on Loans to Banks and FIs</b>	<b>0 to 9.75</b>	<b>0 to 9.75</b>

**Table 8.4: Foreign Currency Reserves**

(million rupees)		
Description	2016	2015
<b>At fair value through Profit or Loss</b>	<b>269,943</b>	<b>291,639</b>
Unrealized loss on -derivative financial instruments	-3,905	-1,015
<b>Held to maturity</b>	<b>238,549</b>	<b>165,568</b>
<b>Loans and receivables</b>		
Deposit accounts	26,378	76,772
Current accounts	6,690	26,790
Securities purchased under agreement to resale	569,237	129,545
Money market placements	870,192	753,990
<b>Total</b>	<b>1,977,084</b>	<b>1,443,289</b>

### 8.2.3 Exchange Gain – Net

The exchange gains/ (losses) arise on the FCY assets and liabilities of the Bank. The exchange account includes both the realized and the unrealized gains and losses. Major part of the foreign currency assets of the bank is USD denominated whereas the foreign currency liability exposure is mainly SDR denominated. Accordingly, the movement in the PKR/ SDR and PKR/USD exchange rates directly affects the exchange account i.e. the depreciation of PKR *vis-à-vis* USD and appreciation of PKR *vis-à-vis* SDR results in exchange gain to the bank.

The bank earned net exchange gain of Rs 25,676 million during the current year as against exchange gain of Rs 36,418 million during the previous year, registering a decline of 29 percent. The PKR depreciated by Rs 3.056 per USD during the year resulting in an exchange gain of Rs 38,323 million on FCY assets as compared to the gain of Rs 12,837 million earned last year (see **Table 8.5**). The PKR depreciated against SDR by Rs 3.071 that caused an exchange loss of Rs 12,596 million on SDR denominated liabilities; the PKR had appreciated by Rs 9.36 in FY15 and thus an exchange gain of Rs 23,524 million.

**Table 8.5 Breakup of the Exchange Account**

(million rupees)		
Description	2016	2015
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	38,323	12,837
Forward covers under Exchange Risk Coverage	0	1
Payable to the IMF	10,985	19,075
Special Drawing Rights of the IMF	-1,611	4,449
Exchange risk fee income	52	56
<b>Total</b>	<b>25,779</b>	<b>36,418</b>

### 8.2.4 Dividend Income

The SBP holds equity investment in banks and financial institutions under section 17 6(A) of SBP Act 1956 and dividends earned on these investments is also one of the sources of its income. The breakup of dividend income on listed and unlisted shares held by SBP is given in **Table 8.6**. The decline of Rs 3,203 million in the dividend income as compared to the previous year is attributed to the divestment of ABL and HBL shares partly offset by increase in the dividend income from NBP.

**Table 8.6 Breakup of the Dividend Income**

(million rupees)		
Description	2016	2015
Listed	11,999	15,129
Unlisted	227	300
<b>Total</b>	<b>12,226</b>	<b>15,429</b>

### 8.2.5 Other Income - net

The income recorded under this head was Rs 161 million against Rs 237 million earned last year thus registered a decline of 32%. The decrease was mainly due to decline in the heads 'liabilities and provisions written back' and grant income.

### 8.2.6 Other Operating Income – net

The other operating income witnessed a massive decline of Rs 100,587 million during the year as it decreased to Rs 2,756 million in FY16 against Rs 103,343 million in FY15. The decline was due to the onetime gain of Rs 103,121 million on sale of ABL & HBL shares in FY15 and decline in penalties' income by Rs 2,438 million partly offset by increase in income on fund managers' portfolio.

## 8.3 Expenditure

The total expenditure during the year (including reversal of provisions against impaired assets) was Rs 40,855 million as against Rs 38,674 million in FY15, thus registering an increase of 5.6 percent



over the previous year's expenditure. An analysis of major components of Bank's expenditure is given as under:

### 8.3.1 Bank Notes Printing Charges

The banknotes printing charges and the agency commission paid to NBP and the BOP, on account of banking services provided to the Federal and Provincial governments are the two major corporate expenses of the Bank<sup>1</sup>. During FY16, the banknotes printing charges increased by 16 percent to Rs 7,731 million from Rs 6,690 million in FY15. The increase is partly attributed to increase in quantity (Rs 815 million) and partly to price escalation (Rs 225 million).

### 8.3.2 Agency Commission

The Agency commission paid to NBP and BOP increased by 24 percent during the year to Rs 8,969 million from Rs 7,243 million in FY15. The increase is attributable to rise in the government receipts and payments handled by the agent banks (particularly NBP) during the year.

### 8.3.3 General Administrative and Other Expenses

The general administrative expenses include employees' salaries and benefits, retirement benefits and other operating expenses i.e. fund managers and custodians' expenses, training expenses, postage and telephone charges, legal and professional expenses, depreciation, repair and maintenance, etc. A summary of the general administrative and other expenses is given in **Table 8.7**. The increase of Rs 379 million in general, administrative and other expenses is attributable to increase in repairs & maintenance, training, depreciation and fund managers' expense partly offset by decrease in retirement benefits.

**Table 8.7: General, Administrative and other expenses**  
(million rupees)

Description	2016	2015
Salaries & other benefits	9,752	8,691
Retirement benefits	9,827	11,107
Repair and maintenance	638	521
Fund managers' and custodian expenses	495	376
Training	102	44
Depreciation	1,498	1,370
Others	1,927	1,762
<b>Total</b>	<b>24,250</b>	<b>23,871</b>

### 8.3.4 (Reversal of Provision) / Provision / Write-off

During the period under review, there was net reversal of provision amounting Rs 95 million as against reversal amounting to Rs 869 million made during previous financial year. The reversal was made against receivables from India, employee loans and certain FCY securities.

## 8.4 Net Profit

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

**Table 8.8: Net Profit**  
(million rupees)

Description	2016	2015
Net Profit for the year	229,353	401,751
<b>Less:</b> Loss on re-measurement of Staff retirement defined benefit plans	15,327	4,061
<b>Profit before appropriations</b>	<b>214,026</b>	<b>397,690</b>

## 8.5 Balance Sheet Summary

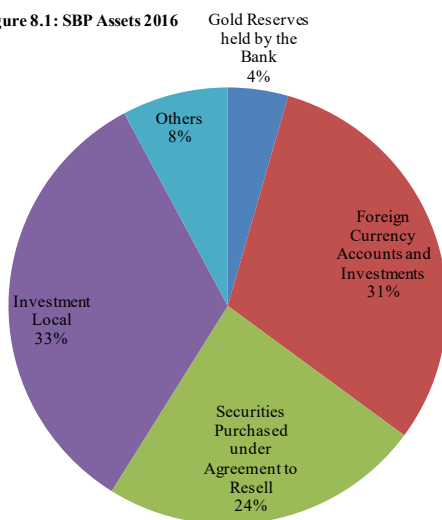
During the year, the balance sheet footing of the Bank increased from Rs 5,234 billion to Rs 6,450 billion, registering an increase of 23 percent. The causative factors for the increase are reverse repo balances, foreign currency accounts and investments balances and the value of the gold reserves held by the bank. The reverse repo balance increased due to significantly large liquidity injections by SBP in the interbank market. The balance under this head increased to Rs 1,534 billion at the close of year from Rs 663 billion last year on the same date. The increase of Rs 534 billion in the balances of foreign currency accounts and investments was mainly due to increase in the foreign currency reserves of the country. The Rs 40

<sup>1</sup> Bank of Punjab (BOP) was appointed SBP agent during FY16 for collecting Government of Punjab taxes and receipts

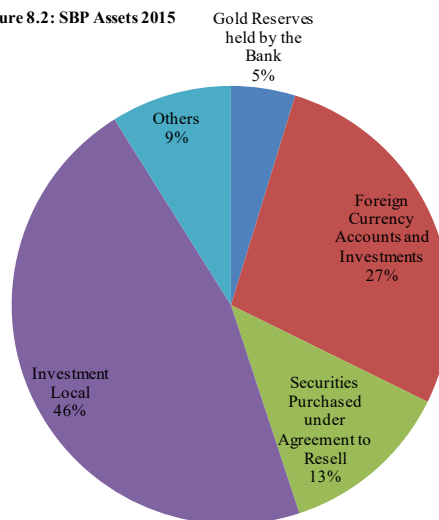
billion increase in the value of the gold reserves held by the bank was due to spike in the gold rate in the London Bullion Market. The increase in these assets was partly offset by reduction in the government borrowing from the central bank.

The increase in the assets was mainly funded by 31 percent increase in the banknotes in circulation which increased to Rs 3,555 billion at the end of the year and 41 percent (Rs 225 billion) increase in the borrowing from IMF. A comparative analysis of SBP assets and liabilities for FY2015 and FY2016 are given in the **Figure 8.1 to 8.4.**

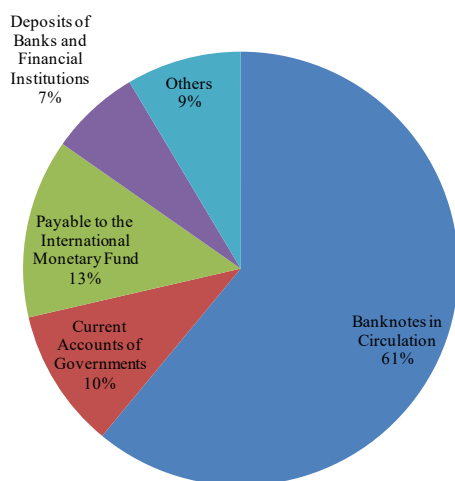
**Figure 8.1: SBP Assets 2016**



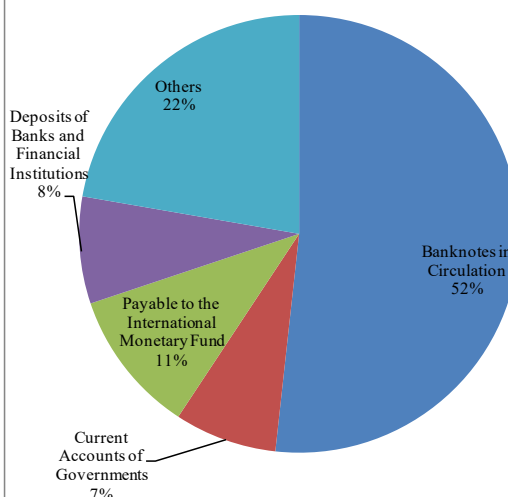
**Figure 8.2: SBP Assets 2015**



**Figure 8.3: SBP Liabilities 2016**



**Figure 8.4: SBP Liabilities 2015**



# 9 Consolidated Financial Statements of SBP and its Subsidiaries

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

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**EY FORD RHODES**

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Karachi

## **INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS**

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, 2016, 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

**EY FORD RHODES**  
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, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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**A. F. Ferguson & Co.**  
Chartered Accountants  
Karachi

**Salman Hussain**  
Audit Engagement Partner

---

**EY Ford Rhodes**  
Chartered Accountants  
Karachi

**Omer Chughtai**  
Audit Engagement Partner

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT JUNE 30, 2016**

	Note	2016	2015
		(Rupees in '000)	
<b>ASSETS</b>			
Gold reserves held by the Bank	5	287,170,323	247,150,713
Local currency - coins	6	488,198	365,231
Foreign currency accounts and investments	7	1,977,084,370	1,443,289,097
Earmarked foreign currency balances	8	5,147,596	1,274,786
Special Drawing Rights of the International Monetary Fund	9	67,656,236	72,229,419
Reserve tranche with the International Monetary Fund			
under quota arrangements	10	17,455	17,052
Securities purchased under agreement to resell	11	1,533,574,159	662,579,848
Current accounts of Governments	20.2	955,474	3,048,507
Investments - local	12	2,147,418,594	2,415,541,268
Loans, advances and bills of exchange	13	350,571,180	349,077,905
Assets held with the Reserve Bank of India	14	6,012,137	5,450,937
Balances due from the Governments of India and			
Bangladesh (former East Pakistan)	15	9,214,881	8,561,790
Property and equipment	16	60,095,958	20,839,622
Intangible assets	17	3,833	4,203
Other assets	18	4,348,162	4,167,883
<b>Total assets</b>		<b>6,449,758,556</b>	<b>5,233,598,261</b>
<b>LIABILITIES</b>			
Bank notes in circulation	19	3,554,922,057	2,707,258,012
Bills payable		598,142	643,121
Current accounts of Governments	20.1	606,657,778	394,020,378
Payable to Islamic Banking Institutions against Bai Muajjal transactions	21	44,952,938	189,919,121
Payable under bilateral currency swap agreement	22	158,507,631	164,867,890
Deposits of banks and financial institutions	23	391,760,469	413,234,045
Other deposits and accounts	24	161,552,998	147,197,850
Payable to the International Monetary Fund	25	778,739,505	554,172,982
Other liabilities	26	49,579,000	62,092,551
Deferred liability - unfunded staff retirement benefits	27	82,419,258	70,717,980
Endowment fund		94,207	89,391
<b>Total liabilities</b>		<b>5,829,783,983</b>	<b>4,704,213,321</b>
<b>Net assets</b>		<b>619,974,573</b>	<b>529,384,940</b>
<b>REPRESENTED BY</b>			
Share capital	28	100,000	100,000
Reserves	29	175,944,238	175,944,238
Unappropriated profit		3,712,051	-
Unrealised appreciation on gold reserves held by the Bank	30	283,342,601	243,367,310
Unrealised appreciation on remeasurement of investments - local	12.4	91,386,276	83,994,988
Surplus on revaluation of property and equipment		65,489,407	25,978,404
<b>Total equity</b>		<b>619,974,573</b>	<b>529,384,940</b>

**CONTINGENCIES AND COMMITMENTS**

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

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

Ashraf Mahmood Wathra  
Governor

Riaz Riazuddin  
Deputy Governor

Muhammad Haroon Rasheed  
Executive Director

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<i>Note</i>	2016 ----- (Rupees in '000) -----	2015
Discount, interest / mark-up and / or profit earned	32	252,831,070	304,368,351
Less: interest / mark-up expense	33	(25,454,480)	(21,000,191)
		<u>227,376,590</u>	<u>283,368,160</u>
Commission income	34	1,909,180	1,628,668
Exchange gain - net	35	25,779,375	36,418,489
Dividend income		12,226,343	15,429,445
Other operating income - net	36	2,756,112	103,343,486
Other income - net	37	160,960	237,062
		<u>270,208,560</u>	<u>440,425,310</u>
Less: Operating expenses			
- Bank notes printing charges	38	7,730,740	6,690,484
- Agency commission	39	8,968,647	7,242,672
- General administrative and other expenses	40	24,250,586	23,871,368
(Reversal of provision against) / Provision for / write-off:			
- loans and advances - net	13.4	(756)	925,782
- claims	26.3.2	(232)	(1,489)
- other doubtful assets	26.3.1.1	(86,213)	(55,071)
- others		(7,338)	-
		<u>(94,539)</u>	<u>869,222</u>
		40,855,434	38,673,746
<b>Profit for the year</b>		<u><u>229,353,126</u></u>	<u><u>401,751,564</u></u>

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

\_\_\_\_\_  
**Ashraf Mahmood Wathra**  
Governor

\_\_\_\_\_  
**Riaz Riazuddin**  
Deputy Governor

\_\_\_\_\_  
**Muhammad Haroon Rasheed**  
Executive Director

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<i>Note</i>	<b>2016</b>	2015
		----- (Rupees in '000) -----	
Profit for the year		<b>229,353,126</b>	401,751,564
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to the consolidated profit and loss account:</b>			
<b>Unrealised appreciation / (diminution) on remeasurement of investments - local</b>			
- Appreciation / (diminution) during the year	12.4	<b>7,391,288</b>	(14,462,606)
- Reclassified to consolidated profit and loss account		-	(122,710,640)
		<b>7,391,288</b>	(137,173,246)
<b>Unrealised appreciation / (diminution) on gold reserves held by the Bank</b>	5	<b>39,975,291</b>	(22,272,338)
		<b>47,366,579</b>	(159,445,584)
<b>Items that will not be reclassified subsequently to the consolidated profit and loss account:</b>			
Remeasurements of staff retirement defined benefit plans	40.3.3.1	<b>(15,327,075)</b>	(4,060,948)
Remeasurements of Property and equipment		<b>39,511,003</b>	-
		<b>24,183,928</b>	(4,060,948)
<b>Total comprehensive income for the year</b>		<b>300,903,633</b>	<b>238,245,032</b>

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

\_\_\_\_\_  
**Ashraf Mahmood Wathra**  
Governor

\_\_\_\_\_  
**Riaz Riazuddin**  
Deputy Governor

\_\_\_\_\_  
**Muhammad Haroon Rasheed**  
Executive Director

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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, 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												
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)
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	(4,060,948)	-	-	-	(4,060,948)
Transactions with owners	-	-	-	-	-	-	-	397,690,616	(22,272,338)	(137,173,246)	-	238,245,032
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(397,680,616)	-	-	-	(397,680,616)
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
Total comprehensive income for the year												
Profit for the year	-	-	-	-	-	-	-	229,353,126	-	-	-	229,353,126
Other comprehensive income												
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	7,391,288	-	7,391,288
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	39,975,291	-	-	39,975,291
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	(15,327,075)	-	-	-	(15,327,075)
Remeasurements of Property and equipment	-	-	-	-	-	-	-	-	-	-	39,511,003	39,511,003
Transactions with owners	-	-	-	-	-	-	-	214,026,051	39,975,291	7,391,288	39,511,003	300,903,633
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(210,304,000)	-	-	-	(210,304,000)
Balance as at June 30, 2016	100,000	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	3,712,051	283,342,601	91,386,276	65,489,407	619,974,573

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

Ashraf Mahmood Wathra  
Governor

Riaz Riazuddin  
Deputy Governor

Muhammad Haroon Rasheed  
Executive Director



**STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Note	2016 ----- (Rupees in '000) -----	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year after non-cash and other items	41	273,910,044	313,600,808
(Increase) / decrease in assets:			
Foreign currency accounts and investments		(72,996,950)	(59,716,485)
Reserve tranche with the International Monetary Fund under quota arrangements		(403)	1,142
Securities purchased under agreement to resell		(870,994,311)	(662,579,848)
Investments - local		275,513,962	592,868,338
Securities given as collateral under repurchase agreement		-	18,064,500
Loans, advances and bills of exchange		(1,492,519)	(41,451,512)
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh (former East Pakistan)		(566,878)	(549,061)
Other assets		(180,279)	2,561,614
		(670,717,378)	(150,801,312)
		(396,807,334)	162,799,496
Increase / (decrease) in liabilities:			
Bank notes issued - net		847,664,045	398,130,989
Bills payable		(44,979)	1,019
Current accounts of Governments		214,686,114	(140,147,478)
Securities sold under agreement to repurchase		-	(17,194,695)
Payable to Islamic Banking Institutions against Bai Muajjal transactions		(144,966,183)	189,919,121
Payable under bilateral currency swap agreement		(6,360,259)	59,619,093
Deposits of banks and financial institutions		(21,473,576)	(117,512,311)
Other deposits and accounts		14,355,148	1,425,143
Retirement benefits and employees' compensated absences		(13,880,942)	(8,523,402)
Other liabilities		4,944,673	897,385
Endowment fund		4,816	7,680
		894,928,857	366,622,544
Net cash generated from operating activities		498,121,523	529,422,040
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of investments - available for sale		-	111,664,408
Dividend received		12,226,343	15,429,445
Capital expenditure		(1,266,970)	(763,323)
Proceeds from disposal of property and equipment		24,603	6,723
Net cash generated from investing activities		10,983,976	126,337,253
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Profit paid to the Federal Government of Pakistan		(227,895,141)	(399,000,180)
Receipts from International Monetary Fund		224,566,523	264,797,431
Payments made to International Monetary Fund		-	(95,619,191)
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(3,338,618)	(229,831,940)
Increase in cash and cash equivalents during the year		505,766,881	425,927,353
Cash and cash equivalents at the beginning of the year		1,350,924,757	942,045,632
Effect of exchange gain on cash and cash equivalents		(45,545,964)	(17,048,228)
Cash and cash equivalents at the end of the year	42	1,811,145,674	1,350,924,757

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

Ashraf Mahmood Wathra  
Governor

Riaz Riazuddin  
Deputy Governor

Muhammad Haroon Rasheed  
Executive Director

## STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2016

#### 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 and changes in technology.

### 3.3.3 *Retirement benefits*

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 40.3.1 to 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 **New and amended standards and interpretations that are not yet effective:**

The following standards, amendments and interpretations of IFRSs would be effective from the dates mentioned below against the respective standard or interpretation:

<b>Standards, amendments and interpretations</b>	<b>Effective date (annual periods beginning on or after)</b>
- IFRS 2: Share-based Payments - Classification and Measurement of Share-based Payments Transactions	January 1, 2018
- IFRS 9 - Financial Instruments: Classification and Measurement	January 1, 2018
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates - Investment Entities: Applying the Consolidation Exception - Amendment to IFRS 10, IFRS 12 and IAS 28	January 1, 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 to IFRS 10 and IAS 28	Date yet to be finalised
- IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation - Amendments to IFRS 11	January 1, 2016
- IFRS 14 - Regulatory Deferral Accounts	January 1, 2016
- IFRS 15 - Revenue from Contracts with Customers	January 1, 2018
- IFRS 16 - Leases	January 1, 2019
- IAS 1 - Presentation of Financial Statements - Disclosure Initiative	January 1, 2016
- IAS 7 Financial Instruments: Disclosures - Disclosure Initiative	January 1, 2017
- IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized losses - Amendment to IAS 12	January 1, 2017
- IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization - Amendment to IAS 16 and IAS 38	January 1, 2016

<b>Standards, amendments and interpretations</b>	<b>Effective date (annual periods beginning on or after)</b>
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants - Amendments to IAS 16 and IAS 41	January 1, 2016
- IAS 27 - Separate Financial Statements - Equity Method in Separate Financial Statements - Amendment to IAS 27	January 1, 2016
<b>Improvements to Accounting Standards Issued by the IASB</b>	
- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Servicing contracts	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Applicability of the off-setting disclosures to condensed interim financial statements	January 1, 2016
- IAS 19 Employee Benefits - Discount rate: regional market issue	January 1, 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 9, 'Financial instruments' and IFRS 15, 'Revenue from contracts with customers' as described below:

- IFRS 9, Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) sets out the principles of classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' except for the recognition requirements. The adoption of the standard introduces expanded disclosure requirements and changes in presentation of the financial instruments which are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted (subject to local regulation requirements). The Group intends to adopt IFRS 9 on its mandatory date and the management is in the process of assessing the impacts of IFRS 9 on the financial statements of the Group.
- 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 at which 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 previously recognised in equity is re-classified to the consolidated profit and loss account.

#### 4.3.5 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits from banks and financial institutions, 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 previously 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 flows, 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 conditions 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 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 till the time the investments are sold or disposed off.

**4.7 Offsetting**

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

**4.8 Derivative financial instruments**

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

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

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

**4.9.2 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 31.2.

**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 "mark-up 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 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 held by the Bank". 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. The amount of sale proceeds exceeding the balance in surplus on revaluation of property and equipment account is taken to the consolidated profit and loss account.

#### **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**

##### **4.16.1 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) 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.
- d) 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).
- e) 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.

##### **4.16.2 The SBP Banking Service Corporation operates the following staff retirement benefit schemes for 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 only at the rate of 5% of the monetized salary.
- c) 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.
- d) a funded Employees Gratuity Fund (EGF) which 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).
- e) an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of EGF which is effective from July 1, 2010.

**4.16.3** Following are other staff retirement benefit schemes operated for employees of the Bank and the Corporation:

- an unfunded benevolent fund scheme;
- an unfunded post retirement medical benefit scheme; and
- six months post retirement benefit facility.

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

**4.16.5** 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, 2016. 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.

**4.16.6** The above staff retirement benefits are vested 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 the dividend is established.
- Gains / losses on disposal of securities are recognised in the consolidated profit and loss account at the trade date.
- Training, education and hostel services are recognised on an 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 Bank and the Corporation are exempt from tax under applicable laws. However, in case of the Institute, the Institute is eligible for hundred percent (100%) tax credit on taxes payable by the Institute under clause (d) of sub-section 2 of section 100C of the Income Tax Ordinance, 2001, introduced under the Finance Act, 2015. 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 2015).

#### **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 consolidated 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 31.2 to the consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

#### **4.22 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.

	<i>Note</i>	<b>Net content in troy</b>	<b>2016 ----- (Rupees in '000) -----</b>	<b>2015</b>
<b>5. GOLD RESERVES HELD BY THE BANK</b>				
Opening balance		<b>2,073,712</b>	<b>247,150,713</b>	269,307,930
Additions during the year		<b>320</b>	<b>44,319</b>	115,121
Appreciation / (diminution) for the year due to revaluation	<i>30</i>		<b>39,975,291</b>	(22,272,338)
	<i>19.1</i>	<b>2,074,032</b>	<b>287,170,323</b>	<b>247,150,713</b>

	<i>Note</i>	<b>2016 ----- (Rupees in '000) -----</b>	<b>2015</b>
<b>6. LOCAL CURRENCY - COINS</b>			
Bank notes held by the Banking Department		<b>145,614</b>	142,373
Coins held as an asset of the Issue Department	<i>6.1 &amp; 19.1</i>	<b>488,198</b>	365,231
		<b>633,812</b>	507,604
Less: bank notes held by the Banking Department	<i>19</i>	<b>(145,614)</b>	(142,373)
		<b>488,198</b>	<b>365,231</b>

**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:

	<i>Note</i>	<b>2016 ----- (Rupees in '000) -----</b>	<b>2015</b>
<b>At fair value through profit or loss - held-for-trading</b>			
- Investments	<i>7.1</i>	<b>269,942,861</b>	291,639,069
- Unrealised loss on derivative financial instruments - net	<i>7.2</i>	<b>(3,904,829)</b>	(1,015,518)
<b>Held to maturity investment</b>	<i>7.3</i>	<b>238,549,410</b>	165,568,110
<b>Loans and receivables</b>			
- Deposit accounts		<b>26,378,414</b>	76,772,242
- Current accounts		<b>6,689,560</b>	26,790,460
- Securities purchased under agreement to resell	<i>7.4</i>	<b>569,237,084</b>	129,545,024
- Money market placements	<i>7.5</i>	<b>870,191,870</b>	753,989,710
		<b>1,977,084,370</b>	<b>1,443,289,097</b>

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

Issue Department	<i>19.1</i>	<b>1,237,112,270</b>	753,989,710
Banking Department		<b>739,972,100</b>	689,299,387
		<b>1,977,084,370</b>	<b>1,443,289,097</b>

**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, 2016 cumulatively amounts to USD 3,202.51 million (2015: USD 2,896.16 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 foreign countries carrying yield ranging from 0.19% to 3.45% per annum and having maturities from July 07, 2016 to May 05, 2017 (2015: 1.8% to 3.8% per annum and having maturities from July 08, 2015 to September 10, 2016).

**7.4** These represent lending under repurchase agreements and carry mark-up in USD ranging from 0.40% to 0.48% per annum (2015: 0.15 % per annum) and GBP at 0.26% per annum (2015: 0.32%) and these are due to mature on July 01, 2016 (2015: July 01, 2015).

**7.5** The balance includes money market placements carrying interest at various rates ranging between 0.33% to 0.85% per annum (2015: 0.09% to 0.6% per annum) and having maturities from July 04, 2016 to September 30, 2016 (2015: from July 1, 2015 to September 30, 2015).

**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 the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Group as at June 30, 2016. 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	2016 ----- (Rupees in '000) -----	2015 ----- (Rupees in '000) -----
SDRs are held as follows:			
- By the Issue Department	19.1	51,179,450	7,143,400
- By the Banking Department		16,476,786	65,086,019
		<u>67,656,236</u>	<u>72,229,419</u>

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

Quota allocated by the International Monetary Fund	297,633,877	147,980,285
Liability under quota arrangements	<u>(297,616,422)</u>	<u>(147,963,233)</u>
	<u>17,455</u>	<u>17,052</u>

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

This represents collateralised lendings made to various financial institutions under repurchase arrangement carrying mark-up ranging from 5.77% to 6.25% per annum (2015: 6.51% to 7.00% per annum) and are due to mature from July 4, 2016 to July 11, 2016 (2015: July 2, 2015 to July 3, 2015). The fair value of securities collateralised as on June 30, 2016 amounts to Rs. 1,535,800 million (2015: 664,325 million). The collaterals held by the Group consist of Pakistan Investment Bonds and Market Treasury Bills.

**12. INVESTMENTS - LOCAL**

	Note	2016 ----- (Rupees in '000) -----	2015 ----- (Rupees in '000) -----
<b>Loans and receivables</b>			
<b>Government securities</b>			
Market Related Treasury Bills (MRTBs)		2,047,573,403	2,323,047,495
Federal Government scrips	12.1	<u>2,740,000</u>	<u>2,740,000</u>
		<u>2,050,313,403</u>	<u>2,325,787,495</u>
<b>Available - for - sale investments</b>			
Investments in banks and other financial institutions			
Ordinary shares			
- Listed		92,487,082	85,095,794
- Unlisted	12.2	<u>4,712,706</u>	<u>4,712,706</u>
		<u>97,199,788</u>	<u>89,808,500</u>
Term Finance Certificates		84,722	84,722
Certificates of Deposits		<u>33,705</u>	<u>33,705</u>
		<u>97,318,215</u>	<u>89,926,927</u>
Provision against diminution in value of investments	12.3	<u>(856,863)</u>	<u>(856,863)</u>
		<u>96,461,352</u>	<u>89,070,064</u>
<b>Held to Maturity</b>			
Pakistan Investment Bonds		-	46,778
Market Treasury Bills	12.1	<u>643,839</u>	<u>636,931</u>
		<u>643,839</u>	<u>683,709</u>
		<u>2,147,418,594</u>	<u>2,415,541,268</u>
The above investments are held as follows:			
Issue Department - MRTBs	19.1	1,973,105,293	1,693,300,394
Banking Department		<u>174,313,301</u>	<u>722,240,874</u>
		<u>2,147,418,594</u>	<u>2,415,541,268</u>

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

	2016 (% per annum)	2015
Market Related Treasury Bills	5.89 to 6.24	6.64 to 8.39
Federal Government scrips	3	3
Market Treasury Bills	5.91 to 6.26	6.79 to 9.48

These include:

- MRTBs are created for a period of six months while Federal Government Scrips are of perpetual nature.
- Treasury bills held by the subsidiaries have maturities upto June, 2017 (2015: March 2016)

## 12.2 Investments in shares of banks and other financial institutions

	Note	2016 -----% of holding-----	2015	2016 ----- (Rupees in '000) -----	2015
<b>Listed</b>					
- National Bank of Pakistan	12.2.2	75.20	75.20	92,487,082	85,095,794
<b>Unlisted</b>					
Other investments with holding less than or equal to 50%				4,712,706	4,712,706
				<u>97,199,788</u>	<u>89,808,500</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 Groups' investment in the shares of National Bank of Pakistan at June 30, 2016 amounted to Rs. 1,100.8 million (2015: Rs. 1,100.8 million).

	Note	2016 ----- (Rupees in '000) -----	2015
<b>12.3 Provision against diminution in value of investments - local - net</b>			
Opening balance		856,863	856,863
Reversal during the year		-	-
Closing balance		<u>856,863</u>	<u>856,863</u>

## 12.4 Unrealised appreciation on remeasurement of investments - local

Opening balance		83,994,988	221,168,234
Appreciation / (diminution)		7,391,288	(14,462,606)
Reclassified to consolidated profit and loss account	12.4.1	-	(122,710,640)
		7,391,288	(137,173,246)
Closing balance		<u>91,386,276</u>	<u>83,994,988</u>

12.4.1 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 last year.

	Note	2016 ----- (Rupees in '000) -----	2015
<b>13. LOANS, ADVANCES AND BILLS OF EXCHANGE</b>			
Government	13.1	-	382,627
Government owned / controlled financial institutions	13.2	102,794,207	103,923,657
Private sector financial institutions	13.3	232,449,996	231,113,109
		335,244,203	335,036,766
Employees		20,675,412	19,007,703
		355,919,615	354,427,096
Provision against doubtful balances	13.4	(5,348,435)	(5,349,191)
		<u>350,571,180</u>	<u>349,077,905</u>

	Note	2016 ----- (Rupees in '000) -----	2015
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**13.1 Loans and advances to the Governments**

Provincial Government - Khyber Pakhtunkhwa	13.1.1	-	382,627
		-	382,627

**13.1.1** The bridge financing facility was extended to Government of Khyber Pakhtunkhwa under an 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. This loan has been fully paid during the current year.

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

	Scheduled banks		Other financial institutions		Total	
	2016	2015	2016	2015	2016	2015
	----- (Rupees in '000) -----					
Agricultural sector (13.2.1)	50,767,526	50,927,495	-	-	50,767,526	50,927,495
Industrial sector (13.2.1 & 13.2.3)	4,821,191	4,938,308	-	-	4,821,191	4,938,308
Export sector (13.3.1)	19,020,317	19,872,681	3,567	3,567	19,023,884	19,876,248
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
	91,548,340	92,677,790	11,245,867	11,245,867	102,794,207	103,923,657

**13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2015: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2015: 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 (2015: Rs. 3,204 million) classified in other loans and advances. The entire exposure has been overdue since 2002.

Last year, a tripartite meeting was held on July 11, 2014 between Ministry of Finance (MoF), ZTBL and the Bank (the parties) wherein 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. Subsequently, discussions / negotiations were held between MoF, ZTBL and the Bank on the conversion of total exposure into equity shares based on the results of the draft fair valuation exercise. The conversion plan was re-negotiated between all the parties in a tripartite meeting held on November 16, 2015. The MoF approved the re-negotiated conversion plan on April 4, 2016 as detailed below:

- The Bank's principal debt amount of Rs. 54,461 million outstanding against ZTBL as on December 31, 2015 will be converted into redeemable preference shares carrying a profit of 7.5% per annum, redeemable in 10 years in one bullet payment on December 31, 2025.
- The preference shares shall carry the return @ 7.5% per annum, payable half yearly on June 30th and December 31st each year and shall be the contractual obligation of ZTBL.
- The principal of the preference shares and return thereon shall be guaranteed by the Federal Government.
- Mark-up on the existing debt shall be accrued upto December 31, 2015 as per existing arrangements leading to increase in accrued mark-up amount from Rs. 35,029 million as on June 30, 2014 to Rs. 40,156 million as on December 31, 2015. The accrued mark-up of Rs. 40,156 million as on December 31, 2015 will be converted into ordinary shares of ZTBL.

The re-negotiated conversion plan is subject to completion of all legal and statutory formalities and the fair value exercise of the entity. The management is currently in the process of assessing the fair valuation of the shares of ZTBL, subsequent to which all the legal and statutory formalities will be completed. The fair valuation of the preference shares to be issued by ZTBL will be determined on the issuance of preference shares by ZTBL. Pending completion of the conversion process, these balances would remain secured through the sovereign guarantee of Government of Pakistan.

**13.2.2** This represents loan receivable from House Building Finance Company Limited (HBFC) against seven credit lines on profit and loss sharing basis. As at June 30, 2016 all of these credit lines are overdue since 2006 amounting to Rs. 11,242 million (2015: Rs. 11,242 million). These credit lines are secured by guarantee from the Federal Government.

Last year, 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, will be partly settled through cash payment of Rs. 2,000 million and the balance amount of Rs. 13,690 million will be converted to an equity investment of the Bank in HBFCL. The cash payment of Rs. 2,000 million was received last year and was adjusted against accrued mark-up. The conversion process was subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. Subsequently, on November 16, 2015, the conversion plan was re-negotiated between the parties and a letter in this respect was sent by the Bank on April 22, 2016 (after taking approval from competent authorities) to HBFCL for conversion of outstanding principal balance into preference shares and suspended mark-up into ordinary shares.

The re-negotiated conversion plan is subject to approval from the board of HBFCL and MoF and completion of all legal and statutory formalities and fair valuation exercise of the entity. The management is currently in the process of assessing the fair valuation of the shares of HBFCL, subsequent to which all the legal and statutory formalities will be completed. The fair valuation of the preference shares to be issued by HBFCL will be determined on the issuance of preference shares by HBFCL. Pending completion of the conversion process, these balances would remain secured through the sovereign guarantee of 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 (2015: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2015: 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, 2016.

**13.2.4** These balances include Rs. 423 million (2015: 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	
	2016	2015	2016	2015	2016	2015
	<b>(Rupees in '000)</b>					
Agricultural sector	947,390	1,057,571	151,398	109,837	1,098,788	1,167,408
Industrial sector	38,550,364	35,521,006	4,923,344	3,989,519	43,473,708	39,510,525
Export sector (13.3.1)	185,597,057	173,250,119	-	-	185,597,057	173,250,119
Others (13.3.2)	2,280,443	17,185,057	-	-	2,280,443	17,185,057
	<b>227,375,254</b>	<b>227,013,753</b>	<b>5,074,742</b>	<b>4,099,356</b>	<b>232,449,996</b>	<b>231,113,109</b>

**13.3.1** Export sector loans of scheduled banks are fully secured against demand promissory notes.

**13.3.2** Last 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 with a bullet payment of mark-up and principal at maturity 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 6-month liquidity support facility of Rs. 15,000 million has been repaid during the current year on its agreed maturity date. 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). In accordance with the requirements of accounting framework of the Bank the 10-year financing facility had been recognized at fair value on initial recognition. The amortized cost of the long-term facility as of June 30, 2016 is Rs. 2,255 million (2015: Rs. 2,062 million). The principal amount (Rs. 5,000 million) of the facility along with the profit will be recovered at its respective maturity.

	2016	2015
	<b>----- (Rupees in '000) -----</b>	
<b>13.4 Provision against doubtful assets</b>		
Opening balance	5,349,191	5,349,846
Reversal during the year	(756)	(655)
Closing balance	<b>5,348,435</b>	<b>5,349,191</b>

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

	2016 -----(% per annum)-----	2015
Government owned / controlled and private sector financial institutions	0 to 9.75	0 to 9.75
Employees loans (where applicable)	0 to 10	0 to 10

	Note	2016 ------(Rupees in '000)-----	2015
<b>14. ASSETS HELD WITH THE RESERVE BANK OF INDIA</b>			
Gold reserves			
- Opening balance		4,002,690	4,363,561
- Appreciation / (diminution) for the year due to revaluation	26.3.1.1	647,413	(360,871)
		<u>4,650,103</u>	<u>4,002,690</u>
Sterling securities		467,390	528,722
Government of India securities		222,024	228,200
Rupee coins		4,576	4,698
	14.1	<u>5,344,093</u>	<u>4,764,310</u>
Indian notes representing assets receivable from the Reserve Bank of India	14.2	668,044	686,627
	19.1	<u>6,012,137</u>	<u>5,450,937</u>

**14.1** These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 26.3.1).

**14.2** These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 26.3.1).

	Note	2016 ------(Rupees in '000)-----	2015
<b>15. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)</b>			
<b>India</b>			
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>
<b>Bangladesh (former East Pakistan)</b>			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	15.1	8,354,504	7,701,413
		<u>9,174,428</u>	<u>8,521,337</u>
	15.2	<u>9,214,881</u>	<u>8,561,790</u>

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

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

	Note	2016 ------(Rupees in '000)-----	2015
<b>16. PROPERTY AND EQUIPMENT</b>			
Operating fixed assets	16.1	59,608,532	20,345,018
Capital work-in-progress	16.3	487,426	494,604
		<u>60,095,958</u>	<u>20,839,622</u>



## 16.1 Operating fixed assets

	2016									
	Cost / revalued amount at July 1, 2015	Additions / (deletions) during the year	Revaluation during the year	Cost / revalued amount at June 30, 2016	Accumulated depreciation at July 1, 2015	Depreciation for the year/ (deletions)	Reversal due to revaluation	Accumulated depreciation at June 30, 2016	Net book value at June 30, 2016	Useful life / Rate of depreciation
	(Rupees in '000)									
Freehold land *	3,791,658	-	9,250,182	13,041,840	-	-	-	-	13,041,840	-
Leasehold land *	16,811,005	72,751	21,607,950	38,491,706	2,197,006	428,963	(2,625,969)	-	38,491,706	30-99 years
Buildings on freehold land *	1,138,375	158,764	1,004,335	2,301,474	849,525	223,312	(1,072,837)	-	2,301,474	20 years
Buildings on leasehold land *	2,307,509	195,010	2,007,054	4,509,573	1,547,259	395,417	(1,942,676)	-	4,509,573	20 years
Furniture and fixtures	253,350	16,677 (1,269)	-	268,758	189,244	14,819 (881)	-	203,182	65,576	10%
Office equipment	1,755,707	235,424 (11,561)	-	1,979,570	1,504,187	132,273 (7,213)	-	1,629,247	350,323	20%
EDP equipment	1,945,437	462,876 (27,033)	-	2,381,280	1,746,053	191,062 (25,008)	-	1,912,107	469,173	33.33%
Motor vehicles	588,139	129,905 (42,013)	-	676,031	212,888	112,340 (28,064)	-	297,164	378,867	20%
	28,591,180	1,271,407 (81,876)	33,869,521	63,650,232	8,246,162	1,498,186 (61,166)	(5,641,482)	4,041,700	59,608,532	
	2015									
	Cost / revalued amount at July 1, 2014	Additions / (deletions) / adjustments ** during the year	Revaluation during the year	Cost / revalued amount at June 30, 2015	Accumulated depreciation at July 1, 2014	Depreciation for the year/ (deletions)	Reversal due to revaluation	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	30-99 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	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) 16,354		28,591,180	7,040,952	1,370,488 (181,632) 16,354		8,246,162	20,345,018	

\* These represent revalued assets.

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

**16.2** Last revaluation was carried out during the year ended June 30, 2016 by M.J.Surveyors (Pvt.) Ltd.

**16.2.1** The fair value of land and building are derived using the sale comparison approach. The sale value is determined by physically analysing the condition of land and building and by ascertaining the current market value of similar land, which is 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.

**16.2.2** Subsequent to revaluation on June 30, 2011, which had resulted in a net surplus of Rs.7,231 million, all land and buildings were revalued again during the current year which resulted in a net surplus of Rs.33,870 million. The revaluation of land and buildings 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:

	2016 ------(Rupees in '000)-----	2015 ------(Rupees in '000)-----
Freehold land	39,124	39,124
Leasehold land	81,221	84,565
Buildings on freehold land	166,482	247,794
Buildings on leasehold land	285,564	405,707
	<u>572,391</u>	<u>777,190</u>
<b>16.3 Capital work-in-progress</b>		
Buildings on freehold land	43,634	110,338
Buildings on leasehold land	311,309	206,944
Furniture and fixtures	-	181
Office equipment	44,467	156,102
EDP equipment	66,863	21,039
Software	21,153	-
	<u>487,426</u>	<u>494,604</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	2016	610,844	2,741	613,585	606,641	3,111	609,752	3,833	33.33
Software	2015	609,447	1,397	610,844	600,520	6,121	606,641	4,203	33.33

## 18. OTHER ASSETS

	Note	2016 ------(Rupees in '000)-----	2015 ------(Rupees in '000)-----
Commission receivable and others		2,136,336	1,116,934
Unrealised gain on derivative financial instruments - net		1,442,497	1,542,435
Medical, stationery consumables and stamps on hand		139,829	133,451
Other advances, deposits and prepayments		629,500	1,375,063
		<u>4,348,162</u>	<u>4,167,883</u>

## 19. BANK NOTES IN CIRCULATION

Total bank notes issued	19.1	3,555,067,671	2,707,400,385
Bank notes held by the Banking Department	6	(145,614)	(142,373)
Bank notes in circulation		<u>3,554,922,057</u>	<u>2,707,258,012</u>

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

	Note	2016 ------(Rupees in '000)-----	2015 ------(Rupees in '000)-----
Gold reserves held by the Bank	5	287,170,323	247,150,713
Local currency - coins	6	488,198	365,231
Foreign currency accounts and investments	7	1,237,112,270	753,989,710
Special Drawing Rights of the International Monetary Fund	9	51,179,450	7,143,400
Investments - local	12	1,973,105,293	1,693,300,394
Assets held with the Reserve Bank of India	14	6,012,137	5,450,937
		<u>3,555,067,671</u>	<u>2,707,400,385</u>

20.	CURRENT ACCOUNTS OF GOVERNMENTS	Note	2016	2015
			------(Rupees in '000)-----	
20.1	Current accounts of Governments - payable balances			
	Federal Government	20.3	313,688,605	216,641,339
	Provincial Governments			
	- Punjab	20.4	96,833,336	74,882,601
	- Sindh	20.5	89,107,726	25,465,469
	- Khyber Pakhtunkhwa	20.6	77,207,052	29,475,678
	- Baluchistan	20.7	19,091,164	42,786,314
	Gilgit - Baltistan Administration Authority	20.8	10,729,895	4,768,977
			292,969,173	177,379,039
			606,657,778	394,020,378
20.2	Current accounts of Governments - receivable balances			
	Government of Azad Jammu and Kashmir	20.9	955,474	3,048,507
			955,474	3,048,507
20.3	Federal Government			
	Non-food account		973,642	996,737
	Zakat fund accounts		7,884,671	5,559,821
	Railways accounts		(13,313,227)	(27,004,869)
	Other accounts		318,143,519	237,089,650
			313,688,605	216,641,339
20.4	Provincial Government - Punjab			
	Non-food account		82,846,743	60,672,205
	Zakat fund account		401,259	499,085
	Other accounts		13,585,334	13,711,311
			96,833,336	74,882,601
20.5	Provincial Government - Sindh			
	Non-food account		84,389,116	23,010,842
	Zakat fund account		1,526,526	1,636,927
	Other accounts		3,192,084	817,700
			89,107,726	25,465,469
20.6	Provincial Government - Khyber Pakhtunkhwa			
	Non-food account		67,829,675	27,549,695
	Zakat fund account		1,186,629	1,437,241
	Other accounts		8,190,748	488,742
			77,207,052	29,475,678
20.7	Provincial Government - Baluchistan			
	Non-food account		16,553,943	42,067,766
	Zakat fund account		833,822	616,320
	Other accounts		1,703,399	102,228
			19,091,164	42,786,314
20.8	Gilgit - Baltistan Administration Authority		10,729,895	4,768,977
			10,729,895	4,768,977
20.9	Government of Azad Jammu and Kashmir		(955,474)	(3,048,507)
	Classified as receivable balance	20.10	955,474	3,048,507
			-	-
20.10	These balances carry mark-up at rates ranging from 6.18% to 6.88% per annum (2015: 7.18% to 9.98% per annum).			
21	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 profit rates ranging from 4.75% to 5.74% per annum (2015: 3.93% to 9.99%) and maturities on February 10, 2017 and March 15, 2017 (2015: October 23, 2015 to March 26, 2016).

**22. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT****22.1 Payable under bilateral currency swap agreement with the People's Bank of China (PBoC)**

A bilateral currency swap agreement was entered between the Bank and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was for tenure of 3 years with overall limit of CNY 10,000 million and equivalent PKR, which was renewed on December 23, 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 bucket of three months and six months (2015: CNY 5,000 million, CNY 1,500 million and CNY 3,500 million with maturity buckets of six months, three months and two months respectively). These purchases have been fully utilized as on June 30, 2016 and the same amounts are outstanding as on June 30, 2016. Interest is charged on outstanding at agreed rates. As at June 30, 2016, the Bank's commitment under this agreement is Rs. 165,000 million (2015: Rs. 165,000 million).

	Note	2016	2015
		------(Rupees in '000)-----	
<b>23. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS</b>			
<b>Foreign currency</b>			
Scheduled banks		7,527,991	15,059,625
Held under Cash Reserve Requirement	23.1	136,803,601	137,278,452
		<u>144,331,592</u>	<u>152,338,077</u>
<b>Local currency</b>			
Scheduled banks	23.1	234,778,810	257,566,828
Financial institutions		12,574,555	3,255,946
Others		75,512	73,194
		<u>247,428,877</u>	<u>260,895,968</u>
		<u>391,760,469</u>	<u>413,234,045</u>

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

	Note	2016	2015
		------(Rupees in '000)-----	
<b>24. OTHER DEPOSITS AND ACCOUNTS</b>			
<b>Foreign currency</b>			
Foreign central banks		47,210,792	45,822,174
International organisations	24.2	26,479,513	25,656,686
Others		19,445,168	11,370,901
	24.1	<u>93,135,473</u>	<u>82,849,761</u>
<b>Local currency</b>			
Special debt repayment	24.3	24,243,841	24,074,660
Government	24.4	17,850,348	17,850,348
Foreign central banks		2,003	1,946
International organisations		6,692,016	6,261,043
Others		19,629,317	16,160,092
		<u>68,417,525</u>	<u>64,348,089</u>
		<u>161,552,998</u>	<u>147,197,850</u>

	2016	2015
	------(% per annum)-----	
<b>24.1 The interest rate profile of the interest bearing deposits is as follows:</b>		
Foreign central banks	0.30 to 0.76	0.31 to 0.54
International organisations	2.11 to 2.62	2.08 to 2.11
Others	0.09 to 0.41	0.02 to 0.09

24.2 This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2016) and June 2012 (rolled-over in June 2016) 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 which 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.

- 24.3** These are interest free and represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan.
- 24.4** These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>25. PAYABLE TO THE INTERNATIONAL MONETARY FUND</b>			
Borrowings under:			
- Fund facilities	25.1 & 25.3	634,172,641	412,926,950
- Allocation of SDRs	25.2	144,566,830	141,245,999
		<u>778,739,471</u>	<u>554,172,949</u>
Current account for administrative charges		34	33
		<u>778,739,505</u>	<u>554,172,982</u>

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

Under GRA financing 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 4,320 million has been disbursed under eleven (11) tranches of EFF up to June 30, 2016 (2015: SDR 2,880 million). The repayments under this facility would start in March 2018 and would continue till June 2026.

- 25.2** 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.

	Note	2016	2015
		----- (% per annum) -----	
<b>25.3</b> Interest profile of amount payable to the IMF is as under:			
Fund facilities	25.3.1	1.05 to 1.07	1.03 to 1.08

- 25.3.1** 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	2016	2015
		----- (Rupees in '000) -----	
<b>26. OTHER LIABILITIES</b>			
<b>Local currency</b>			
Provision against overdue mark-up	26.1	7,960,351	7,307,260
Remittance clearance account		2,259,587	2,348,970
Exchange loss payable under exchange risk coverage scheme		233,121	230,352
Balance profit payable to the Government of Pakistan		-	17,591,141
Dividend payable	26.2	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		1,377,691	1,377,691
Other accruals and provisions	26.3	31,126,910	29,113,002
Others	26.4	6,611,340	4,114,135
		<u>49,579,000</u>	<u>62,092,551</u>

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

- 26.2** This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to Rs. 9.99 million (2015: Rs. 9.99 million).

	Note	2016 ------(Rupees in '000)-----	2015
<b>26.3 Other accruals and provisions</b>			
Agency commission		<b>12,440,190</b>	10,613,915
Provision for employees' compensated absences	40.3.9	<b>7,475,810</b>	7,903,861
Provision for other doubtful assets	26.3.1	<b>6,911,495</b>	6,350,295
Other provisions	26.3.2	<b>2,848,701</b>	2,848,933
Others		<b>1,450,714</b>	1,395,998
		<b>31,126,910</b>	29,113,002
<b>26.3.1 Provision for other doubtful assets</b>			
Provision against assets held with / receivable from Government of India and the Reserve Bank of India			
- Issue Department		<b>6,012,137</b>	5,450,937
- Banking Department		<b>40,483</b>	40,483
		<b>6,052,620</b>	5,491,420
Provision against assets receivable from Government of Bangladesh (Former East Pakistan)			
- Issue Department		<b>-</b>	-
- Banking Department		<b>858,875</b>	858,875
		<b>858,875</b>	858,875
	26.3.1.1	<b>6,911,495</b>	6,350,295

**26.3.1.1 Movement of provisions for other doubtful assets**

Opening balance	<b>6,350,295</b>	6,766,237
Reversal during the year	<b>(86,213)</b>	(55,071)
Appreciation / (diminution) relating to gold reserves held by Reserve Bank of India	<b>647,413</b>	(360,871)
Closing balance	<b>6,911,495</b>	6,350,295

**26.3.2 Movement of other provisions**

Opening balance	<b>2,848,933</b>	2,850,422
(Reversal) during the year	<b>(232)</b>	(1,489)
Closing balance	<b>2,848,701</b>	2,848,933

	Home remittance	Specific claims (note 26.3.2.1)	Others (note 26.3.2.2)	Total
	------(Rupees in '000)-----			
<b>Balance as at July 1, 2014</b>	260,363	1,600,000	990,059	<b>2,850,422</b>
Charge for the year	-	-	-	-
Reversal during the year	-	-	(1,489)	<b>(1,489)</b>
<b>Balance as at June 30, 2015</b>	<b>260,363</b>	<b>1,600,000</b>	<b>988,570</b>	<b>2,848,933</b>
Charge for the year	-	-	-	-
Reversal during the year	-	-	(232)	<b>(232)</b>
<b>Balance as at June 30, 2016</b>	<b>260,363</b>	<b>1,600,000</b>	<b>988,338</b>	<b>2,848,701</b>

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

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

**26.4** This includes liability maintained against balances due from Government of Bangladesh (former East Pakistan) amounting to Rs. 778.399 million (2015: Rs. 778.399 million).

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>27. DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS</b>			
Pension		<b>58,018,505</b>	48,607,941
Gratuity scheme		<b>41,822</b>	28,021
Post retirement medical benefits		<b>21,135,683</b>	19,118,366
Benevolent fund scheme		<b>1,755,433</b>	1,478,246
Six months post retirement facility		<b>480,397</b>	378,600
	40.3.3	<b>81,431,840</b>	69,611,174
Provident fund scheme		<b>987,418</b>	1,106,806
		<b>82,419,258</b>	70,717,980

**28. SHARE CAPITAL**

	2016	2015		2016	2015
	----- (Number of shares) -----			----- (Rupees in '000) -----	
<b>Authorised share capital</b>					
<b>1,000,000</b>	<b>1,000,000</b>	Ordinary shares of Rs. 100 each	<b>100,000</b>	<b>100,000</b>	
<b>Issued, subscribed and paid-up capital</b>					
<b>1,000,000</b>	<b>1,000,000</b>	Fully paid-up ordinary shares of Rs. 100 each	<b>100,000</b>	<b>100,000</b>	

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

**29. RESERVES****29.1 Reserve fund**

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

**29.2 Other funds**

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

**30. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK**

	Note	2016	2015
		----- (Rupees in '000) -----	
Opening balance		<b>243,367,310</b>	265,639,648
Appreciation / (diminution) for the year due to revaluation	5	<b>39,975,291</b>	(22,272,338)
		<b>283,342,601</b>	243,367,310

**31. CONTINGENCIES AND COMMITMENTS****31.1 Contingencies**

a) Contingent liability in respect of guarantees given on behalf of:

Federal Government	<b>21,486,999</b>	14,644,118
Federal Government owned / controlled bodies and authorities	<b>7,605,996</b>	7,823,443
	<b>29,092,995</b>	22,467,561

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.

- c) In addition to these claims, there are several other lawsuits filed by various parties as a result of the regulatory actions taken by the Bank in its capacity as regulator and banker to the government, which the Bank is currently contesting in various courts of laws / forums. The management of the Bank, believes that the Bank has reasonable position in respect of these litigations and accordingly no provision for any liability may be needed in the financial statements.

	Note	2016 ------(Rupees in '000)-----	2015
d) Other claims against the Group not acknowledged as debts	31.1.1	<u>353,640</u>	<u>375,817</u>

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

### 31.2 Commitments

31.2.1	Foreign currency forward and swap contracts - sale	<u>802,656,331</u>	<u>554,583,226</u>
31.2.2	Foreign currency forward and swap contracts - purchase	<u>595,499,305</u>	<u>382,060,837</u>
31.2.3	Futures - sale	<u>18,044,108</u>	<u>13,330,298</u>
31.2.4	Futures - purchase	<u>14,656,485</u>	<u>18,901,205</u>
31.2.5	Capital Commitments	<u>935,886</u>	<u>47,510</u>

31.2.5.1 This represents amounts committed by the Group to purchase assets from successful bidders.

31.2.6 Commitments in respect of bilateral currency swap agreements with People's Bank of China have been disclosed in note 22.

31.2.7 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, 2016 amounted to Rs. 71,945 million (2015: Rs. 70,400 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.

	Note	2016 ------(Rupees in '000)-----	2015
<b>32. DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED</b>			
Discount, interest / mark-up on:			
- Government securities	32.1	<u>150,313,267</u>	240,680,390
- Federal Government Scrips		<u>82,200</u>	82,200
- Loans and advances to and current accounts of Governments	32.2	<u>327,520</u>	194,825
Securities purchased under agreement to resell		<u>80,712,710</u>	38,031,409
Return on loans and advances to financial institutions		<u>8,683,044</u>	16,104,176
Foreign currency loan and advance including deposits		<u>4,258,735</u>	1,718,097
Foreign currency securities		<u>8,382,254</u>	7,222,459
Profit on Sukuks purchased under Bai Muajjal agreement		<u>70,542</u>	333,857
Others		<u>798</u>	938
		<u>252,831,070</u>	<u>304,368,351</u>

32.1 This represents income earned on Market Related Treasury Bills, Market Treasury Bills and Pakistan Investment Bonds.

	2016 -----(% per annum)----	2015
32.2 Interest profile on loans and advances to facilities are as under:		
Mark-up on facility	<u>6.18 to 6.88</u>	7.18 to 9.18
Additional mark-up (where ways and means facility limit is exceeded)	<u>4</u>	4

	Note	2016 ------(Rupees in '000)-----	2015
<b>33. INTEREST / MARK-UP EXPENSE</b>			
Deposits		<u>15,866,387</u>	12,551,575
Securities sold under agreement to repurchase		<u>218,111</u>	502,698
Return on Sukuks purchased under Bai Muajjal agreement		<u>9,287,535</u>	7,857,943
Charges on allocation of Special Drawing Rights of the IMF		<u>78,609</u>	78,425
Others		<u>3,838</u>	9,550
		<u>25,454,480</u>	<u>21,000,191</u>



	Note	2016 ------(Rupees in '000)-----	2015
<b>34. COMMISSION INCOME</b>			
Market Treasury Bills	34.1	472,821	353,678
Draft / payment orders		8,148	8,061
Prize Bonds and National Saving Certificates	34.1	439,041	404,948
Management of public debts	34.1	989,118	861,926
Others		52	55
		<u>1,909,180</u>	<u>1,628,668</u>
<b>34.1</b>	These represent commission income earned from services provided to the Federal Government.		
<b>35. EXCHANGE GAIN - NET</b>			
Gain / (loss) on:			
- Foreign currency placements, deposits, securities and other accounts - net		38,322,960	12,837,447
- Forward covers under Exchange Risk Coverage Scheme		6	787
- IMF Fund Facilities		(10,984,606)	19,075,330
- Special Drawing Rights of the IMF		(1,611,329)	4,449,394
		<u>25,727,031</u>	<u>36,362,958</u>
Exchange risk fee income		52,344	55,531
		<u>25,779,375</u>	<u>36,418,489</u>
<b>36. OTHER OPERATING INCOME - NET</b>			
Penalties levied on banks and financial institutions		1,017,004	3,454,707
License / Credit Information Bureau fee recovered		817,885	766,271
Gain / (loss) on sale of investment:			
Local - available-for-sale	36.1	-	103,120,956
Local - 'at fair value through profit or loss'		58,663	438,955
Foreign - 'at fair value through profit or loss'		201,043	838,220
		<u>259,706</u>	<u>104,398,131</u>
Fair value adjustment on recognition of subsidised loan		-	(2,952,536)
Gain / (loss) on remeasurement of securities classified as 'fair value through profit or loss'		559,888	(2,571,399)
Others		101,629	248,312
		<u>2,756,112</u>	<u>103,343,486</u>
<b>36.1</b>	This primarily represent gain on sale of shares of Habib Bank Limited and Allied Bank Limited were disposed last year.		
<b>37. OTHER INCOME - NET</b>		2016 ------(Rupees in '000)-----	2015
Gain on disposal of property and equipment		3,893	1,263
Liabilities and provisions written back - net		12,327	111,272
Grant income under foreign assistance program		11,808	20,505
Others		132,932	104,022
		<u>160,960</u>	<u>237,062</u>
<b>38. BANK NOTES PRINTING CHARGES</b>			
Bank notes printing charges are paid to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.			
<b>39. AGENCY COMMISSION</b>			
Agency commission is mainly payable to National Bank of Pakistan (NBP) under an agreement for providing banking services to Federal and provincial Governments as an agent of the Bank. Furthermore, a small portion of the agency commission also pertains to Bank of Punjab (BOP), which was appointed as agent of the Bank, during the current year, to collect Government of Punjab's taxes and receipts.			

	Note	2016 ------(Rupees in '000)-----	2015
<b>40. GENERAL ADMINISTRATIVE AND OTHER EXPENSES</b>			
Salaries and other benefits		9,751,687	8,690,584
Retirement benefits and employees' compensated absences	40.1	9,827,094	11,106,849
Rent and taxes		54,189	47,080
Insurance		34,017	25,487
Electricity, gas and water		368,646	353,152
Depreciation	16.1	1,498,186	1,370,488
Amortisation of intangible assets	17	3,111	6,121
Repairs and maintenance		638,414	520,975
Auditors' remuneration	40.2	12,397	12,264
Legal and professional		39,048	43,663
Fund managers / custodian expenses		495,428	375,555
Travelling expenses		449,223	373,822
Daily expenses		83,681	88,040
Fuel		47,597	49,636
Conveyance		25,017	20,235
Postages, telegram / telex and telephone		218,832	226,390
Training		102,813	44,369
Stationery		22,740	22,853
Remittance of treasure		92,744	67,043
Books and newspapers		29,693	31,107
Advertisement		43,068	32,339
Uniforms		29,936	24,894
Others		383,025	338,422
		<b>24,250,586</b>	<b>23,871,368</b>

40.1 This includes an amount relating to defined contribution plan aggregating Rs. 169.553 million (2015: Rs. 286.763 million).

**40.2 Auditors' remuneration**

	2016			2015		
	EY Ford Rhodes	A. F. Ferguson & Co.	Total	EY Ford Rhodes	A. F. Ferguson & Co.	Total
	------(Rupees in '000)-----					
<b>State Bank of Pakistan</b>						
Audit fee	2,610	2,610	5,220	2,610	2,610	5,220
Out of pocket expenses	415	415	830	415	415	830
	<b>3,025</b>	<b>3,025</b>	<b>6,050</b>	<b>3,025</b>	<b>3,025</b>	<b>6,050</b>
<b>SBP Banking Services Corporation</b>						
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
	<b>2,975</b>	<b>2,975</b>	<b>5,950</b>	<b>2,975</b>	<b>2,975</b>	<b>5,950</b>
<b>NIBAF</b>						
Audit fee	-	225	225	-	200	200
Out of pocket expenses	-	172	172	-	64	64
	-	<b>397</b>	<b>397</b>	-	<b>264</b>	<b>264</b>
	<b>6,000</b>	<b>6,397</b>	<b>12,397</b>	<b>6,000</b>	<b>6,264</b>	<b>12,264</b>

**40.3 Staff retirement benefits**

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

	2016	2015
- Discount rate for year end obligation	7.25% p.a.	9.75% - 11.00% p.a.*
- Salary increase rate	8.25% p.a.	9.75% - 10.50% p.a.**
- Pension indexation rate	4.75% p.a.	7.25% p.a.
- Medical cost increase rate	6.25% - 7.25% p.a.	9.5%-11% p.a.
- Personnel turnover	11.50% - 18.1% p.a.	4.5%-10% 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.

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

**Discount rate risk**

The risk of changes in discount rate since discount rate is based on corporate / government bonds. Any 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.

**40.3.3 Change in present value of defined benefit obligation**

	2016				
	Pension	Gratuity Scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement facility
	Total				
	Rupees in 000				
Present value of defined benefit obligation July 1, 2015	48,607,941	28,021	19,118,366	1,478,246	378,600
Current service cost	1,271,085	6,880	404,467	69,061	27,945
Past service cost	256,513	1,822	22,147	-	16,745
Interest cost on defined benefit obligation	4,218,033	2,909	2,024,005	124,370	37,475
Benefits Paid	(10,692,125)	(408)	(860,673)	(405,313)	(31,347)
Remeasurements:					
Actuarial (gains) / losses from changes in demographic assumptions	5,390,076	-	870,054	204,736	(17,971)
Actuarial (gains) / losses from changes in financial assumptions	1,249,593	5,158	164,030	232,928	40,419
Experience adjustments	7,717,389	(2,560)	(606,713)	51,405	28,531
Present value of defined benefit obligation as on June 30, 2016	58,018,505	41,822	21,135,683	1,755,433	480,397
	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 as on 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 losses from changes in financial 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

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

	2016	2015
	----(Rupees in '000)----	
- Actuarial (gains) / losses from changes in demographic and financial assumptions	8,139,023	77,986
- Experience adjustments	7,188,052	3,982,962
	15,327,075	4,060,948

**40.3.4 Amount recognised in the consolidated profit and loss account**

	2016				
	Pension	Gratuity scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement facility
	Total				
	(Rupees in '000)				
Current service cost	1,271,085	6,880	404,467	69,061	27,945
Past service cost	256,513	1,822	22,147	-	16,745
Interest cost on defined benefit obligation	4,218,033	2,909	2,024,005	124,370	37,475
Contribution made by Employees	-	-	-	(12,184)	-
	5,745,631	11,611	2,450,619	181,247	82,165

	2015				
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
	(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
					9,595,443

#### 40.3.5 Movement of present value of defined benefit obligation

	2016				
	Pension	Gratuity Scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement facility
	(Rupees in '000)				
Net recognised liabilities at July 1, 2015	48,607,941	28,021	19,118,366	1,478,246	378,600
Amount recognised in the consolidated profit and loss account	5,745,631	11,611	2,450,619	181,247	82,165
Remeasurements	14,357,058	2,598	427,371	489,069	50,979
Benefits paid during the year	(10,692,125)	(408)	(860,673)	(405,313)	(31,347)
Employees contribution / amount transferred	-	-	-	12,184	-
Net recognised liabilities at June 30, 2016	58,018,505	41,822	21,135,683	1,755,433	480,397
					81,431,840

	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	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	-
Net recognised liabilities at June 30, 2015	48,607,941	28,021	19,118,366	1,478,246	378,600
					69,611,174

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	(Rupees in '000)		
<b>Pension</b>			
Discount rate	1%	(4,057,625)	4,766,633
Future salary increase	1%	1,509,289	(1,419,550)
Future pension increase	1%	3,246,584	(2,772,254)
Expected mortality rates	1 Year	(844,771)	914,219
<b>Gratuity</b>			
Discount rate	1%	(5,253)	6,189
Future salary increase	1%	6,109	(5,285)
<b>Post retirement medical benefit scheme</b>			
Discount rate	1%	(2,890,650)	3,702,092
Future Pre-Retirement medical cost increase	1%	100,368	(91,062)
Future Post-Retirement medical cost increase	1%	3,668,001	(2,901,958)
Expected mortality rates	1 Year	(593,670)	601,763
<b>Benevolent</b>			
Discount rate	1%	(120,916)	111,152
<b>Six months post retirement facility</b>			
Discount rate	1%	(40,137)	46,210
Future salary increase	1%	46,189	(40,913)

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

**40.3.7 Duration of defined benefit obligation**

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Leave Encashment	Six months post retirement facility
The weighted average duration of the defined benefit obligation is	7-8 Years	7-14 Years	14-16 Years	6-7 Years	4-9 Years	5-10 Years

**40.3.8 Estimated expenses to be charged to consolidated profit and loss account for the year ending June 30, 2017**

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2017 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	Rupees in '000'					
Current service cost	1,107,980	5,900	371,178	6,432	33,884	1,525,374
Interest cost on defined benefit obligation	4,206,342	3,043	1,532,337	127,269	34,828	5,903,819
Amount chargeable to the consolidated profit and loss account	5,314,322	8,943	1,903,515	133,701	68,712	7,429,193

**40.3.9 Employees' compensated absences**

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 7,475.81 million (2015: Rs. 7,903.86 million). An amount of Rs. 1,217.59 million (2015: Rs. 1,218.08 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, 2017 would be Rs 938.07 million. The benefits paid during the year amounted to Rs 1645.64 million (2015: Rs 854.61 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 396.94 million and Rs. 450.66 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 468.57 million and Rs. 421.67 million respectively and the net liability would also be affected by the same amount.

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>41. PROFIT FOR THE YEAR AFTER NON-CASH AND OTHER ITEMS</b>			
Profit for the year		229,353,126	401,751,564
Adjustments for:			
Depreciation	16	1,498,186	1,370,488
Amortisation of intangible assets	17	3,111	6,121
Provision / (reversal) for / write-off:			
- retirement benefits and employees' compensated absences		9,827,094	11,106,849
- loans and advances		(756)	925,782
- claims		(232)	(1,489)
- other doubtful assets		(86,213)	(55,071)
(Gain) / loss on disposal of property, and equipment		(3,893)	(1,263)
(Gain) / loss on disposal of investments	36	-	(103,120,956)
Effect of exchange gain on cash and cash equivalents		45,545,964	17,048,228
Dividend income		(12,226,343)	(15,429,445)
		<u>273,910,044</u>	<u>313,600,808</u>
<b>42. CASH AND CASH EQUIVALENTS</b>			
Local currency		488,198	365,231
Foreign currency accounts and investments		1,737,853,644	1,277,055,321
Earmarked foreign currency balances		5,147,596	1,274,786
Special Drawing Rights of the IMF		67,656,236	72,229,419
		<u>1,811,145,674</u>	<u>1,350,924,757</u>
<b>43. RELATED PARTY TRANSACTIONS</b>			

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

**43.1 Governments and related entities**

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

	2016	2015
	------(Rupees in '000)-----	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>4,294,300,000</u>	<u>5,210,637,598</u>
- Retirement / rollover of MRTBs	<u>4,558,055,859</u>	<u>5,781,546,841</u>
- Investment purchased / matured and re-invested	<u>(30,204)</u>	<u>(173,279)</u>
- Commission income from sale of Market Treasury Bills, issuance of prize bonds, national saving certificates and management of public debt (refer note 34.1).		

**43.2 Remuneration to key management personnel**

Key management personnel of the Group include members of the 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 Board of Directors is determined by the 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:

	2016	2015
	------(Rupees in '000)-----	
Short-term employee benefit	264,955	181,068
Post-employment benefit	105,272	63,899
Loans disbursed during the year	173,047	116,377
Loans repaid during the year	92,324	78,157
Directors' fees	11,711	11,349
Number of key management personnel	17	14

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

**44. RISK MANAGEMENT POLICIES**

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

**44.1 Credit risk management**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Group's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled Banks 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.

## 44.2 Concentrations of risk

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

### 44.2.1 Geographical analysis

	2016					Grand Total
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	
	(Rupees in '000)					
<b>Financial assets</b>						
Local currency - coins	488,198	-	-	-	-	488,198
Foreign currency accounts and investments	19,082,343	490,232,443	841,281,192	534,829,640	91,658,752	1,977,084,370
Earmarked foreign currency balance	5,147,596	-	-	-	-	5,147,596
Special Drawing Rights of International Monetary Fund	-	-	67,656,236	-	-	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	17,455	-	-	17,455
Securities purchased under agreement to resell	1,533,574,159	-	-	-	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	-	955,474
Investments - local	2,147,418,594	-	-	-	-	2,147,418,594
Loans, advances and bills of exchange	350,147,931	423,249	-	-	-	350,571,180
Assets held with the Reserve Bank of India	-	1,362,034	-	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	9,214,881	-	-	-	9,214,881
Other assets	2,616,622	1,050,258	25,909	301,694	36,508	4,030,991
<b>Total financial assets</b>	<b>4,059,430,917</b>	<b>502,282,865</b>	<b>908,980,792</b>	<b>535,131,334</b>	<b>91,695,260</b>	<b>6,097,521,168</b>
	2015					
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Grand Total
	(Rupees in '000)					
<b>Financial assets</b>						
Local currency - coins	365,231	-	-	-	-	365,231
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
Investments - local	2,416,926,087	-	-	-	-	2,416,926,087
Securities given as collateral under repurchase agreements	-	-	-	-	-	-
Loans, advances and bills of exchange	348,654,656	423,249	-	-	-	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	3,066,180	726,275	83,755	59,868	14,389	3,950,467
<b>Total financial assets</b>	<b>3,486,227,381</b>	<b>520,868,755</b>	<b>431,303,841</b>	<b>432,442,458</b>	<b>91,926,001</b>	<b>4,962,768,436</b>

## 44.2.2 Industrial analysis

	2016					
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	Grand Total
	(Rupees in '000)					
<b>Financial assets</b>						
Local currency - coins	488,198	-	-	-	-	488,198
Foreign currency accounts and investments	936,159,121	178,478,743	1,087,680	848,890,453	12,468,373	1,977,084,370
Earmarked foreign currency balance	5,147,596	-	-	-	-	5,147,596
Special Drawing Rights of International Monetary Fund	-	67,656,236	-	-	-	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,455	-	-	-	17,455
Securities purchased under agreement to resell	-	-	-	1,533,574,159	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	-	955,474
Investments - local	2,050,957,242	-	-	96,461,352	-	2,147,418,594
Loans, advances and bills of exchange	423,249	-	98,119,245	231,360,884	20,667,802	350,571,180
Assets held with the Reserve Bank of India	1,362,034	-	-	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,214,881	-	-	-	-	9,214,881
Other assets	1,237,025	111,047	-	1,896,310	786,609	4,030,991
<b>Total financial assets</b>	<b>3,005,944,820</b>	<b>246,263,481</b>	<b>99,206,925</b>	<b>2,712,183,158</b>	<b>33,922,784</b>	<b>6,097,521,168</b>
	2015					
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	Grand Total
	(Rupees in '000)					
<b>Financial assets</b>						
Local currency - coins	365,231	-	-	-	-	365,231
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
Investments - local	2,326,381,813	-	-	90,544,274	-	2,416,926,087
Securities given as collateral under repurchase agreements	-	-	-	-	-	-
Loans, advances and bills of exchange	805,876	-	99,248,696	230,023,996	18,999,337	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
<b>Total financial assets</b>	<b>2,917,310,284</b>	<b>167,235,475</b>	<b>102,981,495</b>	<b>1,736,133,420</b>	<b>38,742,531</b>	<b>4,962,768,436</b>



#### 44.3 Credit exposure by credit rating

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

	2016							Grand Total
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	
	(Rupees in '000)							
<b>Financial assets</b>								
Local currency - coins	488,198	-	-	-	-	-	-	488,198
Foreign currency accounts and investments	-	340,043,611	950,304,290	655,800,370	11,179,378	19,075,404	681,317	1,977,084,370
Earmarked foreign currency balance	5,147,596	-	-	-	-	-	-	5,147,596
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	67,656,236	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,455	17,455
Securities purchased under agreement to resell	-	-	-	1,532,762,001	-	812,158	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	-	-	-	955,474
Investments - local	2,050,957,242	-	-	-	-	-	-	2,050,957,242
Loans, advances and bills of exchange	75,846,587	81,063,739	146,636,085	24,650,228	955,253	40,489	21,378,799	350,571,180
Assets held with the Reserve Bank of India	-	-	-	-	1,362,034	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	40,453	9,174,428	-	9,214,881
Other assets	1,766,876	421,338	487,247	1,093,113	-	-	262,383	4,030,957
<b>Total financial assets</b>	<b>2,135,161,973</b>	<b>421,528,688</b>	<b>1,097,427,622</b>	<b>2,214,305,712</b>	<b>13,537,118</b>	<b>29,102,479</b>	<b>89,996,190</b>	<b>6,001,059,782</b>
	2015							
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in '000)							
<b>Financial assets</b>								
Local currency - coins	365,231	-	-	-	-	-	-	365,231
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
<b>Total financial assets</b>	<b>2,333,058,095</b>	<b>285,038,596</b>	<b>914,620,518</b>	<b>1,155,473,918</b>	<b>5,582,025</b>	<b>60,970,882</b>	<b>117,569,519</b>	<b>4,872,313,553</b>

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

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

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

	Gross Amount		Impairment Provision	
	2016	2015	2016	2015
	(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	15,128,995	4,276,319	4,275,563	4,276,319
Assets held with the Reserve Bank of India	1,362,034	1,448,247	1,362,034	1,448,247
Balances due from the Governments of India and Bangladesh [(former East Pakistan) including loans recoverable from financial institutions operating in Bangladesh]	9,638,160	8,985,069	9,638,160	8,985,017

#### 44.5 Liquidity analysis with interest / mark-up rate risk

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

	2016						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)						
<b>Financial assets</b>							
<b>Non-derivatives assets:</b>							
Local currency - coins	-	-	-	488,198	-	488,198	488,198
Foreign currency accounts and investments	1,623,513,653	348,154,813	1,971,668,466	8,639,389	681,344	9,320,733	1,980,989,199
Earmarked foreign currency balance	-	-	-	5,147,596	-	5,147,596	5,147,596
Special Drawing Rights of International Monetary Fund	67,656,236	-	67,656,236	-	-	-	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	17,455	-	17,455	17,455
Securities purchased under agreement to resell	1,533,280,018	-	1,533,280,018	294,141	-	294,141	1,533,574,159
Current accounts of Governments	2,955,474	-	2,955,474	(2,000,000)	-	(2,000,000)	955,474
Investments - local	2,017,734,979	2,740,000	2,020,474,979	126,943,615	-	126,943,615	2,147,418,594
Loans, advances and bills of exchange	297,930,617	30,364,651	328,295,268	4,433,931	17,841,981	22,275,912	350,571,180
Assets held with the Reserve Bank of India	-	-	-	1,362,034	-	1,362,034	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,354,504	-	8,354,504	860,377	-	860,377	9,214,881
Other assets	-	-	-	2,586,543	1,951	2,588,494	2,588,494
	5,551,425,481	381,259,464	5,932,684,945	148,773,279	18,525,276	167,298,555	6,099,983,500
<b>Derivatives assets</b>							
Other assets	-	-	-	1,442,497	-	1,442,497	1,442,497
<b>Grand Total</b>	5,551,425,481	381,259,464	5,932,684,945	150,215,776	18,525,276	168,741,052	6,101,425,997
<b>Financial liabilities</b>							
Bank notes issued	-	-	-	3,554,922,057	-	3,554,922,057	3,554,922,057
Bills payable	-	-	-	598,142	-	598,142	598,142
Current accounts of the Government *	-	-	-	606,657,778	-	606,657,778	606,657,778
Payable to islamic banking institutions against Bai Muajjal transactions	44,068,109	-	44,068,109	884,829	-	884,829	44,952,938
Payable under bilateral currency swaps agreements	157,812,000	-	157,812,000	695,631	-	695,631	158,507,631
Deposits of banks and financial institutions	-	-	-	391,760,469	-	391,760,469	391,760,469
Other deposits and accounts	87,730,857	-	87,730,857	73,822,141	-	73,822,141	161,552,998
Payable to International Monetary Fund	144,554,785	633,076,488	777,631,273	-	1,108,232	1,108,232	778,739,505
Other liabilities	-	-	-	20,791,527	-	20,791,527	20,791,527
	434,165,751	633,076,488	1,067,242,239	4,650,132,574	1,108,232	4,651,240,806	5,718,483,045
<b>Derivatives liabilities</b>							
Foreign currency accounts and investments	-	(103,955)	(103,955)	906,473	3,102,311	4,008,784	3,904,829
	434,165,751	632,972,533	1,067,138,284	4,651,039,047	4,210,543	4,655,249,590	5,722,387,874
<b>On balance sheet gap (a)</b>	5,117,259,730	(251,713,069)	4,865,546,661	(4,500,823,271)	14,314,733	(4,486,508,538)	379,038,123
Foreign currency forward and swap contracts - sale	-	-	-	(802,656,331)	-	(802,656,331)	(802,656,331)
Foreign currency forward and swap contracts - purchase	-	-	-	595,499,305	-	595,499,305	595,499,305
Futures - sale	-	-	-	(18,044,108)	-	(18,044,108)	(18,044,108)
Futures - purchase	-	-	-	14,656,485	-	14,656,485	14,656,485
Capital Commitment	-	-	-	(935,886)	-	(935,886)	(935,886)
Off balance sheet gap	-	-	-	(211,480,535)	-	(211,480,535)	(211,480,535)
<b>Total yield / interest risk sensitivity gap</b>	5,117,259,730	-251,713,069	4,865,546,661	-4,289,342,736	14,314,733	-4,275,028,003	590,518,658
<b>Cumulative yield / interest risk sensitivity gap</b>	5,117,259,730	4,865,546,661	9,731,093,322	5,441,750,586	5,456,065,319	1,181,037,317	1,181,037,317
Contingent liabilities in respect of guarantees given	-	-	-	-	29,092,995	29,092,995	29,092,995

(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.

	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)						
<b>Financial assets</b>							
<b>Non-derivatives assets:</b>							
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 account of the Government	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
<b>Derivatives assets</b>							
Other assets	-	-	-	1,542,435	-	1,542,435	1,542,435
<b>Grand Total</b>	<b>3,489,981,780</b>	<b>1,280,236,495</b>	<b>4,770,218,275</b>	<b>145,247,503</b>	<b>46,933,357</b>	<b>192,180,860</b>	<b>4,962,399,135</b>
<b>Financial liabilities</b>							
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
<b>Derivatives liabilities</b>							
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	3,639,326,307	4,617,608,972
<b>On balance sheet gap (a)</b>	<b>2,969,788,608</b>	<b>822,147,002</b>	<b>3,791,935,610</b>	<b>(3,493,429,098)</b>	<b>46,283,651</b>	<b>(3,447,145,447)</b>	<b>344,790,163</b>
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	-	-	-	(47,510)	-	(47,510)	(47,510)
Off balance sheet gap	-	-	-	(166,998,992)	-	(166,998,992)	(166,998,992)
<b>Total yield / interest risk sensitivity gap</b>	<b>2,969,788,608</b>	<b>822,147,002</b>	<b>3,791,935,610</b>	<b>(3,326,430,106)</b>	<b>46,283,651</b>	<b>(3,280,146,455)</b>	<b>511,789,155</b>
<b>Cumulative yield / interest risk sensitivity gap</b>	<b>2,969,788,608</b>	<b>3,791,935,610</b>	<b>7,583,871,220</b>	<b>4,257,441,114</b>	<b>4,303,724,765</b>	<b>1,023,578,310</b>	<b>1,023,578,310</b>
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.

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

**44.6 Interest rate risk****44.6.1 Cash flow interest rate risk**

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

If interest rates had been 10 basis points higher/ lower and all other variables were held constant, the Group's profit for the year ended June 30, 2016 would increase / decrease by Rs 566 million (2015: Rs. 419 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments.

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

#### 44.6.2 Fair value interest rate risk

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

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

As at June 30, 2016, 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 1,897.5 million (2015: Rs 946.54 million) or decrease by Rs 1,918.47 million (2015: Rs 945.52 million) mainly as a result of an increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

#### 44.7 Currency risk management

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

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

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

The sensitivity analyses calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the consolidated profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Group had significant exposure as at June 30, 2016 with all other variables constant profit for the year would have been Rs. 8,771.99 million higher / lower (2015: Rs. 5,643.35 million). Net foreign currency exposure of the Group is as follows:

	2016	2015
	------(Rupees in '000)-----	
US Dollar	1,270,462,855	741,628,994
Pound Sterling	(78,830,048)	(31,545,052)
Chinese Yuan	(3,698,119)	5,099,612
Euro	(268,904,801)	(158,752,565)
Japanese Yen	(48,103,822)	(1,759,278)
United Arab Emirates Dirham	6,190,362	10,639,257
Australian Dollar	(92,021)	162,405
Canadian Dollar	22,191	68,078
Others	152,216	(1,206,126)
	<u>877,198,813</u>	<u>564,335,325</u>

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

The composition of the Group's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 44.6 and 44.7 prepared as of June 30, 2016 are not necessarily indicative of the effects on the Group's profit and loss of future movements in different variables.

#### 44.8 Price Risk

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

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

In case of 5% increase or decrease in KSE 100 index on June 30, 2016, other comprehensive income would increase or decrease by Rs. 901.429 million (2015: Rs. 804.608 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, 2016 is not necessarily indicative of the effect on the Group's equity of future movements in the level of KSE 100 index.

#### 44.9 Liquidity risk management

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

The risk arising out of the Group's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Group's financial assets and financial liabilities is given in note 44.5.1.

#### 44.10 Portfolio risk management

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

#### 45. Fair Value of Financial Instruments

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

	Carrying Value		Fair value	
	2016	2015	2016	2015
	(Rupees in '000)			
<b>Financial assets</b>				
Local currency - coins	488,198	365,231	488,198	365,231
Foreign currency accounts and investments	1,977,084,370	1,443,289,097	1,977,084,370	1,443,289,097
Earmarked foreign currency balances	5,147,596	1,274,786	5,147,596	1,274,786
Special Drawing Rights of the International Monetary Fund	67,656,236	72,229,419	67,656,236	72,229,419
Reserve tranche with the International Monetary Fund				
under quota arrangements	17,455	17,052	17,455	17,052
Securities purchased under agreement to resell	1,533,574,159	662,579,848	1,533,574,159	662,579,848
Current accounts of Governments	955,474	3,048,507	955,474	3,048,507
Investments - local	2,147,418,594	2,415,541,268	2,147,419,039	2,415,545,020
Loans, advances and bills of exchange	350,571,180	349,077,905	350,571,180	349,077,905
Assets held with the Reserve Bank of India	1,362,034	1,448,247	1,362,034	1,448,247
Balances due from the Governments of India and				
Bangladesh (former East Pakistan)	9,214,881	8,561,790	9,214,881	8,561,790
Other assets	4,030,957	3,950,467	4,030,957	3,950,467

	Carrying Value		Fair value	
	2016	2015	2016	2015
	(Rupees in '000)			
<b>Financial Liability</b>				
Bank notes in circulation	3,554,922,057	2,707,258,012	3,554,922,057	2,707,258,012
Bills payable	598,142	643,121	598,142	643,121
Current accounts of Governments	606,657,778	394,020,378	606,657,778	394,020,378
Payable to Islamic Banking Institutions against Bai Muajjal transactions	44,952,938	189,919,121	44,952,938	189,919,121
Payable under bilateral currency swap agreement	158,507,631	164,867,890	158,507,631	164,867,890
Deposits of banks and financial institutions	391,760,469	413,234,045	391,760,469	413,234,045
Other deposits and accounts	161,552,998	147,197,850	161,552,998	147,197,850
Payable to the International Monetary Fund	778,739,505	554,172,982	778,739,505	554,172,982
Other liabilities	20,791,527	45,280,055	20,791,527	45,280,055

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

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

	2016			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Recurring Fair Value Measurements</b>				
<b>On balance sheet financial instruments</b>				
<b>Financial Assets</b>				
Foreign currency accounts and investments - held for trading	269,942,861	-	-	269,942,861
Investments - local	92,487,082	-	-	92,487,082
<b>Non-Financial Assets</b>				
Operating fixed assets (Land and buildings)	-	58,344,593	-	58,344,593
Gold reserves held by the Bank	287,170,323	-	-	287,170,323
	<u>649,600,266</u>	<u>58,344,593</u>	<u>-</u>	<u>707,944,859</u>
<b>Off balance sheet financial instruments</b>				
Foreign currency forward and swap contracts - sale	-	802,656,331	-	802,656,331
Foreign currency forward and swap contracts - purchase	-	595,499,305	-	595,499,305
Futures - sale	18,044,108	-	-	18,044,108
Futures - purchase	14,656,485	-	-	14,656,485
	<u>-</u>	<u>1,398,155,636</u>	<u>-</u>	<u>1,398,155,636</u>
	<u>649,600,266</u>	<u>1,456,500,229</u>	<u>-</u>	<u>1,506,100,495</u>
	2015			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Recurring Fair Value Measurements</b>				
<b>Financial Assets</b>				
Foreign currency accounts and investments - held for trading	291,639,069	-	-	291,639,069
Investments - local	85,095,794	-	-	85,095,794
<b>Non-Financial Assets</b>				
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>623,885,576</u>	<u>19,454,757</u>	<u>-</u>	<u>643,340,333</u>
<b>Off balance sheet financial instruments</b>				
Foreign currency forward and swap contracts - sale	-	554,583,226	-	554,583,226
Foreign currency forward and swap contracts - purchase	-	382,060,837	-	382,060,837
Futures - sale	13,330,298	-	-	13,330,298
Futures - purchase	18,901,205	-	-	18,901,205
	<u>-</u>	<u>936,644,063</u>	<u>-</u>	<u>936,644,063</u>
	<u>623,885,576</u>	<u>956,098,824</u>	<u>-</u>	<u>1,580,984,400</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.

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

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

**46. CLASSIFICATION OF FINANCIAL INSTRUMENTS**

	2016				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	(Rupees in '000)				
<b>Financial assets</b>					
Local currency - coins	488,198	-	-	-	<b>488,198</b>
Foreign currency accounts and investments	1,472,496,928	266,038,032	238,549,410	-	<b>1,977,084,370</b>
Earmarked foreign currency balances	5,147,596	-	-	-	<b>5,147,596</b>
Special Drawing Rights of the International Monetary Fund	67,656,236	-	-	-	<b>67,656,236</b>
Reserve tranche with the International Monetary Fund under quota arrangements	17,455	-	-	-	<b>17,455</b>
Securities purchased under agreement to resell	1,533,574,159	-	-	-	<b>1,533,574,159</b>
Current accounts of Governments	955,474	-	-	-	<b>955,474</b>
Investments - local	2,050,313,403	-	643,839	96,461,352	<b>2,147,418,594</b>
Loans, advances and bills of exchange	350,571,180	-	-	-	<b>350,571,180</b>
Assets held with the Reserve Bank of India	1,362,034	-	-	-	<b>1,362,034</b>
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,214,881	-	-	-	<b>9,214,881</b>
Other assets	2,588,460	1,442,497	-	-	<b>4,030,957</b>
	2015				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	(Rupees in '000)				
<b>Financial assets</b>					
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

	2016		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	(Rupees in '000)		
<b>Financial liabilities</b>			
Bank notes in circulation	3,554,922,057	-	3,554,922,057
Bills payable	598,142	-	598,142
Current accounts of Governments	606,657,778	-	606,657,778
Payable under bilateral currency swap agreement	158,507,631	-	158,507,631
Payable to Islamic Banking Institutions against Bai Muajjal transactions	44,952,938	-	44,952,938
Deposits of banks and financial institutions	391,760,469	-	391,760,469
Other deposits and accounts	161,552,998	-	161,552,998
Payable to the International Monetary Fund	778,739,505	-	778,739,505
Other liabilities	20,791,527	-	20,791,527

	2015		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	(Rupees in '000)		
<b>Financial liabilities</b>			
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
Securities sold under agreement to repurchase	-	-	-
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

#### 47. NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 29, 2016 have appropriated an amount of Rs 1,999,567 million to "Revenue Reserve". The balance of profit after allocation of such appropriation will be transferred to the Government of Pakistan. The financial statements of the Bank for the year ended June 30, 2016 do not include the effect of above appropriation and transfer of balance profit to the Government of Pakistan, which will be accounted for in the financial statements of the Group for the year ending June 30, 2017.

#### 48. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on October 29, 2016 by the 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	2015 Rupees in '000
<b>Foreign currency accounts and investments</b>	<b>Foreign currency accounts and investments</b>	
Deposit accounts	Securities purchased under agreement to resell	4,123,132
Deposit accounts	Investments	23,703,559

#### 50. GENERAL

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

Ashraf Mahmood Wathra  
Governor

Riaz Riazuddin  
Deputy Governor

Muhammad Haroon Rasheed  
Executive Director



# 10 Unconsolidated Financial Statements of SBP

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

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

**EY FORD RHODES**

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

## INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS

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, 2016, 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

**EY FORD RHODES**

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, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Chartered Accountants  
Karachi

**Salman Hussain**

Audit Engagement Partner

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**EY Ford Rhodes**

Chartered Accountants  
Karachi

**Omer Chughtai**

Audit Engagement Partner

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED BALANCE SHEET**  
**AS AT JUNE 30, 2016**

	Note	2016	2015
		(Rupees in '000)	
<b>ASSETS</b>			
Gold reserves held by the Bank	5	287,170,323	247,150,713
Local currency - coins	6	488,198	365,231
Foreign currency accounts and investments	7	1,977,084,370	1,443,289,097
Earmarked foreign currency balances	8	5,147,596	1,274,786
Special Drawing Rights of the International Monetary Fund	9	67,656,236	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	10	17,455	17,052
Securities purchased under agreement to resell	11	1,533,574,159	662,579,848
Current accounts of Governments	20.2	955,474	3,048,507
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		-	56,381
Investments - local	12	2,147,804,015	2,415,886,819
Loans, advances and bills of exchange	13	339,717,748	338,500,048
Assets held with the Reserve Bank of India	14	6,012,137	5,450,937
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	9,214,881	8,561,790
Property and equipment	16	59,570,692	20,515,069
Intangible assets	17	3,833	4,149
Other assets	18	4,129,946	3,992,076
<b>Total assets</b>		<b>6,438,547,063</b>	<b>5,222,921,922</b>
<b>LIABILITIES</b>			
Bank notes in circulation	19	3,554,922,057	2,707,258,012
Bills payable		598,142	643,121
Current accounts of Governments	20.1	606,657,778	394,020,378
Current account with SBP Banking Services Corporation - a subsidiary		47,810,651	40,635,754
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		22,818	-
Payable to Islamic Banking Institutions against Bai Muajjal transactions	21	44,952,938	189,919,121
Payable under bilateral currency swap agreement	22	158,507,631	164,867,890
Deposits of banks and financial institutions	23	391,760,469	413,234,045
Other deposits and accounts	24	161,460,194	147,177,988
Payable to the International Monetary Fund	25	778,739,505	554,172,982
Other liabilities	26	44,384,298	56,402,898
Deferred liability - unfunded staff retirement benefits	27	28,872,260	25,229,160
<b>Total liabilities</b>		<b>5,818,688,741</b>	<b>4,693,561,349</b>
<b>Net assets</b>		<b>619,858,322</b>	<b>529,360,573</b>
<b>REPRESENTED BY</b>			
Share capital	28	100,000	100,000
Reserves	29	175,919,871	175,919,871
Unappropriated profit		3,620,167	-
Unrealised appreciation on gold reserves held by the Bank	30	283,342,601	243,367,310
Unrealised appreciation on remeasurement of investments - local	12.4	91,386,276	83,994,988
Surplus on revaluation of property and equipment		65,489,407	25,978,404
<b>Total equity</b>		<b>619,858,322</b>	<b>529,360,573</b>

**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

**Muhammad Haroon Rasheed**  
Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Note	2016 ------(Rupees in '000)-----	2015
Discount, interest / mark-up and / or profit earned	32	252,789,943	304,300,521
Less: interest / mark-up expense	33	(25,454,480)	(21,000,191)
		<u>227,335,463</u>	<u>283,300,330</u>
Commission income	34	1,909,180	1,628,668
Exchange gain - net	35	25,779,375	36,418,489
Dividend income		12,226,343	15,429,445
Other operating income - net	36	2,756,112	103,343,486
Other income - net	37	129,166	383,381
		<u>270,135,639</u>	<u>440,503,799</u>
Less: Operating expenses			
- Bank notes printing charges	38	7,730,740	6,690,484
- Agency commission	39	8,968,647	7,242,672
- General administrative and other expenses	40	24,268,793	23,949,202
(Reversal of provision against) / Provision for / write-off:			
- loans and advances		-	926,437
- claims	26.3.2	(232)	(1,489)
- other doubtful assets	26.3.1.1	(86,213)	(55,071)
- others		(7,338)	-
		<u>(93,783)</u>	<u>869,877</u>
		<u>40,874,397</u>	<u>38,752,235</u>
<b>Profit for the year</b>		<u><u>229,261,242</u></u>	<u><u>401,751,564</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

**Muhammad Haroon Rasheed**  
Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<i>Note</i>	<b>2016</b> ----- (Rupees in '000) -----	<b>2015</b> ----- (Rupees in '000) -----
Profit for the year		<b>229,261,242</b>	401,751,564
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to the profit and loss account:</b>			
<b>Unrealised appreciation / (diminution) on remeasurement of investments - local</b>			
- Appreciation / (diminution) during the year	12.4	7,391,288	(14,462,606)
- Reclassified to profit and loss account		-	(122,710,640)
		7,391,288	(137,173,246)
<b>Unrealised appreciation / (diminution) on gold reserves held by the Bank</b>	5	39,975,291	(22,272,338)
		47,366,579	(159,445,584)
<b>Items that will not be reclassified subsequently to the profit and loss account:</b>			
Remeasurements of staff retirement defined benefit plans - SBP	40.6.3.1	(3,153,251)	(1,986,999)
Remeasurements of Property and equipment - SBP		39,511,003	-
Remeasurements of staff retirement defined benefit plans allocated by - SBP			
Banking Services Corporation - a subsidiary	40.6.3.1	(12,173,824)	(2,073,949)
		24,183,928	(4,060,948)
<b>Total comprehensive income for the year</b>		<b>300,811,749</b>	238,245,032

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

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**Ashraf Mahmood Wathra**  
Governor

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**Riaz Riazuddin**  
Deputy Governor

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**Muhammad Haroon Rasheed**  
Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Share capital	Reserves							Unrealised (diminution) / appreciation on gold reserves held by the Bank	Unrealised (diminution) / appreciation on remeasurement of investments - local	Surplus on revaluation of property and equipment	Total
	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unappropriated profit / (loss)				
(Rupees in '000)											
Balance as at July 1, 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											
Unrealised diminution on remeasurement of investments - local (note 12.4)	-	-	-	-	-	-	-	-	-	(137,173,246)	(137,173,246)
Unrealised diminution on gold reserves held by the Bank (note 5)	-	-	-	-	-	-	-	-	(22,272,338)	-	(22,272,338)
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	(1,986,999)	-	-	(1,986,999)
Remeasurements of staff retirement defined benefit plans allocated by - SBP	-	-	-	-	-	-	-	(2,073,949)	-	-	(2,073,949)
Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	-	-	-	-	-	-	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
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	-	229,261,242	-	-	229,261,242
Other comprehensive income											
Unrealised appreciation on remeasurement of investments - local (note 12.4)	-	-	-	-	-	-	-	-	-	7,391,288	7,391,288
Unrealised appreciation on gold reserves held by the Bank (note 5)	-	-	-	-	-	-	-	-	39,975,291	-	39,975,291
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	(3,153,251)	-	-	(3,153,251)
Remeasurements of Property and equipment - SBP	-	-	-	-	-	-	-	-	-	39,511,003	39,511,003
Remeasurements of staff retirement defined benefit plans allocated by - SBP	-	-	-	-	-	-	-	(12,173,824)	-	-	(12,173,824)
Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	-	-	-	-	-	-	213,934,167	39,975,291	7,391,288	300,811,749
Transactions with owners											
Dividend	-	-	-	-	-	-	-	(10,000)	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	(210,304,000)	-	-	(210,304,000)
	-	-	-	-	-	-	-	(210,314,000)	-	-	(210,314,000)
Balance as at June 30, 2016	100,000	164,619,871	2,600,000	1,600,000	1,500,000	900,000	4,700,000	3,620,167	283,342,601	91,386,276	619,858,322

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

Ashraf Mahmood Wathra  
Governor

Riaz Riazuddin  
Deputy Governor

Muhammad Haroon Rasheed  
Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	Note	2016 ------(Rupees in '000)-----	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year after non-cash and other items	41	273,808,937	313,587,343
(Increase) / decrease in assets:			
Foreign currency investments and placements		(72,996,950)	(59,716,485)
Reserve tranche with the International Monetary Fund under quota arrangements		(403)	1,142
Securities purchased under agreement to resell		(870,994,311)	(662,579,848)
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		79,199	110,620
Investments - local		275,474,092	592,722,862
Securities given as collateral under repurchase agreements		-	18,064,500
Loans, advances and bills of exchange		(1,217,700)	(41,452,226)
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh (former East Pakistan)		(566,878)	(549,061)
Other assets		(137,870)	2,571,800
		<u>(670,360,821)</u>	<u>(150,826,696)</u>
		(396,551,884)	162,760,647
Increase / (decrease) in liabilities:			
Bank notes issued - net		847,664,045	398,130,989
Bills payable		(44,979)	1,019
Current accounts of Governments		214,686,114	(140,147,478)
Current account with SBP Banking Services Corporation - a subsidiary		(11,681,745)	(6,620,817)
Securities sold under agreement to repurchase		-	(17,194,695)
Payable to Islamic Banking Institutions against Bai Muajjal transactions		(144,966,183)	189,919,121
Payable under bilateral currency swap agreement		(6,360,259)	59,619,093
Deposits of banks and financial institutions		(21,473,576)	(117,512,311)
Payment of retirement benefits and employees' compensated absences		(2,774,862)	(2,192,861)
Other deposits and accounts		14,282,206	1,768,006
Other liabilities		4,987,837	723,070
		<u>894,318,598</u>	<u>366,493,136</u>
<b>Net cash generated from operating activities</b>		<b>497,766,714</b>	<b>529,253,783</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of investments		-	111,664,408
Dividend received		12,226,343	15,429,445
Capital expenditure		(901,270)	(592,256)
Proceeds from disposal of property and equipment		13,712	3,913
<b>Net cash generated from investing activities</b>		<b>11,338,785</b>	<b>126,505,510</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Profit paid to the Federal Government of Pakistan		(227,895,141)	(399,000,180)
Receipts from International Monetary Fund		224,566,523	264,797,431
Payments made to International Monetary Fund		-	(95,619,191)
Dividend paid		(10,000)	(10,000)
<b>Net cash used in financing activities</b>		<b>(3,338,618)</b>	<b>(229,831,940)</b>
Increase in cash and cash equivalents during the year		<u>505,766,881</u>	<u>425,927,353</u>
Cash and cash equivalents at the beginning of the year		1,350,924,757	942,045,632
Effect of exchange gain on cash and cash equivalents		(45,545,964)	(17,048,228)
<b>Cash and cash equivalents at the end of the year</b>	42	<u><u>1,811,145,674</u></u>	<u><u>1,350,924,757</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

Muhammad Haroon Rasheed  
Executive Director

## STATE BANK OF PAKISTAN

### NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

#### 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 there against on a continuous basis. While assessing this requirement, various factors including the delinquency in the account, financial position of the borrower, quality of collateral and other relevant factors are considered. The amount of impairment may require adjustment in case borrowers do not perform according to the expectations.

### 3.3.2 Impairment of available-for-sale investments

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

### 3.3.3 Retirement benefits

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

### 3.3.4 Useful life and residual value of property and equipment

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

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

The following standards, amendments and interpretations of IFRSs 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 2: Share-based Payments - Classification and Measurement of Share-based Payments Transactions	January 1, 2018
- IFRS 9 - Financial Instruments: Classification and Measurement	January 1, 2018
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates - Investment Entities: Applying the Consolidation Exception - Amendment to IFRS 10, IFRS 12 and IAS 28	January 1, 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 to IFRS 10 and IAS 28	Date yet to be finalised
- IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation - Amendments to IFRS 11	January 1, 2016
- IFRS 14 - Regulatory Deferral Accounts	January 1, 2016
- IFRS 15 - Revenue from Contracts with Customers	January 1, 2018
- IFRS 16 - Leases	January 1, 2019
- IAS 1 - Presentation of Financial Statements - Disclosure Initiative	January 1, 2016
- IAS 7 Financial Instruments: Disclosures - Disclosure Initiative	January 1, 2017

<b>Standards, amendments and interpretations</b>	<b>Effective date (annual periods beginning on or after)</b>
- IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized losses - Amendment to IAS 12	January 1, 2017
- IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization - Amendment to IAS 16 and IAS 38	January 1, 2016
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants - Amendments to IAS 16 and IAS 41	January 1, 2016
- IAS 27 - Separate Financial Statements - Equity Method in Separate Financial Statements - Amendment to IAS 27	January 1, 2016
<b>Improvements to Accounting Standards Issued by the IASB</b>	
- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Servicing contracts	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Applicability of the off-setting disclosures to condensed interim financial statements	January 1, 2016
- IAS 19 Employee Benefits - Discount rate: regional market issue	January 1, 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 9, 'Financial instruments' and IFRS 15, 'Revenue from contracts with customers' as described below:

- IFRS 9, Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) sets out the principles of classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' except for the recognition requirements. The adoption of the standard introduces expanded disclosure requirements and changes in presentation of the financial instruments which are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted (subject to local regulation requirements). The Bank intends to adopt IFRS 9 on its mandatory date and the management is in the process of assessing the impacts of IFRS 9 on the financial statements of the Bank.
- 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), amount 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 at which 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 payments 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 previously recognised in equity 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 institutions, 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, current account with National Institute of Banking and Finance (Guarantee) Limited, 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 previously received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been previously 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 flows, 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 conditions 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 the 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 till the time the investments are sold or disposed off.

**4.6 Offsetting**

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

**4.7 Derivative financial instruments**

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

**4.8 Collateralised 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 22.

**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 "mark-up 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 held by the Bank". 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 to the extent reflected in the surplus on revaluation of property and equipment account. The amount of sale proceeds exceeding the balance in surplus on revaluation of property and equipment account is taken to the profit and loss account.

#### 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 fund 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, 2016. 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 above staff retirement benefits are vested 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 the dividend is established.
- Gains / losses on disposal of securities are recognised in the profit and loss account at the 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 and clause 66(xx) of Part I of second schedule to the Income Tax Ordinance, 2001.

**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 31.2 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	2016 ----- (Rupees in '000) -----	2015
<b>5 GOLD RESERVES HELD BY THE BANK</b>				
Opening balance		2,073,712	247,150,713	269,307,930
Additions during the year		320	44,319	115,121
Appreciation / (diminution) for the year due to revaluation	30		39,975,291	(22,272,338)
	19.1	<u>2,074,032</u>	<u>287,170,323</u>	<u>247,150,713</u>

	Note	2016 ----- (Rupees in '000) -----	2015
<b>6 LOCAL CURRENCY - COINS</b>			
Bank notes held by the Banking Department		145,614	142,373
Coins held as an asset of the Issue Department	6.1 & 19.1	<u>488,198</u>	<u>365,231</u>
		633,812	507,604
Less: bank notes held by the Banking Department	19	<u>(145,614)</u>	<u>(142,373)</u>
		<u>488,198</u>	<u>365,231</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	2016 ----- (Rupees in '000) -----	2015
<b>At fair value through profit or loss - held-for-trading:</b>			
- Investments	7.1	269,942,861	291,639,069
- Unrealised loss on derivative financial instruments - net	7.2	(3,904,829)	(1,015,518)
<b>Held to maturity investment</b>	7.3	238,549,410	165,568,110
<b>Loans and receivables</b>			
- Deposit accounts	7.1	26,378,414	76,772,242
- Current accounts		6,689,560	26,790,460
- Securities purchased under agreement to resell	7.4	569,237,084	129,545,024
- Money market placements	7.5	870,191,870	753,989,710
		<u>1,977,084,370</u>	<u>1,443,289,097</u>
The above foreign currency accounts and investments are held as follows:			
Issue Department	19.1	1,237,112,270	753,989,710
Banking Department		<u>739,972,100</u>	<u>689,299,387</u>
		<u>1,977,084,370</u>	<u>1,443,289,097</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, 2016 cumulatively amounts to USD 3,202.51 million (2015: USD 2,896.16 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 foreign countries carrying yield ranging from 0.19% to 3.45% per annum and having maturities from July 07, 2016 to May 05, 2017 (2015: 1.8% to 3.8% per annum and having maturities from July 08, 2015 to September 10, 2016).



7.4 These represent lending under repurchase agreements and carry mark-up in USD ranging from 0.40% to 0.48% per annum (2015: 0.15 % per annum) and GBP at 0.26% per annum (2015: 0.32%) and these are due to mature on July 01, 2016 (2015: July 01, 2015).

7.5 The balance includes money market placements carrying interest at various rates ranging between 0.33% to 0.85% per annum (2015: 0.09% to 0.6% per annum) and having maturities from July 04, 2016 to September 30, 2016 (2015: from July 1, 2015 to September 30, 2015).

## 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, 2016. 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	2016 ----- (Rupees in '000) -----	2015
SDRs are held as follows:			
- By the Issue Department	19.1	51,179,450	7,143,400
- By the Banking Department		16,476,786	65,086,019
		<u>67,656,236</u>	<u>72,229,419</u>

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

Quota allocated by the International Monetary Fund	297,633,877	147,980,285
Liability under quota arrangements	(297,616,422)	(147,963,233)
	<u>17,455</u>	<u>17,052</u>

## 11 SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

This represents collateralised lendings made to various financial institutions under repurchase arrangement carrying mark-up ranging from 5.77% to 6.25% per annum (2015: 6.51% to 7.00% per annum) and are due to mature from July 4, 2016 to July 11, 2016 (2015: July 2, 2015 to July 3, 2015). The fair value of securities collateralised as on June 30, 2016 amounts to Rs. 1,535,800 million (2015: 664,325 million). The collaterals held by the Bank consist of Pakistan Investment Bonds and Market Treasury Bills.

## 12 INVESTMENTS - LOCAL

	Note	2016 ----- (Rupees in '000) -----	2015
<b>Loans and receivables</b>			
<b>Government securities</b>			
Market Related Treasury Bills (MRTBs)		2,047,573,403	2,323,047,495
Federal Government scrips		2,740,000	2,740,000
	12.1	<u>2,050,313,403</u>	<u>2,325,787,495</u>
<b>Available-for-sale investments</b>			
Investments in banks and other financial institutions			
Ordinary shares			
- Listed		92,487,082	85,095,794
- Unlisted		4,712,706	4,712,706
	12.2	<u>97,199,788</u>	<u>89,808,500</u>
Term Finance Certificates		84,722	84,722
Certificates of Deposits		33,705	33,705
		<u>97,318,215</u>	<u>89,926,927</u>
Provision against diminution in value of investments	12.3	(856,863)	(856,863)
		<u>96,461,352</u>	<u>89,070,064</u>
<b>Investments in wholly owned subsidiaries</b>			
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>2,147,804,015</u>	<u>2,415,886,819</u>
The above investments are held as follows:			
Issue Department - MRTBs	19.1	1,973,105,293	1,693,300,394
Banking Department		174,698,722	722,586,425
		<u>2,147,804,015</u>	<u>2,415,886,819</u>

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

	2016 (% per annum)	2015
Market Related Treasury Bills	5.89 to 6.24	6.64 to 8.39
Federal Government scrips	3	3

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

## 12.2 Investments in shares of banks and other financial institutions

	Note	2016 % of holding	2015	2016 (Rupees in '000)	2015 (Rupees in '000)
<b>Listed</b>					
- National Bank of Pakistan	12.2.2	75.20	75.20	92,487,082	85,095,794
<b>Unlisted - at cost</b>					
Other investments with holding less than or equal to 50%				4,712,706	4,712,706
				<u>97,199,788</u>	<u>89,808,500</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, 2016 amounted to Rs. 1,100.8 million (2015: Rs. 1,100.8 million).

	Note	2016 (Rupees in '000)	2015 (Rupees in '000)
<b>12.3 Provision against diminution in value of investments</b>			
Opening balance		856,863	856,863
Reversal during the year		-	-
Closing balance		<u>856,863</u>	<u>856,863</u>

## 12.4 Unrealised appreciation on remeasurement of investments - local

Opening balance		83,994,988	221,168,234
Appreciation /(diminution) during the year		7,391,288	(14,462,606)
Reclassified to profit and loss account	12.4.1	-	(122,710,640)
		7,391,288	(137,173,246)
Closing balance		<u>91,386,276</u>	<u>83,994,988</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 last year.

	Note	2016 (Rupees in '000)	2015 (Rupees in '000)
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## 13 LOANS, ADVANCES AND BILLS OF EXCHANGE

Governments	13.1	-	382,627
Government owned / controlled financial institutions	13.2	102,794,207	103,923,657
Private sector financial institutions	13.3	232,449,996	231,113,109
		335,244,203	335,036,766
Employees		9,814,370	8,421,480
		345,058,573	343,840,873
Provision against doubtful balances		(5,340,825)	(5,340,825)
		<u>339,717,748</u>	<u>338,500,048</u>

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>13.1 Loans and advances to the Provincial Governments</b>			
Provincial Government - Khyber Pakhtunkhwa	13.1.1	-	382,627
		-	382,627

- 13.1.1** The bridge financing facility was extended to Government of Khyber Pakhtunkhwa under an 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. This loan has been fully paid during the current year.

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

	Scheduled banks		Other financial institutions		Total	
	2016	2015	2016	2015	2016	2015
	----- (Rupees in '000) -----					
Agricultural sector (13.2.1)	50,767,526	50,927,495	-	-	50,767,526	50,927,495
Industrial sector (13.2.1 & 13.2.3)	4,821,191	4,938,308	-	-	4,821,191	4,938,308
Export sector (13.3.1)	19,020,317	19,872,681	3,567	3,567	19,023,884	19,876,248
Housing sector (13.2.2)	-	-	11,242,300	11,242,300	11,242,300	11,242,300
Others (13.2.1, 13.2.3 & 13.2.4)	16,939,306	16,939,306	-	-	16,939,306	16,939,306
	<b>91,548,340</b>	<b>92,677,790</b>	<b>11,245,867</b>	<b>11,245,867</b>	<b>102,794,207</b>	<b>103,923,657</b>

- 13.2.1** Exposure to the agricultural and industrial sectors include Rs. 50,174.09 million and Rs. 1,083.12 million (2015: Rs. 50,174.09 million and Rs. 1,083.12 million) respectively, representing the cumulative Government guaranteed financing of Rs. 51,257.21 million (2015: Rs. 51,257.21 million) to Zarai Taraqati Bank Limited (ZTBL) in addition to the unsecured subordinated loan to ZTBL amounting to Rs. 3,204 million (2015: Rs. 3,204 million) classified in other loans and advances. The entire exposure has been overdue since 2002.

Last year, a tripartite meeting was held on July 11, 2014 between Ministry of Finance (MoF), ZTBL and the Bank ( the parties ) wherein 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. Subsequently, discussions / negotiations were held between MoF, ZTBL and the Bank on the conversion of total exposure into equity shares based on the results of the draft fair valuation exercise. The conversion plan was re-negotiated between all the parties in a tripartite meeting held on November 16, 2015. The MoF approved the re-negotiated conversion plan on April 4, 2016 as detailed below:

- The Bank's principal debt amount of Rs. 54,461 million outstanding against ZTBL as on December 31, 2015 will be converted into redeemable preference shares carrying a profit of 7.5% per annum, redeemable in 10 years in one bullet payment on December 31, 2025.
- The preference shares shall carry the return @ 7.5% per annum, payable half yearly on June 30th and December 31st each year and shall be the contractual obligation of ZTBL.
- The principal of the preference shares and return thereon shall be guaranteed by the Federal Government.
- Mark-up on the existing debt shall be accrued upto December 31, 2015 as per existing arrangements leading to increase in accrued mark-up amount from Rs. 35,029 million as on June 30, 2014 to Rs. 40,156 million as on December 31, 2015. The accrued mark-up of Rs. 40,156 million as on December 31, 2015 will be converted into ordinary shares of ZTBL.

The re-negotiated conversion plan is subject to completion of all legal and statutory formalities and the fair value exercise of the entity. The management is currently in the process of assessing the fair valuation of the shares of ZTBL, subsequent to which all the legal and statutory formalities will be completed. The fair valuation of the preference shares to be issued by ZTBL will be determined on the issuance of preference shares by ZTBL. Pending completion of the conversion process, these balances would remain secured through the sovereign guarantee of Government of Pakistan.

- 13.2.2** This represents loan receivable from House Building Finance Company Limited (HBFCL) against seven credit lines on profit and loss sharing basis. As at June 30, 2016 all of these credit lines are overdue since 2006 amounting to Rs. 11,242 million (2015: Rs. 11,242 million). These credit lines are secured by guarantee from the Federal Government.

Last year, 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, will be partly settled through cash payment of Rs. 2,000 million and the balance amount of Rs. 13,690 million will be converted to an equity investment of the Bank in HBFCL. The cash payment of Rs. 2,000 million was received last year and was adjusted against accrued mark-up. The conversion process was subject to completion of all legal and statutory formalities and the fair valuation exercise of the entity. Subsequently, on November 16, 2015, the conversion plan was re-negotiated between the parties and a letter in this respect was sent by the Bank on April 22, 2016 (after taking approval from competent authorities) to HBFCL for conversion of outstanding principal balance into preference shares and suspended mark-up into ordinary shares.

The re-negotiated conversion plan is subject to approval from the board of HBFCL and MoF and completion of all legal and statutory formalities and fair valuation exercise of the entity. The management is currently in the process of assessing the fair valuation of the shares of HBFCL, subsequent to which all the legal and statutory formalities will be completed. The fair valuation of the preference shares to be issued by HBFCL will be determined on the issuance of preference shares by HBFCL. Pending completion of the conversion process, these balances would remain secured through the sovereign guarantee of 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 (2015: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2015: 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, 2016.
- 13.2.4** These balances include Rs. 423 million (2015: 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	
	2016	2015	2016	2015	2016	2015
	(Rupees in '000)					
Agricultural sector	947,390	1,057,571	151,398	109,837	1,098,788	1,167,408
Industrial sector	38,550,364	35,521,006	4,923,344	3,989,519	43,473,708	39,510,525
Export sector (13.3.1)	185,597,057	173,250,119	-	-	185,597,057	173,250,119
Others (13.3.2)	2,280,443	17,185,057	-	-	2,280,443	17,185,057
	<b>227,375,254</b>	<b>227,013,753</b>	<b>5,074,742</b>	<b>4,099,356</b>	<b>232,449,996</b>	<b>231,113,109</b>

- 13.3.1** Export sector loans of scheduled banks are fully secured against demand promissory notes.
- 13.3.2** Last 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 with a bullet payment of mark-up and principal at maturity 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 6-month liquidity support facility of Rs. 15,000 million has been repaid during the current year on its agreed maturity date. 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). In accordance with the requirements of accounting framework of the Bank the 10-year financing facility had been recognized at fair value on initial recognition. The amortized cost of the long-term facility as of June 30, 2016 is Rs. 2,255 million (2015: Rs. 2,062 million). The principal amount (Rs. 5,000 million) of the facility along with the profit will be recovered at its respective maturity.

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

	2016 (% per annum)	2015
Government owned / controlled and private sector financial institutions	0 to 9.75	0 to 9.75
Employees loans (where applicable)	0 to 10	0 to 10

## 14 ASSETS HELD WITH THE RESERVE BANK OF INDIA

	Note	2016 ----- (Rupees in '000) -----	2015
Gold reserves			
- Opening balance		4,002,690	4,363,561
- Appreciation / (diminution) for the year due to revaluation	26.3.1.1	647,413	(360,871)
		<u>4,650,103</u>	<u>4,002,690</u>
Sterling securities		467,390	528,722
Government of India securities		222,024	228,200
Rupee coins		4,576	4,698
	14.1	<u>5,344,093</u>	<u>4,764,310</u>
Indian notes representing assets receivable from the Reserve Bank of India	14.2	668,044	686,627
	19.1	<u>6,012,137</u>	<u>5,450,937</u>

14.1 These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Bank is subject to final settlement between the Governments of Pakistan and India (also refer note 26.3.1).

14.2 These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 26.3.1).

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

	Note	2016 ----- (Rupees in '000) -----	2015
<b>India</b>			
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>
<b>Bangladesh (former East Pakistan)</b>			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	15.1	8,354,504	7,701,413
		<u>9,174,428</u>	<u>8,521,337</u>
	15.2	<u>9,214,881</u>	<u>8,561,790</u>

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

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

## 16 PROPERTY AND EQUIPMENT

	Note	2016 ----- (Rupees in '000) -----	2015
Operating fixed assets	16.1	59,129,090	20,020,465
Capital work-in-progress	16.3	441,602	494,604
		<u>59,570,692</u>	<u>20,515,069</u>

## 16.1 Operating fixed assets

	2016									
	Cost / revalued amount at July 1, 2015	Additions / (deletions) during the year	Revaluation during the year	Cost / revalued amount at June 30, 2016	Accumulated depreciation at July 1, 2015	Depreciation for the year/ (deletions)	Reversal due to revaluation	Accumulated depreciation at June 30, 2016	Net book value at June 30, 2016	Useful life / Rate of depreciation
	(Rupees in '000)									
Freehold land*	3,791,658	-	9,250,182	13,041,840	-	-	-	-	13,041,840	-
Leasehold land*	16,811,005	72,751	21,607,950	38,491,706	2,197,006	428,963	(2,625,969)	-	38,491,706	30-99 years
Buildings on freehold land*	1,138,375	158,764	1,004,335	2,301,474	849,525	223,312	(1,072,837)	-	2,301,474	20 years
Buildings on leasehold land*	2,307,509	195,010	2,007,054	4,509,573	1,547,259	395,417	(1,942,676)	-	4,509,573	20 years
Furniture and fixtures	102,020	4,302	-	106,322	88,424	3,562	-	91,986	14,336	10%
Office equipment	706,405	118,170 (240)	-	824,335	619,895	63,093	-	682,988	141,347	20%
EDP equipment	1,503,566	325,359 (19,533)	-	1,809,392	1,351,896	138,536 (19,509)	-	1,470,923	338,469	33.33%
Motor vehicles	424,060	77,175 (36,979)	-	464,256	110,128	86,813 (23,030)	-	173,911	290,345	20%
	26,784,598	951,531 (56,752)	33,869,521	61,548,898	6,764,133	1,339,696 (42,539)	(5,641,482)	2,419,808	59,129,090	
	2015									
	Cost / revalued amount at July 1, 2014	Additions / (deletions) during the year	Revaluation during the year	Cost / revalued amount at June 30, 2015	Accumulated depreciation at July 1, 2014	Depreciation for the year/ (deletions)	Reversal due to revaluation	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	30-99 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	

\* These represent revalued assets.

## 16.2 Last revaluation was carried out during the year ended June 30, 2016 by M.J.Surveyors (Pvt.) Ltd.

**16.2.1** The fair value of land and building are derived using the sale comparison approach. The sale value is determined by physically analysing the condition of land and building and by ascertaining the current market value of similar land, which is 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.

**16.2.2** Subsequent to revaluation on June 30, 2011, which had resulted in a net surplus of Rs.7,231 million, all land and buildings were revalued again during the current year which resulted in a net surplus of Rs.33,870 million. The revaluation of land and buildings 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:

	2016	2015
	----- (Rupees in '000) -----	
Freehold land	39,124	39,124
Leasehold land	81,221	84,565
Buildings on freehold land	166,482	247,794
Buildings on leasehold land	285,564	405,707
	<u>572,391</u>	<u>777,190</u>
<b>16.3 Capital work-in-progress</b>		
Buildings on freehold land	43,634	110,338
Buildings on leasehold land	311,309	206,944
Furniture and fixtures	-	181
Office equipment	44,467	156,102
EDP equipment	21,039	21,039
Software	21,153	-
	<u>441,602</u>	<u>494,604</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	2016	610,649	2,741	613,390	606,500	3,057	609,557	3,833	33.33
Software	2015	609,447	1,202	610,649	600,520	5,980	606,500	4,149	33.33

## 18 OTHER ASSETS

	Note	2016	2015
		----- (Rupees in '000) -----	
Commission receivable and others		2,117,472	1,106,632
Unrealised gain on derivative financial instruments - net		1,442,497	1,542,435
Other advances, deposits and prepayments		569,977	1,343,009
		<u>4,129,946</u>	<u>3,992,076</u>

## 19 BANK NOTES IN CIRCULATION

Total bank notes issued	19.1	3,555,067,671	2,707,400,385
Bank notes held by the Banking Department	6	(145,614)	(142,373)
Bank notes in circulation		<u>3,554,922,057</u>	<u>2,707,258,012</u>

**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	2016	2015
		----- (Rupees in '000) -----	
Gold reserves held by the Bank	5	287,170,323	247,150,713
Local currency - coins	6	488,198	365,231
Foreign currency accounts and investments	7	1,237,112,270	753,989,710
Special Drawing Rights of the International Monetary Fund	9	51,179,450	7,143,400
Investments - local	12	1,973,105,293	1,693,300,394
Assets held with the Reserve Bank of India	14	6,012,137	5,450,937
		<u>3,555,067,671</u>	<u>2,707,400,385</u>

20	CURRENT ACCOUNTS OF GOVERNMENTS	Note	2016	2015
			----- (Rupees in '000) -----	
<b>20.1</b>	<b>Current accounts of Governments - payable balances</b>			
	Federal Government	20.3	313,688,605	216,641,339
	Provincial Governments			
	- Punjab	20.4	96,833,336	74,882,601
	- Sindh	20.5	89,107,726	25,465,469
	- Khyber Pakhtunkhwa	20.6	77,207,052	29,475,678
	- Baluchistan	20.7	19,091,164	42,786,314
	Gilgit - Baltistan Administration Authority	20.8	10,729,895	4,768,977
			292,969,173	177,379,039
			606,657,778	394,020,378
<b>20.2</b>	<b>Current accounts of Governments - receivable balance</b>			
	Government of Azad Jammu and Kashmir	20.9	955,474	3,048,507
			955,474	3,048,507
<b>20.3</b>	<b>Federal Government</b>			
	Non-food account		973,642	996,737
	Zakat fund accounts		7,884,671	5,559,821
	Railways accounts		(13,313,227)	(27,004,869)
	Other accounts		318,143,519	237,089,650
			313,688,605	216,641,339
<b>20.4</b>	<b>Provincial Government - Punjab</b>			
	Non-food account		82,846,743	60,672,205
	Zakat fund account		401,259	499,085
	Other accounts		13,585,334	13,711,311
			96,833,336	74,882,601
<b>20.5</b>	<b>Provincial Government - Sindh</b>			
	Non-food account		84,389,116	23,010,842
	Zakat fund account		1,526,526	1,636,927
	Other accounts		3,192,084	817,700
			89,107,726	25,465,469
<b>20.6</b>	<b>Provincial Government - Khyber Pakhtunkhwa</b>			
	Non-food account		67,829,675	27,549,695
	Zakat fund account		1,186,629	1,437,241
	Other accounts		8,190,748	488,742
			77,207,052	29,475,678
<b>20.7</b>	<b>Provincial Government - Baluchistan</b>			
	Non-food account		16,553,943	42,067,766
	Zakat fund account		833,822	616,320
	Other accounts		1,703,399	102,228
			19,091,164	42,786,314
<b>20.8</b>	<b>Gilgit - Baltistan Administration Authority</b>			
			10,729,895	4,768,977
			10,729,895	4,768,977
<b>20.9</b>	<b>Government of Azad Jammu and Kashmir</b>			
	Classified as receivable balance	20.10	(955,474)	(3,048,507)
			955,474	3,048,507
			-	-
<b>20.10</b>	These balances carry mark-up at rates ranging from 6.18% to 6.88% per annum (2015: 7.18% to 9.98% per annum).			
<b>21</b>	<b>PAYABLE TO ISLAMIC BANKING INSTITUTIONS AGAINST BAI MUAJJAL TRANSACTIONS</b>			

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 profit rates ranging from 4.75% to 5.74% per annum (2015: 3.93% to 9.99%) and maturities on February 10, 2017 and March 15, 2017 (2015: October 23, 2015 to March 26, 2016).



**22 PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT****22.1 Payable under bilateral currency swap agreement with the People's Bank of China (PBoC)**

A bilateral currency swap agreement was entered between the Bank and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was for tenure of 3 years with overall limit of CNY 10,000 million and equivalent PKR, which was renewed on December 23, 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 bucket of three months and six months (2015: CNY 5,000 million, CNY 1,500 million and CNY 3,500 million with maturity buckets of six months, three months and two months respectively). These purchases have been fully utilized as on June 30, 2016 and the same amounts are outstanding as on June 30, 2016. Interest is charged on outstanding balance at agreed rates. As at June 30, 2016, the Bank's commitment under this agreement is Rs. 165,000 million (2015: Rs. 165,000 million).

**23 DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS**

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>Foreign currency</b>			
Scheduled banks		7,527,991	15,059,625
Held under Cash Reserve Requirement	23.1	<u>136,803,601</u>	<u>137,278,452</u>
		<u>144,331,592</u>	<u>152,338,077</u>
<b>Local currency</b>			
Scheduled banks	23.1	<u>234,778,810</u>	<u>257,566,828</u>
Financial institutions		<u>12,574,555</u>	<u>3,255,946</u>
Others		<u>75,512</u>	<u>73,194</u>
		<u>247,428,877</u>	<u>260,895,968</u>
		<u><u>391,760,469</u></u>	<u><u>413,234,045</u></u>

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

**24 OTHER DEPOSITS AND ACCOUNTS**

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>Foreign currency</b>			
Foreign central banks		47,210,792	45,822,174
International organisations	24.2	<u>26,479,513</u>	<u>25,656,686</u>
Others		<u>19,445,168</u>	<u>11,370,901</u>
	24.1	<u>93,135,473</u>	<u>82,849,761</u>
<b>Local currency</b>			
Special debt repayment	24.3	<u>24,243,841</u>	<u>24,074,660</u>
Government	24.4	<u>17,850,348</u>	<u>17,850,348</u>
Foreign central banks		<u>2,003</u>	<u>1,946</u>
International organisations		<u>6,692,016</u>	<u>6,261,043</u>
Others		<u>19,536,513</u>	<u>16,140,230</u>
		<u>68,324,721</u>	<u>64,328,227</u>
		<u><u>161,460,194</u></u>	<u><u>147,177,988</u></u>

	2016	2015
	(% per annum)	
24.1 The interest rate profile of the interest bearing deposits is as follows:		
Foreign central banks	0.30 to 0.76	0.31 to 0.54
International organisations	2.11 to 2.62	2.08 to 2.11
Others	0.09 to 0.41	0.02 to 0.09

24.2 This includes two long-term deposits of USD 500 million each received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2016) and June 2012 (rolled-over in June 2016) 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 which 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.

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

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

	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>25 PAYABLE TO THE INTERNATIONAL MONETARY FUND</b>		<b>----- (Rupees in '000) -----</b>	
Borrowings under:			
- Fund facilities	25.1 & 25.3	<b>634,172,641</b>	412,926,950
- Allocation of SDRs	25.2	<b>144,566,830</b>	141,245,999
		<b>778,739,471</b>	554,172,949
Current account for administrative charges		<b>34</b>	33
		<b>778,739,505</b>	554,172,982

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

Under GRA financing 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 4,320 million has been disbursed under eleven (11) tranches of EFF up to June 30, 2016 (2015: SDR 2,880 million). The repayments under this facility would start in March 2018 and would continue till June 2026.

- 25.2** 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.

	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>25.3</b> Interest profile of amount payable to the IMF is as under:		<b>(% per annum)</b>	
Fund facilities	25.3.1	<b>1.05 to 1.07</b>	1.03 to 1.08

- 25.3.1** 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.

	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>26 OTHER LIABILITIES</b>		<b>----- (Rupees in '000) -----</b>	
<b>Local currency</b>			
Provision against overdue mark-up	26.1	<b>7,960,351</b>	7,307,260
Remittance clearance account		<b>2,259,587</b>	2,348,970
Exchange loss payable under exchange risk coverage scheme		<b>233,121</b>	230,352
Balance profit payable to the Government of Pakistan		-	17,591,141
Dividend payable	26.2	<b>10,000</b>	10,000
Share of loss payable under profit and loss sharing arrangements		<b>1,377,691</b>	1,377,691
Other accruals and provisions	26.3	<b>26,254,831</b>	23,380,102
Others	26.4	<b>6,288,717</b>	4,157,382
		<b>44,384,298</b>	56,402,898

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

- 26.2** This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to Rs. 9.99 million (2015: Rs. 9.99 million).

	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>26.3 Other accruals and provisions</b>		<b>----- (Rupees in '000) -----</b>	
Agency commission		<b>12,440,190</b>	10,613,915
Provision for employees' compensated absences	40.6.9	<b>2,551,971</b>	2,528,235
Provision for other doubtful assets	26.3.1	<b>6,911,495</b>	6,350,295
Other provisions	26.3.2	<b>2,848,701</b>	2,848,933
Others		<b>1,502,474</b>	1,038,724
		<b>26,254,831</b>	23,380,102

	Note	2016 ----- (Rupees in '000) -----	2015
<b>26.3.1 Provision for other doubtful assets</b>			
Provision against assets held with / receivable from Government of India and the Reserve Bank of India			
- Issue Department		6,012,137	5,450,937
- Banking Department		40,483	40,483
		6,052,620	5,491,420
Provision against assets receivable from Government of Bangladesh (Former East Pakistan)			
- Issue Department		-	-
- Banking Department		858,875	858,875
		858,875	858,875
	26.3.1.1	6,911,495	6,350,295

**26.3.1.1 Movement of provisions for other doubtful assets**

Opening balance	6,350,295	6,766,237
Reversal during the year	(86,213)	(55,071)
Appreciation / (diminution) relating to gold reserves held by the Reserve Bank of India	647,413	(360,871)
Closing balance	6,911,495	6,350,295

**26.3.2 Movement of other provisions**

Opening balance	2,848,933	2,850,422
(Reversal) / charge during the year	(232)	(1,489)
Closing balance	2,848,701	2,848,933

	Home remittance	Specific claims (note 26.3.2.1)	Others (note 26.3.2.2)	Total
	----- (Rupees in '000) -----			
Balance as at July 1, 2014	260,363	1,600,000	990,059	2,850,422
Charge for the year	-	-	-	-
Reversal during the year	-	-	(1,489)	(1,489)
Balance as at June 30, 2015	260,363	1,600,000	988,570	2,848,933
Charge for the year	-	-	-	-
Reversal during the year	-	-	(232)	(232)
Balance as at June 30, 2016	260,363	1,600,000	988,338	2,848,701

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

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

**26.4** This includes liability maintained against balances due from Government of Bangladesh (former East Pakistan) amounting to Rs. 778.399 million (2015: Rs. 778.399 million).

	Note	2016 ----- (Rupees in '000) -----	2015
<b>27 DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS</b>			
Pension		20,560,622	17,827,447
Gratuity scheme		39,495	26,441
Benevolent fund scheme		446,588	369,979
Post retirement medical benefits		7,224,542	6,489,738
Six months post retirement facility		379,441	290,624
	40.6.3	28,650,688	25,004,229
Provident fund scheme		221,572	224,931
		28,872,260	25,229,160

**28 SHARE CAPITAL**

2016	2015		2016	2015
--- (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.

**29 RESERVES****29.1 Reserve fund**

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

**29.2 Other funds**

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

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>30 UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK</b>			
Opening balance		<b>243,367,310</b>	265,639,648
Appreciation / (diminution) for the year due to revaluation	5	<b>39,975,291</b>	(22,272,338)
		<u><b>283,342,601</b></u>	<u>243,367,310</u>

**31 CONTINGENCIES AND COMMITMENTS****31.1 Contingencies**

- a) Contingent liability in respect of guarantees given on behalf of:

Federal Government	31.1.1	<b>21,486,999</b>	14,644,118
Federal Government owned / controlled bodies and authorities		<b>7,605,996</b>	7,823,443
		<u><b>29,092,995</b></u>	<u>22,467,561</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.

- c) In addition to these claims, there are several other lawsuits filed by various parties as a result of the regulatory actions taken by the Bank in its capacity as regulator and banker to the government, which the Bank is currently contesting in various courts of laws / forums. The management of the Bank, believes that the Bank has reasonable position in respect of these litigations and accordingly no provision for any liability may be needed in the financial statements.

	Note	2016 ----- (Rupees in '000) -----	2015
d) Other claims against the Bank not acknowledged as debts	31.1.2	<u>350,678</u>	<u>372,855</u>
<b>31.1.1</b> Above guarantees are secured by counter guarantees either from the Government of Pakistan or local financial institutions.			
<b>31.1.2</b> These represent various claims filed against the Bank's role as a regulator and certain other cases.			
<b>31.2 Commitments</b>		<b>2016 ----- (Rupees in '000) -----</b>	<b>2015</b>
<b>31.2.1</b> Foreign currency forward and swap contracts - sale		<u>802,656,331</u>	<u>554,583,226</u>
<b>31.2.2</b> Foreign currency forward and swap contracts - purchase		<u>595,499,305</u>	<u>382,060,837</u>
<b>31.2.3</b> Futures - sale		<u>18,044,108</u>	<u>13,330,298</u>
<b>31.2.4</b> Futures - purchase		<u>14,656,485</u>	<u>18,901,205</u>
<b>31.2.5</b> Capital Commitments		<u>386,844</u>	<u>-</u>
<b>31.2.5.1</b> This represents amounts committed by the bank to purchase assets from successful bidders.			
<b>31.2.6</b> Commitments in respect of bilateral currency swap agreements with People's Bank of China have been disclosed in note 22.			
<b>31.2.7</b> 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, 2016 amounted to Rs. 71,945 million (2015: Rs. 70,400 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.			
<b>32 DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED</b>	Note	<b>2016 ----- (Rupees in '000) -----</b>	<b>2015</b>
Discount, interest / mark-up on:			
- Market Related Treasury Bills		150,272,738	240,613,420
- Federal Government Scrips		82,200	82,200
- Loans and advances to and current accounts of Governments	32.1	327,520	194,825
Securities purchased under agreement to resell		80,712,710	38,031,409
Return on loans and advances to financial institutions		8,683,044	16,104,176
Foreign currency loan and advance including deposits		4,258,735	1,718,097
Foreign currency securities		8,382,254	7,222,459
Profit on sukuks purchased under Bai Muajjal agreement		70,542	333,857
Others		200	78
		<u>252,789,943</u>	<u>304,300,521</u>
<b>32.1</b> Interest profile on loans and advances to facilities are as under:		<b>2016 (% per annum)</b>	<b>2015</b>
Mark-up on facility		6.18 to 6.88	7.18 to 9.98
Additional mark-up (where ways and means facility limit is exceeded)		4	4
<b>33 INTEREST / MARK-UP EXPENSE</b>		<b>2016 ----- (Rupees in '000) -----</b>	<b>2015</b>
Deposits		15,866,387	12,551,575
Securities sold under agreement to repurchase		218,111	502,698
Return on Sukuks purchased under Bai Muajjal agreement		9,287,535	7,857,943
Charges on allocation of Special Drawing Rights of the IMF		78,609	78,425
Others		3,838	9,550
		<u>25,454,480</u>	<u>21,000,191</u>

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>34 COMMISSION INCOME</b>			
Market Treasury Bills	34.1	472,821	353,678
Draft / payment orders		8,148	8,061
Prize Bonds and National Saving Certificates	34.1	439,041	404,948
Management of public debts	34.1	989,118	861,926
Others		52	55
		<u>1,909,180</u>	<u>1,628,668</u>
<b>34.1</b>	These represent commission income earned from services provided to the Federal Government.		
	Note	2016	2015
		----- (Rupees in '000) -----	
<b>35 EXCHANGE GAIN - NET</b>			
Gain / (loss) on:			
- Foreign currency placements, deposits, securities and other accounts - net		38,322,960	12,837,447
- Forward covers under Exchange Risk Coverage Scheme		6	787
- IMF Fund Facilities		(10,984,606)	19,075,330
- Special Drawing Rights of the IMF		(1,611,329)	4,449,394
		<u>25,727,031</u>	<u>36,362,958</u>
Exchange risk fee income		52,344	55,531
		<u>25,779,375</u>	<u>36,418,489</u>
<b>36 OTHER OPERATING INCOME - NET</b>			
Penalties levied on banks and financial institutions		1,017,004	3,454,707
License / Credit Information Bureau fee recovered		817,885	766,271
Gain on disposal of investment:			
Local - available-for-sale	36.1	-	103,120,956
Local - 'at fair value through profit or loss'		58,663	438,955
Foreign - 'at fair value through profit or loss'		201,043	838,220
		<u>259,706</u>	<u>104,398,131</u>
Fair value adjustment on recognition of subsidised loan		-	(2,952,536)
Gain / (loss) on remeasurement of securities classified as 'fair value through profit or loss'		559,888	(2,571,399)
Others		101,629	248,312
		<u>2,756,112</u>	<u>103,343,486</u>
<b>36.1</b>	This primarily represent gain on sale of shares of Habib Bank Limited and Allied Bank Limited that were disposed last year.		
	Note	2016	2015
		----- (Rupees in '000) -----	
<b>37 OTHER INCOME - NET</b>			
Loss on disposal of property and equipment		(501)	-
Liabilities and provisions written back - net		12,327	110,056
Grant income under foreign assistance program		11,808	20,505
Income from subsidiaries	37.1	40,027	179,176
Others		65,505	73,644
		<u>129,166</u>	<u>383,381</u>
<b>37.1 Income from subsidiaries</b>			
SBP Banking Services Corporation		40,027	50,491
National Institute of Banking and Finance (Guarantee) Limited		-	128,685
		<u>40,027</u>	<u>179,176</u>

The above represents income of subsidiaries for the year ended June 30, 2016 transferred to the Bank in accordance with the arrangements mentioned in note 40.4.

**38 BANK NOTES PRINTING CHARGES**

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

**39 AGENCY COMMISSION**

Agency commission is mainly payable to National Bank of Pakistan (NBP) under an agreement for providing banking services to Federal and provincial Governments as an agent of the Bank. Furthermore, a small portion of the agency commission also pertains to Bank of Punjab (BOP), which was appointed as agent of the Bank, during the current year, to collect Government of Punjab's taxes and receipts.

<b>40 GENERAL ADMINISTRATIVE AND OTHER EXPENSES</b>	<i>Note</i>	<b>2016</b>	<b>2015</b>
		<b>----- (Rupees in '000) -----</b>	
Salaries and other benefits		<b>3,476,133</b>	2,911,133
Retirement benefits and employees' compensated absences	40.1	<b>3,559,566</b>	3,907,336
Rent and taxes		<b>28,303</b>	25,554
Insurance		<b>24,872</b>	17,648
Electricity, gas and water		<b>45,055</b>	40,951
Depreciation	16.1	<b>1,339,696</b>	1,248,983
Amortisation of intangible assets	17	<b>3,057</b>	5,980
Repairs and maintenance		<b>430,930</b>	356,048
Auditors' remuneration	40.5	<b>6,050</b>	6,050
Legal and professional		<b>27,917</b>	37,359
Fund managers / custodian expenses		<b>495,428</b>	375,555
Travelling expenses		<b>222,894</b>	158,219
Daily expenses		<b>56,784</b>	58,643
Fuel		<b>43,579</b>	46,687
Conveyance		<b>8,199</b>	7,322
Postages, telegram / telex and telephone		<b>204,511</b>	200,631
Training		<b>190,270</b>	35,445
Stationery		<b>9,915</b>	9,818
Books and newspapers		<b>27,923</b>	29,442
Advertisement		<b>11,057</b>	14,732
Uniforms		<b>1,443</b>	1,443
Others		<b>99,261</b>	77,729
		<b>10,312,843</b>	9,572,708
Expenses allocated by:			
SBP Banking Services Corporation	40.2	<b>6,411,699</b>	7,305,776
National Institute of Banking and Finance (Guarantee) Limited		<b>-</b>	15,383
		<b>6,411,699</b>	7,321,159
Expenses reimbursed to:			
SBP Banking Services Corporation	40.3	<b>7,544,251</b>	6,873,983
National Institute of Banking and Finance (Guarantee) Limited		<b>-</b>	181,352
		<b>7,544,251</b>	7,055,335
		<b>24,268,793</b>	23,949,202

**40.1** This includes an amount relating to defined contribution plan aggregating Rs. 136.150 million (2015: Rs. 256.393 million).

	<b>2016</b>	<b>2015</b>
	<b>----- (Rupees in '000) -----</b>	
<b>40.2 Expenses allocated by SBP Banking Services Corporation</b>		
Retirement benefits and employees' compensated absences	<b>6,267,528</b>	7,199,513
Depreciation	<b>144,171</b>	106,263
	<b>6,411,699</b>	7,305,776

	Note	2016 ------(Rupees in '000)-----	2015
<b>40.3 Expenses reimbursed to SBP Banking Services Corporation</b>			
Salaries and other benefits		6,153,682	5,686,410
Rent and taxes		25,550	20,952
Insurance		7,309	6,197
Electricity, gas and water		304,736	288,219
Repairs and maintenance		189,716	149,793
Auditors' remuneration	40.5	5,950	5,950
Legal and professional		11,078	6,266
Travelling expenses		21,725	16,918
Daily expenses		26,897	29,397
Recreation allowance		198,127	192,225
Fuel		3,002	2,949
Conveyance		16,818	12,913
Postage and telephone		12,898	24,590
Training		146,112	70,270
Remittance of treasure		92,744	67,043
Stationery		9,444	10,542
Books and newspapers		1,626	1,504
Advertisement		32,011	17,607
Bank guards		117,499	124,618
Uniforms		28,493	23,451
Others		138,834	116,169
		<b>7,544,251</b>	<b>6,873,983</b>

**40.4** SBP Banking Services Corporation (the Corporation), a wholly owned subsidiary of the Bank, carries out certain functions and activities principally relating to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly, under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while profit of the Corporation for the year ended June 30, 2016, as mentioned in note 37.1, has also been transferred to the Bank.

	2016			2015		
	EY Ford Rhodes	A. F. Ferguson & Co.	Total	EY Ford Rhodes	A. F. Ferguson & Co.	Total
	----- (Rupees in '000) -----					
<b>State Bank of Pakistan</b>						
Audit fee	2,610	2,610	5,220	2,610	2,610	5,220
Out of pocket expenses	415	415	830	415	415	830
	<b>3,025</b>	<b>3,025</b>	<b>6,050</b>	<b>3,025</b>	<b>3,025</b>	<b>6,050</b>
<b>SBP Banking Services Corporation</b>						
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
	<b>2,975</b>	<b>2,975</b>	<b>5,950</b>	<b>2,975</b>	<b>2,975</b>	<b>5,950</b>
	<b>6,000</b>	<b>6,000</b>	<b>12,000</b>	<b>6,000</b>	<b>6,000</b>	<b>12,000</b>

**40.6 Staff retirement benefits**

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

	2016	2015
-Discount rate for year end obligation	7.25% p.a	9.75% - 10.50% p.a.
-Salary increase rate (where applicable)	8.25% p.a	9.75% - 10.50% p.a.
-Pension indexation rate (where applicable)	4.75% p.a	7.25% p.a
-Medical cost increase rate	6.25% - 7.25% p.a	9.5% - 10.50% p.a
-Personnel turnover	11.50% p.a	4.5% p.a.
-Normal retirement age	60 Years	60 Years

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



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

**Discount rate risk**

The risk of changes in discount rate since discount rate is based on corporate / government bonds. Any 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.

**40.6.3 Change in present value of defined benefit obligation**

	2016					Total
	Pension	Gratuity scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement facility	
	(Rupees in '000)					
Present value of defined benefit obligation July 1, 2015	17,827,447	26,441	6,489,738	369,979	290,624	25,004,229
Current service cost	321,209	6,639	119,027	15,825	22,480	485,180
Past service cost	256,513	1,822	22,147	-	16,745	297,227
Interest cost on defined benefit obligation	1,637,429	2,755	665,247	33,308	29,259	2,367,998
Benefits due but not paid	-	-	-	-	-	-
Benefits Paid	(2,066,604)	(408)	(308,103)	(56,712)	(23,932)	(2,455,759)
Liability Transferred to BSC	(136,419)	-	(52,610)	(5,028)	(7,381)	(201,438)
Remeasurements:						
Actuarial (gains) / losses from changes in demographic assumption	797,254	-	93,993	18,623	(4,895)	904,975
Actuarial (gains) / losses from changes in financial assumptions	363,392	5,076	63,896	79,867	36,759	548,990
Experience adjustments	1,560,401	(2,830)	131,207	(9,274)	19,782	1,699,286
Present value of defined benefit obligation as on June 30, 2016	20,560,622	39,495	7,224,542	446,588	379,441	28,650,688

	2015					Total
	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	21,694,597
Current service cost	276,996	4,417	100,183	12,345	19,566	413,507
Interest cost on defined benefit obligation	2,036,503	2,267	658,471	34,408	32,243	2,763,892
Benefits Paid	(1,511,349)	(1,940)	(285,821)	(50,469)	(5,187)	(1,854,766)
Remeasurements:						
Actuarial (gains) / losses from changes in demographic assumption	77,986	-	-	-	-	77,986
Experience adjustments	821,805	3,934	996,431	88,781	(1,938)	1,909,013
Present value of defined benefit obligation as on June 30, 2015	17,827,447	26,441	6,489,738	369,979	290,624	25,004,229

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

	2016	2015
	(Rupees in '000)	
<b>State Bank of Pakistan</b>		
- Actuarial (gains) / losses from changes in demographic and financial assumptions	1,453,965	77,986
- Experience adjustments	1,699,286	1,909,013
	3,153,251	1,986,999
Allocated by SBP Banking Services Corporation - a subsidiary*	(12,173,824)	2,073,949

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

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

	2016					Total
	Pension	Gratuity scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement facility	
	(Rupees in '000)					
Current service cost	321,209	6,639	119,027	15,825	22,480	485,180
Past service cost	256,513	1,822	22,147	-	16,745	297,227
Contribution made by Employees	-	-	-	(3,713)	-	(3,713)
Interest cost on defined benefit obligation	1,637,429	2,755	665,247	33,308	29,259	2,367,998
	2,215,151	11,216	806,421	45,420	68,484	3,146,692

	2015					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	----- (Rupees in '000) -----					
Current service cost	276,996	4,417	100,183	12,345	19,566	413,507
Contribution made by Employees	-	-	-	(3,773)	-	(3,773)
Interest cost on defined benefit obligation	2,036,503	2,267	658,471	34,408	32,243	2,763,892
	2,313,499	6,684	758,654	42,980	51,809	3,173,626

#### 40.6.5 Movement of present value of defined benefit obligation

	2016					
	Pension	Gratuity scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement facility	Total
	(Rupees in '000)					
Net recognised liabilities at July 1, 2015	17,827,447	26,441	6,489,738	369,979	290,624	25,004,229
Amount recognised in the profit and loss account	2,215,151	11,216	806,421	45,420	68,484	3,146,692
Remeasurements	2,721,047	2,246	289,096	89,216	51,646	3,153,251
Benefits paid during the year	(2,066,604)	(408)	(308,103)	(56,712)	(23,932)	(2,455,759)
Liability Transferred to BSC	(136,419)	-	(52,610)	(5,028)	(7,381)	(201,438)
Employees contribution / amount transferred	-	-	-	3,713	-	3,713
Net recognised liabilities at June 30, 2016	20,560,622	39,495	7,224,542	446,588	379,441	28,650,688

	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	16,125,506	17,763	5,020,474	284,914	245,940	21,694,597
Amount recognised in the profit and loss account	2,313,499	6,684	758,654	42,980	51,809	3,173,626
Remeasurements	899,791	3,934	996,431	88,781	(1,938)	1,986,999
Benefits paid during the year	(1,511,349)	(1,940)	(285,821)	(50,469)	(5,187)	(1,854,766)
Employees contribution / amount transferred	-	-	-	3,773	-	3,773
Net recognised liabilities at June 30, 2015	17,827,447	26,441	6,489,738	369,979	290,624	25,004,229

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	(Rupees in '000)		
<b>Pension</b>			
Discount rate	1%	(1,520,825)	1,770,671
Future salary increase	1%	416,878	(386,636)
Future pension increase	1%	1,391,272	(1,211,090)
Expected mortality rates	1 Year	(422,530)	494,773
<b>Gratuity</b>			
Discount rate	1%	(5,093)	6,017
Future salary increase	1%	5,938	(5,124)
<b>Post retirement medical benefit scheme</b>			
Discount rate	1%	(885,625)	1,125,041
Future salary increase	1%	45,141	(39,788)
Future Post-Retirement medical cost increase	1%	1,113,984	887,164
Expected mortality rates	1 Year	(239,127)	243,427
<b>Benevolent</b>			
Discount rate	1%	(30,841)	35,767
<b>Six months post retirement facility</b>			
Discount rate	1%	(35,031)	40,534
Future salary increase	1%	40,267	35,484

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.

**40.6.7 Duration of defined benefit obligation**

	Pension	Gratuity scheme	Post retirement medical benefit	Benevolent fund scheme	Leave Encashment	Six months post retirement facility
Weighted average duration of the defined benefit obligation	8 Years	14 Years	14 Years	7 Years	9 Years	10 Years

**40.6.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2017**

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2017 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	300,044	5,602	126,215	3,833	27,355	463,049
Interest cost on defined benefit obligation	1,490,645	2,863	523,779	32,378	27,509	2,077,174
Amount chargeable to profit and loss account	1,790,689	8,465	649,994	36,211	54,864	2,540,223

**40.6.9 Employees' compensated absences**

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 2,551.97 million (2015: Rs. 2,528.24 million). An amount of Rs. 274.64 million (2015: Rs. 470.75 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, 2017 would be Rs 359.707 million. The benefits paid during the year amounted to Rs 181.223 million (2015: Rs 80.24 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 214.698 million and Rs. 250.039 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 251.265 million and Rs. 220.157 million respectively and the net liability would also be affected by the same amount.

	Note	2016	2015
		----- (Rupees in '000) -----	
<b>41 PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS</b>			
Profit for the year		229,261,242	401,751,564
Adjustments for:			
Depreciation	16.1 & 40.2	1,483,867	1,355,246
Amortisation of intangible assets	17	3,057	5,980
Provision / (reversal) for / write-off:			
- retirement benefits and employees' compensated absences		9,827,094	11,106,849
- loans and advances		-	926,437
- claims		(232)	(1,489)
- other doubtful assets		(86,213)	(55,071)
- foreign currency accounts and investments		-	-
Loss on disposal of property and equipment		501	-
Gain on disposal of investments	36	-	(103,120,956)
Effect of exchange loss / (gain) on cash and cash equivalents		45,545,964	17,048,228
Dividend income		(12,226,343)	(15,429,445)
		<u>273,808,937</u>	<u>313,587,343</u>
<b>42 CASH AND CASH EQUIVALENTS</b>			
Local currency - coins		488,198	365,231
Foreign currency accounts and investments		1,737,853,644	1,277,055,321
Earmarked foreign currency balances		5,147,596	1,274,786
Special Drawing Rights of the International Monetary Fund		67,656,236	72,229,419
		<u>1,811,145,674</u>	<u>1,350,924,757</u>

**43 RELATED PARTY TRANSACTIONS**

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

**43.1 Governments and related entities**

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

	2016	2015
	----- (Rupees in '000) -----	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>4,294,300,000</u>	<u>5,210,637,598</u>
- Retirement / rollover of MRTBs	<u>4,558,055,859</u>	<u>5,781,546,841</u>
- Commission income from sale of Market Treasury Bills, issuance of prize bonds, national saving certificates and management of public debt (refer note 34.1)		

**43.2 Subsidiaries of the Bank**

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

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

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

**43.2.2 National Institute of Banking and Finance (Guarantee) Limited ("the Institute") - wholly owned subsidiary**

The Institute is engaged in providing education and training in the field of banking, finance and allied areas.

**43.3 Remuneration to key management personnel**

Key management personnel of the Bank include members of the 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 Board of Directors is determined by the 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:

	2016	2015
	----- (Rupees in '000) -----	
Short-term employee benefit	264,955	181,068
Post-employment benefit	105,272	63,899
Loans disbursed during the year	173,047	116,377
Loans repaid during the year	92,324	78,157
Directors' fees	11,711	11,349
Number of key management personnel	17	14

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

## 44 RISK MANAGEMENT POLICIES

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

### 44.1 Credit risk management

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

### 44.2 Concentrations of risk

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

#### 44.2.1 Geographical analysis

	2016					
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others
	(Rupees in '000)					
<b>Financial assets</b>						
Local currency - coins	488,198	-	-	-	-	488,198
Foreign currency accounts and investments	19,082,343	490,232,443	841,281,192	534,829,640	91,658,752	1,977,084,370
Earmarked foreign currency balance	5,147,596	-	-	-	-	5,147,596
Special Drawing Rights of International Monetary Fund	-	-	67,656,236	-	-	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	17,455	-	-	17,455
Securities purchased under agreement to resell	1,533,574,159	-	-	-	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	-	955,474
Investments - local	2,146,774,755	-	-	-	-	2,146,774,755
Loans, advances and bills of exchange	339,294,499	423,249	-	-	339,294,499	339,717,748
Assets held with the Reserve Bank of India	-	1,362,034	-	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	9,214,881	-	-	-	9,214,881
Other assets	2,591,740	1,050,258	25,909	301,694	36,508	4,006,109
<b>Total financial assets</b>	<b>4,047,908,764</b>	<b>502,282,865</b>	<b>908,980,792</b>	<b>535,131,334</b>	<b>91,695,260</b>	<b>6,085,999,015</b>
	2015					
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others
	(Rupees in '000)					
<b>Financial assets</b>						
Local currency - coins	365,231	-	-	-	-	365,231
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	2,414,857,559	-	-	-	-	2,414,857,559
Securities given as collateral under repurchase agreement	-	-	-	-	-	-
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
<b>Total financial assets</b>	<b>3,473,621,978</b>	<b>520,868,755</b>	<b>431,303,841</b>	<b>432,442,458</b>	<b>91,926,001</b>	<b>4,950,163,033</b>

## 44.2.2 Industrial analysis

	2016					
	Sovereign	Supranational	Public Sector	Banks & Financial Institutions	Others	Grand Total
	----- (Rupees in '000) -----					
Financial assets						
Local currency - coins	488,198	-	-	-	-	488,198
Foreign currency accounts and investments	936,159,121	178,478,743	1,087,680	848,890,453	12,468,373	1,977,084,370
Earmarked foreign currency balance	5,147,596	-	-	-	-	5,147,596
Special Drawing Rights of International Monetary Fund	-	67,656,236	-	-	-	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,455	-	-	-	17,455
Securities purchased under agreement to resell	-	-	-	1,533,574,159	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	-	955,474
Investments - local	2,050,313,403	-	-	96,461,352	-	2,146,774,755
Loans, advances and bills of exchange	423,249	-	98,119,245	231,360,884	9,814,370	339,717,748
Assets held with the Reserve Bank of India	1,362,034	-	-	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,214,881	-	-	-	-	9,214,881
Other assets	1,237,025	111,047	-	1,896,310	761,727	4,006,109
Total financial assets	3,005,300,981	246,263,481	99,206,925	2,712,183,158	23,044,470	6,085,999,015

	2015					Grand Total
	Sovereign	Supranational	Public Sector	Banks &	Others	
			Entities	Financial		
				Institutions		
	----- (Rupees in '000) -----					
<b>Financial assets</b>						
Local currency - coins	365,231	-	-	-	-	365,231
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	-	-	89,070,064	-	2,414,857,559
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	2,917,081,197	167,235,475	103,037,876	1,734,659,210	28,149,275	4,950,163,033

#### 44.3 Credit exposure by credit rating

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

	2016							Grand Total
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	
	(Rupees in '000')							
<b>Financial assets</b>								
Local currency - coins	488,198	-	-	-	-	-	-	488,198
Foreign currency accounts and investments	-	340,043,611	950,304,290	655,800,370	11,179,378	19,075,404	681,317	1,977,084,370
Earmarked foreign currency balance	5,147,596	-	-	-	-	-	-	5,147,596
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	67,656,236	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,455	17,455
Securities purchased under agreement to resell	-	-	-	1,532,762,001	-	812,158	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	-	-	-	955,474
Investments - local	2,050,313,403	-	-	-	-	-	-	2,050,313,403
Loans, advances and bills of exchange	75,846,587	81,063,739	146,636,085	24,650,228	955,253	40,489	10,525,367	339,717,748
Assets held with the Reserve Bank of India	-	-	-	-	1,362,034	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	40,453	9,174,428	-	9,214,881
Other assets	1,764,564	421,338	487,247	1,093,113	-	-	239,847	4,006,109
<b>Total financial assets</b>	<b>2,134,515,822</b>	<b>421,528,688</b>	<b>1,097,427,622</b>	<b>2,214,305,712</b>	<b>13,537,118</b>	<b>29,102,479</b>	<b>79,120,222</b>	<b>5,989,537,663</b>

	2015							Grand Total
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	
	(Rupees in '000')							
<b>Financial assets</b>								
Local currency - coins	365,231	-	-	-	-	-	-	365,231
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) Limitec	-	-	-	-	-	-	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
<b>Total financial assets</b>	<b>2,332,374,386</b>	<b>285,038,596</b>	<b>914,620,518</b>	<b>1,155,473,918</b>	<b>5,582,025</b>	<b>60,970,882</b>	<b>107,032,644</b>	<b>4,861,092,969</b>

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

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

#### 44.4 Details of financial assets impaired and provisions recorded there against:

	Gross Amount		Impairment Provision	
	2016	2015	2016	2015
	(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	1,362,034	1,448,247	1,362,034	1,448,247
Balances due from the Governments of India and Bangladesh [(former East Pakistan) including loans recoverable from financial institutions operating in Bangladesh]	9,638,160	8,985,069	9,638,160	8,985,069

#### 44.5 Liquidity analysis with interest / mark-up rate risk

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

	2016						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)						
<b>Financial assets</b>							
<b>Non-derivatives assets:</b>							
Local currency - coins	-	-	-	488,198	-	488,198	488,198
Foreign currency accounts and investments	1,623,513,653	348,154,813	1,971,668,466	8,639,389	681,344	9,320,733	1,980,989,199
Earmarked foreign currency balance	-	-	-	5,147,596	-	5,147,596	5,147,596
Special Drawing Rights of International Monetary Fund	67,656,236	-	67,656,236	-	-	-	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	17,455	-	17,455	17,455
Securities purchased under agreement to resell	1,533,280,018	-	1,533,280,018	294,141	-	294,141	1,533,574,159
Current accounts of Governments	2,955,474	-	2,955,474	(2,000,000)	-	(2,000,000)	955,474
Investments - local	2,017,100,000	2,740,000	2,019,840,000	126,934,755	-	126,934,755	2,146,774,755
Loans, advances and bills of exchange	297,929,581	30,352,200	328,281,781	2,694,854	8,741,113	11,435,967	339,717,748
Assets held with the Reserve Bank of India	-	-	-	1,362,034	-	1,362,034	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	8,354,504	-	8,354,504	860,377	-	860,377	9,214,881
Other assets	-	-	-	2,563,293	319	2,563,612	2,563,612
	5,550,789,466	381,247,013	5,932,036,479	147,002,092	9,422,776	156,424,868	6,088,461,347
<b>Derivatives assets</b>							
Other assets	-	-	-	1,442,497	-	1,442,497	1,442,497
<b>Grand Total</b>	5,550,789,466	381,247,013	5,932,036,479	148,444,589	9,422,776	157,867,365	6,089,903,844
<b>Financial liabilities</b>							
Bank notes issued	-	-	-	3,554,922,057	-	3,554,922,057	3,554,922,057
Bills payable	-	-	-	598,142	-	598,142	598,142
Current accounts of the Governments*	-	-	-	606,657,778	-	606,657,778	606,657,778
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	47,810,651	-	47,810,651	47,810,651
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	22,818	-	22,818	22,818
Payable to Islamic Banking Institutions against Bai Muajjal transactions	44,068,109	-	44,068,109	884,829	-	884,829	44,952,938
Payable under bilateral currency swaps agreements	157,812,000	-	157,812,000	695,631	-	695,631	158,507,631
Deposits of banks and financial institutions	-	-	-	391,760,469	-	391,760,469	391,760,469
Other deposits and accounts	87,730,857	-	87,730,857	73,729,337	-	73,729,337	161,460,194
Payable to International Monetary Fund	144,554,785	633,076,488	777,631,273	-	1,108,232	1,108,232	778,739,505
Other liabilities	-	-	-	20,471,428	-	20,471,428	20,471,428
	434,165,751	633,076,488	1,067,242,239	4,697,553,140	1,108,232	4,698,661,372	5,765,903,611
<b>Derivative Liabilities</b>							
Foreign currency accounts and investments	-	(103,955)	(103,955)	906,473	3,102,311	4,008,784	3,904,829
	434,165,751	632,972,533	1,067,138,284	4,698,459,613	4,210,543	4,702,670,156	5,769,808,440
On balance sheet gap (a)	5,116,623,715	(251,725,520)	4,864,898,195	(4,550,015,024)	5,212,233	(4,544,802,791)	320,095,404
Foreign currency forward and swap contracts - sale	-	-	-	(802,656,331)	-	(802,656,331)	(802,656,331)
Foreign currency forward and swap contracts - purchase	-	-	-	595,499,305	-	595,499,305	595,499,305
Futures - sale	-	-	-	(18,044,108)	-	(18,044,108)	(18,044,108)
Futures - purchase	-	-	-	14,656,485	-	14,656,485	14,656,485
Capital Commitments	-	-	-	(386,844)	-	(386,844)	(386,844)
Off balance sheet gap	-	-	-	(210,931,493)	-	(210,931,493)	(210,931,493)
Total yield / interest risk sensitivity gap	5,116,623,715	(251,725,520)	4,864,898,195	(4,339,083,531)	5,212,233	(4,333,871,298)	531,026,897
Cumulative yield / interest risk sensitivity gap	5,116,623,715	4,864,898,195	9,729,796,390	5,390,712,859	5,395,925,092	1,062,053,794	1,062,053,794
Contingent liabilities in respect of guarantees given	-	-	-	-	29,092,995	29,092,995	29,092,995

(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



	2015						
	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)						
<b>Financial assets</b>							
<b>Non-derivatives assets:</b>							
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	-	131,261,700	2,414,857,559
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	38,119,412	180,144,203	4,949,636,116
<b>Derivatives assets</b>							
Other assets	-	-	-	1,542,435	-	1,542,435	1,542,435
<b>Grand Total</b>	<b>3,489,286,053</b>	<b>1,280,205,860</b>	<b>4,769,491,913</b>	<b>143,567,226</b>	<b>38,119,412</b>	<b>181,686,638</b>	<b>4,951,178,551</b>
<b>Financial liabilities</b>							
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
<b>Derivative Liabilities</b>							
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
<b>On balance sheet gap (a)</b>	<b>2,969,092,881</b>	<b>822,116,367</b>	<b>3,791,209,248</b>	<b>(3,535,348,131)</b>	<b>37,469,706</b>	<b>(3,497,878,425)</b>	<b>293,330,823</b>
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)
<b>Total yield / interest risk sensitivity gap</b>	<b>2,969,092,881</b>	<b>822,116,367</b>	<b>3,791,209,248</b>	<b>(3,368,396,649)</b>	<b>37,469,706</b>	<b>(3,330,926,943)</b>	<b>460,282,305</b>
<b>Cumulative yield / interest risk sensitivity gap</b>	<b>2,969,092,881</b>	<b>3,791,209,248</b>	<b>7,582,418,496</b>	<b>4,214,021,847</b>	<b>4,251,491,553</b>	<b>920,564,610</b>	<b>920,564,610</b>
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

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

#### 44.6 Interest rate risk

##### 44.6.1 Cash flow interest rate risk

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

If interest rates had been 10 basis points higher/ lower and all other variables were held constant, the bank's profit for the year ended June 30, 2016 would increase / decrease by Rs 566 million (2015: Rs 419 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.

#### 44.6.2 Fair value interest rate risk

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

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

As at June 30, 2016, 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 1,897.5 million (2015: Rs 946.54 million) or decrease by Rs 1,918.47 million (2015: Rs 945.52 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 and loss.

#### 44.7 Currency risk management

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

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

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

"The sensitivity 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, 2016 with all other variables constant profit for the & year would have been Rs. 8,771.99 million higher / lower (2015: Rs. 5,643.35 million). Net foreign currency exposure of the Bank is as follows:"

	2016	2015
	(Rupees in '000)	
US Dollar	1,270,462,855	741,628,994
Pound Sterling	(78,830,048)	(31,545,052)
Chinese Yuan	(3,698,119)	5,099,612
Euro	(268,904,801)	(158,752,565)
Japanese Yen	(48,103,822)	(1,759,278)
United Arab Emirates Dirham	6,190,362	10,639,257
Australian Dollar	(92,021)	162,405
Canadian Dollar	22,191	68,078
Others	152,216	(1,206,126)
	<u>877,198,813</u>	<u>564,335,325</u>

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

The composition of the Bank's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 44.6 and 44.7 prepared as of June 30, 2016 are not necessarily indicative of the effects on the Bank's profit and loss of future movements in different variables.

#### 44.8 Price Risk

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

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

In case of 5% increase or decrease in KSE 100 index on June 30, 2016, other comprehensive income would increase or decrease by Rs. 901.429 million (2015: Rs. 804.608 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, 2016 is not necessarily indicative of the effect on the Bank's equity instruments of future movements in the level of KSE 100 index.

#### 44.9 Liquidity risk management

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

The risk arising out of the Bank's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Bank's financial assets and financial liabilities is given in note 44.5.1.

#### 44.10 Portfolio risk management

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

### 45 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following tables summarizes the carrying amounts and fair values of financial assets and liabilities.

	Carrying Value		Fair value	
	2016	2015	2016	2015
	(Rupees in '000)			
<b>Financial assets</b>				
Local currency - coins	488,198	365,231	488,198	365,231
Foreign currency accounts and investments	1,977,084,370	1,443,289,097	1,977,084,370	1,443,289,097
Earmarked foreign currency balances	5,147,596	1,274,786	5,147,596	1,274,786
Special Drawing Rights of the International Monetary Fund	67,656,236	72,229,419	67,656,236	72,229,419
Reserve tranche with the International Monetary Fund under quota arrangements	17,455	17,052	17,455	17,052
Securities purchased under agreement to resell	1,533,574,159	662,579,848	1,533,574,159	662,579,848
Current accounts of Governments	955,474	3,048,507	955,474	3,048,507
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	56,381	-	56,381
Investments - local	2,147,804,015	2,415,886,819	2,147,804,015	2,415,886,819
Loans, advances and bills of exchange	339,717,748	338,500,048	339,717,748	338,500,048
Assets held with the Reserve Bank of India	1,362,034	1,448,247	1,362,034	1,448,247
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,214,881	8,561,790	9,214,881	8,561,790
Other assets	4,006,109	3,935,068	4,006,109	3,935,068

	Carrying Value		Fair value	
	2016	2015	2016	2015
	(Rupees in '000)			
<b>Financial Liability</b>				
Bank notes in circulation	3,554,922,057	2,707,258,012	3,554,922,057	2,707,258,012
Bills payable	598,142	643,121	598,142	643,121
Current accounts of Governments	606,657,778	394,020,378	606,657,778	394,020,378
Current account with SBP Banking Services Corporation	47,810,651	40,635,754	47,810,651	40,635,754
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	22,818	-	22,818	-
Payable to Islamic Banking Institutions against Bai Muajjal transactions	44,952,938	189,919,121	44,952,938	189,919,121
Payable under bilateral currency swap agreement	158,507,631	164,867,890	158,507,631	164,867,890
Deposits of banks and financial institutions	391,760,469	413,234,045	391,760,469	413,234,045
Other deposits and accounts	161,460,194	147,177,988	161,460,194	147,177,988
Payable to the International Monetary Fund	778,739,505	554,172,982	778,739,505	554,172,982
Other liabilities	20,471,428	44,902,919	20,471,428	44,902,919

45 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).

	2016			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Recurring Fair Value Measurements</b>				
<b>On balance sheet financial instruments</b>				
<b>Financial Assets</b>				
Foreign currency accounts and investments - held for trading	269,942,861	-	-	269,942,861
Investments - local	92,487,082	-	-	92,487,082
<b>Non-Financial Assets</b>				
Operating fixed assets (Land and buildings)	-	58,344,593	-	58,344,593
Gold reserves held by the Bank	287,170,323	-	-	287,170,323
	<b>649,600,266</b>	<b>58,344,593</b>	<b>-</b>	<b>707,944,859</b>
<b>Off balance sheet financial instruments</b>				
Foreign currency forward and swap contracts - sale	-	802,656,331	-	802,656,331
Foreign currency forward and swap contracts - purchase	-	595,499,305	-	595,499,305
Futures - sale	18,044,108	-	-	18,044,108
Futures - purchase	14,656,485	-	-	14,656,485
	2015			
	Level 1	Level 2	Level 3	Total
	(Rupees in '000)			
<b>Recurring Fair Value Measurements</b>				
<b>On balance sheet financial instruments</b>				
<b>Financial Assets</b>				
Foreign currency accounts and investments - held for trading	291,639,069	-	-	291,639,069
Investments - local	85,095,794	-	-	85,095,794
<b>Non-Financial Assets</b>				
Operating fixed assets (Land and buildings)	-	19,454,757	-	19,454,757
Gold reserves held by the Bank	247,150,713	-	-	247,150,713
	<b>623,885,576</b>	<b>19,454,757</b>	<b>-</b>	<b>643,340,333</b>
<b>Off balance sheet financial instruments</b>				
Foreign currency forward and swap contracts - sale	-	554,583,226	-	554,583,226
Foreign currency forward and swap contracts - purchase	-	382,060,837	-	382,060,837
Futures - sale	13,330,298	-	-	13,330,298
Futures - purchase	18,901,205	-	-	18,901,205

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.

**45.1 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.
Forward foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.

**46 CLASSIFICATION OF FINANCIAL INSTRUMENTS**

	2016				Total
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	
	(Rupees in '000)				
<b>Financial assets</b>					
Local currency - coins	488,198	-	-	-	488,198
Foreign currency accounts and investments	1,472,496,928	266,038,032	238,549,410	-	1,977,084,370
Earmarked foreign currency balances	5,147,596	-	-	-	5,147,596
Special Drawing Rights of the International Monetary Fund	67,656,236	-	-	-	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	17,455	-	-	-	17,455
Securities purchased under agreement to resell	1,533,574,159	-	-	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	955,474
Investments - local	2,050,313,403	-	-	96,461,352	2,146,774,755
Loans, advances and bills of exchange	339,717,748	-	-	-	339,717,748
Assets held with the Reserve Bank of India	1,362,034	-	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,214,881	-	-	-	9,214,881
Other assets	2,563,612	1,442,497	-	-	4,006,109
	2015				Total
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	
	(Rupees in '000)				
<b>Financial assets</b>					
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 resale	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	-	-	89,070,064	2,414,857,559
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

	2016		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	(Rupees in '000)		
<b>Financial liabilities</b>			
Bank notes in circulation	3,554,922,057	-	3,554,922,057
Bills payable	598,142	-	598,142
Current accounts of Governments	606,657,778	-	606,657,778
Current account with SBP Banking Services Corporation - a subsidiary	47,810,651	-	47,810,651
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	22,818	-	22,818
Payable to Islamic Banking Institutions against Bai Muajjal transactions	44,952,938	-	44,952,938
Payable under bilateral currency swap agreement	158,507,631	-	158,507,631
Deposits of banks and financial institutions	391,760,469	-	391,760,469
Other deposits and accounts	161,460,194	-	161,460,194
Payable to the International Monetary Fund	778,739,505	-	778,739,505
Other liabilities	20,471,428	-	20,471,428
	2015		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	(Rupees in '000)		
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
Securities sold under agreement to repurchase	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

#### 47 NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 29, 2016 have appropriated an amount of Rs 1,999.567 million to "Revenue Reserve". The balance of profit after allocation of such appropriation will be transferred to the Government of Pakistan. The financial statements of the Bank for the year ended June 30, 2016 do not include the effect of above appropriation and transfer of balance profit to the Government of Pakistan, which will be accounted for in the financial statements of the Bank for the year ending June 30, 2017.

#### 48 DATE OF AUTHORISATION

These financial statements were authorised for issue on October 29, 2016 by the 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	2015 Rupees in '000
<b>Foreign currency accounts and investments</b>	<b>Foreign currency accounts and investments</b>	
Deposit accounts	Securities purchased under agreement to resell	4,123,132
Deposit accounts	Investments	23,703,559

#### 50 GENERAL

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

Ashraf Mahmood Wathra  
Governor

Riaz Riazuddin  
Deputy Governor

Muhammad Haroon Rasheed  
Executive Director

# 11 Financial Statements of SBP-BSC (Bank)

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

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

**EY FORD RHODES**

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

## **INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STATE BANK OF PAKISTAN**

We have audited the accompanying financial statements of SBP Banking Services Corporation ("the Corporation") which comprise the balance sheet as at June 30, 2016, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the "financial statements").

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

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

Chartered Accountants

**EY FORD RHODES**

Chartered Accountants

***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Chartered Accountants  
Karachi

**Salman Hussain**

Audit Engagement Partner

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**EY Ford Rhodes**

Chartered Accountants  
Karachi

**Omer Chughtai**

Audit Engagement Partner



**SBP BANKING SERVICES CORPORATION**  
**BALANCE SHEET**  
AS AT JUNE 30, 2016

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
<b>ASSETS</b>			
Current account with the State Bank of Pakistan		<b>47,810,651</b>	40,635,754
Investments	5	<b>525,525</b>	571,720
Employee loans	6	<b>10,853,432</b>	10,577,857
Advances, deposits and prepayments	7	<b>64,601</b>	39,107
Medical and stationery consumables	8	<b>138,878</b>	132,479
Property and equipment	9	<b>486,205</b>	284,665
<b>Total assets</b>		<b>59,879,292</b>	52,241,582
<b>LIABILITIES</b>			
Deposits and other liabilities	10	<b>5,332,294</b>	5,752,762
Deferred liabilities - unfunded staff retirement benefits	11	<b>53,546,998</b>	45,488,820
<b>Total liabilities</b>		<b>58,879,292</b>	51,241,582
<b>Net assets</b>		<b>1,000,000</b>	1,000,000
<b>REPRESENTED BY:</b>			
<b>Share capital</b>	12	<b>1,000,000</b>	1,000,000
<b>CONTINGENCIES AND COMMITMENTS</b>			
	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, 2016**

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
Discount and interest earned	<i>14</i>	<b>38,008</b>	48,573
Net operating expenses	<i>15</i>	<b>13,955,950</b>	14,179,759
Reimbursable from the State Bank of Pakistan		<b>(7,544,251)</b>	(6,873,983)
Allocated to the State Bank of Pakistan		<b>(6,411,699)</b>	(7,305,776)
		-	-
Operating profit		<b>38,008</b>	48,573
Gain on disposal of property and equipment		<b>1,123</b>	1,263
Other income		<b>896</b>	655
Profit for the year		<b>40,027</b>	50,491

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, 2016

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
Profit for the year		<b>40,027</b>	50,491
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to the profit and loss account:</b>			
Loss on remeasurements of defined benefit plans	15.1.5	<b>(12,173,824)</b>	(2,073,949)
Allocated to the State Bank of Pakistan		<b>12,173,824</b>	2,073,949
		-	-
<b>Total comprehensive income for the year</b>		<b>40,027</b>	50,491

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, 2016**

	<b>Share capital</b>	<b>Unappropriated profit</b>	<b>Total</b>
	-----	(Rupees in '000)	-----
<b>Balance as at July 1, 2014</b>	1,000,000	-	1,000,000
Total comprehensive income for the year	-	50,491	50,491
<b>Transaction with the owner</b>			
Profit transferred to the State Bank of Pakistan	-	(50,491)	(50,491)
<b>Balance as at June 30, 2015</b>	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total comprehensive income for the year	-	40,027	40,027
<b>Transaction with the owner</b>			
Profit transferred to the State Bank of Pakistan	-	(40,027)	(40,027)
<b>Balance as at June 30, 2016</b>	<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, 2016**

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit after adjustment of non-cash items	16	<b>30,071</b>	33,116
Profit transferred to the State Bank of Pakistan		<b>(40,027)</b>	(50,491)
Income on Government securities received during the year		<b>28,577</b>	31,767
		<b>18,621</b>	14,392
<b>(Increase) / decrease in assets</b>			
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		<b>575,665</b>	290,276
Medical and stationery consumables		<b>(6,399)</b>	(7,418)
Employee loans		<b>(275,575)</b>	59
Advances, deposits and prepayments		<b>(25,494)</b>	(6,824)
<b>Increase / (decrease) in liabilities</b>			
Deposits and other liabilities		<b>31,319</b>	(120,761)
<b>Net cash generated from operating activities</b>		<b>318,137</b>	169,724
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments - net		<b>26,451</b>	(17,926)
Capital expenditure		<b>(352,231)</b>	(154,608)
Proceeds from disposal of property and equipment		<b>7,643</b>	2,810
<b>Net cash used in investing activities</b>		<b>(318,137)</b>	(169,724)
<b>Net increase in cash and cash equivalents</b>		<b>-</b>	-
Cash and cash equivalents at beginning of the year		<b>-</b>	-
<b>Cash and cash equivalents at the end of the year</b>		<b>-</b>	-

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, 2016**

**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 statements.

**3.3.2 Useful life and residual value of property and equipment**

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. 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 New and amended standards and interpretations that are not yet effective**

The following standards, amendments and interpretations of IFRSs would be effective from the dates mentioned below against the respective standard or interpretation:

<b>Standards, amendments and interpretations</b>	<b>Effective date (annual periods beginning on or after)</b>
- IFRS 2: Share-based Payments - Classification and Measurement of Share-based Payments Transactions	January 1, 2018
- IFRS 9 - Financial Instruments: Classification and Measurement	January 1, 2018
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates - Investment Entities: Applying the Consolidation Exception - Amendment to IFRS 10, IFRS 12 and IAS 28	January 1, 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 to IFRS 10 and IAS 28	Date yet to be finalised
- IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation - Amendments to IFRS 11	January 1, 2016
- IFRS 14 - Regulatory Deferral Accounts	January 1, 2016
- IFRS 15 - Revenue from Contracts with Customers	January 1, 2018
- IFRS 16 - Leases	January 1, 2019
- IAS 1 - Presentation of Financial Statements - Disclosure Initiative	January 1, 2016
- IAS 7 Financial Instruments: Disclosures - Disclosure Initiative	January 1, 2017
- IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized losses - Amendment to IAS 12	January 1, 2017
- IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization - Amendment to IAS 16 and IAS 38	January 1, 2016
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants - Amendments to IAS 16 and IAS 41	January 1, 2016
- IAS 27 - Separate Financial Statements - Equity Method in Separate Financial Statements - Amendment to IAS 27	January 1, 2016
<b>Improvements to Accounting Standards Issued by the IASB</b>	
- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Servicing contracts	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Applicability of the off-setting disclosures to condensed interim financial statements	January 1, 2016
- IAS 19 Employee Benefits - Discount rate: regional market issue	January 1, 2016

The Corporation expects that the adoption of the above standards and amendments will not have any material impact on the Corporation's financial statements in the period of initial application other than the initial application of IFRS 9, 'Financial instruments' and IFRS 15, 'Revenue from contracts with customers' as described below:

- IFRS 9, Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) sets out the principles of classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' except for the recognition requirements. The adoption of the standard introduces expanded disclosure requirements and changes in presentation of the financial instruments which are expected to change the nature and extent of the Corporation's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted (subject to local regulation requirements). The Corporation intends to adopt IFRS 9 on its mandatory date and the management is in the process of assessing the impacts of IFRS 9 on the financial statements of the Corporation.
- 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 Corporation.

#### 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 initially recognized at fair value and subsequently carried at amortised 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 price 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 only at the rate of 5% of the monetized salary.
- c) the following other staff retirement benefit schemes:
  - an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
  - a funded Employees Gratuity Fund (EGF) which 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 SBP 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
  - 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 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, 2016. 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 statements.

#### 4.8 Revenue recognition

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

**4.9 Taxation**

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

**4.10 Provisions**

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

	<i>Note</i>	<b>2016</b>	<b>2015</b>
		----- <b>(Rupees in '000)</b> -----	
<b>5. INVESTMENTS</b>			
<b>Held to maturity</b>			
Market Treasury Bills	5.1	<b>525,525</b>	524,942
Pakistan Investment Bond		-	46,778
		<b>525,525</b>	<b>571,720</b>

**5.1** Market Treasury Bills carry mark-up at the rate of 6.00% to 6.26% per annum (2015: 6.79% to 9.48% per annum) and are due to mature by June 2017 (2015: March 2016).

	<i>Note</i>	<b>2016</b>	<b>2015</b>
		----- <b>(Rupees in '000)</b> -----	
<b>6. EMPLOYEE LOANS</b>			
Considered good		<b>10,853,432</b>	10,577,857
Considered doubtful		<b>7,610</b>	8,366
	6.1	<b>10,861,042</b>	10,586,223
Provision against doubtful loans	6.2	<b>(7,610)</b>	(8,366)
		<b>10,853,432</b>	<b>10,577,857</b>

**6.1** This represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 13.487 million (2015: Rs. 43.178 million) that carry mark up at 10% per annum (2015: 10% per annum). Maximum maturity of loans is upto year 2056 (2015: year 2052).

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.

	<i>Note</i>	<b>2016</b>	<b>2015</b>
		----- <b>(Rupees in '000)</b> -----	
<b>6.2 Provision held against employee loans</b>			
Opening balance		<b>8,366</b>	9,021
Charge for the year		-	-
Reversals		<b>(756)</b>	(655)
Closing balance		<b>7,610</b>	<b>8,366</b>

**7. ADVANCES, DEPOSITS AND PREPAYMENTS**

Advances, deposits and prepayments		<b>55,964</b>	30,483
Others		<b>8,637</b>	8,624
		<b>64,601</b>	<b>39,107</b>

**8. MEDICAL AND STATIONERY CONSUMABLES**

Medical and stationery consumables	8.1	<b>139,845</b>	133,584
Provision against obsolete items		<b>(967)</b>	(1,105)
		<b>138,878</b>	<b>132,479</b>

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

9. PROPERTY AND EQUIPMENT	Note	2016	2015
		----- (Rupees in '000) -----	
Operating fixed assets	9.1	440,381	284,665
Capital work-in-progress		45,824	-
		<u>486,205</u>	<u>284,665</u>

### 9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2016						Net book value as at June 30, 2016	Annual rate of depreciation %
	Cost			Accumulated Depreciation				
	As at July 01, 2015	Additions / (deletions)	As at June 30, 2016	As at July 01, 2015	Charge for the year / (deletions)	As at June 30, 2016		
	(Rupees in '000)							
Furniture and fixtures	137,562	10,965 (1,071)	147,456	92,757	10,283 (683)	102,357	45,099	10
Office equipment	989,159	116,443 (9,029)	1,096,573	844,132	62,097 (4,921)	901,308	195,265	20
EDP equipment	420,849	137,517 (7,779)	550,587	373,466	52,196 (5,755)	419,907	130,680	33.33
Motor vehicles	127,546	41,482 (809)	168,219	80,096	19,595 (809)	98,882	69,337	20
	1,675,116	306,407 (18,688)	1,962,835	1,390,451	144,171 (12,168)	1,522,454	440,381	
	2015							
	Cost			Accumulated Depreciation			Net book value as at June 30, 2015	Annual rate of 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	

\* Adjustments represents reclassifications within different categories of assets incorporated as a result of reconciliation exercise.

	Note	2016 ------(Rupees in '000)-----	2015
<b>10. DEPOSITS AND OTHER LIABILITIES</b>			
Provision for employees' compensated absences	15.1.9	4,923,839	5,375,626
Deposits		92,804	200,070
Others		315,651	177,066
		<u>5,332,294</u>	<u>5,752,762</u>
<b>11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS</b>			
Gratuity		2,327	1,580
Pension		37,457,883	30,780,494
Benevolent fund scheme		1,308,845	1,108,267
Post retirement medical benefits		13,911,141	12,628,628
Six months post retirement benefits		100,956	87,976
	15.1.3	<u>52,781,152</u>	<u>44,606,945</u>
Provident fund scheme		765,846	881,875
		<u>53,546,998</u>	<u>45,488,820</u>
<b>12. SHARE CAPITAL</b>			
<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>(Number of shares)</b>		<b>------(Rupees in '000)-----</b>	
<u>1,000</u>	<u>1,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
<b>Authorised share capital</b>			
Ordinary shares of Rs. 1,000,000 each			
<b>Issued, subscribed and paid-up capital</b>			
Fully paid-up ordinary shares of Rs. 1,000,000 each			
<u>509</u>	<u>509</u>	<u>509,000</u>	<u>509,000</u>
<u>491</u>	<u>491</u>	<u>491,000</u>	<u>491,000</u>
<u>1,000</u>	<u>1,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
- issued for cash			
- issued against consideration in kind			
<b>13. CONTINGENCIES AND COMMITMENTS</b>			
<b>13.1 Contingencies</b>			
Claims against the Corporation not acknowledged as debts	13.1.1	<u>2,962</u>	<u>2,962</u>
<b>13.1.1</b>	These mainly represent various cases filed by ex-employees of the Corporation on account of computational differences in settlement of their retirement benefit amounts. The management believes that these cases will be decided in favour of the Corporation and hence no provision has been recognised in these financial statements.		
	Note	2016	2015
<b>13.2 Commitments</b>		<b>------(Rupees in '000)-----</b>	
Capital commitments	13.2.1	<u>548,624</u>	<u>47,508</u>
<b>13.2.1</b>	This represent amounts committed by the Corporation to purchase assets from successful bidders.		
<b>14. DISCOUNT AND INTEREST EARNED</b>		<b>2016</b>	<b>2015</b>
		<b>------(Rupees in '000)-----</b>	
Discount income on Government securities		37,410	47,713
Interest on employee loans		598	860
		<u>38,008</u>	<u>48,573</u>

15. NET OPERATING EXPENSES	Note	2016	2015
		----- (Rupees in '000) -----	
<b>Reimbursable from the State Bank of Pakistan</b>			
Salaries, wages and other benefits		6,153,682	5,686,410
Rent and taxes		25,550	20,952
Insurance		7,309	6,197
Electricity, gas and water		304,736	288,219
Repair and maintenance		189,716	149,793
Auditors' remuneration	15.2	5,950	5,950
Legal and professional		11,078	6,266
Travelling		21,725	16,918
Daily expenses		26,897	29,397
Passages / rest and recreational allowance		198,127	192,225
Fuel		3,002	2,949
Conveyance		16,818	12,913
Postages and telephone		12,898	24,590
Training		146,112	70,270
Remittance of treasure		92,744	67,043
Stationery		9,444	10,542
Books and newspapers		1,626	1,504
Advertisement		32,011	17,607
Bank guards charges		117,499	124,618
Uniforms		28,493	23,451
Others		138,834	116,169
		<b>7,544,251</b>	<b>6,873,983</b>
<b>Allocated to the State Bank of Pakistan</b>			
Retirement benefits and employees' compensated absences	15.1 to 15.1.9	<b>6,267,528</b>	<b>7,199,513</b>
Depreciation	9.1	<b>144,171</b>	<b>106,263</b>
		<b>6,411,699</b>	<b>7,305,776</b>
		<b>13,955,950</b>	<b>14,179,759</b>

#### 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:

	2016	2015
- Discount rate for year end obligation	7.25% p.a.	9.75% - 11.00% p.a.*
- Salary increase rate (where applicable)	8.25% p.a.	9.75% p.a.
- Pension indexation rate (where applicable)	4.75% p.a.	7.25% p.a.
- Medical cost increase rate	7.25% p.a.	11% p.a.
- Personnel turnover	18.1% p.a.	10% 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**

2016						
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, 2015	1,580	30,780,494	1,108,267	12,628,628	87,976	44,606,945
Current service cost	241	949,876	53,236	285,440	5,465	1,294,258
Interest cost on defined benefit obligation	154	2,580,604	91,062	1,358,758	8,216	4,038,794
Benefits paid	-	(8,625,521)	(348,601)	(552,570)	(7,415)	(9,534,107)
Liability Transferred from SBP	-	136,419	5,028	52,610	7,381	201,438
Remeasurements:						
Actuarial (gains)/losses from changes in demographic assumption:	-	4,592,822	186,113	776,061	(13,076)	5,541,920
Actuarial (gains)/losses from changes in financial assumptions	82	886,201	153,061	100,134	3,660	1,143,138
Experience adjustments	270	6,156,988	60,679	(737,920)	8,749	5,488,766
Present value of defined benefit obligation as on June 30, 2016	2,327	37,457,883	1,308,845	13,911,141	100,956	52,781,152

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

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

2016						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
Rupees in '000						
Current service cost	241	949,876	53,236	285,440	5,465	1,294,258
Interest cost on defined benefit obligation	154	2,580,604	91,062	1,358,758	8,216	4,038,794
Contribution made by employees	-	-	(8,471)	-	-	(8,471)
	395	3,530,480	135,827	1,644,198	13,681	5,324,581

	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



## 15.1.5 Movement of present value of defined benefit obligation

	2016				
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits
	Rupees in '000				
Net recognised liabilities at July 1, 2015	1,580	30,780,494	1,108,267	12,628,628	87,976
Amount recognised in the profit and loss account	395	3,530,480	135,827	1,644,198	13,681
Remeasurements	352	11,636,011	399,853	138,275	(667)
Benefits paid during the year	-	(8,625,521)	(348,601)	(552,570)	(7,415)
Employees contribution	-	-	8,471	-	-
Liability Transferred from SBP	-	136,419	5,028	52,610	7,381
Net recognised liabilities at June 30, 2016	2,327	37,457,883	1,308,845	13,911,141	100,956

	2015				
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits
	Rupees in '000				
Net recognised liabilities at July 1, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678
Amount recognised in the profit and loss account	395	4,690,681	160,816	1,555,393	14,532
Remeasurements	(92)	382,179	144,688	1,545,930	1,244
Benefits paid during the year	-	(4,969,278)	(223,301)	(355,465)	(4,478)
Employees contribution / amount transferred	-	-	9,042	-	-
Net recognised liabilities at June 30, 2015	1,580	30,780,494	1,108,267	12,628,628	87,976

## 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) -----		
<b>Gratuity</b>			
Discount rate	1%	(160)	172
Future salary increase	1%	171	(161)
<b>Pension</b>			
Discount rate	1%	(2,536,800)	2,995,962
Future salary increase	1%	1,092,411	(1,032,914)
Future pension increase	1%	1,855,312	(1,561,164)
Expected mortality rates	1 Year	422,241	(419,446)
<b>Benevolent fund scheme</b>			
Discount rate	1%	(90,075)	75,385
<b>Post retirement medical benefits</b>			
Discount rate	1%	(2,005,025)	2,577,051
Future Post-Retirement medical cost increase	1%	2,554,017	(2,014,794)
Future salary increase	1%	55,227	(51,274)
Expected mortality rates	1 Year	(354,543)	358,336
<b>Six months post retirement benefits</b>			
Discount rate	1%	(5,106)	5,676
Future salary increase	1%	5,922	(5,429)

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

## 15.1.7 Duration of defined benefit obligation

Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits
7 Years	7 Years	6 Years	16 Years	5 Years

The weighted average duration of the defined benefit obligation is

**15.1.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2017**

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2017 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	298	807,936	2,599	244,963	6,529	1,062,325
Interest cost on defined benefit obligation	180	2,715,697	94,891	1,008,558	7,319	3,826,645
Amount chargeable to profit and loss account	478	3,523,633	97,490	1,253,521	13,848	4,888,970

**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. 4,923.839 million (2015: Rs. 5,375.626 million). An amount of Rs. 942.947 million (2015: Rs. 747.326 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, 2017 would be Rs. 578.367 million. The benefits paid during the year amounted to Rs. 1,464.415 million (2015: Rs. 774.374 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 182.239 million and Rs. 200.617 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 217.301 million and Rs. 201.515 million respectively and the net liability would also be affected by the same amount.

**15.1.10** Charge for the year in respect of defined contribution plan amounted to Rs. 33.403 million (2015: Rs. 30.370 million).

**15.2 Auditors' remuneration**

	2016			2015		
	EY Ford Rhodes	A.F.Ferguson & Co.	Total	EY Ford Rhodes	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**

	2016	2015
	(Rupees in '000)	
Profit for the year	40,027	50,491
Adjustments for:		
Amortisation of discount on Government securities	(8,833)	(16,112)
Gain on disposal of property and equipment	(1,123)	(1,263)
	(9,956)	(17,375)
	30,071	33,116

**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:

	2016	2015
	----- (Rupees in '000) -----	
<b>Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity</b>		
<b>Balances at the year end - transferred to State Bank of Pakistan</b>		
Payable against training programs	51,760	34,658
<b>Transactions during the year - reimburseable from State Bank of Pakistan</b>		
Training expense charged during the year	114,845	67,561

## 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 level of credit risk.

### 18.2 Concentrations of risk

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

#### 18.2.1 Geographical analysis

All the financial instruments of the Corporation at the balance sheet date are present in Pakistan only.

#### 18.2.2 Industrial analysis

	2016			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	----- (Rupees in '000) -----			
<b>Financial assets</b>				
Current account with the State Bank of Pakistan	-	47,810,651	-	47,810,651
Investments	525,525	-	-	525,525
Employee loans	-	-	10,853,432	10,853,432
Advances and deposits	-	-	13,049	13,049
	<u>525,525</u>	<u>47,810,651</u>	<u>10,866,481</u>	<u>59,202,657</u>
	2015			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	----- (Rupees in '000) -----			
<b>Financial assets</b>				
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>

**18.2.3 Credit exposure by credit rating:**

Financial assets of the Corporation essentially represent 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:

	2016		
	Sovereign (18.2.3.1)	Unrated	Grand Total
	(Rupees in '000)		
<b>Financial Assets</b>			
Current account with the State Bank of Pakistan	-	47,810,651	47,810,651
Investments	525,525	-	525,525
Employee loans	-	10,853,432	10,853,432
Advances and deposits	-	13,049	13,049
	<u>525,525</u>	<u>58,677,132</u>	<u>59,202,657</u>
	2015		
	Sovereign (18.2.3.1)	Unrated	Grand Total
	(Rupees in '000)		
<b>Financial Assets</b>			
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>

**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	
	2016	2015	2016	2015
	(Rupees in '000)			
Employee loans	<u>10,861,042</u>	<u>10,586,223</u>	<u>7,610</u>	<u>8,366</u>

**18.4 Liquidity analysis with interest rate risk**

Interest rate risk is the risk that the value of a financial instrument or its cash flow will fluctuate due to changes in the market interest rates. The Corporation has adopted appropriate policies to minimize its exposure to this risk.

	2016			2015			Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
(Rupees in '000)				(Rupees in '000)			
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	47,810,651	-	47,810,651	47,810,651
Investments	516,692	-	516,692	8,833	-	8,833	525,525
Employee loans	1,036	12,451	13,487	1,739,077	9,100,868	10,839,945	10,853,432
Advances and deposits	-	-	-	4,412	8,637	13,049	13,049
	517,728	12,451	530,179	49,562,973	9,109,505	58,672,478	59,202,657
Financial liabilities							
Deposits and other liabilities	-	-	-	408,455	-	408,455	408,455
On balance sheet gap	517,728	12,451	530,179	49,154,518	9,109,505	58,264,023	58,794,202
	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
(Rupees in '000)				(Rupees in '000)			
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
Financial liabilities							
Deposits and other liabilities	-	-	-	377,136	-	377,136	377,136
On balance sheet gap	583,738	30,635	614,373	41,995,276	8,813,945	50,809,221	51,423,594

\*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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

	Carrying value		Fair value	
	2016	2015	2016	2015
	----- (Rupees in '000) -----			
<b>Financial assets</b>				
Current account with the State Bank of Pakistan	47,810,651	40,635,754	47,810,651	40,635,754
Investments	525,525	571,720	525,970	575,472
Employee loans	10,853,432	10,577,857	10,853,432	10,577,857
Advances and deposits	13,049	15,399	13,049	15,399
<b>Financial Liability</b>				
Deposits and other liabilities	408,455	377,136	408,455	377,136

**20. CLASSIFICATION OF FINANCIAL INSTRUMENTS**

	2016		
	Loans and receivables	Held to maturity	Total
	----- (Rupees in '000) -----		
<b>Financial assets</b>			
Current account with the State Bank of Pakistan	47,810,651	-	47,810,651
Investments	-	525,525	525,525
Employee loans	10,853,432	-	10,853,432
Advances and deposits	13,049	-	13,049
	<u>58,677,132</u>	<u>525,525</u>	<u>59,202,657</u>
	----- (Rupees in '000) -----		
	2015		
	Loans and receivables	Held to maturity	Total
	----- (Rupees in '000) -----		
<b>Financial assets</b>			
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>51,229,010</u>	<u>571,720</u>	<u>51,800,730</u>

	2016	
	Carried at amortised cost ------(Rupees in '000)-----	Total
<b>Financial liabilities</b>		
Deposits and other liabilities	408,455	<b>408,455</b>

	2015	
	Carried at amortised cost ------(Rupees in '000)-----	Total
<b>Financial liabilities</b>		
Deposits and other liabilities	377,136	<b>377,136</b>

**21. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on October 29, 2016 by the Board of Directors of the Corporation.

**22. CORRESPONDING FIGURES**

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

**23. GENERAL**

Figures in these financial statements have been rounded off to the nearest thousand rupees.

\_\_\_\_\_  
**Qasim Nawaz**  
 Managing Director

\_\_\_\_\_  
**Muhammad Habib Khan**  
 Director Accounts

# 12 Financial Statements of NIBAF

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## 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, 2016 and the related income and expenditure account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the 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
  - iii the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

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

Chartered Accountants

- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, income and expenditure account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with 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, 2016 and of the surplus, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 .

Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated September 2, 2016

Karachi.



**NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED**  
**BALANCE SHEET**  
**AS AT JUNE 30, 2016**

	Note	2016	2015
		Rupees in '000	
NON CURRENT ASSETS			
Fixed assets	4	39,061	39,942
Long term deposits		1,632	1,632
CURRENT ASSETS			
Stock of stationery and consumables		951	972
Receivable against training programs	5	80,816	52,336
Advances, prepayments and other receivables	6	3,559	493
Short term investments	7	24,107	22,598
Assets relating to Endowment fund	8	94,207	89,391
Tax refunds due from government		2,312	1,078
Cash and bank balances	9	46	46
		205,998	166,914
		246,691	208,488
SHAREHOLDERS' EQUITY			
Authorized share capital (20,000,000 Ordinary shares of Rs.10 each)		200,000	200,000
Issued, subscribed and paid up capital	10	29,261	29,261
Accumulated surplus		116,251	24,367
		145,512	53,628
NON-CURRENT LIABILITIES			
Endowment Fund - Deferred Grant	11	94,207	89,391
CURRENT LIABILITIES			
Creditors, accrued expenses and other payables	12	6,972	9,089
Due to State Bank of Pakistan (Parent entity)	13	-	56,380
		6,972	65,469
		246,691	208,488
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, 2016**

	Note	2016	2015
		Rupees in '000	
INCOME			
Hostel and training halls	15	31,803	74,851
Training and education fee	16	302,880	40,897
Other income	17	5,569	12,937
		<u>340,252</u>	<u>128,685</u>
EXPENDITURE			
Operating, administrative and general expenses	18	(249,973)	(196,735)
Less: Income transferred from endowment fund		1,605	-
Operating surplus / (deficit) for the year before taxation		<u>(248,368)</u>	<u>(196,735)</u>
Taxation	19	-	-
Surplus / (deficit) for the year after taxation		<u>91,884</u>	<u>(68,050)</u>
Other comprehensive income for the year		-	-
Total comprehensive surplus / (deficit) for the year		<u>91,884</u>	<u>(68,050)</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, 2016**

	2016	2015
	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Operating surplus / (deficit) for the year before taxation</b>	91,884	(68,050)
<b>Adjustments for non cash items</b>		
Income from investments	(1,514)	(11,577)
Liabilities no longer required written back	-	(1,216)
Depreciation	14,319	15,242
Amortisation	54	141
Gain on disposal of fixed assets	(3,271)	-
	9,588	2,590
Operating income before working capital changes	101,472	(65,460)
<b>Changes in working capital</b>		
<b>(Increase) / decrease in current assets</b>		
Stock of stationery and consumables	21	(309)
Receivable against training programs	(28,480)	(41,100)
Advances, prepayments and other receivables	(3,066)	(200)
	(31,525)	(41,609)
<b>Increase / (decrease) in current liabilities</b>		
Creditors, accrued expenses and other payables	(2,117)	118
Due to State Bank of Pakistan (Parent entity)	(56,380)	(42,571)
	(58,497)	(42,453)
Net changes in working capital	(90,022)	(84,062)
Withholding tax deducted	(1,234)	(1,053)
Long term security deposits	-	(12)
<b>Net cash generated from / (used in) operating activities</b>	10,216	(150,587)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditure	(13,492)	(16,459)
Investments-net	5	166,909
Sale proceeds from disposal of fixed assets	3,271	-
<b>Net cash (used in) / generated from investing activities</b>	(10,216)	150,450
<b>Net decrease in cash and cash equivalents</b>	-	(137)
Cash and cash equivalents at the beginning of the year	46	183
<b>Cash and cash equivalents at the end of the year</b>	46	46

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, 2016**

	<b>Share Capital</b>	<b>Accumulated Surplus</b>	<b>Total</b>
	<b>Rupees in '000</b>		
Balance at July 01, 2014	29,261	24,367	53,628
Total comprehensive deficit 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
Total comprehensive income for the year	-	91,884	91,884
Balance at June 30, 2016	29,261	116,251	145,512

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 AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**1 STATUS AND NATURE OF BUSINESS**

- 1.1** National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated under the Companies Ordinance, 1984 on March 21, 1993 in Pakistan, as a private company limited by guarantee having share capital. The Institute is engaged in providing education and training in the field of banking, finance and allied areas. State Bank of Pakistan is the Parent entity of the Institute ("the Parent entity").
- 1.2** These financial statements are presented in 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 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, 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.

**2.3 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, 2016 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 except as stated otherwise.

**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 a 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 effect 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 Institute and these are 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 Institute 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 in 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 receivable against training programs, 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 till maturity.

##### d) Available for sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) 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 under "loans and receivables" 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 an 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 recognised on an accrual basis.
- (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 transactions with owners.



**3.13 Taxation**

The Institute is eligible for hundred percent (100%) tax credit on taxes payable by the Institute under clause (d) of sub-section 2 of section 100C of the Income Tax Ordinance, 2001, introduced under the Finance Act, 2015. 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 2015).

**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 the purpose of grant received from the SBP.<sup>1</sup> The terms of references / rules and regulations of the Endowment fund are being formulated.

**3.15 Retirement benefits**

The permanent employees of the Institute represent 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	2016 (Rupees in '000)	2015
<b>4 FIXED ASSETS</b>			
Property, plant and equipment	4.1	39,061	39,888
Intangible assets		-	54
		<u>39,061</u>	<u>39,942</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 -----					
<b>Cost</b>						
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	-	-	-	-	-	-
<b>Balance as at June 30, 2015</b>	<u>13,768</u>	<u>21,022</u>	<u>60,143</u>	<u>36,532</u>	<u>131,465</u>	<u>195</u>
Balance as at July 01, 2015	13,768	21,022	60,143	36,532	131,465	195
Additions during the year	1,410	-	811	11,248	13,469	-
Transfer in during the year	-	279	-	981	1,260	-
Disposals during the year	(198)	-	(2,292)	(5,206)	(7,696)	-
<b>Balance as at June 30, 2016</b>	<u>14,980</u>	<u>21,301</u>	<u>58,662</u>	<u>43,555</u>	<u>138,498</u>	<u>195</u>
<b>Allowance for depreciation</b>						
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	-	-	-	-	-	-
<b>Balance as at June 30, 2015</b>	<u>8,062</u>	<u>20,691</u>	<u>40,159</u>	<u>22,665</u>	<u>91,577</u>	<u>141</u>
Balance as at July 01, 2015	8,062	20,691	40,159	22,665	91,577	141
Depreciation charge for the year	974	330	7,083	5,932	14,319	54
Transfer in during the year	-	256	-	981	1,237	-
Disposals during the year	(198)	-	(2,292)	(5,206)	(7,696)	-
<b>Balance as at June 30, 2016</b>	<u>8,838</u>	<u>21,277</u>	<u>44,950</u>	<u>24,372</u>	<u>99,437</u>	<u>195</u>
<b>Carrying amounts - 2016</b>	<u>6,142</u>	<u>24</u>	<u>13,712</u>	<u>19,183</u>	<u>39,061</u>	<u>-</u>
<b>Carrying amounts - 2015</b>	<u>5,706</u>	<u>331</u>	<u>19,984</u>	<u>13,867</u>	<u>39,888</u>	<u>54</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 the State Bank of Pakistan. No rent for its use has been charged by the State Bank of Pakistan to the Institute.

4.3 The depreciation charge for the year has been allocated to operating, administrative and general expenses - (Refer note 18).

	Note	2016	2015
		Rupees in '000	
<b>5 RECEIVABLE AGAINST TRAINING PROGRAMS UNSECURED</b>			
Associated undertaking			
SBP Banking Services Corporation		51,760	34,658
State Bank of Pakistan		22,818	6,954
		74,578	41,612
Others			
Considered good		6,238	10,724
Considered doubtful		1,454	1,454
		7,692	12,178
Provision for doubtful receivables	5.1	(1,454)	(1,454)
		6,238	10,724
		<u>80,816</u>	<u>52,336</u>
<b>5.1 Provision for doubtful receivables</b>			
Opening balance		1,454	1,435
Additions during the year		-	29
Reversal during the year		-	(10)
		<u>1,454</u>	<u>1,454</u>
<b>6 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES</b>			
Advances to staff - unsecured, considered good		1,452	405
Receivable from Endowment fund upon maturity of Investment		1,605	-
Advances to supplier - unsecured, considered good		109	-
Prepayments		393	88
		<u>3,559</u>	<u>493</u>
<b>7 SHORT TERM INVESTMENTS</b>			
<b>Held to maturity</b>			
Government Treasury Bills			
Cost	7.1	24,080	22,577
Accrued profits		27	21
		<u>24,107</u>	<u>22,598</u>
<b>7.1</b>	These investments are for a period 12 months or less and are carried at amortized cost using the effective rate of interest of 5.91% per annum (2015: 6.93% per annum).		
<b>8 ASSETS RELATING TO ENDOWMENT FUND</b>		2016	2015
		Rupees in '000	
Government Treasury Bills			
Cost		94,562	87,709
Accrued profits		1,250	1,682
Less: income allocated to the Institute		(1,605)	-
		<u>94,207</u>	<u>89,391</u>
<b>8.1</b>	These are for a period 12 months or less and are carried at amortized cost using the effective rate of interest of 6.17% per annum (2015: 7.82% per annum).		
<b>9 CASH AND BANK BALANCES</b>	Note	2016	2015
		Rupees in '000	
Cash in hand		34	42
Cash in bank		12	4
		<u>46</u>	<u>46</u>
<b>10 ISSUED, SUBSCRIBED AND PAID UP CAPITAL</b>			
<b>Issued, subscribed and paid-up capital</b>			
2,926,077 ordinary shares of Rs.10 each issued for cash	10.1	<u>29,261</u>	<u>29,261</u>
<b>10.1</b>	State Bank of Pakistan holds 2,926,076 (2015: 2,926,076) ordinary shares and the Governor of State Bank of Pakistan holds 1 (2015: 1) share of the Institute as at the balance sheet date.		

	2016	2015
	Rupees in '000	
<b>11 ENDOWMENT FUND - DEFERRED GRANT</b>		
Opening balance	89,391	81,711
Interest income on investments	6,421	7,680
Less: income allocated to the Institute	(1,605)	-
Closing balance	<u>94,207</u>	<u>89,391</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 a 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 the purpose of grant received from SBP. The NIBAF Endowment Fund Rules, detailing the investment and utilisation of the grant, have been formulated and approved during the year by the Board of Directors in their meeting held on August 12, 2015.</p>		
<b>12 CREDITORS, ACCRUED EXPENSES AND OTHER PAYABLES</b>	<b>2016</b>	<b>2015</b>
	Rupees in '000	
Creditors	3,058	3,697
Traveling and training cost	1,010	205
Accrued expenses	2,524	1,728
Retention money/deposits	380	3,459
	<u>6,972</u>	<u>9,089</u>
<b>13 DUE TO STATE BANK OF PAKISTAN (PARENT ENTITY)</b>		
State Bank of Pakistan (Parent entity)	-	56,380
Opening balance	56,380	167,001
(Payments) / Received during the year	(56,380)	(42,571)
Allocation of deficit	-	(68,050)
Closing balance	<u>-</u>	<u>56,380</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>		
<b>14 CONTINGENCIES AND COMMITMENTS</b>	<b>2016</b>	<b>2015</b>
	Rupees in '000	
<b>14.1 Commitments in respect of capital expenditure</b>	<u>418</u>	<u>-</u>
<b>14.2</b> There were no contingencies outstanding as at June 30, 2016 and 2015.		
<b>15 HOSTEL AND TRAINING HALLS INCOME</b>		
Rental income	21,206	48,824
Service charges	667	2,054
Food and beverages	9,930	23,973
	<u>31,803</u>	<u>74,851</u>
<b>16 TRAINING AND EDUCATION FEE</b>		
International courses	15,375	5,578
Domestic courses	263,652	22,243
Islamic banking courses	23,853	13,076
	<u>302,880</u>	<u>40,897</u>
<b>16.1</b> During the current year with effect from July 1, 2015 training & allied services including hostel facility provided to trainee officers of State Bank of Pakistan (parent entity) are billed to State Bank of Pakistan. Previously these were provided free of cost.		
<b>17 OTHER INCOME</b>	<b>2016</b>	<b>2015</b>
	Rupees in '000	
Interest on investments	1,514	11,577
Liabilities no longer required written back	-	1,216
Reversal of provision against bad debts - net	-	10
Gain on disposal of fixed assets	3,271	-
Others - net	784	134
	<u>5,569</u>	<u>12,937</u>

	Note	2016	2015
18 OPERATING, ADMINISTRATIVE AND GENERAL EXPENSES		Rupees in '000	
Salaries, wages and other benefits		121,455	92,656
Training cost		34,611	16,488
Repairs and maintenance		17,768	13,781
Lodging, catering and allied services		21,473	16,372
Traveling and conveyance		6,477	6,460
Printing and stationery		3,381	2,493
Medical		417	385
Provision for bad debts		-	29
Electricity, gas and water		18,855	23,982
Telephone and fax		1,044	804
Vehicles running and maintenance		1,016	1,353
General consumables		961	467
Security charges		3,069	2,183
Insurance		1,836	1,642
Newspapers, books and periodicals		144	161
Postage and courier		379	365
Entertainment		779	613
Auditors' remuneration		397	264
Rent, rates and taxes		336	574
Legal and professional		53	38
Depreciation	4.1	14,319	15,242
Amortisation	4.1	54	141
Others		1,149	242
		<u>249,973</u>	<u>196,735</u>
19 TAXATION			

The income of the Institute was exempt from tax under clause (92) of Part I of the 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 the Second Schedule to the Income Tax Ordinance, 2001. Last year, the Finance Act 2014 (applicable for tax year 2015) deleted clauses (59) and (60) as mentioned above and 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 are allowed a tax credit equal to 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 fall 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 will be eligible to claim tax credit equal to 100 percent of the tax payable by the Institute. The Institute has recorded a net surplus of Rs 90.279 million during the year ended June 30, 2016. Tax credit of hundred percent is allowed under section 100C of the Income Tax Ordinance, 2001 in respect of tax charge on net surplus earned by the Institute and consequently no charge has been recognised in these financial statements for the year ended June 30, 2016.

## 20 REMUNERATION OF CHIEF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

	2016		2015	
	Chief Executive	Non-Executive Directors	Chief Executive	Non-Executive Directors
	(Rupees in '000)			
Managerial remuneration	20,120	470	17,974	60
Retirement benefits	-	-	-	-
Medical expenses	-	-	-	-
	<u>20,120</u>	<u>470</u>	<u>17,974</u>	<u>60</u>
Number of persons	1	3	1	3

20.1 The Chief Executive has been provided free use of the Institute's maintained car.

## 21 FINANCIAL RISK MANAGEMENT

The Institute is primarily subject to credit risk, liquidity risk and market risk. The policies and procedures for managing these risks are outlined below. 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 analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The management monitors compliance with the Institute's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

### (a) Credit risk

Credit risk is the risk of financial loss to the Institute if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Institute's receivables against training programs, advances, other receivables, bank balances and investment securities.

#### (i) Receivable against training programs, advances, bank balances 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 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 minimizing 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, 2016			
Loans and receivables	Held to maturity	Financial assets at 'fair value through profit or loss'	Total
Rupees in '000			
<b>Assets</b>			
Long term deposits	1,632	-	1,632
Receivable against training programs	80,816	-	80,816
Advances to staff	1,452	-	1,452
Advances to suppliers	109	-	109
Receivable from Endowment fund upon maturity of investment	1,605	-	1,605
Short term investments	-	24,107	24,107
Assets relating to Endowment fund	-	94,207	94,207
Cash and bank balances	46	-	46
	85,660	118,314	203,974

As at June 30, 2016			
	Liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Rupees in '000			
<b>Liabilities</b>			
Creditors, accrued expenses and other payables	-	6,972	6,972
	-	6,972	6,972

As at June 30, 2015			
Loans and receivables	Held to maturity	Financial assets at 'fair value through profit or loss'	Total
Rupees in '000			
<b>Assets</b>			
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			
<b>Liabilities</b>			
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

**22 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES****22.1 Credit risk****Exposure to credit risk**

The carrying amount of the following financial assets represents the maximum credit exposure.

	2016	2015
	Rupees in '000	
Long term deposit	1,632	1,632
Receivable against training programs	80,816	52,336
Advances to staff	1,452	405
Advances to suppliers	109	-
Receivable from Endowment fund upon maturity of investment	1,605	-
Short term investments	24,107	22,598
Assets relating to Endowment fund	94,207	89,391
	203,928	166,362

**22.1.1** The receivable against training programs includes Rs. 74.578 million (2015: Rs. 41.6 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:

	2016	2015
	Rupees in '000	
Domestic	80,816	52,336
Other regions	-	-
	<u>80,816</u>	<u>52,336</u>

- (b) The aging of receivable against training programs at the balance sheet date was:

	2016		2015	
	Gross	Provision	Gross	Provision
	Rupees in '000			
Not past due	-	-	-	-
Past due 0-30 days	73,704	-	40,557	-
Past due 31-90 days	2,570	-	4,990	-
Past due 90-180 days	1,502	-	1,745	-
Past due 180-365 days	2,331	-	1,421	-
More than one year	2,163	1,454	5,077	1,454
	<u>82,270</u>	<u>1,454</u>	<u>53,790</u>	<u>1,454</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 details 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				
<b>June 30, 2016</b>					
Creditors, accrued expenses and other payables	6,972	6,972	6,592	380	-
Due to State Bank of Pakistan (Parent entity)*	-	-	-	-	-
	<u>6,972</u>	<u>6,972</u>	<u>6,592</u>	<u>380</u>	<u>-</u>
<b>June 30, 2015</b>					
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>

\*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 for 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 any investments which are carried at fair value.

## 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 the 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:

	2016	2015
State Bank of Pakistan (Parent Entity)	Rupees in '000	
<b>Balances at the year end</b>		
Receivable against training programs	22,818	6,954
Due to the Parent entity	-	56,380
<b>Transactions during the year</b>		
Revenue charged	153,335	10,273
Reimbursement of Operational deficit	-	68,050
(Payments) / Receipts	(56,380)	(42,571)
<b>Associated undertaking - SBP - Banking Services Corporation (Subsidiary of Parent entity)</b>		
<b>Balances at the year end</b>		
Receivable against training programs	51,760	34,658
<b>Transactions during the year</b>		
Revenue charged	114,845	67,561
<b>Remuneration to chief executive officer and key management personnel</b>		
<b>Transactions during the year</b>		
Salaries, wages and other benefits to:		
- Chief executive officer	20,120	17,974
- Key management personnel	55,935	39,601
- Number of key management personnel	15	10
Remuneration to non - executive directors for attending meetings	470	60

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 are not charged to the Institute as all employees are on deputation.



**25 NUMBER OF EMPLOYEES**

The average number of employees for the year ended June 30, 2016 were 25 (2015: 22) and number of employees as at June 30, 2016 were 27 ( 2015: 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 for following:

- taxation recoverable amounting to Rs 1.078 million appearing under the head "advances, prepayments and other receivables" has been reclassified and shown separately as "tax refunds due from government" on the balance sheet under the head current assets.

The balance sheet as at the beginning of the comparative period, as a result of above reclassification, has not been given as the amount of tax refund as at that date is insignificant.

**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 August 29, 2016 by the Board of Directors of the Institute.

**MANAGING DIRECTOR**

**DIRECTOR**

# A Chronology of Important Policy Announcements

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## A-1 Banking Policy & Supervision Group

*Guidelines of Business Conduct for Banks:* For improvement in market conduct and to exert self discipline on banks and promote healthy competition and ethical practices SBP issued “*Guidelines of Business Conduct for Banks*”. The Guidelines sets out procedures which the banks are recommended to follow in their dealings with customers i.e. the bank’s key commitments to its customers, disclosures and principles of conduct (BC&CPD Circular No.02 dated July 27, 2015).

*Facilitation Measures For Pensioners:* In order to redress Pensioners’ grievances, banks were advised to establish special counters for Pensioners, facilitate conversion to Direct Credit System, generate alerts in cases where life/non marriage certificate is not received for six months and for block payments (BC&CPD Circular Letter No.02 dated December 4, 2015).

*Regulations for Mobile Banking Interoperability:* To facilitate the branchless banking service providers and bring systemic harmony through standardization and set benchmarks for mobile / branchless banking interoperability, SBP and Pakistan Telecommunication Authority (PTA) have developed the regulations for market participants including banks, mobile network operators and technology service providers (BPRD Circular No. 03 dated May 16, 2016).

*Guidelines and Disclosures on Governance and Remuneration Practices:* The central idea of these guidelines is to make the Board and senior management of banks / DFIs more accountable and responsible, and to align their compensation with risk adjusted performance. The banks should prepare a comprehensive, transparent and fair remuneration policy and remuneration setting mechanism in accordance with these guidelines (BPRD Circular No. 02 dated March 2, 2016).

*Prevention against Cyber Attacks:* In order to avert the threat and potential impact of cyber attacks involving data/money theft or critical system failure, Banks/DFIs/Microfinance Banks were advised to continuously enhance their cyber security controls, processes and procedures and to formulate cyber security controls as an integral part of their IT risk management policy, accompanied by appropriate Standard Operating Procedures to safeguard against potential cyber threats (BPRD Circular No. 07 dated June 22, 2016).

*Regulations for Debt Property Swap:* To minimize risks in the settlement of non-performing loans (NPLs) by the banks/DFIs through Debt Property Swap (DPS), SBP issued regulations for Debt Property Swap (BPRD Circular No. 01 dated January 1, 2016).

*Arrangements for use of Urdu Language for Official and Other Purpose:* In line with the action plan approved by Prime Minister to meet the constitutional requirements, banks/DFIs/MFBs are advised to take immediate measures for printing all the forms and policies that are to be used by the general public both in Urdu and English and to display sign boards with instructions in Urdu and English for the guidance of general public in banks premises (BPRD Circular No. 12 dated October 26, 2015).

## **A-2 Development Finance Group**

*Credit Guarantee for Small and Marginalized Farmers:* SBP launched Credit Guarantee for Small and Marginalized Farmers with the funding support of GoP which will enhance their access to formal credit and will also provide risk sharing to participating financial institutions against their collateral free lending to small & marginalized farmers (AC&MFD Circular No. 01 dated January 6, 2016).

*Long Term Financing Facility (LTFF) for Plant & Machinery –Eligibility of Power Companies:* In order to facilitate the export oriented companies to overcome problems arising out of the prevailing power crises, SBP allowed Banks / DFIs financing to power company established as a wholly owned subsidiary of the eligible export oriented company under LTFF (IH&SMEFD Circular No. 16 dated September 14, 2015).

*Revised SBP Financing Scheme for Renewable Energy:* Keeping in view the energy shortage and climate change scenario in the country, SBP after consultation with stockholders revised the financing scheme for renewable energy to provide concessionary financing for large renewable energy power projects as well as for small scale renewable energy solutions. The revised policy will promote green banking i.e. use of indigenous resources especially renewable energy in order to ensure sustainable banking and development (IH&SMEFD Circular No. 03 dated June 20, 2016).

*Fit & Proper Test (Criteria) for Microfinance Banks:* SBP issued additional instructions to MFBs on corporate governance which included i) Prior self assessment of the fitness and propriety of BODs, CEOs and Key Executive, ii) The BOD or its Committee shall be responsible to appoint, determine perks, promotion/ demotion and renewal of the employment of the Key Executives iii) MFBs shall ensure that none of the Key Executive positions shall be filled by an executive on acting charge basis for more than six (6) months, iv) MFBs shall ensure that all fresh appointments as well as reappointments and/or renewals of employment contracts of Presidents/CEOs and Key Executives are strictly made in accordance with the revised instructions and v) BODs are encouraged to formulate an organization-wide rotation policy for the Key Executives (AC&MFD Circular No. 05 dated September 22, 2015).

## **A-3 Financial Market/Reserve Management Group**

*Outright Purchase and Sale of GOP Ijara Sukuk (GIS) by Government of Pakistan (GOP):* In order to facilitate Islamic Banking industry in their liquidity management, it was decided that Government of Pakistan (GOP) may outright purchase the *Ijara Sukuk* (GIS) on deferred payment basis (*Bai-Muajjal*) and sell these GIS on ready payment basis through uniform price based competitive bidding auction process. These transactions will be executed as per the approval of the SBP Shariah Board (DMMD Circular No. 18 October 22, 2015).

*Fixed Rental Rate Government of Pakistan Ijara Sukuk (FRR-GIS):* Pursuant to the Government of Pakistan *Ijara Sukuk* Rules 2008, it has been decided to introduce Fixed Rental Rate GOP *Ijara Sukuk* (FRR-GIS). This instrument will be in addition to the Variable Rental Rate GOP *Ijara Sukuk* (VRR-GIS) already introduced vide FSCD Circular No. 13 date September 6, 2008. The differentiating feature of FRR-GIS is the payment of fixed rental rate, as decided in the auction, which will be applicable to the entire tenor of FRR-GIS and will be paid to FRR-GIS holders on semi-annual basis (DMMD Circular No.02 February 03, 2016).

*Import of Cash US Dollars against Export of Permissible Foreign Currencies:* SBP allowed the authorized Exchange Companies (ECs) to import cash US Dollars against export of permissible foreign currencies. ECs may also continue to export permissible foreign currencies against repatriation of equivalent US Dollars in their foreign currency accounts maintained with banks in Pakistan as per existing procedure (EPD Circular Letter No. 16 dated July 27, 2015).

*Issuance of Exchange Companies Manual – 2016:* To further facilitates Exchange Companies, BP compiled and issued Exchange Companies Manual by incorporating the related SBP Circulars and Circular Letters issued up to June 30, 2016 (EPD Circular No. 04 dated July 19, 2016).

#### **A-4 Operations and Financial Resource Management Group**

*SBP Currency Management Strategy:* SBP issued Currency Management Strategy which is aimed at transforming the currency management function both at Central Bank and across the banking industry from largely manual to automated environment. The salient features of the strategy included automation of cash management function in the banking industry, increasing commercial banks' role in currency management, improved supervision and regulation of commercial banks and cash processing centers/houses for assuring good quality bank notes in circulation, combating counterfeiting and introduction of modern, reliable and easily recognizable security features in banknotes (FD Circular No. 03 dated August 26, 2015).

*Demonetization of All Old Design Banknotes (Rs 10, 50, 100 & 1000):* with the introduction of new banknotes with enhanced security features and reliability, 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. 02 dated June 11, 2015).

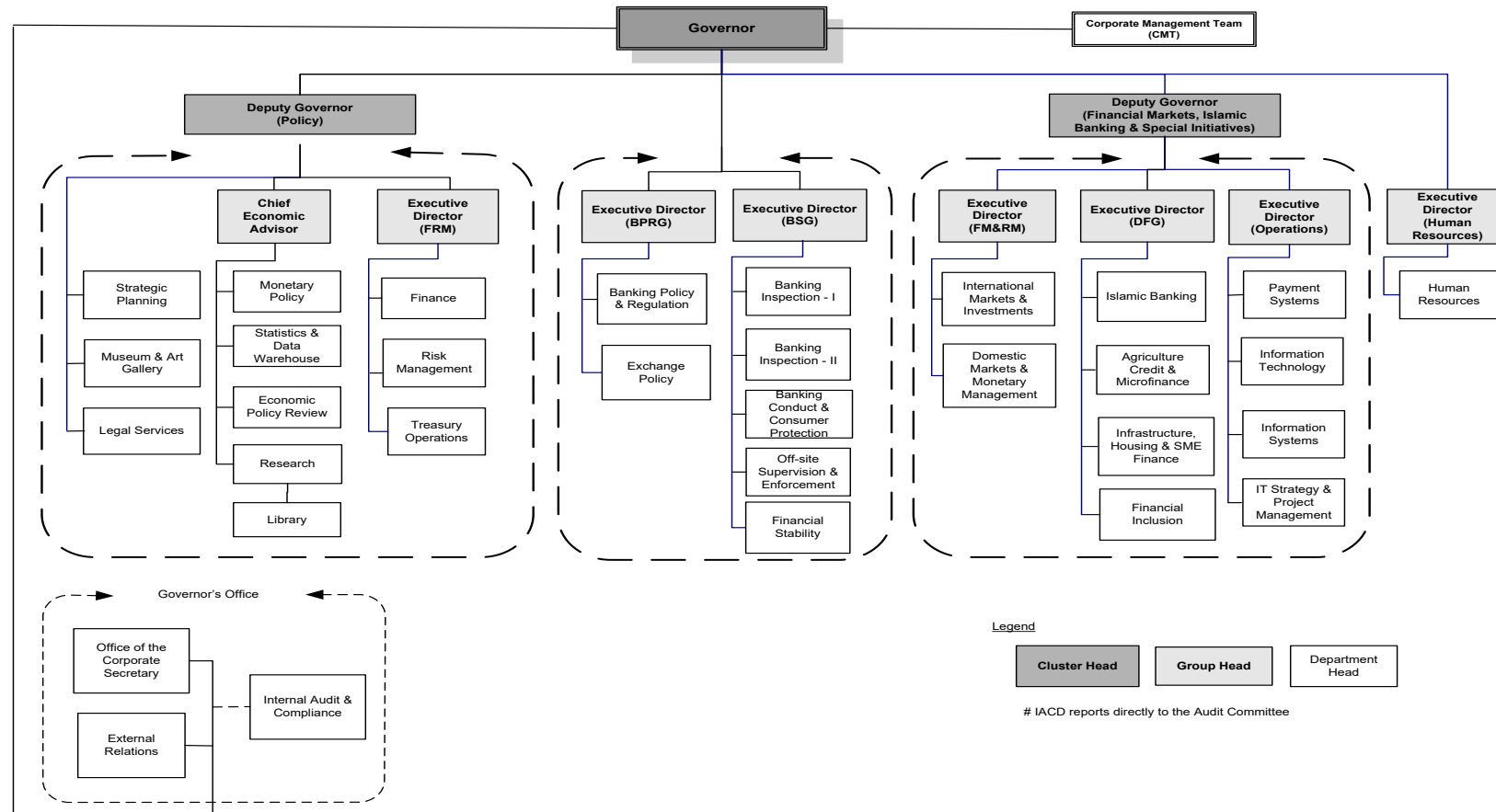
*Inter-Bank Transfer of Home Remittances via PRISM Message Type MT 102:* In order to ensure timely Inter-Bank domestic transfer of Home Remittances, SBP allowed the use of Message Type MT 102 in PRISM system free of charge. The remitting banks shall ensure that remittances received on a working day from 9AM till 3PM shall be transferred to the beneficiary bank via PRISM within two hours and remittance received after 3 PM shall be transferred to the beneficiary bank by 11AM on next working day. After receiving funds the beneficiary banks shall make ensure that their customers' accounts are credited within 2 hours (PSD Circular Letter No. 04 dated December 1, 2015).

*Guidelines on Standardization of Payment Orders and Demand Drafts:* To facilitate the clearing process of Payment Orders (POs) and Demand Drafts (DDs) and to safeguard the interests of general public, SBP introduced Guidelines on Standardization of POs and DDs. Banks and MFBs are instructed to issue POs and DDs as per the new standards, facilitate customers for the verification of POs and DDs under a centralized mechanism, Set up 24/7 helpdesks / call centers for verification of PO / DD and arrange proper training of staff to examine / verify the security features / genuineness of PO / DD (PSD Circular Letter No. 04 dated November 4, 2015).

*Enhancing the Usage of RTGS (PRISM) for General Public:* In order to promote third party fund transfers using PRISM, all PRISM participant are advised to take immediate measures for ensuring availability of PRISM fund transfers facility at their branches from 9:00 am till 3:00 pm and create awareness among general public through print media, printing brochures, advertisement in newspapers and displaying signboards/banners at prominent locations in branches (PSD Circular No.01 dated January 11, 2016).

# B Organizational Chart

Organogram- State Bank of Pakistan



# C Management Directory\*

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