

# 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-75530

## **Independent Auditor's Report**

### **To the Board of Directors of State Bank of Pakistan**

#### **Opinion**

We have audited the financial statements of the State Bank of Pakistan (the Bank), which comprise the unconsolidated balance sheet as at June 30, 2017, 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 notes to the unconsolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying unconsolidated financial statements give a true and fair view of the financial position of the Bank as at June 30, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *'Auditor's Responsibilities for the Audit of the Financial Statements'* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the

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**EY FORD RHODES**  
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going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

**A. F. FERGUSON & CO.**  
Chartered Accountants

**EY FORD RHODES**  
Chartered Accountants

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

**Salman Hussain**  
Audit Engagement Partner

Dated: October 27, 2017

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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, 2017**

	Note	2017	2016
		------(Rupees in '000)-----	
<b>ASSETS</b>			
Gold reserves held by the Bank	5	270,361,202	287,170,323
Local currency - coins	6	861,860	488,198
Foreign currency accounts and investments	7	1,782,539,188	1,977,084,370
Earmarked foreign currency balances	8	10,319,532	5,147,596
Special Drawing Rights of the International Monetary Fund	9	63,657,319	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	10	17,382	17,455
Securities purchased under agreement to resell	11	1,533,373,313	1,533,574,159
Current accounts of Governments	20.2	7,279,247	955,474
Investments - local	12	2,786,883,898	2,147,804,015
Loans, advances and bills of exchange	13	353,115,078	339,717,748
Assets held with the Reserve Bank of India	14	5,758,914	6,012,137
Balances due from the Governments of India and Bangladesh (former East Pakistan)	15	9,917,256	9,214,881
Property, plant and equipment	16	58,041,805	59,549,539
Intangible assets	17	107,458	24,986
Other assets	18	4,324,654	4,129,946
<b>Total assets</b>		<b>6,886,558,106</b>	<b>6,438,547,063</b>
<b>LIABILITIES</b>			
Bank notes in circulation	19	4,167,135,807	3,554,922,057
Bills payable		630,547	598,142
Current accounts of Governments	20.1	178,601,965	606,657,778
Current account with SBP Banking Services Corporation - a subsidiary		50,746,464	47,810,651
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		135,612	22,818
Payable to Islamic Banking Institutions against Bai Muajjal transactions	21	25,137,230	44,952,938
Payable under bilateral currency swap agreement	22	155,550,410	158,507,631
Deposits of banks and financial institutions	23	669,337,539	391,760,469
Other deposits and accounts	24	164,027,283	161,460,194
Payable to the International Monetary Fund	25	787,381,266	778,739,505
Other liabilities	26	45,311,133	44,384,298
Deferred liability - unfunded staff retirement benefits	27	31,462,468	28,872,260
<b>Total liabilities</b>		<b>6,275,457,724</b>	<b>5,818,688,741</b>
<b>Net assets</b>		<b>611,100,382</b>	<b>619,858,322</b>
<b>REPRESENTED BY</b>			
Share capital	28	100,000	100,000
Reserves	29	141,919,438	175,919,871
Unappropriated profit		43,957,846	3,620,167
Unrealised appreciation on gold reserves held by the Bank	30	266,327,601	283,342,601
Unrealised appreciation on remeasurement of investments - local	12.6	93,306,090	91,386,276
Surplus on revaluation of property, plant and equipment		65,489,407	65,489,407
<b>Total equity</b>		<b>611,100,382</b>	<b>619,858,322</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	31		

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

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

Tariq Bajwa  
Governor

Riaz Riazuddin  
Deputy Governor

Inayat Hussain  
Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<i>Note</i>	<b>2017</b>	2016
		----- <b>(Rupees in '000)</b> -----	
Discount, interest / mark-up and / or profit earned	32	<b>260,827,528</b>	252,789,943
Less: interest / mark-up expense	33	<b>(21,368,844)</b>	(25,454,480)
		<b>239,458,684</b>	227,335,463
Commission income	34	<b>2,591,194</b>	1,909,180
Exchange gain - net	35	<b>24,569,614</b>	25,779,375
Dividend income		<b>12,248,843</b>	12,226,343
Other operating income - net	36	<b>599,968</b>	2,756,112
Other income - net	37	<b>270,878</b>	129,166
		<b>279,739,181</b>	270,135,639
Less: Operating expenses			
- Bank notes printing charges	38	<b>9,164,435</b>	7,730,740
- Agency commission	39	<b>9,679,298</b>	8,968,647
- General administrative and other expenses	40	<b>22,948,328</b>	24,268,793
(Reversal of provision against) / Provision for / write-off:			
- loans and advances	13.1	<b>(6,266)</b>	-
- claims	26.3.2	-	(232)
- other doubtful assets	26.3.1.1	<b>16,842</b>	(86,213)
- others		<b>(14,674)</b>	(7,338)
		<b>(4,098)</b>	(93,783)
		<b>41,787,963</b>	40,874,397
<b>Profit for the year</b>		<b>237,951,218</b>	229,261,242

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

\_\_\_\_\_  
**Tariq Bajwa**  
Governor

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**Riaz Riazuddin**  
Deputy Governor

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**Inayat Hussain**  
Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<i>Note</i>	<b>2017</b>	2016
		----- (Rupees in '000) -----	
Profit for the year		<b>237,951,218</b>	229,261,242
<b>Other comprehensive income</b>			
<b>Items that will be reclassified to profit and loss when specific conditions are met:</b>			
Unrealised appreciation on remeasurement of investments - local	12.6	<b>1,919,814</b>	7,391,288
Unrealised (diminution) / appreciation on gold reserves held by the Bank	5	<u><b>(17,015,000)</b></u>	<u>39,975,291</u>
		<b>(15,095,186)</b>	47,366,579
<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	<b>(2,130,727)</b>	(3,153,251)
Remeasurements of property, plant 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	<b>(1,667,758)</b>	(12,173,824)
		<b>(3,798,485)</b>	24,183,928
<b>Total comprehensive income for the year</b>		<u><u><b>219,057,547</b></u></u>	<u><u>300,811,749</u></u>

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\_\_\_\_\_  
**Tariq Bajwa**  
 Governor

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**Riaz Riazuddin**  
 Deputy Governor

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**Inayat Hussain**  
 Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Share capital	Reserves								Unrealised appreciation / (diminution) on gold reserves held by the Bank	Unrealised appreciation on remeasurement of investments - local	Surplus on revaluation of property, plant and equipment	Total	
	The reserve for acquisition of PSPC	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unappropriated profit / (loss)					
(Rupees in '000)													
<b>Balance as at July 1, 2015</b>	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	25,978,404	529,360,573
<b>Total comprehensive income for the year</b>													
Profit for the year	-	-	-	-	-	-	-	-	229,261,242	-	-	-	229,261,242
<i>Other comprehensive income</i>													
Unrealised appreciation on remeasurement of investments - local (note 12.6)	-	-	-	-	-	-	-	-	-	-	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, plant and equipment - SBP	-	-	-	-	-	-	-	-	-	-	-	39,511,003	39,511,003
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	-	-	-	-	-	-	-	(12,173,824)	-	-	-	(12,173,824)
<b>Transactions with owners</b>													
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	(210,304,000)	-	-	-	(210,304,000)
	-	-	-	-	-	-	-	-	(210,314,000)	-	-	-	(210,314,000)
<b>Balance as at June 30, 2016</b>	<b>100,000</b>	<b>-</b>	<b>164,619,871</b>	<b>2,600,000</b>	<b>1,600,000</b>	<b>1,500,000</b>	<b>900,000</b>	<b>4,700,000</b>	<b>3,620,167</b>	<b>283,342,601</b>	<b>91,386,276</b>	<b>65,489,407</b>	<b>619,858,322</b>
<b>Total comprehensive income for the year</b>													
Profit for the year	-	-	-	-	-	-	-	-	237,951,218	-	-	-	237,951,218
Transfer to the reserve fund	-	-	1,999,567	-	-	-	-	-	(1,999,567)	-	-	-	-
Transfer from the reserve fund	-	65,464,000	(65,464,000)	-	-	-	-	-	-	-	-	-	-
<i>Other comprehensive income</i>													
Unrealised appreciation on remeasurement of investments - local (note 12.5)	-	-	-	-	-	-	-	-	-	-	1,919,814	-	1,919,814
Unrealised diminution on gold reserves held by the Bank (note 5)	-	-	-	-	-	-	-	-	(17,015,000)	-	-	-	(17,015,000)
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	-	(2,130,727)	-	-	-	(2,130,727)
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	-	-	-	-	-	-	-	(1,667,758)	-	-	-	(1,667,758)
	-	65,464,000	(63,464,433)	-	-	-	-	-	232,153,166	(17,015,000)	1,919,814	-	219,057,547
<b>Transactions with owners</b>													
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	(36,000,000)	-	-	-	-	-	(191,805,487)	-	-	-	(227,805,487)
	-	-	(36,000,000)	-	-	-	-	-	(191,815,487)	-	-	-	(227,815,487)
<b>Balance as at June 30, 2017</b>	<b>100,000</b>	<b>65,464,000</b>	<b>65,155,438</b>	<b>2,600,000</b>	<b>1,600,000</b>	<b>1,500,000</b>	<b>900,000</b>	<b>4,700,000</b>	<b>43,957,846</b>	<b>266,327,601</b>	<b>93,306,090</b>	<b>65,489,407</b>	<b>611,100,382</b>

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

Tariq Bajwa  
Governor

Riaz Riazuddin  
Deputy Governor

Inayat Hussain  
Executive Director

**STATE BANK OF PAKISTAN**  
**UNCONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Note	2017	2016
		----- <b>(Rupees in '000)</b> -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year after non-cash and other items	41	234,033,776	273,808,937
(Increase) / decrease in assets:			
Foreign currency investments and placements		(98,569,273)	(72,996,950)
Reserve tranche with the International Monetary Fund under quota arrangements		73	(403)
Securities purchased under agreement to resell		200,846	(870,994,311)
Investments - local		(472,577,454)	275,474,092
Loans, advances and bills of exchange		(10,186,741)	(1,217,700)
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh (former East Pakistan)		(724,717)	(566,878)
Other assets		(194,708)	(137,870)
		<u>(582,051,974)</u>	<u>(670,440,020)</u>
		(348,018,198)	(396,631,083)
Increase / (decrease) in liabilities:			
Bank notes issued - net		612,213,750	847,664,045
Bills payable		32,405	(44,979)
Current accounts of Governments		(434,585,465)	214,686,114
Current account with SBP Banking Services Corporation - a subsidiary		(69,554,900)	(11,681,745)
Current account of National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		112,794	79,199
Payable to Islamic Banking Institutions against Bai Muajjal transactions		(19,815,708)	(144,966,183)
Payable under bilateral currency swap agreement		(2,957,221)	(6,360,259)
Deposits of banks and financial institutions		277,577,070	(21,473,576)
Payment of retirement benefits and employees' compensated absences		(2,240,110)	(2,774,862)
Other deposits and accounts		2,567,089	14,282,206
Other liabilities		2,472,152	4,987,837
		<u>365,821,856</u>	<u>894,397,797</u>
<b>Net cash generated from operating activities</b>		<b>17,803,658</b>	<b>497,766,714</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividend received		12,248,843	12,226,343
Capital expenditure		(637,300)	(901,270)
Proceeds from disposal of property, plant and equipment		26,895	13,712
Acquisition of Pakistan Security Printing Corporation (Private) Limited - a subsidiary		(100,149,000)	-
<b>Net cash (used in) / generated from investing activities</b>		<b>(88,510,562)</b>	<b>11,338,785</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Profit paid to the Government of Pakistan		(227,805,487)	(227,895,141)
Receipts from the International Monetary Fund		8,641,761	224,566,523
Dividend paid		(10,000)	(10,000)
<b>Net cash used in financing activities</b>		<b>(219,173,726)</b>	<b>(3,338,618)</b>
(Decrease) / increase in cash and cash equivalents during the year		<u>(289,880,630)</u>	505,766,881
Cash and cash equivalents at the beginning of the year		1,811,145,674	1,350,924,757
Effect of exchange loss on cash and cash equivalents		(1,687,144)	(45,545,964)
<b>Cash and cash equivalents at the end of the year</b>	42	<u><u>1,519,577,900</u></u>	<u><u>1,811,145,674</u></u>

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

Tariq Bajwa  
Governor

Riaz Riazuddin  
Deputy Governor

Inayat Hussain  
Executive Director

**STATE BANK OF PAKISTAN**  
**NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**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 SBP 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 ("the Institute") was incorporated in Pakistan under the repealed Companies Ordinance, 1984 as a company limited by guarantee having share capital. 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.

**c) Pakistan Security Printing Corporation (Private) Limited - wholly owned subsidiary:**

During the year the Bank acquired 100% share holding in Pakistan Security Printing Corporation (Private) Limited ("the PSPC"). The effective date of the acquisition of the Corporation is June 14, 2017. The PSPC was incorporated in Pakistan under the repealed Companies ordinance, 1984 (the Ordinance). The PSPC is principally engaged in the printing of currency notes and national prize bonds.

The registered office and the factory are located at Jinnah Avenue, Malir Halt Karachi, in the province of Sindh, Pakistan.

**d) Deposit Protection Corporation - non operational**

Deposit Protection Corporation ("the DPC") has been incorporated as a wholly owned subsidiary of SBP and is established under the Deposit Protection Corporation Act 2016. It has been established for the protection of small depositors in order to ensure the financial stability of and maintain public interest in, the financial system, and for matters connected therewith or ancillary thereto.

The share capital of the DPC is yet to be contributed by the State Bank of Pakistan.

The DPC shall commence its operations after the composition of its Board by the Federal Government. The head office of the DPC as per the Act is to be situated in Karachi, in the province of Sindh, 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 and provision for employee's compensated absences 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 Fair value of financial instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgments and estimates may include items like considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 4.4 to these unconsolidated financial statements.

##### **3.3.2 Effective Interest Rate (EIR) method**

The Bank's EIR methodology recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of financial instruments. This, by nature, requires an element of estimation regarding the expected behaviour and life-cycle of the instruments, as well as clubbing of and other determinable fee income / expense to the cost of acquisition of financial instruments that are integral parts of the instrument.

##### **3.3.3 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.

##### **3.3.4 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.

##### **3.3.5 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 unconsolidated financial statements.

### 3.3.6 Useful life and residual value of property, plant and equipment and intangible assets

Estimates of useful life and residual value of property, plant and equipment and intangibles 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 would be effective from the dates mentioned below against the respective standard or interpretation:

<b>Standards</b>	<b>Effective date (annual periods beginning on or after)</b>
- IFRS 9 'Financial instruments'	January 1, 2018
- IFRS 15 'Revenue from contracts with customers'	January 1, 2018
- IFRS 16 'Leases'	January 1, 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time.
- IFRS 17, 'Insurance contracts'	January 1, 2021
<b>Amendments</b>	
- Amendments to IAS 7 – ' <i>Statement of cash flows</i> ' on disclosure initiative	January 1, 2017
- Amendments to IFRS 2 - ' <i>Share based payments</i> ' on clarifying how to account for certain types of share-based payment transactions	January 1, 2018
- Amendments to IFRS 4 - ' <i>Insurance contracts</i> ' regarding the implementation of IFRS 9, ' <i>Financial instruments</i> '	January 1, 2018
- Amendment to IAS 40 - ' <i>Investment property</i> ' relating to transfers of investment property	January 1, 2018
- Amendments to IFRS 10 – ' <i>Consolidated Financial Statements</i> ' and IAS 28 – ' <i>Investments in Associates and Joint Ventures</i> ' regarding sale or contribution of assets between an investor and its associate or joint venture	Date yet to be finalized
- Amendment to IAS 12 – ' <i>Income taxes</i> ' on recognition of deferred tax assets for unrealised losses	January 1, 2017
<b>Interpretations</b>	
- IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
- IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
<b>Improvements</b>	
- IFRS 1, ' <i>First-time adoption of IFRS</i> ', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10	January 1, 2018
- IFRS 12, ' <i>Disclosure of interests in other entities</i> ' regarding clarification of the scope of the standard.	January 1, 2017
- IAS 28, ' <i>Investments in associates and joint ventures</i> ' regarding measuring an associate or joint venture at fair value	January 1, 2018

The Bank expects that the adoption of the above standards, amendments, interpretations and improvements 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, 2018 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.

### **3.5 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 accounting period beginning on or after July 1, 2016 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are, therefore, not disclosed in these unconsolidated financial statements.

## **4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these unconsolidated 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 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 of 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 of financial assets and financial liabilities**

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 notes 22 and 31.2.6.

## 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, plant and equipment

Property, plant 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, plant 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 unconsolidated 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, plant 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, plant and equipment. Decreases that offset previous increases of the same assets are charged against surplus on revaluation of property, plant 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, plant and equipment is transferred to un-appropriated profit to the extent reflected in the surplus on revaluation of property, plant and equipment account. The amount of sale proceeds exceeding the balance in surplus on revaluation of property, plant 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. Under this scheme, contribution is made both by the Bank and employee at the rate of 6% of the monetized salary. 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, 2017. 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 profit earned 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, future and swap contracts disclosed in note 31.2 to these unconsolidated 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	2017 ------(Rupees in '000)-----	2016
<b>5 GOLD RESERVES HELD BY THE BANK</b>				
Opening balance		2,074,032	287,170,323	247,150,713
Additions during the year		1,602	205,879	44,319
(Diminution) / appreciation for the year due to revaluation	30		(17,015,000)	39,975,291
	19.1	<u>2,075,634</u>	<u>270,361,202</u>	<u>287,170,323</u>
	Note		2017	2016
<b>6 LOCAL CURRENCY - COINS</b>			------(Rupees in '000)-----	
Coins held as an asset of the Issue Department	6.1 & 19.1		<u>861,860</u>	<u>488,198</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	2017 ----- (Rupees in '000) -----	2016
<b>At fair value through profit or loss - held-for-trading:</b>			
- Investments	7.1	379,452,397	269,942,861
- Unrealised gain / (loss) on derivative financial instruments - net	7.2	2,688,587	(3,904,829)
<b>Held to maturity investment</b>	7.3	<b>337,120,388</b>	238,549,410
<b>Loans and receivables</b>			
- Deposit accounts	7.1	90,760,872	26,378,414
- Current accounts		20,926,003	6,689,560
- Securities purchased under agreement to resell	7.4	178,482,457	569,237,084
- Money market placements	7.5	773,108,484	870,191,870
		<u>1,782,539,188</u>	<u>1,977,084,370</u>

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

	Note	2017	2016
Issue Department	19.1	1,495,115,694	1,237,112,270
Banking Department		287,423,494	739,972,100
		<u>1,782,539,188</u>	<u>1,977,084,370</u>

**7.1** This represents investments made (by the Bank) in foreign sukus, 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. Furthermore, the foreign sukus purchased by the Bank are also held with the custodian. The market value of the investments and carrying amount of deposit accounts as on June 30, 2017 cumulatively amounts to USD 4,103.57 million (2016: USD 3,331.83 million).

**7.2** This represents unrealised gain / (loss) on foreign currency swaps, futures and forward contracts (including transactions executed by the Fund Managers on behalf of the Bank) entered into with various counterparties.

**7.3** This represents investment in sovereign bonds of foreign countries carrying yield ranging from 0.82 % to 4.11 % per annum and having maturities from July 06, 2017 to September 24, 2018 (2016: 0.19% to 3.45% per annum and having maturities from July 07, 2016 to May 05, 2017).

**7.4** These represent lending under repurchase agreements and carry mark-up in USD ranging from 0.02 % to 1.16 % per annum (2016: 0.40% to 0.48% per annum) and GBP at 0.33% per annum (2016: 0.26% per annum) and these are due to mature on July 03, 2017 (2016: July 01, 2016).

**7.5** These represents money market placements carrying interest in USD ranging from 0.85% to 1.52% per annum (2016: 0.40% to 0.85% per annum) and GBP ranging from 0.10 % to 0.20% per annum (2016: 0.33% per annum) and having maturities from July 03, 2017 to September 22, 2017 (2016: from July 04, 2016 to September 30, 2016).

**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, 2017. 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.

	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
SDRs are held as follows:			
- By the Issue Department	19.1	51,051,350	51,179,450
- By the Banking Department		<u>12,605,969</u>	<u>16,476,786</u>
		<u>63,657,319</u>	<u>67,656,236</u>

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

Quota allocated by the International Monetary Fund		296,398,560	297,633,877
Liability under quota arrangements		<u>(296,381,178)</u>	<u>(297,616,422)</u>
		<u>17,382</u>	<u>17,455</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 (2016: 5.77% to 6.25% per annum) and are due to mature from July 4, 2017 to July 7, 2017 (2016: July 4, 2016 to July 11, 2016). The fair value of securities collateralised as on June 30, 2017 amounts to Rs. 1,534,782 million (2016: Rs. 1,535,800 million). The collaterals held by the Bank consist of Pakistan Investment Bonds and Market Treasury Bills.

	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
<b>12 INVESTMENTS - LOCAL</b>			
<b>Loans and receivables</b>			
<b>Government securities</b>			
Market Related Treasury Bills (MRTBs)		2,518,817,198	2,047,573,403
Federal Government scrips		<u>2,740,000</u>	<u>2,740,000</u>
	12.1	<u>2,521,557,198</u>	<u>2,050,313,403</u>
<b>Held to maturity</b>			
Investments in banks and other financial institutions			
Preference shares - unlisted	12.2	54,160,348	-
<b>Available-for-sale investments</b>			
Investments in banks and other financial institutions			
Ordinary shares			
- Listed		94,406,896	92,487,082
- Unlisted		<u>16,319,632</u>	<u>4,712,706</u>
	12.3	<u>110,726,528</u>	97,199,788
Term Finance Certificates		84,722	84,722
Certificates of Deposits		<u>33,705</u>	<u>33,705</u>
		<u>110,844,955</u>	97,318,215
Provision against diminution in value of investments	12.4	<u>(856,863)</u>	<u>(856,863)</u>
		<u>109,988,092</u>	96,461,352
<b>Investments in wholly owned subsidiaries - at cost</b>			
Pakistan Security Printing Corporation (Private) Limited	12.5	<u>100,149,000</u>	-
SBP Banking Services Corporation		<u>1,000,000</u>	1,000,000
National Institute of Banking and Finance (Guarantee) Limited		<u>29,260</u>	29,260
		<u>101,178,260</u>	1,029,260
		<u>2,786,883,898</u>	<u>2,147,804,015</u>
The above investments are held as follows:			
Issue Department - MRTBs	19.1	2,344,098,193	1,973,105,293
Banking Department		<u>442,785,705</u>	<u>174,698,722</u>
		<u>2,786,883,898</u>	<u>2,147,804,015</u>

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

	2017 (% per annum)	2016
Market Related Treasury Bills	5.90 to 6.01	5.89 to 6.24
Federal Government scrips	3	3

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

12.2 This represents 5,446.153 million preference shares of Rs. 10 each carrying mark-up at the rate of 7.5 percent per annum payable semi-annually, issued by Zarai Taraqiati Bank Limited against conversion of outstanding loan of Rs. 54,461.536 million as more fully explained in note 13.2.1 to these unconsolidated financial statements. These preference shares are redeemable on completion of 10 years in one bullet payment on March 7, 2027. These preference shares have been recognised at fair value upon initial recognition / receipt.

12.3 Investments in shares of banks and other financial institutions

	Note	2017 % of holding	2016	2017 ----- (Rupees in '000) -----	2016
<b>Listed</b>					
- National Bank of Pakistan	12.3.2	75.20	75.20	94,406,896	92,487,082
<b>Unlisted</b>					
- Zarai Taraqiati Bank Limited	12.3.3	76.23	-	10,199,622	-
- House Building Finance Company Limited	12.3.4	90.31	37.50	1,482,304	75,000
<b>Unlisted - at cost</b>					
Other investments with holding less than or equal to 50%				4,637,706	4,637,706
				16,319,632	4,712,706
				<u>110,726,528</u>	<u>97,199,788</u>

12.3.1 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.

12.3.2 Cost of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2017 amounted to Rs. 1,100.8 million (2016: Rs. 1,100.8 million).

12.3.3 This represents 4,015.599 million ordinary shares issued by ZTBL during the year against conversion of suspended mark-up on loans of Rs. 40,156 million as more fully explained in note 13.1.1 to these unconsolidated financial statements. These ordinary shares have been recognised at fair value upon initial recognition / receipt.

12.3.4 This represents 1,636.4 million ordinary shares issued by HBFCL during the year against conversion of principal and suspended mark-up on loans of Rs. 16,364 million as more fully explained in note 13.1.2 to these unconsolidated financial statements. These ordinary shares have been recognised at fair value upon initial recognition / receipt.

	2017 ----- (Rupees in '000) -----	2016
Opening balance	856,863	856,863
Charge / (reversal) during the year	-	-
Closing balance	<u>856,863</u>	<u>856,863</u>

12.5 During the year, the Bank acquired 100% share holding in Pakistan Security Printing Corporation (Private) Limited from Federal Government for a total consideration of Rs. 100,149 million. This was approved by the Board of Directors of the Bank in their meeting held on May 31, 2017.

	Note	2017	2016
----- (Rupees in '000) -----			
<b>12.6 Unrealised appreciation on remeasurement of investments - local</b>			
Opening balance		<b>91,386,276</b>	83,994,988
Appreciation for the year		<b>1,919,814</b>	7,391,288
Closing balance		<b>93,306,090</b>	91,386,276

**13 LOANS, ADVANCES AND BILLS OF EXCHANGE**

Government owned / controlled financial institutions	13.2	<b>47,796,089</b>	102,794,207
Private sector financial institutions	13.3	<b>297,555,950</b>	232,449,996
		<b>345,352,039</b>	335,244,203
Employees		<b>9,893,275</b>	9,814,370
		<b>355,245,314</b>	345,058,573
Provision against doubtful balances		<b>(2,130,236)</b>	(5,340,825)
		<b>353,115,078</b>	339,717,748

**13.1 Provision against doubtful assets**

Opening balance		<b>5,340,825</b>	5,340,825
Reversal during the year on:			
- issuance of preference shares of Zarai Taraqiati Bank Limited	13.2.1	<b>(3,204,323)</b>	-
- cash recovery		<b>(6,266)</b>	-
Closing balance		<b>2,130,236</b>	5,340,825

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

	Scheduled banks		Other financial institutions		Total	
	2017	2016	2017	2016	2017	2016
----- (Rupees in '000) -----						
Agricultural sector (13.2.1)	<b>439,900</b>	50,767,526	-	-	<b>439,900</b>	50,767,526
Industrial sector (13.2.1 & 13.2.3)	<b>8,063,316</b>	4,821,191	-	-	<b>8,063,316</b>	4,821,191
Export sector (13.3.1)	<b>25,554,323</b>	19,020,317	<b>3,567</b>	3,567	<b>25,557,890</b>	19,023,884
Housing sector (13.2.2)	-	-	-	11,242,300	-	11,242,300
Others (13.2.1, 13.2.3 & 13.2.4)	<b>13,734,983</b>	16,939,306	-	-	<b>13,734,983</b>	16,939,306
	<b>47,792,522</b>	91,548,340	<b>3,567</b>	11,245,867	<b>47,796,089</b>	102,794,207

**13.2.1** As at June 30, 2016 the exposure to the agricultural and industrial sectors included Rs. 50,174.09 million and Rs. 1,083.12 million respectively, representing the cumulative Government guaranteed financing of 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 classified in other loans and advances. The entire exposure had been overdue since 2002.

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. 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 mark-up on preference shares shall be 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 was subject to completion of all legal and statutory formalities and the fair value exercise of the entity. During the current year, 5,446.15 million redeemable preference shares equivalent to Rs. 54,461 million carrying profit of 7.5 percent per annum payable half yearly were issued. These preference shares are redeemable in 10 years in one bullet payment on March 7, 2027. As a result of conversion of outstanding loan amount into preference shares, the provision amounting to Rs. 3,204 million held against unsecured sub-ordinated loan to ZTBL has been reversed and the entire principal exposure against ZTBL amounting to Rs. 54,461 million (representing loan amount) has been derecognised. The preference shares received have been recognised at their fair value as disclosed in note 12.2 to these unconsolidated financial statements. In addition, ZTBL has also issued 4,015.6 million ordinary shares having face value of Rs. 10 each in lieu of mark-up which has been suspended by the Bank in prior years aggregating to Rs. 40,156 million. These shares have been recognised at their fair value (using expected dividend discount method) aggregating to Rs. 10,200 million as disclosed in note 12.3 and the related gain arising due to reversal of suspended mark-up is reflected in note 36.1 to these unconsolidated financial statements.

- 13.2.2** This represented loan receivable from House Building Finance Company Limited (HBFCL) against seven credit lines on profit and loss sharing basis amounting to Rs. 11,242 million. All of these credit lines were overdue since 2006. These credit lines were secured by guarantee from the Federal Government.

During the current year, the Ministry of Finance (MoF) vide its letter no. F.No.1(3) IF-II/2016-1122 dated January 09, 2017 approved the conversion of credit lines of Rs. 11,242 million along with the outstanding suspended mark-up of Rs. 5,122 million (net of Rs 1,378 million in respect of share of loss payable under profit and loss sharing arrangement- refer note 26) into ordinary shares of the HBFCL effective from December 31, 2016. As a result of conversion of outstanding loan amount into ordinary shares the entire exposure (representing principal amount) amounting to Rs. 11,242 million has been derecognised. The ordinary shares received have been recognised at their fair value as disclosed in note 12.3 to these unconsolidated financial statements. Further, the share of loss amounting to Rs 1,378 million payable in respect of profit and loss sharing arrangements by the Bank to HBFCL has been written back and taken to income as disclosed in note 36.1 to these unconsolidated financial statements. The net loss amounting to Rs. 8,457 arising on this arrangement is reflected in note 36.1 to these unconsolidated financial statements.

- 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 (2016: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2016: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. The Cabinet Committee on Privatisation, in its meeting held on May 07, 2016 approved the inclusion of IDBL in the 'Privatisation Program For Early Implementation'.

- 13.2.4** These balances include Rs. 417.7 million (2016: 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	
	2017	2016	2017	2016	2017	2016
	----- (Rupees in '000) -----					
Agricultural sector	744,204	947,390	420,901	151,398	1,165,105	1,098,788
Industrial sector	72,186,912	38,550,364	8,892,963	4,923,344	81,079,875	43,473,708
Export sector (13.3.1)	212,825,188	185,597,057	-	-	212,825,188	185,597,057
Others (13.3.2)	2,485,782	2,280,443	-	-	2,485,782	2,280,443
	<b>288,242,086</b>	<b>227,375,254</b>	<b>9,313,864</b>	<b>5,074,742</b>	<b>297,555,950</b>	<b>232,449,996</b>

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

- 13.3.2** In the year 2015, 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 markup and principal at maturity to an Islamic Commercial Bank (ICB) which is secured against Government of Pakistan Ijara Sukuk. The 10-year facility was provided on the basis of Mudaraba to be remunerated at profit sharing ratio declared by the ICB on its remunerative current accounts on monthly basis (the last declared rate in this respect is 0.01% per annum). 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 as of June 30, 2017 is Rs. 2,465 million (2016: Rs. 2,255 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:

	2017	2016
	(% per annum)	
Government owned / controlled and private sector financial institutions	<b>0 to 9.75</b>	0 to 9.75
Employees loans (where applicable)	<b>0 to 10</b>	0 to 10

	<i>Note</i>	<b>2017</b>	2016
		----- (Rupees in '000) -----	
<b>14 ASSETS HELD WITH THE RESERVE BANK OF INDIA</b>			
Gold reserves			
- Opening balance		<b>4,650,103</b>	4,002,690
- (Diminution) / appreciation for the year due to revaluation	26.3.1.1	<u>(275,565)</u>	<u>647,413</u>
		<b>4,374,538</b>	4,650,103
Sterling securities		<b>450,221</b>	467,390
Government of India securities		<b>231,832</b>	222,024
Rupee coins		<b>4,769</b>	4,576
	14.1	<b>5,061,360</b>	5,344,093
Indian notes representing assets receivable from the Reserve Bank of India	14.2	<b>697,554</b>	668,044
	19.1	<b>5,758,914</b>	6,012,137

**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).

	<i>Note</i>	<b>2017</b>	2016
		----- (Rupees in '000) -----	
<b>15 BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)</b>			
<b>India</b>			
Advance against printing of notes		<b>39,616</b>	39,616
Receivable from the Reserve Bank of India		<b>837</b>	837
		<b>40,453</b>	40,453
<b>Bangladesh (former East Pakistan)</b>			
Inter office balances		<b>819,924</b>	819,924
Loans, advances and commercial papers	15.1	<b>9,056,879</b>	8,354,504
		<b>9,876,803</b>	9,174,428
	15.2	<b>9,917,256</b>	9,214,881

**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).

	<i>Note</i>	<b>2017</b>	2016
		----- (Rupees in '000) -----	
<b>16 PROPERTY, PLANT AND EQUIPMENT</b>			
Operating fixed assets	16.1	<b>57,587,578</b>	59,129,090
Capital work-in-progress	16.4	<b>454,227</b>	420,449
		<b>58,041,805</b>	59,549,539

## 16.1 Operating fixed assets

	2017							
	Cost / revalued amount at July 1, 2016	Additions / (deletions) / Adjustments* * during the year	Cost / revalued amount at June 30, 2017	Accumulated depreciation at July 1, 2016	Depreciation for the year / (deletions) / Adjustments* *	Accumulated depreciation at June 30, 2017	Net book value at June 30, 2017	Useful life / Rate of depreciation
----- (Rupees in '000) -----								
Freehold land*	13,041,840	53,000	13,094,840	-	-	-	13,094,840	-
		- **			-	- **		
Leasehold land*	38,491,706	563	38,492,269	-	1,361,913	1,226,621	37,265,648	30-99 years
		- **			(135,292) **			
Buildings on freehold land*	2,301,474	63,068	2,208,966	-	106,874	145,673	2,063,293	20 years
		-			-			
		(155,576) **			38,799 **			
Buildings on leasehold land*	4,509,573	146,469	4,303,486	-	196,446	287,594	4,015,892	20 years
		-			-			
		(352,556) **			91,148 **			
Plant and Machinery	-	30,155	1,139,303	-	64,939	563,315	575,988	10%
		(1,499)			(628)			
		1,110,647 **			499,004 **			
Furniture and fixtures	106,322	3,288	109,610	91,986	3,190	95,176	14,434	10%
		-			-			
		- **			- **			
Office equipment	824,335	10,590	231,970	682,988	26,804	214,634	17,336	20%
		(440)			(202)			
		(602,515) **			(494,956) **			
EDP equipment	1,809,392	156,807	1,880,915	1,470,923	190,545	1,578,040	302,875	33.33%
		(85,284)			(83,487)			
		- **			59 **			
Motor vehicles	464,256	53,886	470,793	173,911	85,502	233,521	237,272	20%
		(47,349)			(27,130)			
		- **			1,238 **			
	<b>61,548,898</b>	<b>517,826</b>	<b>61,932,152</b>	<b>2,419,808</b>	<b>2,036,213</b>	<b>4,344,574</b>	<b>57,587,578</b>	
		<b>(134,572)</b>			<b>(111,447)</b>			
		- **			- **			

	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	-	824,335	619,895	63,093	-	682,988	141,347	20%
		(240)								
EDP equipment	1,503,566	325,359	-	1,809,392	1,351,896	138,536	-	1,470,923	338,469	33.33%
		(19,533)				(19,509)				
Motor vehicles	424,060	77,175	-	464,256	110,128	86,813	-	173,911	290,345	20%
		(36,979)				(23,030)				
	<b>26,784,598</b>	<b>951,531</b>	<b>33,869,521</b>	<b>61,548,898</b>	<b>6,764,133</b>	<b>1,339,696</b>	<b>(5,641,482)</b>	<b>2,419,808</b>	<b>59,129,090</b>	
		<b>(56,752)</b>				<b>(42,539)</b>				

\* These represent revalued assets.

\*\* Adjustments includes reclassifications within different categories of assets.

**16.2** During the year, the management has reassessed the classification of fixed assets and reclassified certain fixed assets as “plant and machinery” from buildings on freehold / leasehold land and office equipment. Further, the management has also revised the depreciation on those assets ranging from 5 to 20 percent per annum to 10 percent per annum with effect from July 1, 2016. The revision has been made after taking into account the expected pattern of recovery of economic benefits associated with the use of those assets. The revision has been accounted for as change in accounting estimate as defined in IAS-8 'Accounting Policies, Changes in Accounting Estimates and Errors'. Had this change in estimate not been made, the depreciation for the year would have decreased by Rs. 4.6 million with a corresponding increase in profit for the year.

**16.3** Land and Buildings of the Bank are carried at revalued amount. The latest revaluation was carried out on June 30, 2016 by M/S M.J.Surveyors (Pvt.) Ltd which resulted in a surplus of Rs. 33,870 million. The revaluation was carried out based on the market value assessment being the fair value of the land and buildings. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:

	Note	2017 ----- (Rupees in '000) -----	2016
Freehold land		92,858	39,858
Leasehold land		157,415	159,077
Buildings on freehold land		327,372	485,202
Buildings on leasehold land		710,875	1,052,028
		<u>1,288,520</u>	<u>1,736,165</u>
<b>16.4 Capital work-in-progress</b>			
Buildings on freehold land		63,536	43,634
Buildings on leasehold land		224,657	311,309
Office equipment		50,637	44,467
Plant and machinery		23,068	-
EDP equipment		92,329	21,039
		<u>454,227</u>	<u>420,449</u>
<b>17 INTANGIBLE ASSETS</b>			
Software	17.1	4,636	3,833
Capital work-in-progress		102,822	21,153
		<u>107,458</u>	<u>24,986</u>

**17.1 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	2017	613,390	4,027	617,417	609,557	3,224	612,781	4,636	33.33
Software	2016	610,649	2,741	613,390	606,500	3,057	609,557	3,833	33.33

	Note	2017 ----- (Rupees in '000) -----	2016
<b>18 OTHER ASSETS</b>			
Commission receivable and others		3,231,736	2,117,472
Unrealised gain on derivative financial instruments - net		505,076	1,442,497
Other advances, deposits and prepayments		587,842	569,977
		<u>4,324,654</u>	<u>4,129,946</u>
<b>19 BANK NOTES IN CIRCULATION</b>			
Total bank notes issued	19.1	4,167,247,213	3,555,067,671
Bank notes held by the Banking Department		(111,406)	(145,614)
Bank notes in circulation		<u>4,167,135,807</u>	<u>3,554,922,057</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.

	<i>Note</i>	<b>2017</b>	<b>2016</b>
		----- (Rupees in '000) -----	
Gold reserves held by the Bank	5	<b>270,361,202</b>	287,170,323
Local currency - coins	6	<b>861,860</b>	488,198
Foreign currency accounts and investments	7	<b>1,495,115,694</b>	1,237,112,270
Special Drawing Rights of the International Monetary Fund	9	<b>51,051,350</b>	51,179,450
Investments - local	12	<b>2,344,098,193</b>	1,973,105,293
Assets held with the Reserve Bank of India	14	<b>5,758,914</b>	6,012,137
		<b><u>4,167,247,213</u></b>	<b><u>3,555,067,671</u></b>
<b>20</b>			
<b>20.1</b>			
<b>Current accounts of Governments - payable balances</b>			
Federal Government	20.3	<b>76,078,530</b>	313,688,605
Provincial Governments			
- Punjab	20.4	<b>38,899,196</b>	96,833,336
- Sindh	20.5	<b>20,398,680</b>	89,107,726
- Khyber Pakhtunkhwa	20.6	<b>31,526,641</b>	77,207,052
- Baluchistan	20.7	<b>2,459,725</b>	19,091,164
Gilgit - Baltistan Administration Authority	20.8	<b>9,239,193</b>	10,729,895
		<b><u>102,523,435</u></b>	<u>292,969,173</u>
		<b><u>178,601,965</u></b>	<u>606,657,778</u>
<b>20.2</b>			
<b>Current accounts of Governments - receivable balance</b>			
Government of Azad Jammu and Kashmir	20.9	<b>7,279,247</b>	955,474
		<b><u>7,279,247</u></b>	<u>955,474</u>
<b>20.3</b>			
<b>Federal Government</b>			
Non-food account		<b>40,062</b>	973,642
Zakat fund accounts		<b>80,317,636</b>	7,884,671
Railways accounts		<b>(29,518,688)</b>	(13,313,227)
Other accounts		<b>25,239,520</b>	318,143,519
		<b><u>76,078,530</u></b>	<u>313,688,605</u>
<b>20.4</b>			
<b>Provincial Government - Punjab</b>			
Non-food account		<b>24,344,157</b>	82,846,743
Zakat fund account		<b>753,583</b>	401,259
Other accounts		<b>13,801,456</b>	13,585,334
		<b><u>38,899,196</u></b>	<u>96,833,336</u>
<b>20.5</b>			
<b>Provincial Government - Sindh</b>			
Non-food account		<b>18,180,177</b>	84,389,116
Zakat fund account		<b>1,694,383</b>	1,526,526
Other accounts		<b>524,120</b>	3,192,084
		<b><u>20,398,680</u></b>	<u>89,107,726</u>
<b>20.6</b>			
<b>Provincial Government - Khyber Pakhtunkhwa</b>			
Non-food account		<b>29,771,904</b>	67,829,675
Zakat fund account		<b>1,281,569</b>	1,186,629
Other accounts		<b>473,168</b>	8,190,748
		<b><u>31,526,641</u></b>	<u>77,207,052</u>
<b>20.7</b>			
<b>Provincial Government - Baluchistan</b>			
Non-food account		<b>1,183,617</b>	16,553,943
Zakat fund account		<b>999,379</b>	833,822
Other accounts		<b>276,729</b>	1,703,399
		<b><u>2,459,725</u></b>	<u>19,091,164</u>
<b>20.8</b>			
<b>Gilgit - Baltistan Administration Authority</b>		<b><u>9,239,193</u></b>	<u>10,729,895</u>
<b>20.9</b>			
<b>Government of Azad Jammu and Kashmir</b>		<b>(7,279,247)</b>	(955,474)
Classified as receivable balance	20.10	<b><u>7,279,247</u></b>	<u>955,474</u>
		-	-

**20.10** These balances carry mark-up at rates ranging from 5.89% to 6.01% per annum (2016: 6.18% to 6.88% 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 Bank on Bai Muajjal basis (deferred payment basis) having profit rates ranging from 5.32% to 5.97% per annum (2016: 4.75% to 5.74% per annum) and maturities on December 31, 2017 and June 21, 2018 (2016: February 10, 2017 and March 15, 2017).

**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 (2016: 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, 2017 and the same amounts are outstanding as on June 30, 2017. Interest is charged on outstanding balance at agreed rates. As at June 30, 2017, the Bank's commitment under this agreement is Rs. 154,595 million (2016: Rs. 165,000 million).

**23 DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS**

	Note	2017	2016
----- (Rupees in '000) -----			
<b>Foreign currency</b>			
Scheduled banks		7,619,462	7,527,991
Held under Cash Reserve Requirement	23.1	<u>137,166,870</u>	<u>136,803,601</u>
		<u>144,786,332</u>	144,331,592
<b>Local currency</b>			
Scheduled banks	23.1	<u>516,209,260</u>	234,778,810
Financial institutions		8,264,427	12,574,555
Others		77,520	75,512
		<u>524,551,207</u>	247,428,877
		<u><u>669,337,539</u></u>	<u><u>391,760,469</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	2017	2016
----- (Rupees in '000) -----			
<b>Foreign currency</b>			
Foreign central banks		47,257,038	47,210,792
International organisations	24.1	<u>26,533,361</u>	26,479,513
Others	24.2	<u>18,013,438</u>	<u>19,445,168</u>
		<u>91,803,837</u>	93,135,473
<b>Local currency</b>			
Special debt repayment	24.3	<u>24,243,841</u>	24,243,841
Government	24.4	<u>17,850,348</u>	17,850,348
Foreign central banks		2,059	2,003
International organisations		6,302,580	6,692,016
Others		<u>23,824,618</u>	<u>19,536,513</u>
		<u>72,223,446</u>	68,324,721
		<u><u>164,027,283</u></u>	<u><u>161,460,194</u></u>

**24.1** This includes a long-term deposits of USD 500 million (2016: two contracts of Rs 500 million each) received from the State Administration Foreign Exchange (SAFE) China in January 2009 (rolled-over in January 2017) carrying interest at six months LIBOR plus 100 bps (2016: LIBOR plus 100 bps), payable semi-annually. The deposit of USD 500 million which has been set off against the rupee counterpart receivable from the Federal Government and has been covered under Ministry of Finance (MoF) Guarantee whereby the MoF has agreed to assume all liabilities and risks arising from the Bank's agreement with SAFE China.

	2017	2016
	(% per annum)	
<b>24.2</b> The interest rate profile of the interest bearing deposits is as follows:		
Foreign central banks	<b>0.59 to 1.49</b>	0.30 to 0.76
International organisations	<b>2.62 to 3.09</b>	2.11 to 2.62
Others	<b>0.38 to 1.00</b>	0.09 to 0.41

**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>2017</b>	2016
		----- (Rupees in '000) -----	
<b>25 PAYABLE TO THE INTERNATIONAL MONETARY FUND</b>			
Borrowings under:			
- Fund facilities	25.1 & 25.3	<b>643,054,775</b>	634,172,641
- Allocation of SDRs	25.2	<b>144,326,457</b>	144,566,830
		<b>787,381,232</b>	778,739,471
Current account for administrative charges		<b>34</b>	34
		<b>787,381,266</b>	778,739,505

**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 4,393 million has been disbursed under twelve (12) tranches of EFF up to June 30, 2017 (2016: SDR 4,320 million). The repayments under this facility would start in March 2018 and would continue till September 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>2017</b>	2016
		(% per annum)	
<b>25.3</b> Interest profile of amount payable to the IMF is as under:			
Fund facilities	25.3.1	<b>1.05 to 1.63</b>	1.05 to 1.07

**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>2017</b>	2016
		----- (Rupees in '000) -----	
<b>26 OTHER LIABILITIES</b>			
<b>Local currency</b>			
Provision against overdue mark-up	26.1	<b>8,662,726</b>	7,960,351
Remittance clearance account		<b>2,215,088</b>	2,259,587
Exchange loss payable under exchange risk coverage scheme		<b>239,068</b>	233,121
Dividend payable	26.2	<b>10,000</b>	10,000
Share of loss payable under profit and loss sharing arrangements		-	1,377,691
Other accruals and provisions	26.3	<b>26,203,559</b>	26,254,831
Others	26.4	<b>7,980,692</b>	6,288,717
		<b>45,311,133</b>	44,384,298

**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 (2016: Rs. 9.99 million).

	<i>Note</i>	<b>2017</b>	2016
		----- (Rupees in '000) -----	
<b>26.3 Other accruals and provisions</b>			
Agency commission		<b>12,451,275</b>	12,440,190
Provision for employees' compensated absences	40.6.9	<b>2,643,068</b>	2,551,971
Provision for other doubtful assets	26.3.1	<b>6,652,772</b>	6,911,495
Other provisions	26.3.2	<b>2,848,701</b>	2,848,701
Others		<b>1,607,743</b>	1,502,474
		<b>26,203,559</b>	26,254,831

	Note	2017	2016
		----- (Rupees in '000) -----	
<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		5,758,914	6,012,137
- Banking Department		40,483	40,483
		5,799,397	6,052,620
Provision against assets receivable from Government of Bangladesh (former East Pakistan)			
- Issue Department		-	-
- Banking Department		853,375	858,875
		853,375	858,875
	26.3.1.1	<u>6,652,772</u>	<u>6,911,495</u>

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

Opening balance	6,911,495	6,350,295
Charge / (reversal) for the year - net (Diminution) / appreciation relating to gold reserves held by the Reserve Bank of India	16,842	(86,213)
	(275,565)	647,413
Closing balance	<u>6,652,772</u>	<u>6,911,495</u>

**26.3.2 Movement of other provisions**

Opening balance	2,848,701	2,848,933
Reversal during the year	-	(232)
Closing balance	<u>2,848,701</u>	<u>2,848,701</u>

	Home remittance	Specific claims (note 26.3.2.1)	Others (note 26.3.2.2)	Total
	----- (Rupees in '000) -----			
Balance as at July 1, 2015	260,363	1,600,000	988,570	2,848,933
Reversal during the year	-	-	(232)	(232)
Balance as at June 30, 2016	<u>260,363</u>	<u>1,600,000</u>	<u>988,338</u>	<u>2,848,701</u>
Charge / (reversal) during the year	-	-	-	-
Balance as at June 30, 2017	<u>260,363</u>	<u>1,600,000</u>	<u>988,338</u>	<u>2,848,701</u>

**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 (2016: Rs. 778.399 million).

	Note	2017	2016
		----- (Rupees in '000) -----	
<b>27 DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS</b>			
Pension		23,077,020	20,560,622
Gratuity scheme		45,984	39,495
Post retirement medical benefits		7,297,641	7,224,542
Benevolent fund scheme		407,505	446,588
Six months post retirement facility		414,266	379,441
	40.6.3	<u>31,242,416</u>	28,650,688
Provident fund scheme		220,052	221,572
		<u>31,462,468</u>	<u>28,872,260</u>

**28 SHARE CAPITAL**

2017	2016		2017	2016
---- (Number of shares) ---			----- (Rupees in '000)-----	
<b>Authorised share capital</b>				
<u>1,000,000</u>	<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
<b>Issued, subscribed and paid-up capital</b>				
<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 The reserve for acquisition of PSPC**

During the current year the Board of Directors in its meeting held on June 29, 2017 has approved the creation of a special reserve fund by the name of "The Reserve for Acquisition of PSPC" and has appropriated an amount of Rs. 65,464 million from "Reserve Fund" to "The Reserve for Acquisition of PSPC".

**29.3 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.

	<i>Note</i>	2017	2016
----- (Rupees in '000) -----			
<b>30 UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK</b>			
Opening balance		<b>283,342,601</b>	243,367,310
(Diminution) / appreciation for the year due to revaluation	5	<b>(17,015,000)</b>	39,975,291
		<u><b>266,327,601</b></u>	<u>283,342,601</u>

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

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

Federal Government	<i>31.1.1</i>	<b>16,889,529</b>	21,486,999
Federal Government owned / controlled bodies and authorities		<u><b>7,103,733</b></u>	<u>7,605,996</u>
		<u><b>23,993,262</b></u>	<u>29,092,995</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 investigations / lawsuits filed by various parties as a result of the regulatory actions / investigations 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 unconsolidated financial statements.			
	<i>Note</i>	<b>2017</b>	2016
		----- (Rupees in '000) -----	
d) Other claims against the Bank not acknowledged as debts	<i>31.1.2</i>	<u><b>350,216</b></u>	<u>350,678</u>
31.1.1 Above guarantees are secured by counter guarantees either from the Government of Pakistan or local financial institutions.			
31.1.2 These represent various claims filed against the Bank's role as a regulator and certain other cases.			
	<i>Note</i>	<b>2017</b>	2016
<b>31.2 Commitments</b>		----- (Rupees in '000) -----	
31.2.1 Foreign currency forward and swap contracts - sale		<u><b>935,079,726</b></u>	<u>802,656,331</u>
31.2.2 Foreign currency forward and swap contracts - purchase		<u><b>498,678,723</b></u>	<u>595,499,305</u>
31.2.3 Futures - sale		<u><b>43,038,829</b></u>	<u>18,044,108</u>
31.2.4 Futures - purchase		<u><b>35,430,566</b></u>	<u>14,656,485</u>
31.2.5 Capital Commitments	<i>31.2.5.1</i>	<u><b>189,027</b></u>	<u>386,844</u>
31.2.5.1 This represents amounts committed by the bank to purchase assets from successful bidders.			
31.2.6 Commitments in respect of bilateral currency swap agreements with the People's Bank of China have been disclosed in note 22 to these unconsolidated financial statements.			
31.2.7 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, 2017 amounted to Rs. 67,325 million (2016: Rs. 71,945 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.			
	<i>Note</i>	<b>2017</b>	2016
<b>32 DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED</b>		----- (Rupees in '000) -----	
Discount, interest / mark-up on Government transactions:			
- Market Related Treasury Bills		<b>171,366,069</b>	150,272,738
- Federal Government Scrips		<b>82,200</b>	82,200
- Loans and advances to and current accounts of Governments	<i>32.1</i>	<b>442,256</b>	327,520
Securities purchased under agreement to resell		<b>63,193,756</b>	80,712,710
Interest income on preference shares		<b>1,333,659</b>	-
Return on loans and advances to financial institutions		<b>6,392,333</b>	8,683,044
Foreign currency loan and advance including deposits		<b>9,034,732</b>	4,258,735
Foreign currency securities		<b>8,970,869</b>	8,382,254
Profit on sukuks purchased under Bai Muajjal agreement		<b>10,745</b>	70,542
Others		<b>909</b>	200
		<u><b>260,827,528</b></u>	<u>252,789,943</u>
		<b>2017</b>	2016
32.1 Interest profile on loans and advances to facilities are as under:		(% per annum)	
Mark-up on facility		<b>6.89 to 6.01</b>	6.18 to 6.88
Additional mark-up (where ways and means facility limit is exceeded)		<b>4</b>	4

	Note	2017	2016
<b>33 INTEREST / MARK-UP EXPENSE</b>		<b>-----(Rupees in '000)-----</b>	
Deposits		19,087,345	15,866,387
Securities sold under agreement to repurchase		152,737	218,111
Return on Sukuks purchased under Bai Muajjal agreement		1,735,682	9,287,535
Charges on allocation of Special Drawing Rights of the IMF		388,071	78,609
Others		5,009	3,838
		<u>21,368,844</u>	<u>25,454,480</u>
<b>34 COMMISSION INCOME</b>			
Market Treasury Bills	34.1	1,163,377	472,821
Management of public debts	34.1	959,936	989,118
Prize Bonds and National Saving Certificates	34.1	459,422	439,041
Draft / payment orders		8,408	8,148
Others		51	52
		<u>2,591,194</u>	<u>1,909,180</u>
<b>34.1</b>	These represent commission income earned from services provided to the Federal Government.		
<b>35 EXCHANGE GAIN - NET</b>	Note	2017	2016
		<b>-----(Rupees in '000)-----</b>	
Gain / (loss) on:			
- Foreign currency placements, deposits, securities and other accounts - net		21,802,161	38,322,960
- Forward covers under Exchange Risk Coverage Scheme		(109)	6
- IMF Fund Facilities		2,642,689	(10,984,606)
- Special Drawing Rights of the IMF		80,160	(1,611,329)
		<u>24,524,901</u>	<u>25,727,031</u>
Others		446	-
Exchange risk fee income		44,267	52,344
		<u>24,569,614</u>	<u>25,779,375</u>
<b>36 OTHER OPERATING INCOME - NET</b>			
Penalties levied on banks and financial institutions		1,131,474	1,017,004
License / Credit Information Bureau fee recovered		904,202	817,885
Gain on disposal of investment:			
Local - 'at fair value through profit or loss'		-	58,663
Foreign - 'at fair value through profit or loss'		39,949	201,043
		<u>39,949</u>	<u>259,706</u>
Gain / loss on restructuring of exposure of Zarai Taraqiati Bank Limited and House Building Finance Company Limited	36.1	3,311,793	-
(Loss) / Gain on remeasurement of securities classified as 'fair value through profit or loss'		(4,898,446)	559,888
Others		110,996	101,629
		<u>599,968</u>	<u>2,756,112</u>
<b>36.1 Gain / loss on restructuring of exposure of Zarai Taraqiati Bank Limited (ZTBL) and House Building Finance Company Limited (HBFCL)</b>			
ZTBL:			
- Fair value loss on recognition of preference shares		(1,634,847)	-
- Reversal of previously suspended mark-up on issuance of equity shares to the Bank		10,199,622	-
- Reversal of provision of loans and advances on issuance of preference shares	13.1	3,204,323	-
		<u>11,769,098</u>	-
HBFCL:			
- Loss arising on conversion of loans into ordinary shares		(9,834,996)	-
- Share of loss payable under profit and loss sharing arrangements written back		1,377,691	-
		<u>(8,457,305)</u>	-
		<u>3,311,793</u>	-

	Note	2017 ----- <b>(Rupees in '000)</b> -----	2016
<b>37 OTHER INCOME - NET</b>			
Gain / (loss) on disposal of property, plant and equipment		3,770	(501)
Liabilities and provisions written back - net		11,780	12,327
Grant income under foreign assistance program		9,064	11,808
Income from subsidiaries	37.1	41,572	40,027
Others		204,692	65,505
		<u>270,878</u>	<u>129,166</u>
<b>37.1 Income from subsidiaries</b>			
SBP Banking Services Corporation		41,572	40,027
		<u>41,572</u>	<u>40,027</u>
The above represents income of subsidiaries for the year ended June 30, 2017 transferred to the Bank in accordance with the arrangements mentioned in note 40.4 to these unconsolidated financial statements.			
<b>38 BANK NOTES PRINTING CHARGES</b>			
Bank notes printing charges are paid to Pakistan Security Printing Corporation (Private) Limited (which has become a wholly owned subsidiary of the Bank during the current year) 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 last year, to collect Government of Punjab's taxes and receipts.			
<b>40 GENERAL ADMINISTRATIVE AND OTHER EXPENSES</b>	Note	2017 ----- <b>(Rupees in '000)</b> -----	2016
Salaries and other benefits		3,509,361	3,476,133
Retirement benefits and employees' compensated absences	40.1	2,838,624	3,559,566
Rent and taxes		18,877	28,303
Insurance		34,810	24,872
Electricity, gas and water		50,509	45,055
Depreciation	16.1	2,036,213	1,339,696
Amortisation of intangible assets	17.1	3,224	3,057
Repairs and maintenance		407,768	430,930
Auditors' remuneration	40.5	7,000	6,050
Legal and professional		44,231	27,917
Fund managers / custodian expenses		475,909	495,428
Travelling expenses		255,719	222,894
Daily expenses		76,326	56,784
Fuel		39,974	43,579
Conveyance		7,191	8,199
Postages, telegram / telex and telephone		215,210	204,511
Training		215,139	190,270
Stationery		8,224	9,915
Books and newspapers		35,309	27,923
Advertisement		37,147	11,057
Uniforms		1,361	1,443
Others		135,064	99,261
		<u>10,453,190</u>	<u>10,312,843</u>
Expenses allocated by:			
SBP Banking Services Corporation	40.2	5,071,183	6,411,699
Expenses reimbursed to:			
SBP Banking Services Corporation	40.3	7,423,955	7,544,251
		<u>22,948,328</u>	<u>24,268,793</u>

40.1 This includes an amount relating to defined contribution plan aggregating Rs. 196.209 million (2016: Rs. 136.150 million).

	Note	2017	2016
------(Rupees in '000)-----			
<b>40.2 Expenses allocated by SBP Banking Services Corporation</b>			
Retirement benefits and employees' compensated absences		4,853,297	6,267,528
Depreciation		217,886	144,171
		<u>5,071,183</u>	<u>6,411,699</u>

**40.3 Expenses reimbursed to SBP Banking Services Corporation**

Salaries and other benefits		5,709,601	6,153,682
Rent and taxes		37,604	25,550
Insurance		12,979	7,309
Electricity, gas and water		323,968	304,736
Repairs and maintenance		218,084	189,716
Auditors' remuneration	40.5	7,000	5,950
Legal and professional		9,270	11,078
Travelling expenses		16,864	21,725
Daily expenses		30,638	26,897
Recreation allowance		258,419	198,127
Fuel		2,810	3,002
Conveyance		17,456	16,818
Postage and telephone		11,399	12,898
Training		203,964	146,112
Remittance of treasure		132,636	92,744
Stationery		10,408	9,444
Books and newspapers		1,813	1,626
Advertisement		11,028	32,011
Bank guards		147,587	117,499
Uniforms		34,983	28,493
Others		225,444	138,834
		<u>7,423,955</u>	<u>7,544,251</u>

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, 2017, as mentioned in note 37.1 to these unconsolidated financial statements, has also been transferred to the Bank.

**40.5 Auditors' remuneration**

	2017			2016		
	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	3,000	3,000	6,000	2,610	2,610	5,220
Out of pocket expenses	500	500	1,000	415	415	830
	<u>3,500</u>	<u>3,500</u>	<u>7,000</u>	3,025	3,025	6,050
<b>SBP Banking Services Corporation</b>						
Audit fee	2,500	2,500	5,000	2,090	2,090	4,180
Out of pocket expenses	1,000	1,000	2,000	885	885	1,770
	<u>3,500</u>	<u>3,500</u>	<u>7,000</u>	2,975	2,975	5,950
	<u>7,000</u>	<u>7,000</u>	<u>14,000</u>	6,000	6,000	12,000

**40.6 Staff retirement benefits**

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

	2017	2016
-Discount rate for year end obligation	<b>7.75% p.a</b>	7.25% p.a
-Salary increase rate (where applicable)	<b>8.75% p.a</b>	8.25% p.a
-Pension increase rate (where applicable)	<b>6.25% p.a</b>	4.75% p.a
-Medical cost increase rate	<b>7.75% p.a</b>	6.25% - 7.25% p.a
-Petrol price increase rate (where applicable)	<b>8.75% p.a</b>	8.75% p.a
-Personnel turnover	<b>4.80% p.a</b>	11.50% p.a
-Normal retirement age	<b>60 Years</b>	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 decrease in bond yields will impact plan liabilities.

**Salary increase / inflation risk**

The risk that the actual salary increase is higher / lower than the expected salary increase, where benefits are linked with final salary at the time of cessation of service, is likely to have an impact on liability.

**Pension Increase risk**

The risk that the actual salary increase are higher than the expected, where benefits are being paid in form of monthly pension, is likely to have an impact on liability.

**Mortality risk**

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

**Withdrawal risk**

The risk of actual withdrawals experience may differ from that assumed in the calculation.

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

	2017					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	
	------(Rupees in '000)-----					
Present value of defined benefit obligation July 1, 2016	20,560,622	39,495	7,224,542	446,588	379,441	28,650,688
Current service cost	300,044	5,602	126,215	3,833	27,355	463,049
Interest cost on defined benefit obligation	1,432,230	2,863	512,898	30,811	26,914	2,005,716
Benefits Paid	(1,611,441)	-	(300,185)	(43,228)	(16,419)	(1,971,273)
Liability transferred to SBP - BSC	(15,507)	-	(17,763)	(1,121)	(2,100)	(36,491)
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	1,117,608	-	144,363	(14,781)	76	1,247,266
Experience adjustments	1,293,464	(1,976)	(392,429)	(14,597)	(1,001)	883,461
Present value of defined benefit obligation as on June 30, 2017	<b>23,077,020</b>	<b>45,984</b>	<b>7,297,641</b>	<b>407,505</b>	<b>414,266</b>	<b>31,242,416</b>
	-----					
	2016					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	------(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 Paid	(2,066,604)	(408)	(308,103)	(56,712)	(23,932)	(2,455,759)
Liability transferred to SBP - BSC	(136,419)	-	(52,610)	(5,028)	(7,381)	(201,438)
Remeasurements:						
Actuarial (gains) / losses from changes in demographic assumptions	797,254	-	93,993	18,623	(4,895)	904,975
Actuarial 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	<b>20,560,622</b>	<b>39,495</b>	<b>7,224,542</b>	<b>446,588</b>	<b>379,441</b>	<b>28,650,688</b>

#### 40.6.3.1 Remeasurements recognised in statement of comprehensive income

##### State Bank of Pakistan

	2017					Total
	Pension	Gratuity scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement benefits	
	(Rupees in '000)					
- Actuarial (gains) / losses from changes in demographic assumptions	(1,117,608)	-	(144,363)	14,781	(76)	(1,247,266)
- Experience adjustments	(1,293,464)	1,976	392,429	14,597	1,001	(883,461)
						<u>(2,130,727)</u>
Allocated by SBP Banking Services Corporation - a subsidiary*	1,798,535	22	(80,740)	(48,454)	(1,605)	<u>(1,667,758)</u>

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

	2016					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	
	(Rupees in '000)					
- Actuarial (gains) / losses from changes in demographic assumptions	(797,254)	-	(93,993)	(18,623)	4,895	(904,975)
- Actuarial 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)
						<u>(3,153,251)</u>
Allocated by SBP Banking Services Corporation - a subsidiary*	11,636,011	352	138,275	399,853	(667)	<u>(12,173,824)</u>

\*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

	2017					Total
	Pension	Gratuity scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement benefit	
	(Rupees in '000)					
Current service cost	300,044	5,602	126,215	3,833	27,355	463,049
Interest cost on defined benefit obligation	1,432,230	2,863	512,898	30,811	26,914	2,005,716
Contribution made by Employees	-	-	-	(3,578)	-	(3,578)
	<u>1,732,274</u>	<u>8,465</u>	<u>639,113</u>	<u>31,066</u>	<u>54,269</u>	<u>2,465,187</u>

	2016					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefit	
	(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
Interest cost on defined benefit obligation	1,637,429	2,755	665,247	33,308	29,259	2,367,998
Contribution made by Employees	-	-	-	(3,713)	-	(3,713)
	<u>2,215,151</u>	<u>11,216</u>	<u>806,421</u>	<u>45,420</u>	<u>68,484</u>	<u>3,146,692</u>

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

	2017					Total
	Pension	Gratuity scheme	Post retirement medical	Benevolent fund scheme	Six months post retirement benefit	
	(Rupees in '000)					
Net recognised liabilities at July 1, 2016	20,560,622	39,495	7,224,542	446,588	379,441	28,650,688
Amount recognised in the profit and loss account	1,732,274	8,465	639,113	31,066	54,269	2,465,187
Remeasurements	2,411,072	(1,976)	(248,066)	(29,378)	(925)	2,130,727
Benefits paid during the year	(1,611,441)	-	(300,185)	(43,228)	(16,419)	(1,971,273)
Liability transferred to SBP - BSC	(15,507)	-	(17,763)	(1,121)	(2,100)	(36,491)
Employees contribution	-	-	-	3,578	-	3,578
Net recognised liabilities at June 30, 2017	<u>23,077,020</u>	<u>45,984</u>	<u>7,297,641</u>	<u>407,505</u>	<u>414,266</u>	<u>31,242,416</u>

	2016					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefit	
	------(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 SBP - BSC	(136,419)	-	(52,610)	(5,028)	(7,381)	(201,438)
Employees contribution	-	-	-	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

#### 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%	(1,747,072)	2,042,892
Salary increase rate	1%	396,109	(368,665)
Pension increase rate	1%	1,687,146	(1,463,609)
Expected mortality rates	1 Year	(544,668)	592,713
<b>Gratuity</b>			
Discount rate	1%	(6,030)	7,207
Salary increase rate	1%	7,063	(6,030)
<b>Post retirement medical benefit</b>			
Discount rate	1%	(881,305)	1,116,601
Salary increase	1%	45,920	(40,588)
Post-Retirement medical cost increase rate	1%	1,103,767	(881,483)
Expected mortality rates	1 Year	(132,048)	134,926
<b>Benevolent</b>			
Discount rate	1%	(26,571)	30,704
<b>Six months post retirement benefit</b>			
Discount rate	1%	(37,197)	42,864
Salary / Petrol price increase rate	1%	42,590	(37,681)

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

#### 40.6.7 Duration of defined benefit obligation

	Pension	Gratuity scheme	Post retirement medical benefit	Benevolent fund scheme	Six months post retirement benefit
Weighted average duration of the defined benefit obligation	8 Years	14 Years	14 Years	7 Years	9.66 Years

#### 40.6.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2018

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2018 would be as follows:

	Pension	Gratuity scheme	Post retirement medical benefit	Benevolent fund scheme	Six months post retirement benefit	Total
	------(Rupees in '000)-----					
Current service cost	300,364	6,289	149,148	3,601	29,295	488,697
Interest cost on defined benefit obligation	1,788,469	3,564	565,567	31,582	32,106	2,421,288
Amount chargeable to profit and loss account	2,088,833	9,853	714,715	35,183	61,401	2,909,985

**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. 2,643.068 million (2016:Rs. 2,551.97 million). An amount of Rs. 171.511 million (2016:Rs. 274.64 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, 2018 would be Rs 384.126 million. The benefits paid during the year amounted to Rs. 68.969 million (2016: Rs 181.223 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 217.243 million and Rs. 252.194 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. 253.290 million and Rs. 222.612 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 9 years.

	Note	2017 ------(Rupees in '000)-----	2016
<b>41 PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS</b>			
Profit for the year		<b>237,951,218</b>	229,261,242
Adjustments for:			
Depreciation	16.1 & 40.2	<b>2,254,099</b>	1,483,867
Amortisation of intangible assets	17.1	<b>3,224</b>	3,057
Provision / (reversal) for / write-off:			
- retirement benefits and employees' compensated absences		<b>7,691,921</b>	9,827,094
- loans and advances		<b>(6,266)</b>	-
- claims		-	(232)
- other doubtful assets	26.3.1.1	<b>16,842</b>	(86,213)
Gain / loss on restructuring of exposure of Zarai Taraqiati Bank Limited (ZTBL) and House Building Finance Company Limited (HBFCCL)	36.1	<b>(3,311,793)</b>	-
(Gain) / loss on disposal of property, plant and equipment	37	<b>(3,770)</b>	501
Dividend income		<b>(12,248,843)</b>	(12,226,343)
Effect of exchange loss on cash and cash equivalents		<b>1,687,144</b>	45,545,964
		<b><u>234,033,776</u></b>	<b><u>273,808,937</u></b>
<b>42 CASH AND CASH EQUIVALENTS</b>			
Local currency - coins	6	<b>861,860</b>	488,198
Foreign currency accounts and investments		<b>1,444,739,189</b>	1,737,853,644
Earmarked foreign currency balances		<b>10,319,532</b>	5,147,596
Special Drawing Rights of the International Monetary Fund	9	<b>63,657,319</b>	67,656,236
		<b><u>1,519,577,900</u></b>	<b><u>1,811,145,674</u></b>
<b>43 RELATED PARTY TRANSACTIONS</b>			
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.			
		<b>2017</b>	<b>2016</b>
		<b>Rupees in '000</b>	
<b>43.1 National Institute Of Banking And Finance (Guarantee) Limited</b>			
<b>Balances at the year end</b>			
Payable against training programs		2,223	22,818
Current account with the Institute		135,612	-
<b>Transactions during the year</b>			
Training expense charged		199,306	153,335
Payments / (Receipts)		219,901	(56,380)

	2017	2016
	Rupees in '000	
<b>43.2 Pakistan Security Printing Corporation (Private) Limited</b>		
<b>Balances at the year end</b>		
Payable against printing charges	788,031	-
Receivable against salaries	941	-
<b>Transactions during the year</b>		
Printing charges	396,169	-
<b>43.3 Governments and related entities</b>		

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 unconsolidated 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:

	2017	2016
	----- (Rupees in '000) -----	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>6,250,800,000</u>	<u>4,294,300,000</u>
- Retirement / rollover of MRTBs	<u>5,799,530,000</u>	<u>4,558,055,859</u>
- Outstanding foreign currency swap contracts	<u>89,778,296</u>	<u>183,961,130</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)		

#### 43.4 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:

	2017	2016
	----- (Rupees in '000) -----	
Short-term employee benefit	360,060	264,955
Post-employment benefit	56,127	105,272
Loans disbursed during the year	60,458	173,047
Loans repaid during the year	77,397	92,324
Directors' fees	13,050	11,711
Number of key management personnel	18	17

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, six months post retirement facility and contributory provident funds.

#### 43.5 Subsidiaries of the Bank

Material transactions with the subsidiaries have been disclosed in note 37.1 and 40 to these unconsolidated financial statements. The subsidiaries of the Bank and their primary activities are given in note 1.3 to these unconsolidated financial statements.

#### 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 to these unconsolidated financial statements. 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

	2017						Grand Total
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	
	(Rupees in '000)						
<b>Financial assets</b>							
Local currency - coins	861,860	-	-	-	-	-	<b>861,860</b>
Foreign currency accounts and investments	23,961,146	453,088,974	652,637,412	560,768,972	48,496,151	43,586,533	<b>1,782,539,188</b>
Earmarked foreign currency balances	10,319,532	-	-	-	-	-	<b>10,319,532</b>
Special Drawing Rights of the International Monetary Fund	-	-	63,657,319	-	-	-	<b>63,657,319</b>
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	17,382	-	-	-	<b>17,382</b>
Securities purchased under agreement to resell	1,533,373,313	-	-	-	-	-	<b>1,533,373,313</b>
Current accounts of Governments	7,279,247	-	-	-	-	-	<b>7,279,247</b>
Investments - local	2,685,705,638	-	-	-	-	-	<b>2,685,705,638</b>
Loans, advances and bills of exchange	352,697,329	417,749	-	-	-	-	<b>353,115,078</b>
Assets held with the Reserve Bank of India	-	1,384,376	-	-	-	-	<b>1,384,376</b>
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	9,917,256	-	-	-	-	<b>9,917,256</b>
Other assets	2,675,299	743,347	117,504	559,715	2,307	-	<b>4,098,172</b>
<b>Total financial assets</b>	<b>4,616,873,364</b>	<b>465,551,702</b>	<b>716,429,617</b>	<b>561,328,687</b>	<b>48,498,458</b>	<b>43,586,533</b>	<b>6,452,268,361</b>
	2016						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(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 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	2,146,774,755	-	-	-	-	-	2,146,774,755
Loans, advances and bills of exchange	339,294,499	423,249	-	-	-	-	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>-</b>	<b>6,085,999,015</b>

The geographical analyses is based on composition of financial assets in the specific continents other than for Pakistan which has been disclosed separately. All continents having significant composition have been presented separately while the remaining have been clubbed under "Others".

## 44.2.2 Industrial analysis

	2017					Grand Total
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	
----- (Rupees in '000) -----						
<b>Financial assets</b>						
Local currency - coins	861,860	-	-	-	-	<b>861,860</b>
Foreign currency accounts and investments	831,724,378	213,375,369	2,494,010	718,737,738	16,207,693	<b>1,782,539,188</b>
Earmarked foreign currency balances	10,319,532	-	-	-	-	<b>10,319,532</b>
Special Drawing Rights of the International Monetary Fund	-	63,657,319	-	-	-	<b>63,657,319</b>
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,382	-	-	-	<b>17,382</b>
Securities purchased under agreement to resell	-	-	-	1,533,373,313	-	<b>1,533,373,313</b>
Current accounts of Governments	7,279,247	-	-	-	-	<b>7,279,247</b>
Investments - local	2,521,557,198	-	160,249,170	3,899,270	-	<b>2,685,705,638</b>
Loans, advances and bills of exchange	13,340,783	-	32,990,934	296,890,086	9,893,275	<b>353,115,078</b>
Assets held with the Reserve Bank of India	1,384,376	-	-	-	-	<b>1,384,376</b>
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,917,256	-	-	-	-	<b>9,917,256</b>
Other assets	1,844,622	252,614	267,856	1,222,763	510,317	<b>4,098,172</b>
<b>Total financial assets</b>	<b>3,398,229,252</b>	<b>277,302,684</b>	<b>196,001,970</b>	<b>2,554,123,170</b>	<b>26,611,285</b>	<b>6,452,268,361</b>

	2016					Grand Total
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	
----- (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 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	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
<b>Total financial assets</b>	<b>3,005,300,981</b>	<b>246,263,481</b>	<b>99,206,925</b>	<b>2,712,183,158</b>	<b>23,044,470</b>	<b>6,085,999,015</b>

### 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.

	2017							Grand Total
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	
	------(Rupees in 000)-----							
<b>Financial assets</b>								
Local currency - coins	861,860	-	-	-	-	-	-	<b>861,860</b>
Foreign currency accounts and investments	2,818,137	327,909,180	790,607,846	646,085,502	12,836,602	-	2,281,921	<b>1,782,539,188</b>
Earmarked foreign currency balances	10,319,532	-	-	-	-	-	-	<b>10,319,532</b>
Special Drawing Rights of the International Monetary Fund	-	-	-	-	-	-	63,657,319	<b>63,657,319</b>
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,382	<b>17,382</b>
Securities purchased under agreement to resell	-	-	-	1,532,117,992	-	1,255,321	-	<b>1,533,373,313</b>
Current accounts of Governments	7,279,247	-	-	-	-	-	-	<b>7,279,247</b>
Investments - local	2,575,717,546	-	-	-	-	-	-	<b>2,575,717,546</b>
Loans, advances and bills of exchange	13,340,783	106,832,276	204,791,850	17,816,145	-	23,000	10,311,024	<b>353,115,078</b>
Assets held with the Reserve Bank of India	-	-	-	-	1,384,376	-	-	<b>1,384,376</b>
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	40,453	9,876,803	-	<b>9,917,256</b>
Other assets	1,844,622	280,764	224,919	889,481	21,250	-	837,136	<b>4,098,172</b>
<b>Total financial assets</b>	<b>2,612,181,727</b>	<b>435,022,220</b>	<b>995,624,615</b>	<b>2,196,909,120</b>	<b>14,282,681</b>	<b>11,155,124</b>	<b>77,104,782</b>	<b>6,342,280,269</b>

  

	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 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	-	-	-	1,532,762,001	-	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>

44.3.1 Government securities and balances, pertaining to Pakistan, are rated as sovereign. The international rating of Pakistan is B- (as per Moody's).

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	
	2017	2016	2017	2016
	------(Rupees in '000)-----			
Available for sale investment - unlisted	<b>2,431,758</b>	2,431,758	<b>856,863</b>	856,863
Loans and advances - agriculture sector	<b>12,321</b>	18,587	<b>12,321</b>	18,587
Loans and advances - industrial sector	<b>1,054,285</b>	1,054,285	<b>1,054,285</b>	1,054,285
Loans and advances - others	<b>1,063,630</b>	4,267,953	<b>1,063,630</b>	4,267,953
Assets held with the Reserve Bank of India	<b>1,384,376</b>	1,362,034	<b>1,384,376</b>	1,362,034
Balances due from the Governments of India and Bangladesh [(former East Pakistan) including loans recoverable from financial institutions operating in Bangladesh]	<b>10,340,535</b>	9,638,160	<b>10,340,535</b>	9,638,160

## 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.

	2017						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	-	-	-	861,860	-	861,860	861,860
Foreign currency accounts and investments	1,506,549,874	250,388,472	1,756,938,346	22,232,615	679,640	22,912,255	1,779,850,601
Earmarked foreign currency balances	-	-	-	10,319,532	-	10,319,532	10,319,532
Special Drawing Rights of the International Monetary Fund	63,657,319	-	63,657,319	-	-	-	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	17,382	-	17,382	17,382
Securities purchased under agreement to resell	1,533,129,822	-	1,533,129,822	243,491	-	243,491	1,533,373,313
Current accounts of Governments*	7,575,105	-	7,575,105	(295,858)	-	(295,858)	7,279,247
Investments - local	2,468,370,000	56,900,348	2,525,270,348	150,235,668	10,199,622	160,435,290	2,685,705,638
Loans, advances and bills of exchange	244,254,109	83,641,459	327,895,568	16,492,850	8,726,660	25,219,510	353,115,078
Assets held with the Reserve Bank of India	-	-	-	1,384,376	-	1,384,376	1,384,376
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,056,879	-	9,056,879	860,377	-	860,377	9,917,256
Other assets	-	-	-	3,592,061	1,035	3,593,096	3,593,096
	<b>5,832,593,108</b>	<b>390,930,279</b>	<b>6,223,523,387</b>	<b>205,944,354</b>	<b>19,606,957</b>	<b>225,551,311</b>	<b>6,449,074,698</b>
<b>Derivatives assets</b>							
Foreign currency accounts and investments	-	44,081	44,081	2,644,506	-	2,644,506	2,688,587
Other assets	-	-	-	505,076	-	505,076	505,076
	-	44,081	44,081	3,149,582	-	3,149,582	3,193,663
<b>Grand Total</b>	<b>5,832,593,108</b>	<b>390,974,360</b>	<b>6,223,567,468</b>	<b>209,093,936</b>	<b>19,606,957</b>	<b>228,700,893</b>	<b>6,452,268,361</b>
<b>Financial liabilities</b>							
Bank notes in circulation	-	-	-	4,167,135,807	-	4,167,135,807	4,167,135,807
Bills payable	-	-	-	630,547	-	630,547	630,547
Current accounts of the Governments*	178,601,965	-	178,601,965	-	-	-	178,601,965
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	50,746,464	-	50,746,464	50,746,464
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	135,612	-	135,612	135,612
Payable to Islamic Banking Institutions against Bai Muajjal transactions	25,098,651	-	25,098,651	38,579	-	38,579	25,137,230
Payable under bilateral currency swaps agreements	154,669,000	-	154,669,000	881,410	-	881,410	155,550,410
Deposits of banks and financial institutions	96,686,622	-	96,686,622	572,650,917	-	572,650,917	669,337,539
Other deposits and accounts	85,599,474	-	85,599,474	78,427,809	-	78,427,809	164,027,283
Payable to the International Monetary Fund	144,192,970	622,436,124	766,629,094	20,752,172	-	20,752,172	787,381,266
Other liabilities	-	-	-	19,157,376	-	19,157,376	19,157,376
	684,848,682	622,436,124	1,307,284,806	4,910,556,693	-	4,910,556,693	6,217,841,499
<b>On balance sheet gap (a)</b>	<b>5,147,744,426</b>	<b>(231,461,764)</b>	<b>4,916,282,662</b>	<b>(4,701,462,757)</b>	<b>19,606,957</b>	<b>(4,681,855,800)</b>	<b>234,426,862</b>
Foreign currency forward and swap contracts - sale	-	-	-	(935,079,726)	-	(935,079,726)	(935,079,726)
Foreign currency forward and swap contracts - purchase	-	-	-	498,678,723	-	498,678,723	498,678,723
Futures - sale	-	-	-	(43,038,829)	-	(43,038,829)	(43,038,829)
Futures - purchase	-	-	-	35,430,566	-	35,430,566	35,430,566
Capital Commitments	-	-	-	(189,027)	-	(189,027)	(189,027)
Off balance sheet gap	-	-	-	(444,198,293)	-	(444,198,293)	(444,198,293)
<b>Total yield / interest risk sensitivity gap</b>	<b>5,147,744,426</b>	<b>(231,461,764)</b>	<b>4,916,282,662</b>	<b>(4,257,264,464)</b>	<b>19,606,957</b>	<b>(4,237,657,507)</b>	<b>678,625,155</b>
<b>Cumulative yield / interest risk sensitivity gap</b>	<b>5,147,744,426</b>	<b>4,916,282,662</b>	<b>9,832,565,324</b>	<b>5,575,300,860</b>	<b>5,594,907,817</b>	<b>1,357,250,310</b>	<b>1,357,250,310</b>
Contingent liabilities in respect of guarantees given	-	-	-	3,384,264	20,608,998	23,993,262	23,993,262

(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

	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 balances	-	-	-	5,147,596	-	5,147,596	5,147,596
Special Drawing Rights of the 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>	<b>5,550,789,466</b>	<b>381,247,013</b>	<b>5,932,036,479</b>	<b>148,444,589</b>	<b>9,422,776</b>	<b>157,867,365</b>	<b>6,089,903,844</b>
<b>Financial liabilities</b>							
Bank notes in circulation	-	-	-	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 the 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	-	-	-	4,022,903	25,070,092	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.

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, 2017 would increase / decrease by Rs. 806.82 million (2016: Rs. 566 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 to these unconsolidated financial statements.

As at June 30, 2017, 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. 1,562.32 million (2016: Rs. 1,897.5 million) or decrease by Rs 1,565.47 million (2016: Rs. 1,918.47 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, 2017 with all other variables constant profit for the year would have been Rs. 6,784.87 million higher / lower (2016: Rs. 8,771.99 million). Net foreign currency exposure of the Bank is as follows:

	2017	2016
	(Rupees in '000)	
US Dollar	1,072,083,483	1,270,462,855
Pound Sterling	(62,074,847)	(78,830,048)
Chinese Yuan	(87,260,316)	(3,698,119)
Euro	(224,807,106)	(268,904,801)
Japanese Yen	(55,935,160)	(48,103,822)
United Arab Emirates Dirham	1,625,688	6,190,362
Australian Dollar	(139,679)	(92,021)
Canadian Dollar	(19,128)	22,191
Others	35,014,019	152,216
	<u>678,486,954</u>	<u>877,198,813</u>

Net exposure in Special Drawing Rights (SDR) is allocated to its five basket currencies i.e. the US dollar, the Euro, the Chinese renminbi, the Japanese yen and the British pound sterling 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 to these unconsolidated financial statements is prepared as of June 30, 2017 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, 2017, other comprehensive income would increase or decrease by Rs. 945.623 million (2016: Rs. 901.429 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, 2017 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 to these unconsolidated financial statements.

#### 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	
	2017	2016	2017	2016
------(Rupees in '000)-----				
<b>Financial assets</b>				
Local currency - coins	861,860	488,198	861,860	488,198
Foreign currency accounts and investments	1,782,539,188	1,977,084,370	1,782,539,188	1,977,084,370
Earmarked foreign currency balances	10,319,532	5,147,596	10,319,532	5,147,596
Special Drawing Rights of the International Monetary Fund	63,657,319	67,656,236	63,657,319	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	17,382	17,455	17,382	17,455
Securities purchased under agreement to resell	1,533,373,313	1,533,574,159	1,533,373,313	1,533,574,159
Current accounts of Governments	7,279,247	955,474	7,279,247	955,474
Investments - local	2,786,883,898	2,147,804,015	2,786,883,898	2,147,804,015
Loans, advances and bills of exchange	353,115,078	339,717,748	353,115,078	339,717,748
Assets held with the Reserve Bank of India	1,384,376	1,362,034	1,384,376	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,917,256	9,214,881	9,917,256	9,214,881
Other assets	4,098,172	4,006,109	4,098,172	4,006,109



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 assets in level 1**

Financial assets included in level 1 comprise of financial instruments 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 assets in level 2**

Financial assets included in level 2 comprise of preference shares of ZTBL as disclosed in note 12 classified as held to maturity, derivative financial assets in note 7.1 related to foreign currency accounts and investments and other assets in note 18 classified at fair value through profit or loss.

**(c) Financial assets in level 3**

Certain categories of operating fixed assets (land and building) and unlisted equity shares of ZTBL and HBFCL are classified as level 3 fair value.

**45.2 Valuation techniques used in determination of fair values within level 2 and level 3**

Item	Valuation approach and input used					
Forward foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.					
Operating fixed assets (Land and building)	Land and buildings are revalued to their fair values on a periodic basis by involving professional valuers. The fair values of land and building are determined by physically analysing the condition of land and building and in case of land 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. The management considers the above parameters used as the "highest and best use" and best evidence of fair value for its land and building. Note 16.2 to these unconsolidated financial statements highlights the year of valuation and external valuer name. The effect of changes in the unobservable inputs used in the valuations cannot be determined with certainty. Accordingly, a qualitative disclosure of sensitivity has not been presented in these unconsolidated financial statements.					
Investment in unlisted preference and ordinary shares	The finance department of the Bank includes a team which performed the valuations of preference shares of ZTBL and ordinary shares of ZTBL and HBFCL acquired during the year as more fully explained in notes 13.2.1 and 13.2.2 respectively to these unconsolidated financial statements. The team reports to the Director Finance and is responsible for ensuring that the final reported fair value figures are in accordance with IFRS.					
				Relationship of unobservable inputs to fair value		
				Increase in assumption by 50 basis points	Decrease in assumption by 50 basis points	
				(Rupees in '000)		
	ZTBL Preference shares	7.94%	Discounted Cashflow Method	Risk free discount rate for a 10 year Instrument	(1,799,149)	1,860,218
	ZTBL Ordinary Shares	17.50%	Dividend Discount Model	Risk adjusted discount rate	(80,312)	80,312
		2.82%		Disbursement level	1,646,396	(481,872)
		15.85%		Deposits growth	1,084,212	(321,248)
	HBFCL Ordinary Shares	14.66%	Cash Flow to Equity	Risk adjusted discount rate	(16,364)	16,364
		8.00%		Disbursement level	13,678	(4,298)

Item	Valuation approach and input used
	The main level 3 inputs used by the Bank are derived and evaluated as follows:
	- Discount margin/spreads represent the discount rates used when calculating the present value of future cash flows. In discounted cash flow models such spreads are added to the benchmark rate when discounting the future expected cash flows. Hence, these spreads reduce the net present value of an asset or increase the value of a liability. They generally reflect the premium an investor expects to achieve over the benchmark interest rate to compensate for the higher risk driven by the uncertainty of the cash flows caused by the credit quality of the asset. They can be implied from market prices and are usually unobservable for illiquid or complex instruments.
	Discount rates used for cashflows in the Dividend Discount Method (DDM) which is based on post-tax rate that reflects expected return on similar types of entities by the investors. This also takes into account the risks being faced by similar types of entities.
	- Disbursement growth level on a year to year basis keeping in view the past trends of the entities, general market conditions and market penetration.
	- Deposits growth of the entities based on the historic trends of similar entities in the market. The deposits growth is critical from the point of having sufficient cash flows to pay dividend.

## 46 CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2017				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	861,860	-	-	-	<b>861,860</b>
Foreign currency accounts and investments	1,063,277,816	382,140,984	337,120,388	-	<b>1,782,539,188</b>
Earmarked foreign currency balances	10,319,532	-	-	-	<b>10,319,532</b>
Special Drawing Rights of the International Monetary Fund	63,657,319	-	-	-	<b>63,657,319</b>
Reserve tranche with the International Monetary Fund under quota arrangements	17,382	-	-	-	<b>17,382</b>
Securities purchased under agreement to resell	1,533,373,313	-	-	-	<b>1,533,373,313</b>
Current accounts of Governments	7,279,247	-	-	-	<b>7,279,247</b>
Investments - local	2,521,557,198	-	54,160,348	109,988,092	<b>2,685,705,638</b>
Loans, advances and bills of exchange	353,115,078	-	-	-	<b>353,115,078</b>
Assets held with the Reserve Bank of India	1,384,376	-	-	-	<b>1,384,376</b>
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,917,256	-	-	-	<b>9,917,256</b>
Other assets	3,593,096	505,076	-	-	<b>4,098,172</b>
	------(Rupees in '000)-----				
	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	-	-	-	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

	2017		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	------(Rupees in '000)-----		
<b>Financial liabilities</b>			
Bank notes in circulation	4,167,135,807	-	<b>4,167,135,807</b>
Bills payable	630,547	-	<b>630,547</b>
Current accounts of Governments	178,601,965	-	<b>178,601,965</b>
Current account with SBP Banking Services Corporation - a subsidiary	50,746,464	-	<b>50,746,464</b>
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	135,612	-	<b>135,612</b>
Payable to Islamic Banking Institutions against Bai Muajjal transactions	25,137,230	-	<b>25,137,230</b>
Payable under bilateral currency swap agreement	155,550,410	-	<b>155,550,410</b>
Deposits of banks and financial institutions	669,337,539	-	<b>669,337,539</b>
Other deposits and accounts	164,027,283	-	<b>164,027,283</b>
Payable to the International Monetary Fund	787,381,266	-	<b>787,381,266</b>
Other liabilities	19,157,376	-	<b>19,157,376</b>
	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

#### 47 NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 26, 2017 have appropriated an amount of Rs 13,771.22 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, 2017 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, 2018.

#### 48 DATE OF AUTHORISATION

These financial statements were authorised for issue on October 26, 2017 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	2016 Rupees in '000
<b>Property, plant and equipment</b>	<b>Intangible assets</b>	
Capital work-in-progress	Capital work-in-progress	21,153

#### 50 GENERAL

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

Tariq Bajwa  
Governor

Riaz Riazuddin  
Deputy Governor

Inayat Hussain  
Executive Director