

9 Consolidated Financial Statements of SBP and its Subsidiaries

A. F. FERGUSON & CO.

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

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 consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries, SBP Banking Services Corporation, National Institute of Banking and Finance (Guarantee) Limited and Pakistan Security Printing Corporation (Private) Limited (together “the Group”), which comprise the consolidated balance sheet as at June 30, 2017, and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at June 30, 2017, and of its consolidated financial performance and its consolidated 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 Group 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is

A. F. FERGUSON & CO.
Chartered Accountants

EY FORD RHODES
Chartered Accountants

necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are

A. F. FERGUSON & CO.
Chartered Accountants

EY FORD RHODES
Chartered Accountants

based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Salman Hussain
Audit Engagement Partner

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

Dated: October 27, 2017

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2017

	Note	2017	2016
------(Rupees in '000)-----			
ASSETS			
Cash and bank balances held by a subsidiary	6	2,190,657	-
Gold reserves held by the Bank	7	270,361,202	287,170,323
Local currency - coins	8	861,860	488,198
Foreign currency accounts and investments	9	1,782,539,188	1,977,084,370
Earmarked foreign currency balances	10	10,319,532	5,147,596
Special Drawing Rights of the International Monetary Fund	11	63,657,319	67,656,236
Reserve tranche with the International Monetary Fund under quota arrangements	12	17,382	17,455
Securities purchased under agreement to resell	13	1,533,373,313	1,533,574,159
Current accounts of Governments	24.2	7,279,247	955,474
Investments - local	14	2,694,286,076	2,147,418,594
Long Term Investment in associates	15	2,134,590	-
Loans, advances and bills of exchange	16	362,703,790	350,571,180
Taxation - net		398,414	-
Assets held with the Reserve Bank of India	17	5,758,914	6,012,137
Balances due from the Governments of India and Bangladesh (former East Pakistan)	18	9,917,256	9,214,881
Property, plant and equipment	19	111,142,903	60,074,805
Intangible assets	20	107,554	24,986
Deferred taxation	21	193,274	-
Other assets	22	8,657,388	4,348,162
Total assets		6,865,899,859	6,449,758,556
LIABILITIES			
Bank notes in circulation	23	4,167,135,807	3,554,922,057
Bills payable		630,547	598,142
Current accounts of Governments	24.1	178,601,965	606,657,778
Payable to Islamic Banking Institutions against Bai Muajjal transactions	25	25,137,230	44,952,938
Payable under bilateral currency swap agreement	26	155,550,410	158,507,631
Deposits of banks and financial institutions	27	669,337,539	391,760,469
Other deposits and accounts	28	164,665,074	161,552,998
Payable to the International Monetary Fund	29	787,381,266	778,739,505
Other liabilities	30	57,515,443	49,579,000
Deferred liability - staff retirement benefits	31	89,806,875	82,419,258
Endowment fund		98,421	94,207
Total liabilities		6,295,860,577	5,829,783,983
Net assets		570,039,282	619,974,573
REPRESENTED BY			
Share capital	32	100,000	100,000
Reserves	33	100,664,452	175,944,238
Unappropriated profit		44,154,941	3,712,051
Unrealised appreciation on gold reserves held by the Bank	34	266,327,601	283,342,601
Unrealised appreciation on remeasurement of investments - local	14.6	93,302,881	91,386,276
Surplus on revaluation of property, plant and equipment		65,489,407	65,489,407
Total equity		570,039,282	619,974,573
CONTINGENCIES AND COMMITMENTS	35		

Pursuant to the requirements of section 26 (1) of the SBP Act, 1956, the assets of the Group specifically earmarked against the liabilities of the issue department have been detailed in note 23.1 to these consolidated financial statements.

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.

Tariq Bajwa
Governor

Riaz Riazuddin
Deputy Governor

Inayat Hussain
Executive Director

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2017

	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
Discount, interest / mark-up and / or profit earned	36	260,870,627	252,831,070
Less: interest / mark-up expense	37	<u>(21,368,844)</u>	<u>(25,454,480)</u>
		239,501,783	227,376,590
Commission income	38	2,591,194	1,909,180
Exchange gain - net	39	24,569,638	25,779,375
Dividend income		12,248,843	12,226,343
Share of profit from associates	40	26,196	-
Other operating income - net	41	574,355	2,756,112
Other income - net	42	<u>302,049</u>	<u>160,960</u>
		279,814,058	270,208,560
Less: Operating expenses			
- Cost of preparation of bank notes and printing charges	43	9,127,971	7,730,740
- Agency commission	44	9,679,298	8,968,647
- General administrative and other expenses	45	22,941,749	24,250,586
(Reversal of provision against) / Provision for / write-off:			
- loans and advances - net	16.4	(6,139)	(756)
- claims	30.3.2	-	(232)
- other doubtful assets	30.3.1.1	16,842	(86,213)
- others		(14,674)	(7,338)
		<u>(3,971)</u>	<u>(94,539)</u>
		41,745,047	40,855,434
Profit before taxation		238,069,011	229,353,126
Taxation	46	5,414	-
Profit after taxation		238,063,597	229,353,126

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.

Tariq Bajwa
Governor

Riaz Riazuddin
Deputy Governor

Inayat Hussain
Executive Director

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2017

	<i>Note</i>	2017	2016
		----- (Rupees in '000) -----	
Profit after taxation for the year		238,063,597	229,353,126
Other comprehensive income			
Items that will be reclassified subsequently to consolidated profit and loss account when specific conditions are met:			
Unrealised appreciation on remeasurement of investments - local			
- Appreciation during the year	14.6	1,918,895	7,391,288
- Share of associates of other comprehensive income / (loss) - net of deferred tax		(2,290)	-
		1,916,605	7,391,288
Unrealised (diminution) / appreciation on gold reserves held by the Group	7	(17,015,000)	39,975,291
		(15,098,395)	47,366,579
Items that will not be reclassified subsequently to the consolidated profit and loss account:			
Remeasurements of staff retirement defined benefit plans - net of deferred tax	45.3.4 & 45.4.6	(3,805,653)	(15,327,075)
Remeasurements of property, plant and equipment		-	39,511,003
		(3,805,653)	24,183,928
Total comprehensive income for the year		219,159,549	300,903,633

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.

Tariq Bajwa
Governor

Riaz Riazuddin
Deputy Governor

Inayat Hussain
Executive Director

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2017

Share capital	Reserves								Unappropriated profit / (loss)	Unrealised appreciation / (diminution) on gold reserves held by the Bank	Unrealised appreciation / (diminution) on remeasurement of investments - local	Surplus on revaluation of property, plant and equipment	Total	
	Reserve for acquisition of PSPC	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Reserve created as a result of acquisition of PSPC (note 2)						
(Rupees in '000)														
Balance as at July 1, 2015	100,000	-	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	-	243,367,310	83,994,988	25,978,404	529,384,940
Total comprehensive income for the year														
Profit for the year	-	-	-	-	-	-	-	-	-	229,353,126	-	-	-	229,353,126
Other comprehensive income														
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	-	-	7,391,288	-	7,391,288
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	-	-	39,975,291	-	-	39,975,291
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	-	-	(15,327,075)	-	-	-	(15,327,075)
Remeasurements of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	39,511,003	39,511,003
Transactions with owners														
Dividend	-	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	(210,304,000)	-	-	-	(210,304,000)
	-	-	-	-	-	-	-	-	-	(210,314,000)	-	-	-	(210,314,000)
Balance as at June 30, 2016	100,000	-	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	3,712,051	283,342,601	91,386,276	65,489,407	619,974,573
Total comprehensive income for the year														
Profit after taxation for the year	-	-	-	-	-	-	-	-	-	238,063,597	-	-	-	238,063,597
Transfer to the reserve fund	-	-	1,999,567	-	-	-	-	-	-	(1,999,567)	-	-	-	-
Transfer from the reserve fund	-	65,464,000	(65,464,000)	-	-	-	-	-	-	-	-	-	-	-
Reserve created as a result of acquisition of PSPC (note 2)	-	-	-	-	-	-	-	-	(41,279,353)	-	-	-	-	(41,279,353)
Share of other comprehensive income of associates - net of deferred tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income														
Share in loss of associates relating to investment classified as "available for sale"	-	-	-	-	-	-	-	-	-	-	-	(2,290)	-	(2,290)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	-	-	1,918,895	-	1,918,895
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	-	-	(17,015,000)	-	-	(17,015,000)
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	-	-	(3,805,653)	-	-	-	(3,805,653)
Transactions with owners														
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)
Balance as at June 30, 2017	100,000	65,464,000	65,179,805	2,600,000	1,600,000	1,500,000	900,000	4,700,000	(41,279,353)	44,154,941	266,327,601	93,302,881	65,489,407	570,039,282

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.

Tariq Bajwa
Governor

Riaz Riazuddin
Deputy Governor

Inayat Hussain
Executive Director

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017 ----- (Rupees in '000) -----	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	47	234,134,201	273,910,044
Taxes received / (paid)		20,102	-
(Increase) / decrease in assets:			
Foreign currency accounts and investments		(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		(471,377,545)	275,513,962
Loans, advances and bills of exchange		(74,538,445)	(1,492,519)
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		1,230,399	(180,279)
		<u>(643,778,662)</u>	<u>(670,717,378)</u>
		(409,624,359)	(396,807,334)
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
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)
Other deposits and accounts		3,112,076	14,355,148
Retirement benefits and employees' compensated absences		(7,609,727)	(13,880,942)
Other liabilities		766,651	4,944,673
Endowment fund		4,214	4,816
		<u>428,738,045</u>	<u>894,928,857</u>
Net cash generated from operating activities		19,113,686	498,121,523
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		12,248,843	12,226,343
Payment for acquisition of Pakistan Security Printing Corporation - net of cash acquired		(98,649,872)	
Capital expenditure		(1,274,978)	(1,266,970)
Proceeds from disposal of property, plant and equipment		46,074	24,603
Net cash generated from investing activities		(87,629,933)	10,983,976
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(227,805,487)	(227,895,141)
Receipts from International Monetary Fund		8,641,761	224,566,523
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(219,173,726)	(3,338,618)
Increase in cash and cash equivalents during the year		(287,689,973)	505,766,881
Cash and cash equivalents at the beginning of the year		1,811,145,674	1,350,924,757
Effect of exchange gain on cash and cash equivalents		(1,687,144)	(45,545,964)
Cash and cash equivalents at the end of the year	48	<u>1,521,768,557</u>	<u>1,811,145,674</u>

The annexed notes from 1 to 56 form an integral part of these consolidated financial statements.

Tariq Bajwa
Governor

Riaz Riazuddin
Deputy Governor

Inayat Hussain
Executive Director

STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. STATUS AND NATURE OF OPERATIONS

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

- SBP Banking Services Corporation
- National Institute of Banking and Finance (Guarantee) Limited
- Pakistan Security Printing Corporation (Private) Limited
- Deposit Protection Corporation - non operational

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

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

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

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

a) SBP Banking Services Corporation - wholly owned subsidiary:

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

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

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

National Institute of Banking and Finance (Guarantee) Limited '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 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. Acquisition of Pakistan Security Printing Corporation (Private) Limited (PSPC)

During the year, the Bank has acquired 100% shareholding in Pakistan Security Printing Corporation (Private) Limited (PSPC) from the Federal Government against a purchase consideration of Rs 100.149 billion. The effective date of acquisition of PSPC is June 14, 2017.

Prior to acquisition of PSPC by the Bank, PSPC was 100 percent owned by the Federal Government. The controlling interest of the Bank also rests with the Federal Government being the major shareholder. Accordingly, the acquisition of the controlling interest by the Bank in PSPC is considered as a business combination between entities under common control as the Federal government is the ultimate controlling party for both the entities both before and after the transaction. The management has opted to apply predecessor method accounting for incorporating this transaction in the consolidated financial statements. Under this method, the net assets of PSPC are included in the consolidated financial statements at the same carrying values at which they were recorded in PSPC's own financial statements as on the acquisition date (i.e June 14, 2017). The results and statement of financial position of PSPC are consolidated prospectively from the date of acquisition. The difference between the purchase consideration and the net assets acquired is recognised in equity as a capital reserve under the head "Reserve created as a result of acquisition of PSPC".

The assets and liabilities of PSPC as on the acquisition date were as follows:

	As on June 14, 2017
	Rupees in '000
Assets	
Cash and bank balances	1,499,128
Investments - local	9,137,428
Investment in associates	2,111,012
Loans, advances and bills of exchange	87,539
Taxation - net	423,118
Deferred taxation	190,685
Property, plant and equipment	52,183,913
Intangible assets	103
Other assets	5,539,625
TOTAL ASSETS	71,172,551
Liabilities	
Deferred liability - Staff retirement benefits	3,119,272
Other liabilities	9,183,632
TOTAL LIABILITIES	12,302,904
NET ASSETS	58,869,647
Cash paid for acquisition of shares	100,149,000
Recognised as capital reserve	(41,279,353)

The acquisition was approved by the Board of Directors of the Bank in their meeting held on May 31, 2017.

The profit after tax of the PSPC (subsequent to its acquisition by the Bank) for the period from June 14, 2017 to June 30, 2017 amounted to Rs. 11.704 million.

3. STATEMENT OF COMPLIANCE

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

4. BASIS OF MEASUREMENT

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

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

4.3 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:

4.3.1 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 consolidated balance sheet 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. Judgements 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 5.5 to these consolidated financial statements.

4.3.2 Effective Interest Rate (EIR) method

The Group'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.

4.3.3 Impairment against loans and advances

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

4.3.4 Impairment of available-for-sale investments

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

4.3.5 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 45.3.1 and 45.4.1 to these consolidated financial statements.

4.3.6 Useful life and residual value of property and equipment

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

4.4 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:

Standards	Effective date (annual periods beginning on or after)
- 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
Amendments	
- 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
Interpretations	
- IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
- IFRIC 23, 'Uncertainty over income tax treatment'	January 1, 2019
Improvements	
- 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 Group expects that the adoption of the above standards, amendments, interpretations and improvements will not have any material impact on the Group's financial statements in the period of initial application other than the initial application of IFRS 9, 'Financial instruments' and IFRS 15, 'Revenue from contracts with customers' as described below:

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

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The management is in the process of assessing the impact of IFRS 15 on the consolidated financial statements of the Group.

4.5 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 Group's operations and are, therefore, not disclosed in these consolidated financial statements.

5. SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Basis of consolidation

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

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

All material inter group balances and transactions have been eliminated.

5.2 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 Group as per the requirements stipulated in the State Bank of Pakistan Act, 1956. The cost of producing the notes including printing charges is charged to the consolidated 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 Group also issues coins of various denominations on behalf of the Government of Pakistan (GoP). These coins are purchased from the GoP at their respective face values. The coins held by the Group form part of the assets of the Issue Department.

5.3 Financial assets and financial liabilities

Financial instruments carried on the consolidated balance sheet include cash and bank balances held by a subsidiary, local currency - coins, foreign currency accounts and investments, earmarked foreign currency balances, investments - local, loans, advances and bills of exchange, assets held with Reserve Bank of India (other than gold held by Reserve Bank of India), balances due from the governments of India and Bangladesh, taxation, 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 the Group becomes a party to the contractual provisions of the instruments. This includes purchases or sale of financial assets that require delivery of asset within the time frame generally established by regulations in market conventions.

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the consolidated profit and loss account. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in note 5.5 is recognised in the consolidated profit and loss account.

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

5.3.1 Financial assets and financial liabilities at 'fair value through profit or loss' / 'held for trading'

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

5.3.2 Held to maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold till maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, 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 consolidated profit and loss account. The losses arising from impairment of such investments are recognised in the consolidated profit and loss account.

5.3.3 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 consolidated profit and loss account.

5.3.4 Available-for-sale financial assets

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

5.3.5 Investment in associates

Entities in which the Group has significant influence but not control and which are neither its subsidiaries nor joint ventures are classified as associates and are accounted for by using the equity method of accounting.

These investments are initially recognised at cost, thereafter the carrying amount is increased or decreased to recognise the Group share of profit or loss of associates. Share of post acquisition profit and loss of associates is accounted for in the consolidated profit and loss account. Distribution received from investee reduces the carrying amount of investment. The Group's share of associates' other comprehensive income is recognised in consolidated Other Comprehensive Income of the Group.

The carrying amount of the investment is tested for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount and loss, if any is recognised in the consolidated profit and loss account.

Unrealised gains / losses arising from transactions with associated companies are eliminated against the investment in the associates to the extent of Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

The Group accounts for its share of comprehensive income from associates as at year end on the basis of latest available financial statement of associates but not older than three months.

5.3.6 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.

5.4 Derecognition of financial asset and financial liabilities

a) Financial assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration 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 consolidated profit and loss account.

b) Financial liabilities

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

5.5 Fair value measurement principles

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

5.6 Offsetting

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

5.7 Derivative financial instruments

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

5.8 Collateralised borrowing / lending

5.8.1 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 consolidated balance sheet and an asset is recorded in respect of the consideration paid as "Securities purchased under agreement to resell". The difference between the sale and repurchase price in the repurchase transaction and the purchase price and resell price in reverse repurchase transaction represents expense and income respectively, and is recognised in the consolidated profit and loss account on time proportion basis. Both repurchase and reverse repurchase transactions are reported at transaction value inclusive of any accrued expense / income.

5.8.2 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 Group / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Group and interest is charged / earned at agreed rates to the consolidated profit and loss account on a time proportion basis from the date of actual use. Any unutilised limit of the counterpart's drawing is reported as commitments.

5.9 Payable to Islamic Banking Institutions against Bai Muajjal transactions

The Group 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 consolidated 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).

5.10 Gold reserves

Gold is recorded at the cost, which is the prevailing market rate, at initial recognition. Subsequent to initial measurement, it is revalued at the closing market rate fixed by the London Bullion Market Association on the last working day of the year which is also 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 Group". Appreciation / diminution realised on disposal of gold is taken to the consolidated profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the consolidated statement of changes in equity pending transfer of these assets to the Group subject to final settlement between the Governments of Pakistan and India. Instead it is shown in "other liabilities" as provision for other doubtful assets.

5.11 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances of subsidiary company, 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.

5.12 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 consolidated profit and loss account using the straight-line method whereby the cost / revalued amount of an asset is written off over its estimated useful life at the rates specified in note 19.1 to these consolidated 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 consolidated profit and loss account from the month in which the asset is available for use while no depreciation is charged in the month in which the assets are deleted / disposed off. Normal repairs and maintenance are charged to the consolidated profit and loss account as and when incurred. Major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are included in the consolidated profit and loss account.

Increase in carrying amount arising on revaluation of land and buildings is recognised in consolidated 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 consolidated 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 consolidated profit and loss account.

5.13 Leased Assets

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements net of financial charges allocable to future periods are shown in other liabilities .

The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets owned by the PSPC.

5.14 Investment Property

Investment properties are measured initially at cost, including related transaction costs. These properties are carried at cost less accumulated depreciation subsequent to initial recognition.

Additions to investment properties consists of cost of capital nature. The profit on disposal is determined as a difference between sales proceeds and the carrying amount of the assets at the commencement of the accounting period plus capital expenditure in the period.

5.15 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 specified in note 20.1 to these consolidated financial statements. Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

5.16 Accounts receivables and other receivables

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

5.17 Impairment of financial assets

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

a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for 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 consolidated profit and loss account. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated profit and loss account.

b) Available-for-sale financial assets

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

5.18 Impairment of non-financial assets

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

5.19 Stores and spares

Stores and spares held by PSPC are valued at the lower of cost determined on weighted average method and net realisable value. Stores and spares in transit are valued at cost incurred upto the balance sheet date. Local purchases of engineering stores are charged to the consolidated profit and loss account at the time of purchase.

The Group reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form.

5.20 Stock-in-trade-PSPC

Raw materials are valued at lower of cost determined on weighted average basis and net realisable value except for items in transit which are stated at cost incurred upto the balance sheet date.

Work-in-process and finished goods are valued at lower of cost determined on weighted average basis and net realisable value. Cost in relation to work-in-process and finished goods represents direct cost of materials, direct wages and an appropriate portion of production overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated cost of completion and the costs necessary to be incurred to make the sale.

5.21 Stationery and other consumables

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

5.22 Provisions

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

5.23 Transactions and balances with the International Monetary Fund

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

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

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

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

5.24 Staff retirement benefits

5.24.1 The Bank operates:

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

5.24.2 The SBP Banking Service Corporation operates the following staff retirement benefit schemes for employees:

- a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme. Under this scheme, contribution is made both by the Corporation and employee at the rate of 6% of the monetized salary. The Corporation provided an option to employees covered under old scheme to join the funded New Contributory Provident Fund Scheme - NCPF (new scheme) effective from July 1, 2010. Under this scheme contribution is made by both the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new scheme.
- b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for this new scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.
- c) an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
- d) a funded New Gratuity Fund (NGF) which was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
- e) an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of EGF which is effective from July 1, 2010;

Following are other staff retirement benefit schemes operated for employees of the Corporation:

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

5.24.3 The Pakistan Security Printing Corporation (Private) Limited operates following staff retirement benefits scheme for employees:

An approved funded defined benefit funded pension scheme for all its permanent employees under the Pakistan Security Printing Corporation (Private) Limited Employees (Pension and Gratuity) Regulations 1993 (the regulations). As a result of business reorganisation, employees relating to National Security Printing Corporation (Private) Limited (NSPC) were transferred to NSPC and as per the business transfer agreement dated May 19, 2017 the cost of gratuity or pension are to be borne by transferee company i.e. NSPC, accordingly, the pension fund has become a multi-employer fund. Under the scheme, the employees are entitled to the following:

- a) employees who have completed the prescribed qualifying period of more than ten years of service and opt for the scheme are entitled to post retirement pension benefit; and
- b) gratuity for employees who have opted for gratuity instead of pension or those who have completed five years of service but have not yet completed ten years of service.

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

5.24.5 Annual provisions are made by the Group to cover the obligations arising under defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2017. The amount arising as a result of remeasurements are recognised in the consolidated balance sheet immediately, with a charge or credit to consolidated other comprehensive income in the period in which they occur.

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

5.25 Compensated absences

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

5.26 Trade and other payables

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

5.27 Borrowing costs

Borrowing costs relating to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which these are incurred.

5.28 Leases

Liabilities against assets subject to finance lease are accounted for at the net present value of minimum payments under the lease arrangements. Financial charges under lease arrangements are allocated to periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

5.29 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.

5.30 Revenue recognition

- Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset. However, income on balances with Bangladesh (former East Pakistan), doubtful loans and advances and overdue return on investments is recognised on receipt basis.
- Revenue from sale of goods is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. The Group records revenue from sale of goods on dispatch of goods to its customers.
- Commission income is recognised when related services are rendered.
- Dividend income is recognised when the Group's right to receive the dividend is established.
- Gains / losses on disposal of securities are recognised in the consolidated profit and loss account at the trade date.
- Training, education and hostel services are recognised on accrual basis.
- Rental income from property is accrued on time proportion basis at agreed rates.
- Return on bank deposits is recognised on accrual basis taking into account the effective yield.
- Scrap sales and miscellaneous income are recognised on receipt basis.
- All other revenues are recognised on a time proportion basis.

5.31 Finances under profit and loss sharing arrangements

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

5.32 Foreign currency translation

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

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

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

Commitments for outstanding foreign exchange forward, future and swap contracts disclosed in note 35.2 to these consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

5.33 Taxation

The income of the Bank and the SBP Banking Services Corporation are exempt from tax under applicable laws. However, in case of the Institute, the Institute is eligible for hundred percent (100%) tax credit on taxes payable by the Institute under clause (d) of sub-section 2 of section 100C of the Income Tax Ordinance, 2001, introduced under the Finance Act, 2015. The income of PSPC is subject to tax at applicable rates.

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the consolidated profit and loss account or statement of comprehensive income to which it relates. Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

Current

The charge for current taxation is based on expected taxable income for the year at the current rates of taxation, after taking into consideration available tax credits, rebates, tax losses, etc. The charge for current tax also includes adjustments to tax payable in respect of previous years including those arising from assessments finalised during the year and are separately disclosed.

Deferred

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences relating to initial recognition of goodwill, initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

	Note	2017	2016
		----- (Rupees in '000) -----	
6. CASH AND BANK BALANCES HELD BY A SUBSIDIARY			
With banks in current accounts	6.1	2,184,161	-
Cash in hand		6,496	-
		<u>2,190,657</u>	<u>-</u>
6.1		This includes remunerative accounts carrying mark-up ranging from 3.75% to 6.25% per annum.	
7. GOLD RESERVES HELD BY THE BANK	Note	2017	2016
		----- (Rupees in '000) -----	
		Net content in troy ounces	
Opening balance		2,074,032	287,170,323
Additions during the year		1,602	205,879
(Diminution) / appreciation for the year due to revaluation	34	(17,015,000)	39,975,291
	23.1	<u>2,075,634</u>	<u>287,170,323</u>
8. LOCAL CURRENCY - COINS	Note	2017	2016
		----- (Rupees in '000) -----	
Coins held as an asset of the Issue Department	8.1 & 23.1	861,860	488,198

- 8.1** As mentioned in note 5.2, the Group is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of coins held by the Group at the year end (also refer note 23.1).

9. FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2017	2016
------(Rupees in '000)-----			
At fair value through profit or loss - held-for-trading			
- Investments	9.1	379,452,397	269,942,861
- Unrealised gain / (loss) on derivative financial instruments - net	9.2	2,688,587	(3,904,829)
Held to maturity investment	9.3	337,120,388	238,549,410
Loans and receivables			
- Deposit accounts		90,760,872	26,378,414
- Current accounts		20,926,003	6,689,560
- Securities purchased under agreement to resell	9.4	178,482,457	569,237,084
- Money market placements	9.5	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:			
Issue Department	23.1	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>

- 9.1** 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).
- 9.2** 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.
- 9.3** 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).
- 9.4** 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).
- 9.5** These represent 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).

10. EARMARKED FOREIGN CURRENCY BALANCES

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

11. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Group as at June 30, 2017. Interest is credited by the IMF on the SDR holding of the Group at weekly interest rates on daily products of SDRs held during each quarter.

	Note	2017	2016
------(Rupees in '000)-----			
SDRs are held as follows:			
- By the Issue Department	23.1	51,051,350	51,179,450
- By the Banking Department		12,605,969	16,476,786
		<u>63,657,319</u>	<u>67,656,236</u>

		2017	2016	
		----- (Rupees in '000) -----		
12.	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>	
13.	SECURITIES PURCHASED UNDER AGREEMENT TO RESELL			
	This represents collateralised lendings made to various financial institutions under repurchase arrangement carrying mark-up at rates 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 Group consist of Pakistan Investment Bonds and Market Treasury Bills.			
14.	INVESTMENTS - LOCAL	<i>Note</i>		
			2017	
			2016	
			----- (Rupees in '000) -----	
	Loans and receivables			
	Government securities			
	- 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>
		14.1	<u>2,521,557,198</u>	<u>2,050,313,403</u>
	Others			
	- Term Deposit Receipt	14.2	6,207,070	-
			<u>2,527,764,268</u>	<u>2,050,313,403</u>
	Held to maturity			
	Government securities			
	- Pakistan Investment Bonds		105,118	-
	- Market Treasury Bills	14.1	<u>659,000</u>	<u>643,839</u>
			<u>764,118</u>	<u>643,839</u>
	Investments in banks and other financial institutions			
	- Preference shares - unlisted	14.3	<u>54,160,348</u>	-
			<u>54,924,466</u>	<u>643,839</u>
	Fair value through profit and loss			
	- Mutual Funds		1,582,086	-
	Available - for - sale investments			
	- Mutual Funds		27,164	-
	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>
		14.4	<u>110,726,528</u>	<u>97,199,788</u>
	Term Finance Certificates		84,722	84,722
	Certificates of Deposits		<u>33,705</u>	<u>33,705</u>
			<u>110,872,119</u>	<u>97,318,215</u>
	Provision against diminution in value of investments	14.5	<u>(856,863)</u>	<u>(856,863)</u>
			<u>110,015,256</u>	<u>96,461,352</u>
			<u>2,694,286,076</u>	<u>2,147,418,594</u>
	The above investments are held as follows:			
	Issue Department - MRTBs	23.1	2,344,098,193	1,973,105,293
	Banking Department / subsidiaries		<u>350,187,883</u>	<u>174,313,301</u>
			<u>2,694,286,076</u>	<u>2,147,418,594</u>

14.1 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
Pakistan Investment Bonds	11.25	-
Market Treasury Bills	5.91 to 6.11	5.91 to 6.26

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

14.2 This represents term deposit receipts maturing upto 12 months with various banks bearing mark-up at rates ranging from 5.6% to 7.6% (2016: 5.6% to 7.6%) per annum. Term deposit receipt of Rs 22 million is marked under lien against bank guarantee.

14.3 This represents 5,446.153 million preference shares of Rs. 10 each issued by Zarai Taraqiati Bank Limited against conversion of outstanding loan of Rs. 54,461.536 million as more fully explained in note 16.1.1 to these consolidated 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.

14.4 Investments in shares of banks and other financial institutions

	<i>Note</i>	2017 -----% of holding-----	2016	2017 ----- (Rupees in '000) -----	2016
Listed					
- National Bank of Pakistan	14.4.2	75.20	75.20	94,406,896	92,487,082
Unlisted					
- Zarai Taraqiati Bank Limited	14.4.3	76.23	-	10,199,622	-
- House Building Finance Company Limited	14.4.4	90.31	37.50	1,482,304	75,000
Unlisted - at cost					
Other investments with holding less than or equal to 50%				4,637,706	4,637,706
				16,319,632	4,712,706
				110,726,528	97,199,788

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

14.4.2 Cost of the Group'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).

14.4.3 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 16.1.1 to these unconsolidated financial statements. These ordinary shares have been recognised at fair value upon initial recognition / receipt.

14.4.4 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 16.1.2 to these unconsolidated financial statements. These ordinary shares have been recognised at fair value upon initial recognition / receipt.

	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
14.5 Provision against diminution in value of investments - local - net			
Opening balance		856,863	856,863
Reversal during the year		-	-
Closing balance		<u>856,863</u>	<u>856,863</u>
14.6 Unrealised appreciation on remeasurement of investments - local			
Opening balance		91,386,276	83,994,988
Appreciation for the year		1,918,895	7,391,288
Share in loss of associates relating to "Available for sale investment"		(2,290)	
Closing balance		<u>93,302,881</u>	<u>91,386,276</u>
15. INVESTMENTS IN ASSOCIATES		Percentage holding	2017
Investments in associates are accounted for using equity method of accounting:		%	· (Rupees in '000)
Security Papers Limited		40.03	1,624,763
SICPA Inks Pakistan (Private) Limited		47	<u>509,827</u>
			<u>2,134,590</u>
15.1 Summarised financial statements of the associates are as follows:			
		Security Papers Limited	SICPA Inks Pakistan (Private) Limited
		(audited)	(unaudited)
		June 30, 2017	March 31, 2017
		-----Rupees '000-----	
Total Assets of the Company		<u>5,679,207</u>	<u>1,982,402</u>
Total Liabilities of the Company		<u>1,078,750</u>	<u>510,972</u>
		Year ended June 30, 2017	Year ended March 31, 2017
		-----Rupees '000-----	
Total Revenue of the Company		<u>2,842,085</u>	<u>2,519,454</u>
Profit after tax of the Company		<u>937,653</u>	<u>554,503</u>
Total Other comprehensive (loss) / income of the Company		<u>(142,265)</u>	<u>1,509</u>
15.2 The market value of SPL as at June 30, 2017 is Rs 105.59 per share i.e. an aggregate amount of Rs 2,504.779 million. The breakup value based on net assets of SICPA as per latest unaudited financial statements as on March 31, 2017 is Rs 258.146 per share i.e. an aggregate amount of Rs 691.573 million.			
	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
16. LOANS, ADVANCES AND BILLS OF EXCHANGE			
Government owned / controlled financial institutions	16.1	<u>47,796,089</u>	102,794,207
Private sector financial institutions	16.2	<u>297,555,950</u>	232,449,996
		<u>345,352,039</u>	335,244,203
Employees	16.3	<u>19,489,724</u>	20,675,412
		<u>364,841,763</u>	355,919,615
Provision against doubtful balances	16.4	<u>(2,137,973)</u>	(5,348,435)
		<u>362,703,790</u>	<u>350,571,180</u>

16.1 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 (16.1.1)	439,900	50,767,526	-	-	439,900	50,767,526
Industrial sector (16.1.1 & 16.1.2)	8,063,316	4,821,191	-	-	8,063,316	4,821,191
Export sector (16.2.1)	25,554,323	19,020,317	3,567	3,567	25,557,890	19,023,884
Housing sector (16.2.2)	-	-	-	11,242,300	-	11,242,300
Others (16.2.1, 16.2.3 & 16.2.4)	13,734,983	16,939,306	-	-	13,734,983	16,939,306
	47,792,522	91,548,340	3,567	11,245,867	47,796,089	102,794,207

16.1.1 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 Taraqati 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 14.3 to these consolidated 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 14.4 and the related gain arising due to reversal of suspended mark-up is reflected in note 41.1 to these consolidated financial statements.

16.1.2 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) 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 14.4 to these consolidated financial statements. Further, the share of loss amounting to Rs 1,378 million payable in respect of profit and loss sharing arrangements by the Group to HBFCL has been written back. The net loss amounting to Rs. 8,457 arising on this arrangement is reflected in note 41.1 to these consolidated financial statements.

16.1.3 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'.

16.1.4 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).

16.2 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 (16.2.1)	212,825,188	185,597,057	-	-	212,825,188	185,597,057
Others (16.2.2)	2,485,782	2,280,443	-	-	2,485,782	2,280,443
	288,242,086	227,375,254	9,313,864	5,074,742	297,555,950	232,449,996

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

16.2.2 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.

16.3 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	0 to 9.75	0 to 9.75
Employees loans (where applicable)	0 to 10	0 to 10
------(Rupees in '000)-----		
Opening balance	5,348,435	5,349,191
Charge for the year	127	
Reversal during the year on:		
- issuance of preference shares of Zarai Taraqiati Bank Limited	(3,204,323)	-
- cash recovery	(6,266)	(756)
Closing balance	2,137,973	5,348,435

16.4 Provision against doubtful assets

	Note	2017	2016
------(Rupees in '000)-----			
17. ASSETS HELD WITH THE RESERVE BANK OF INDIA			
Gold reserves			
- Opening balance		4,650,103	4,002,690
- (Diminution) / appreciation for the year due to revaluation	30.3.1.1	<u>(275,565)</u>	<u>647,413</u>
		4,374,538	4,650,103
Sterling securities		450,221	467,390
Government of India securities		231,832	222,024
Rupee coins		<u>4,769</u>	<u>4,576</u>
	17.1	5,061,360	5,344,093
Indian notes representing assets receivable from the Reserve Bank of India	17.2	<u>697,554</u>	<u>668,044</u>
	23.1	5,758,914	6,012,137

17.1 These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 30.3.1).

17.2 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 30.3.1).

	Note	2017	2016
------(Rupees in '000)-----			
18. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH (FORMER EAST PAKISTAN)			
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		<u>837</u>	<u>837</u>
		40,453	40,453
Bangladesh (former East Pakistan)			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	18.1	9,056,879	8,354,504
		9,876,803	9,174,428
	18.2	9,917,256	9,214,881

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

18.2 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 30.1 and 30.3.1).

	Note	2017	2016
------(Rupees in '000)-----			
19. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	19.1	110,679,814	59,608,532
Capital work-in-progress	19.5	<u>463,089</u>	<u>466,273</u>
		111,142,903	60,074,805

19.1 Operating fixed assets

	2017									
	Cost / revalued amount at July 1, 2016	Asset transferred from PSPC	Additions / (deletions) during the year	Cost / revalued amount at June 30, 2017	Accumulated depreciation at July 1, 2016	Accumulated depreciation transferred from PSPC	Depreciation for the year/ (deletions)	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	51,072,000	53,000	64,166,840	-	-	-	-	64,166,840	-
Leasehold land *	38,491,706	-	563	38,492,269	-	-	1,226,621	1,226,621	37,265,648	30-99 years
Buildings on freehold land *	2,301,474	735,132	63,068 (155,576) **	2,944,098	-	2,686	149,526 (3,227) **	148,985	2,795,113	20 years
Buildings on leasehold land *	4,509,573	-	146,469 (352,556) **	4,303,486	-	-	292,527 (4,933) **	287,594	4,015,892	20 years
Plant and Machinery	-	6,678,201	30,155 1,110,647 (1,499) **	7,817,504	-	6,362,813	65,327 502,846 (628) **	6,930,358	887,146	10%-20%
Furniture and fixtures	268,758	44,044	16,376 (30,926)	298,252	203,182	34,618	13,865 (30,715)	220,950	77,302	10%-20%
Office equipment	1,979,570	193,651	583,288 (602,515) (33,064) **	2,120,930	1,629,247	157,668	146,590 (494,686) (32,454) **	1,406,365	714,565	10%-33%
EDP equipment	2,381,280	-	172,848 (116,049)	2,438,079	1,912,107	-	256,440 (113,911)	2,054,636	383,443	33.33%
Motor vehicles	676,031	59,872	129,563 (81,176)	784,290	297,164	44,486	122,047 (53,272)	410,425	373,865	20%
	63,650,232	58,782,900	1,195,330 (262,714)	123,365,748	4,041,700	6,602,271	2,272,943 (230,980)	12,685,934	110,679,814	
	----- (Rupees in '000) -----									
	2016									
	Cost / revalued amount at July 1, 2015	Additions / (deletions) / adjustments ** during the year	Revaluation during the year	Cost / revalued amount at June 30, 2016	Accumulated depreciation at July 1, 2015	Depreciation for the year/ (deletions)	Reversal due to revaluation	Accumulated depreciation at June 30, 2016	Net book value at June 30, 2016	Useful life / Rate of depreciation
	----- (Rupees in '000) -----									
Freehold land *	3,791,658	-	9,250,182	13,041,840	-	-	-	-	13,041,840	-
Leasehold land *	16,811,005	72,751	21,607,950	38,491,706	2,197,006	428,963	(2,625,969)	-	38,491,706	30-99 years
Buildings on freehold land *	1,138,375	158,764	1,004,335	2,301,474	849,525	223,312	(1,072,837)	-	2,301,474	20 years
Buildings on leasehold land *	2,307,509	195,010	2,007,054	4,509,573	1,547,259	395,417	(1,942,676)	-	4,509,573	20 years
Furniture and fixtures	253,350	16,677 (1,269)	-	268,758	189,244	14,819 (881)	-	203,182	65,576	10%
Office equipment	1,755,707	235,424 (11,561)	-	1,979,570	1,504,187	132,273 (7,213)	-	1,629,247	350,323	20%
EDP equipment	1,945,437	462,876 (27,033)	-	2,381,280	1,746,053	191,062 (25,008)	-	1,912,107	469,173	33.33%
Motor vehicles	588,139	129,905 (42,013)	-	676,031	212,888	112,340 (28,064)	-	297,164	378,867	20%
	28,591,180	1,271,407 (81,876)	33,869,521	63,650,232	8,246,162	1,498,186 (61,166)	(5,641,482)	4,041,700	59,608,532	20%

* These represent revalued assets.

** Adjustments represents reclassifications within different categories of assets.

*** This includes investment property having nil book value. The fair value of the investment property was assessed to be Rs 32.315 million as at March 31, 2017 as a result of revaluation exercise carried out by an independent valuer

19.2 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.

19.3 Land and buildings of the Group are carried at revalued amount. The latest revaluation of assets of SBP 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. The carrying value of these assets as at June 30, 2017 amount to Rs. 56,440 million. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:

	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>

19.4 Land and buildings of PSPC have been recorded based on their revalued amount as appearing in the financial statements of the PSPC as at June 30, 2017. These assets were revalued on April 1, 2017 by M/s Iqbal A. Nanjee & Co. (Private) Limited based on the market value assessment being the fair value of the land and buildings. Their carrying value as at June 30, 2017 was Rs. 51,804 million. Had there been no revaluation of these assets, their carrying value would have been as follows:

	2017 (Rupees in '000)
Freehold land	3,241
Building on leasehold land	107,928
	<u>111,169</u>

	2017 ------(Rupees in '000)-----	2016
19.5 Capital work-in-progress		
Buildings on freehold land	63,536	43,634
Buildings on leasehold land	229,031	311,309
Furniture and fixtures	50,637	-
Office equipment	23,068	44,467
EDP equipment	92,329	66,863
Plant and Machinery	4,488	-
	<u>463,089</u>	<u>466,273</u>

20. INTANGIBLE ASSETS

Software	20.1	4,732	3,833
Capital work-in-progress		102,822	21,153
		<u>107,554</u>	<u>24,986</u>

20.1 Intangible assets

		Cost at July 1	Asset transferred from PSPC	Additions during the year	Cost at June 30	Accumulated amortisation at July 1	Accumulated amortisation transferred from PSPC	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
------(Rupees in '000)-----											
Software	2017	613,585	20,533	4,027	638,145	609,752	20,430	3,231	633,413	4,732	20 - 33.33
Software	2016	610,844	-	2,741	613,585	606,641	-	3,111	609,752	3,833	33.33

21. DEFERRED TAXATION		June 30, 2017 Rupees '000	
Deductible temporary differences			
Property, plant and equipment			468
Stores and spares			8,176
Stock-in-trade			15,321
Loans and advances			1,667
Other receivables			8,846
Liabilities under finance lease			5,053
Deferred liabilities - pension payable			626,542
			<u>666,073</u>
Taxable temporary differences			
Long term investment in associates			(262,849)
Short term investments			(22,782)
Surplus on revaluation of property, plant and equipment			(187,168)
			<u>(472,799)</u>
Deferred taxation asset			<u>193,274</u>
			<u>193,274</u>
	<i>Note</i>	2017	2016
		------(Rupees in '000)-----	
22. OTHER ASSETS			
Commission receivable and others	22.1	4,999,406	2,136,336
Unrealised gain on derivative financial instruments - net		505,076	1,442,497
Medical, stationery consumables and stamps on hand		166,013	139,829
Other advances, deposits and prepayments		664,338	629,500
Stores and spares - net		248,608	-
Stock-in-trade - net		2,073,947	-
		<u>8,657,388</u>	<u>4,348,162</u>
22.1		This includes Rs 11.684 million to be collected and paid (net) on behalf of National Security Printing Corporation (NSPC) on no-charge basis in accordance with the common facilities agreement dated May 19, 2017.	
	<i>Note</i>	2017	2016
		------(Rupees in '000)-----	
23. BANK NOTES IN CIRCULATION			
Total bank notes issued	23.1	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>
23.1		The liability for bank notes issued of the Issue Department is recorded at its face value in the consolidated balance sheet. In accordance with section 26 (1) of SBP Act 1956, this liability is supported by the following assets of the Issue Department.	
	<i>Note</i>	2017	2016
		------(Rupees in '000)-----	
Gold reserves held by the Bank	7	270,361,202	287,170,323
Local currency - coins	8	861,860	488,198
Foreign currency accounts and investments	9	1,495,115,694	1,237,112,270
Special Drawing Rights of the International Monetary Fund	11	51,051,350	51,179,450
Investments - local	14	2,344,098,193	1,973,105,293
Assets held with the Reserve Bank of India	17	5,758,914	6,012,137
		<u>4,167,247,213</u>	<u>3,555,067,671</u>
24. CURRENT ACCOUNTS OF GOVERNMENTS			
24.1 Current accounts of Governments - payable balances			
Federal Government	24.3	76,078,530	313,688,605
Provincial Governments			
- Punjab	24.4	38,899,196	96,833,336
- Sindh	24.5	20,398,680	89,107,726
- Khyber Pakhtunkhwa	24.6	31,526,641	77,207,052
- Baluchistan	24.7	2,459,725	19,091,164
Gilgit - Baltistan Administration Authority	24.8	9,239,193	10,729,895
		<u>102,523,435</u>	<u>292,969,173</u>
		<u>178,601,965</u>	<u>606,657,778</u>

	Note	2017	2016
		----- (Rupees in '000) -----	
24.2 Current accounts of Governments - receivable balances			
Government of Azad Jammu and Kashmir	24.9	<u>7,279,247</u>	<u>955,474</u>
		<u>7,279,247</u>	<u>955,474</u>
24.3 Federal Government			
Non-food account		40,062	973,642
Zakat fund accounts		80,317,636	7,884,671
Railways accounts		(29,518,688)	(13,313,227)
Other accounts		<u>25,239,520</u>	<u>318,143,519</u>
		<u>76,078,530</u>	<u>313,688,605</u>
24.4 Provincial Government - Punjab			
Non-food account		24,344,157	82,846,743
Zakat fund account		753,583	401,259
Other accounts		<u>13,801,456</u>	<u>13,585,334</u>
		<u>38,899,196</u>	<u>96,833,336</u>
24.5 Provincial Government - Sindh			
Non-food account		18,180,177	84,389,116
Zakat fund account		1,694,383	1,526,526
Other accounts		<u>524,120</u>	<u>3,192,084</u>
		<u>20,398,680</u>	<u>89,107,726</u>
24.6 Provincial Government - Khyber Pakhtunkhwa			
Non-food account		29,771,904	67,829,675
Zakat fund account		1,281,569	1,186,629
Other accounts		<u>473,168</u>	<u>8,190,748</u>
		<u>31,526,641</u>	<u>77,207,052</u>
24.7 Provincial Government - Baluchistan			
Non-food account		1,183,617	16,553,943
Zakat fund account		999,379	833,822
Other accounts		<u>276,729</u>	<u>1,703,399</u>
		<u>2,459,725</u>	<u>19,091,164</u>
24.8 Gilgit - Baltistan Administration Authority		<u>9,239,193</u>	<u>10,729,895</u>
24.9 Government of Azad Jammu and Kashmir		(7,279,247)	(955,474)
Classified as receivable balance	24.10	<u>7,279,247</u>	<u>955,474</u>
		-	-

24.10 These balances carry mark-up at rates ranging from 5.89% to 6.01% per annum (2016: 6.18% to 6.88% per annum).

25 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).

26. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

26.1 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).

	Note	2017	2016
------(Rupees in '000)-----			
27. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS			
Foreign currency			
Scheduled banks		7,619,462	7,527,991
Held under Cash Reserve Requirement	27.1	<u>137,166,870</u>	<u>136,803,601</u>
		144,786,332	144,331,592
Local currency			
Scheduled banks	27.1	<u>516,209,260</u>	<u>234,778,810</u>
Financial institutions		<u>8,264,427</u>	<u>12,574,555</u>
Others		<u>77,520</u>	<u>75,512</u>
		<u>524,551,207</u>	<u>247,428,877</u>
		<u>669,337,539</u>	<u>391,760,469</u>

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

	Note	2017	2016
------(Rupees in '000)-----			
28. OTHER DEPOSITS AND ACCOUNTS			
Foreign currency			
Foreign central banks		47,257,038	47,210,792
International organisations	28.1	<u>26,533,361</u>	<u>26,479,513</u>
Others		<u>18,013,438</u>	<u>19,445,168</u>
	28.2	<u>91,803,837</u>	<u>93,135,473</u>
Local currency			
Special debt repayment	28.3	<u>24,243,841</u>	<u>24,243,841</u>
Government	28.4	<u>17,850,348</u>	<u>17,850,348</u>
Foreign central banks		<u>2,059</u>	<u>2,003</u>
International organisations		<u>6,302,580</u>	<u>6,692,016</u>
Others		<u>24,462,409</u>	<u>19,629,317</u>
		<u>72,861,237</u>	<u>68,417,525</u>
		<u>164,665,074</u>	<u>161,552,998</u>

28.1 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)-----		
28.2 The interest rate profile of the interest bearing deposits is as follows:		
Foreign central banks	0.59 to 1.49	0.30 to 0.76
International organisations	2.62 to 3.09	2.11 to 2.62
Others	0.38 to 1.00	0.09 to 0.41

28.3 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.

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

	Note	2017	2016
		------(Rupees in '000)-----	
29. PAYABLE TO THE INTERNATIONAL MONETARY FUND			
Borrowings under:			
- Fund facilities	29.1 & 29.3	643,054,775	634,172,641
- Allocation of SDRs	29.2	<u>144,326,457</u>	<u>144,566,830</u>
		<u>787,381,232</u>	<u>778,739,471</u>
Current account for administrative charges		<u>34</u>	<u>34</u>
		<u><u>787,381,266</u></u>	<u><u>778,739,505</u></u>
29.1	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.		
29.2	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.		
29.3	Interest profile of amount payable to the IMF is as under:	Note	2017
			2016
			-----(% per annum)-----
Fund facilities	29.3.1	1.05 to 1.63	1.05 to 1.07
29.3.1	The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding. Interest rates are determined by the IMF on weekly basis. Charges are, however, payable on quarterly basis.		
		Note	2017
			2016
			------(Rupees in '000)-----
30. OTHER LIABILITIES			
Local currency			
Provision against overdue mark-up	30.1	8,662,726	7,960,351
Remittance clearance account		2,215,088	2,259,587
Exchange loss payable under exchange risk coverage scheme		239,068	233,121
Dividend payable	30.2	10,000	10,000
Share of loss payable under profit and loss sharing arrangements		-	1,377,691
Other accruals and provisions	30.3	29,835,773	31,126,910
Liabilities against assets subject to finance leases		16,904	
Payable to NSPC		7,983,186	-
Others	30.4	<u>8,552,698</u>	<u>6,611,340</u>
		<u><u>57,515,443</u></u>	<u><u>49,579,000</u></u>
30.1	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).		
30.2	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).		
30.3	Other accruals and provisions	Note	2017
			2016
			------(Rupees in '000)-----
Agency commission		12,451,275	12,440,190
Provision for employees' compensated absences	45.4.10	7,098,384	7,475,810
Provision for other doubtful assets	30.3.1	6,652,772	6,911,495
Other provisions	30.3.2	2,848,701	2,848,701
Others		<u>784,641</u>	<u>1,450,714</u>
		<u><u>29,835,773</u></u>	<u><u>31,126,910</u></u>

	Note	2017	2016
----- (Rupees in '000) -----			
30.3.1 Provision for other doubtful assets			
Provision against assets held with / receivable from Government of India and the Reserve Bank of India			
- Issue Department		5,758,914	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
	30.3.1.1	6,652,772	6,911,495
30.3.1.1 Movement of provisions for other doubtful assets			
Opening balance		6,911,495	6,350,295
Charge / (reversal) for the year - net		16,842	(86,213)
(Diminution) / appreciation relating to gold reserves held by the Reserve Bank of India		(275,565)	647,413
Closing balance		6,652,772	6,911,495
30.3.2 Movement of other provisions			
Opening balance		2,848,701	2,848,933
Reversal during the year		-	(232)
Closing balance		2,848,701	2,848,701
		Home	Specific claims
		remittance	(note 30.3.2.1)
		Others	(note 30.3.2.2)
		Total	
		----- (Rupees in '000) -----	
Balance as at July 1, 2015		260,363	1,600,000
Reversal during the year		-	-
		260,363	1,600,000
Balance as at June 30, 2016		260,363	1,600,000
(Charge) / Reversal during the year		-	-
		260,363	1,600,000
Balance as at June 30, 2017		260,363	1,600,000
30.3.2.1	This represents provision made against a claim under arbitration.		
30.3.2.2	This represents provision made in respect of various litigations and claims against the Group.		
30.4	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) -----			
31. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS			
<i>Unfunded staff retirement benefits</i>			
Pension		61,733,525	58,018,505
Gratuity scheme		48,799	41,822
Post retirement medical benefits		21,789,331	21,135,683
Benevolent fund scheme		1,602,183	1,755,433
Six months post retirement facility		527,426	480,397
	45.3.3	85,701,264	81,431,840
Provident fund scheme		959,344	987,418
		86,660,608	82,419,258
<i>Funded staff retirement benefits</i>			
Staff pension scheme	45.4.2	3,146,267	-
Total		89,806,875	82,419,258

32. SHARE CAPITAL

2017	2016		2017	2016
---(Number of shares)---			------(Rupees in '000)-----	
Authorised share capital				
<u>1,000,000</u>	<u>1,000,000</u>	Ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>
Issued, subscribed and paid-up capital				
<u>1,000,000</u>	<u>1,000,000</u>	Fully paid-up ordinary shares of Rs. 100 each	<u>100,000</u>	<u>100,000</u>

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

33. RESERVES

33.1 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.

33.2 Reserve for acquisition of PSPC

During the current year the Board of Directors of the Bank 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".

33.3 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)-----	
34. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK			
Opening balance		283,342,601	243,367,310
(Diminution) / appreciation for the year due to revaluation	7	(17,015,000)	39,975,291
		<u>266,327,601</u>	<u>283,342,601</u>

35. CONTINGENCIES AND COMMITMENTS

35.1 Contingencies

State Bank of Pakistan

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

Federal Government	16,889,529	21,486,999
Federal Government owned / controlled bodies and authorities	7,103,733	7,605,996
	<u>23,993,262</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 consolidated financial statements.

	<i>Note</i>	2017	2016
		----- (Rupees in '000) -----	
d) Other claims against the Bank not acknowledged as debts	35.1.1	<u>353,153</u>	<u>353,640</u>

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

National Institute of Banking and Finance (Guarantee) Limited

The Finance Act 2015 extended the scope of services covered under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (ICTO) and some new services were brought within the purview of sales tax which are detailed in schedule to the ICTO. During the year 2016, the Institute received a notice from the tax department dated January 20, 2016 claiming that the services provided by the Institute fall within the purview of serial numbers 13, 19 and 38 of schedule to the ICTO and accordingly the Institute should get itself registered for sales tax, obtain Sales Tax Registration number (STRN), file returns for six months from July 2015 to December 31, 2015 and settle the outstanding liability in respect of sales tax for those six months. The management believes that the Institute does not fall under the purview of serial numbers 13, 19 and 38 of schedule to the ICTO mainly on the ground that NIBAF is a training institute and is not liable to be registered under sales tax on services. A reply was sent from the Institute's management to the Assistant Commissioner Inland Revenue (ACIR) justifying the non-applicability of serial numbers 13, 19 and 38 of schedule to the ICTO to the Institute. However, the ACIR maintained the tax department's view and ordered the compulsory registration of the Institute with immediate effect through its order dated February 19, 2016.

Moreover, the Institute received a show cause notice on March 10, 2016 for filing the tax returns for the period from July 2015 to December 2015 and payment of the due amount of sales tax on services. Subsequently, the department passed the following order on April 11, 2016:

- a) Imposition of sales tax amounting to Rs.13,675,649; and
- b) Imposition of a penalty under section 33(1) of the Sales Tax Act, 1990 for non-filing amounting to Rs.35,000 along with default surcharge and penalty under section 33(5) of the Sales Tax Act, 1990.

The Institute challenged the above order passed by the ACIR before the Commissioner Inland Revenue Appeals II (CIRA). However, the matter was decided against the Institute.

During the current year, the Institute has filed an appeal before the Commissioner Inland Revenue Appeals II (CIRA) challenging the compulsory registration of the Institute done by the department vide its order dated February 19, 2016. This appeal was disposed of by the CIRA on February 9, 2017 because it was not maintainable under the law (as it was outside the jurisdiction) and the case can now be taken to the Honorable Islamabad High Court. Consequently, the Institute intends to file writ petition against the above orders before the Honorable Islamabad High Court.

The Institute, based on the advice of its legal counsel, is of the view that the Institute has valid grounds and there are fair chances of success before the Honorable Islamabad High Court. Accordingly, no provision has been recognized in these consolidated financial statements.

Pakistan Security Printing Corporation (Private) Limited

- a) The PSPC is defending certain cases filed by its ex-employees on account of their reinstatement in the PSPC and compensation for loss of their jobs. Management considers that the probability of any significant liability arising from such cases is remote.
- b) In the previous years the tax authorities initiated proceedings for amendment of deemed assessments for tax years 2004 to 2009 by issuing notices under sections 122 (5A) read with 122(9) of the Income Tax Ordinance, 2001. The amended orders were passed and certain demands were raised for which the PSPC subsequently filed rectification application as a result of which the demands were rectified to Rs 34.9 million. The PSPC, having paid the aforesaid net demand of Rs 34.9 million, had filed appeals before the Commissioner of Inland Revenue - Appeals {CIR(A)} which were decided against the PSPC. The PSPC, further filed appeal before the Appellate Tribunal Inland Revenue (ATIR) which vide order dated June 29, 2015 partially upheld the action of the Additional Commissioner Inland Revenue for amending the aforesaid assessments.

Further, the PSPC's miscellaneous application before ATIR on the matter of allocation of expenses has been dismissed. A reference before the High Court of Sindh has been filed by the PSPC, the adjudication of which is pending to date. The management, however, is continuing with its view that the net demand will eventually be revoked and the amount paid will be refunded / adjusted in favour of the PSPC.

	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
35.2 Commitments			
35.2.1 Foreign currency forward and swap contracts - sale		935,079,726	802,656,331
35.2.2 Foreign currency forward and swap contracts - purchase		498,678,723	595,499,305
35.2.3 Futures - sale		43,038,829	18,044,108
35.2.4 Futures - purchase		35,430,566	14,656,485
35.2.5 Capital Commitments	<i>35.2.5.1</i>	272,021	935,886
35.2.6 Letter of Guarantee / Credit		4,701,000	-
35.2.5.1 This represents amounts committed by the bank to purchase assets from successful bidders.			
35.2.7 Commitments in respect of bilateral currency swap agreements with People's Bank of China have been disclosed in note 26 to these consolidated financial statements.			
35.2.8 The Group has made commitments to extend advance under ways and means limits to the Provincial Governments of Pakistan, Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority in the normal course of its operations. The unutilised limits as on June 30, 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.			
36. DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
Discount, interest / mark-up on Government transactions			
- Government securities	<i>36.1</i>	171,399,674	150,313,267
- Federal Government Scrips		82,769	82,200
- Loans and advances to and current accounts of Governments	<i>36.2</i>	442,256	327,520
Securities purchased under agreement to resell		63,193,756	80,712,710
Interest income on preference shares		1,333,659	-
Return on loans and advances to financial institutions		6,400,591	8,683,044
Foreign currency loan and advance including deposits		9,034,732	4,258,735
Foreign currency securities		8,970,869	8,382,254
Profit on Sukuks purchased under Bai Muajjal agreement		11,412	70,542
Others		909	798
		260,870,627	252,831,070
36.1 This represents income earned on Market Related Treasury Bills, Market Treasury Bills and Pakistan Investment Bonds.			
36.2 Interest profile on loans and advances to facilities are as under:		2017 ----- (% per annum) ----	2016
Mark-up on facility		6.89 to 6.01	6.18 to 6.88
Additional mark-up (where ways and means facility limit is exceeded)		4	4
37. INTEREST / MARK-UP EXPENSE	<i>Note</i>	2017 ----- (Rupees in '000) -----	2016
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
		21,368,844	25,454,480
38. COMMISSION INCOME			
Market Treasury Bills	<i>38.1</i>	1,163,377	472,821
Management of public debts	<i>38.1</i>	959,936	989,118
Prize Bonds and National Saving Certificates	<i>38.1</i>	459,422	439,041
Draft / payment orders		8,408	8,148
Others		51	52
		2,591,194	1,909,180
38.1 These represent commission income earned from services provided to the Federal Government.			

39. EXCHANGE GAIN - NET	Note	2017	2016
------(Rupees in '000)-----			
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		44,291	52,344
		<u>24,569,638</u>	<u>25,779,375</u>
40. SHARE OF PROFIT FROM ASSOCIATES			
Security Papers Limited		14,058	-
SICPA Inks Pakistan (Private) Limited		12,138	-
		<u>26,196</u>	<u>-</u>
41. OTHER OPERATING INCOME - NET			
Penalties levied on banks and financial institutions		1,131,474	1,017,004
License / Credit Information Bureau fee recovered		904,202	817,885
Gain / (loss) on sale of investment-net			
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	41.1	3,311,793	-
Gain / (loss) on remeasurement of securities classified as 'fair value through profit or loss'		(4,930,365)	559,888
Sales of prize bond to Government of Pakistan		6,306	
Others		110,996	101,629
		<u>574,355</u>	<u>2,756,112</u>
41.1 Gain / loss on restructuring of exposure of Zarai Taraqiati Bank Limited (ZTBL) and House Building Finance Company Limited (HBFCL)			
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	16.4	3,204,323	-
		<u>11,769,098</u>	<u>-</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>-</u>
		<u>3,311,793</u>	<u>-</u>
42. OTHER INCOME - NET			
Gain on disposal of property, plant and equipment		14,340	3,893
Liabilities and provisions written back - net		11,780	12,327
Grant income under foreign assistance program		9,064	11,808
Others		266,865	132,932
		<u>302,049</u>	<u>160,960</u>
43. COST OF PREPARATION OF BANK NOTES AND PRINTING CHARGES			
This includes bank notes printing charges paid to Pakistan Security Printing Corporation (Private) Limited - PSPC until June 13, 2017 at agreed rates under specific arrangements. PSC became part of the group consequent to its acquisition by the Bank effective June 14, 2017.			
44. AGENCY COMMISSION			
Agency commission is mainly payable to National Bank of Pakistan (NBP) under an agreement for providing banking services to Federal and Provincial Governments as an agent of the Bank. Furthermore, a small portion of the agency commission also pertains to Bank of Punjab (BOP), which was appointed as agent of the Bank, during last year, to collect Government of Punjab's taxes and receipts.			

	Note	2017	2016
------(Rupees in '000)-----			
45. GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		9,379,672	9,751,687
Retirement benefits and employees' compensated absences	45.1	7,691,921	9,827,094
Rent and taxes		56,481	54,189
Insurance		49,958	34,017
Electricity, gas and water		399,577	368,646
Depreciation	19.1	2,273,363	1,498,186
Amortisation of intangible assets	20	3,231	3,111
Repairs and maintenance		647,007	638,414
Auditors' remuneration	45.2	14,337	12,397
Legal and professional		53,536	39,048
Fund managers / custodian expenses		475,909	495,428
Travelling expenses		543,492	449,223
Daily expenses		106,964	83,681
Fuel		43,876	47,597
Conveyance		24,647	25,017
Postages, telegram / telex and telephone		228,128	218,832
Training		122,700	102,813
Stationery		23,881	22,740
Remittance of treasure		132,636	92,744
Books and newspapers		37,289	29,693
Advertisement		48,554	43,068
Uniforms		36,345	29,936
Others		548,245	383,025
		22,941,749	24,250,586

45.1 This includes an amount relating to defined contribution plan aggregating Rs. 238,396 million (2016: Rs. 169,553 million).

45.2 Auditors' remuneration

	2017			2016		
	EY Ford Rhodes	A. F. Ferguson & Co.	Total	EY Ford Rhodes	A. F. Ferguson & Co.	Total
------(Rupees in '000)-----						
State Bank of Pakistan						
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
	3,500	3,500	7,000	3,025	3,025	6,050
SBP Banking Services Corporation						
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
	3,500	3,500	7,000	2,975	2,975	5,950
National Institute of Banking and Finance						
Audit fee	-	225	225	-	225	225
Out of pocket expenses	-	63	63	-	172	172
	-	288	288	-	397	397
Pakistan Security Printing Corporation						
Audit fee	-	49	49	-	-	-
Out of pocket expenses	-	-	-	-	-	-
	-	49	49	-	397	-
	7,000	7,337	14,337	6,000	6,794	12,397

45.3 Staff retirement benefits-unfunded (State Bank of Pakistan and SBP Banking Services Corporation)

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

	2017	2016
- Discount rate for year end obligation	7.75% p.a.	7.25% p.a.
- Salary increase rate (where applicable)	8.75% p.a.	8.25% p.a.
- Pension indexation rate (where applicable)	6.25% p.a.	4.75% p.a.
- Medical cost increase rate	7.75% p.a.	6.25% -7.25% p.a.
- Petrol price increase rate (where applicable)	8.75% p.a.	8.25% p.a.
- Personnel turnover		
SBP	4.8% p.a.	18.1% p.a.
SBP-BSC	9.2% p.a.	11.50% p.a.
- Normal retirement age	60 Years	60 Years

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

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

Discount rate risk

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

45.3.3 Change in present value of defined benefit obligation

	2017					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	-----Rupees in '000-----					
Present value of defined benefit obligation July 1, 2016	58,018,505	41,822	21,135,683	1,755,433	480,397	81,431,840
Current service cost	1,107,980	5,899	371,178	6,432	33,884	1,525,373
Interest cost on defined benefit obligation	4,003,135	3,032	1,500,117	119,954	34,158	5,660,396
Benefits Paid	(5,605,702)	-	(888,841)	(201,804)	(18,483)	(6,714,830)
Remeasurements:						
Actuarial (gains) / losses from changes in demographic assumptions	3,011,670	-	388,832	(45,471)	8,593	3,363,624
Actuarial (gains) / losses from changes in financial assumptions	1,197,937	(1,954)	(717,638)	(32,361)	(11,123)	434,861
Experience adjustments						
Present value of defined benefit obligation as on June 30, 2017	61,733,525	48,799	21,789,331	1,602,183	527,426	85,701,264
	-----Rupees in '000-----					
	2016					
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
	-----Rupees in '000-----					
Present value of defined benefit obligation July 1, 2015	48,607,941	28,021	19,118,366	1,478,246	378,600	69,611,174
Current service cost	1,271,085	6,880	404,467	69,061	27,945	1,779,438
Past service cost	256,513	1,822	22,147	-	16,745	297,227
Interest cost on defined benefit obligation	4,218,033	2,909	2,024,005	124,370	37,475	6,406,792
Benefits Paid	(10,692,125)	(408)	(860,673)	(405,313)	(31,347)	(11,989,866)
Remeasurements:						
Actuarial (gains) / losses from changes in demographic assumptions	5,390,076	-	870,054	204,736	(17,971)	6,446,895
Actuarial (gains) / losses from changes in financial assumptions	1,249,593	5,158	164,030	232,928	40,419	1,692,128
Experience adjustments	7,717,389	(2,560)	(606,713)	51,405	28,531	7,188,052
Present value of defined benefit obligation as on June 30, 2016	58,018,505	41,822	21,135,683	1,755,433	480,397	81,431,840

45.3.4 Remeasurements recognised during the period in consolidated statement of comprehensive income

	2017	2016
	-----Rupees in '000-----	
- Actuarial (gains) / losses from changes in demographic and financial assumptions	3,363,624	8,139,023
- Experience adjustments	434,861	7,188,052
	3,798,485	15,327,075

45.3.5 Amount recognised in the consolidated profit and loss account

	2017					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	-----Rupees in '000-----					
Current service cost	1,107,980	5,899	371,178	6,432	33,884	1,525,373
Interest cost on defined benefit obligation	4,003,135	3,032	1,500,117	119,954	34,158	5,660,396
Contribution made by Employees	-	-	-	(19,326)	-	(19,326)
	5,111,115	8,931	1,871,295	107,060	68,042	7,166,443

	2016					Total
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
	(Rupees in '000)					
Current service cost	1,271,085	6,880	404,467	69,061	27,945	1,779,438
Past service cost	256,513	1,822	22,147	-	16,745	297,227
Interest cost on defined benefit obligation	4,218,033	2,909	2,024,005	124,370	37,475	6,406,792
Contribution made by Employees	-	-	-	(12,184)	-	(12,184)
	5,745,631	11,611	2,450,619	181,247	82,165	8,471,273

45.3.6 Movement of present value of defined benefit obligation

	2017					Total
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
	(Rupees in '000)					
Net recognised liabilities at July 1, 2016	58,018,505	41,822	21,135,683	1,755,433	480,397	81,431,840
Amount recognised in the consolidated profit and loss account	5,111,115	8,931	1,871,295	107,060	68,042	7,166,443
Remeasurements	4,209,607	(1,954)	(328,806)	(77,832)	(2,530)	3,798,485
Benefits paid during the year	(5,605,702)	-	(888,841)	(201,804)	(18,483)	(6,714,830)
Employees contribution / amount transferred	-	-	-	19,326	-	19,326
Net recognised liabilities at June 30, 2017	61,733,525	48,799	21,789,331	1,602,183	527,426	85,701,264

	2016					Total
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
	(Rupees in '000)					
Net recognised liabilities at July 1, 2015	48,607,941	28,021	19,118,366	1,478,246	378,600	69,611,174
Amount recognised in the consolidated profit and loss account	5,745,631	11,611	2,450,619	181,247	82,165	8,471,273
Remeasurements	14,357,058	2,598	427,371	489,069	50,979	15,327,075
Benefits paid during the year	(10,692,125)	(408)	(860,673)	(405,313)	(31,347)	(11,989,866)
Employees contribution / amount transferred	-	-	-	12,184	-	12,184
Net recognised liabilities at June 30, 2016	58,018,505	41,822	21,135,683	1,755,433	480,397	81,431,840

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	(Rupees in '000)		
Pension			
Discount rate	1%	(4,482,955)	5,300,468
Salary increase rate	1%	1,362,038	(1,284,489)
Pension increase rate	1%	3,931,550	(3,345,546)
Expected mortality rates	1 Year	(127,573)	177,650
Gratuity			
Discount rate	1%	(6,197)	7,384
Salary increase rate	1%	7,244	(6,197)
Post retirement medical benefit			
Discount rate	1%	(2,938,449)	3,755,316
Salary increase	1%	2,710,088	(2,141,140)
Post-Retirement medical cost increase rate	1%	1,155,532	(929,300)
Expected mortality rates	1 Year	135,888	(130,252)
Benevolent			
Discount rate	1%	(82,813)	94,022
Six months post retirement benefit			
Discount rate	1%	(42,697)	48,990
Salary / Petrol price increase rate	1%	48,969	(43,519)

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.

45.3.8 Duration of defined benefit obligation

The weighted average duration of the defined benefit obligation is

Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
8 Years	6-14 Years	14-16 Years	5-7 Years	5-9.66 Years

45.3.9 Estimated expenses to be charged to consolidated 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 benefits	Benevolent fund scheme	Six months post retirement facility	Total
-----Rupees in 000'-----						
Current service cost	1,041,589	6,624	480,431	6,287	36,937	1,571,868
Interest cost on defined benefit obligation	4,784,348	3,782	1,688,673	124,170	40,876	6,641,849
Amount chargeable to the consolidated profit and loss account	<u>5,825,937</u>	<u>10,406</u>	<u>2,169,104</u>	<u>130,457</u>	<u>77,813</u>	<u>8,213,717</u>

45.4 Funded Staff Retirement Benefits - PSPC

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

	2017
- Discount rate	9.00% p.a
- Expected rate of increase in salaries	9.00% p.a
- Expected rate of increase in monthly pension	5.00% p.a
- Pre-Retirement Mortality	SLIC 2001-2005
- Post-Retirement Mortality	SLIC 2001-2005

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

Investment risks

The risk arises when the actual performance of the investments is lower than expectation thus creating a shortfall in the funding objectives.

Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk

The risk arises when the actual increases are higher than expectation and impacts the liability accordingly.

Withdrawal risk

The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

	2017
The amounts recognised in the consolidated balance sheet are determined as follows:	Rupees in 000
Present value of defined benefit obligations	4,957,302
Fair value of plan assets	(1,811,035)
	<u>3,146,267</u>

45.4.3 The movement in the defined benefit obligation and fair value of plan assets over the period is as follows:

	2017		
	Present value of obligation	Fair value of plan assets	Net
	------(Rupees in '000)-----		
At June 14	4,921,040	1,801,768	3,119,272
Current service cost	2,666	-	2,666
Interest expense / (income) - net	23,069	8,980	14,089
	4,946,775	1,810,748	3,136,027
	<u>10,527</u>	<u>287</u>	<u>10,240</u>
Remeasurements (gain) / loss	10,527	287	10,240
At June 30	<u>4,957,302</u>	<u>1,811,035</u>	<u>3,146,267</u>

45.4.4 Plan assets consist of the following:

	2017	
	Rupees in 000	Percentage
Equity instruments	721,954	30.22%
Debt instruments	679,101	28.42%
Cash and cash equivalent	988,115	41.36%
	<u>2,389,170</u>	<u>100%</u>
Less: Pertaining to NSPC (being the multi employer fund)	578,135	
	<u>1,811,035</u>	

45.4.5 Amount recognised in the consolidated profit and loss account

	2017 Rupees in 000
Current service cost	2,666
Net interest cost on defined benefit obligation	14,089
	<u>16,755</u>

45.4.6 Amount recognised in consolidated other comprehensive income

Remeasurement gain / loss on obligation	
Actuarial gains / (losses) from changes in financial assumptions	<u>(10,527)</u>
	(10,527)
Remeasurement gain / (loss) on plan assets	
Actual net return on plan assets	<u>287</u>
	<u>(10,240)</u>

45.4.7 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)		
Approved pension scheme			
Discount rate	1%	(675,557)	881,966
Salary growth rate	1%	277,068	(203,017)
Pension indexation rate	1%	26,438	27,355

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 consolidated balance sheet.

45.4.8 Duration of defined benefit obligation

The weighted average duration of the defined benefit obligation is

Pension

11.86 Years

45.4.9 Estimated expenses to be charged to consolidated 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 Rupees in '000'
Current service cost	285,669
Interest cost on defined benefit obligation	57,363
Amount chargeable to the consolidated profit and loss account	343,032

45.4.10 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 7,098.384 million (2016: Rs. 7,475.81 million). An amount of Rs. 281.365 million (2016: Rs. 1,217.59 million) has been charged to the consolidated profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2018 would be Rs 950.287 million. The benefits paid during the year amounted to Rs 658.791 million (2016: Rs 1645.64 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 383.3 million and Rs. 437.101 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 452.505 million and Rs. 405.464 million respectively and the net liability would also be affected by the same amount.

	<i>Note</i>	2017	2016
		----- (Rupees in '000) -----	
46. TAXATION			
Current - for the period		4,602	-
		4,602	-
Deferred		812	-
		5,414	-

46.1 This represent taxation charge on the profits of PSPC from the date of its acquisition till June 30, 2017.

47. PROFIT FOR THE YEAR AFTER NON-CASH AND OTHER ITEMS

Profit for the year		238,069,011	229,353,126
Adjustments for:			
Depreciation	<i>19</i>	2,273,363	1,498,186
Amortisation of intangible assets	<i>20</i>	3,231	3,111
Provision / (reversal) for / write-off:			
- retirement benefits and employees' compensated absences	<i>45</i>	7,691,921	9,827,094
- loans and advances		(6,139)	(756)
- claims		-	(232)
- other doubtful assets		16,842	(86,213)
Gain on restructuring of exposure of Zarai Taraqiyati Bank Limited (ZTBL) and House Building Finance Company Limited (HBFCL)	<i>41.1</i>	(3,311,793)	-
Gain on disposal of property, plant and equipment		(14,340)	(3,893)
Share of Profit from associate		(26,196)	-
Dividend income		(12,248,843)	(12,226,343)
Effect of exchange gain on cash and cash equivalents		1,687,144	45,545,964
		234,134,201	273,910,044

48. CASH AND CASH EQUIVALENTS

Cash and bank balances	<i>6</i>	2,190,657	-
Local currency	<i>8</i>	861,860	488,198
Foreign currency accounts and investments	<i>9</i>	1,444,739,189	1,737,853,644
Earmarked foreign currency balances	<i>10</i>	10,319,532	5,147,596
Special Drawing Rights of the IMF	<i>11</i>	63,657,319	67,656,236
		1,521,768,557	1,811,145,674

49. RELATED PARTY TRANSACTIONS

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

49.1 Governments and related entities

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

	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>
- Investment purchased / matured and re-invested	<u>11,471</u>	<u>(30,204)</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 38).		

49.2 Remuneration to key management personnel

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

	2017	2016
	----- (Rupees in '000) -----	
Short-term employee benefit	453,614	341,346
Post-employment benefit	56,169	105,272
Loans disbursed during the year	60,458	173,047
Loans repaid during the year	77,397	92,324
Directors' fees	13,584	12,181
Number of key management personnel	37	32

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

50. RISK MANAGEMENT POLICIES

The Group is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 50.1 to 50.10 to these consolidated financial statements. The Group has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

50.1 Credit risk management

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

50.2 Concentrations of risk

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

50.2.1 Geographical analysis

	2017						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
----- (Rupees in '000) -----							
Financial assets							
Cash and bank balances held by a subsidiary	2,190,657	-	-	-	-	-	2,190,657
Local currency - coins	861,860	-	-	-	-	-	861,860
Foreign currency accounts and investments	23,961,146	453,088,974	652,637,412	560,768,972	48,496,151	43,586,533	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	-	-	10,319,532
Special Drawing Rights of the International Monetary Fund	-	-	63,657,319	-	-	-	63,657,319
Reserve tranche with the International Monetary Fund							
Fund under quota arrangements	-	-	17,382	-	-	-	17,382
Securities purchased under agreement to resell	1,533,373,313	-	-	-	-	-	1,533,373,313
Current accounts of Governments	7,279,247	-	-	-	-	-	7,279,247
Investments - local	2,694,286,076	-	-	-	-	-	2,694,286,076
Loans, advances and bills of exchange	362,286,041	417,749	-	-	-	-	362,703,790
Assets held with the Reserve Bank of India	-	1,384,376	-	-	-	-	1,384,376
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	9,917,256	-	-	-	-	9,917,256
Other assets	2,677,144	743,347	117,504	559,715	2,307	-	4,100,017
Total financial assets	4,637,235,016	465,551,702	716,429,617	561,328,687	48,498,458	43,586,533	6,472,630,013

	2016					
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Grand Total
----- (Rupees in '000) -----						
Financial assets						
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						
Fund under quota arrangements	-	-	17,455	-	-	17,455
Securities purchased under agreement to resell	1,533,574,159	-	-	-	-	1,533,574,159
Current accounts of Governments	955,474	-	-	-	-	955,474
Investments - local	2,147,418,594	-	-	-	-	2,147,418,594
Loans, advances and bills of exchange	350,147,931	423,249	-	-	-	350,571,180
Assets held with the Reserve Bank of India	-	1,362,034	-	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	9,214,881	-	-	-	9,214,881
Other assets	2,616,622	1,050,258	25,909	301,694	36,508	4,030,991
Total financial assets	4,059,430,917	502,282,865	908,980,792	535,131,334	91,695,260	6,097,521,168

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".

50.2.2 Industrial analysis

2017					
Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	Grand Total
----- (Rupees in '000) -----					
Financial assets					
Cash and bank balances held by a subsidiary	6,496	-	-	2,184,161	2,190,657
Local currency - coins	861,860	-	-	-	861,860
Foreign currency accounts and investments	831,724,378	213,375,369	2,494,010	718,737,738	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	10,319,532
Special Drawing Rights of the International Monetary Fund					
Monetary Fund	-	63,657,319	-	-	63,657,319
Reserve tranche with the International Monetary					
Fund under quota arrangements	-	17,382	-	-	17,382
Securities purchased under agreement to resell	-	-	-	1,533,373,313	1,533,373,313
Current accounts of Governments	7,279,247	-	-	-	7,279,247
Investments - local	2,522,321,316	-	160,249,170	11,715,590	2,694,286,076
Loans, advances and bills of exchange	13,340,783	-	32,990,934	296,890,086	362,703,790
Assets held with the Reserve Bank of India	1,384,376	-	-	-	1,384,376
Balances due from the Governments of India and					
Bangladesh (former East Pakistan)	9,917,256	-	-	-	9,917,256
Other assets	1,844,622	252,614	267,856	1,222,763	4,100,017
Total financial assets	3,398,999,866	277,302,684	196,001,970	2,564,123,651	36,201,842

2016					
Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	Grand Total
----- (Rupees in '000) -----					
Financial assets					
Local currency - coins	488,198	-	-	-	488,198
Foreign currency accounts and investments	936,159,121	178,478,743	1,087,680	848,890,453	1,977,084,370
Earmarked foreign currency balances	5,147,596	-	-	-	5,147,596
Special Drawing Rights of the International Monetary Fund					
Monetary Fund	-	67,656,236	-	-	67,656,236
Reserve tranche with the International Monetary					
Fund under quota arrangements	-	17,455	-	-	17,455
Securities purchased under agreement to resell	-	-	-	1,533,574,159	1,533,574,159
Current accounts of Governments	955,474	-	-	-	955,474
Investments - local	2,050,957,242	-	-	96,461,352	2,147,418,594
Loans, advances and bills of exchange	423,249	-	98,119,245	231,360,884	350,571,180
Assets held with the Reserve Bank of India	1,362,034	-	-	-	1,362,034
Balances due from the Governments of India and					
Bangladesh (former East Pakistan)	9,214,881	-	-	-	9,214,881
Other assets	1,237,025	111,047	-	1,896,310	4,030,991
Total financial assets	3,005,456,622	246,263,481	99,206,925	2,712,183,158	33,922,784

50.3 Credit exposure by credit rating

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

	2017							Grand Total
	Sovereign (50.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	
----- (Rupees in '000) -----								
Financial assets								
Cash and bank balances held by a subsidiary	-	-	-	2,184,161	-	-	6,496	2,190,657
Local currency - coins	861,860	-	-	-	-	-	-	861,860
Foreign currency accounts and investments	2,818,137	327,909,180	790,607,846	646,085,502	12,836,602	-	2,281,921	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	-	-	-	10,319,532
Special Drawing Rights of the International Monetary Fund	-	-	-	-	-	-	63,657,319	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,382	17,382
Securities purchased under agreement to resell	-	-	-	1,532,117,992	-	1,255,321	-	1,533,373,313
Current accounts of Governments	7,279,247	-	-	-	-	-	-	7,279,247
Investments - local	2,576,481,664	-	-	6,207,070	-	-	1,609,250	2,584,297,984
Loans, advances and bills of exchange	13,340,783	106,832,276	204,791,850	17,816,145	-	23,000	19,899,736	362,703,790
Assets held with the Reserve Bank of India	-	-	-	-	1,384,376	-	-	1,384,376
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	40,453	9,876,803	-	9,917,256
Other assets	1,844,622	280,764	224,919	889,481	21,250	-	838,981	4,100,017
Total financial assets	2,612,945,845	435,022,220	995,624,615	2,205,300,351	14,282,681	11,155,124	88,311,085	6,362,641,921
----- (Rupees in '000) -----								
	2016							Grand Total
Sovereign (50.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated		
----- (Rupees in '000) -----								
Financial assets								
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	2,050,957,242	-	-	-	-	-	-	2,050,957,242
Loans, advances and bills of exchange	75,846,587	81,063,739	146,636,085	24,650,228	955,253	40,489	21,378,799	350,571,180
Assets held with the Reserve Bank of India	-	-	-	-	1,362,034	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	-	-	-	40,453	9,174,428	-	9,214,881
Other assets	1,766,876	421,338	487,247	1,093,113	-	-	262,383	4,030,957
Total financial assets	2,135,161,973	421,528,688	1,097,427,622	2,214,305,712	13,537,118	29,102,479	89,996,190	6,001,059,782

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

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

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

	Gross Amount		Impairment Provision	
	2017	2016	2017	2016
----- (Rupees in '000) -----				
Available for sale investment - unlisted	2,431,758	2,431,758	856,863	856,863
Loans and advances - agriculture sector	18,587	18,587	18,587	18,587
Loans and advances - industrial sector	1,054,285	1,054,285	1,054,285	1,054,285
Loans and advances - others	15,128,995	15,128,995	4,275,563	4,275,563
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) including loans recoverable from financial institutions operating in Bangladesh]	10,340,535	9,638,160	10,340,535	9,638,160

50.5 Liquidity analysis with interest / mark-up rate risk

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

	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)						
Financial assets							
Non-derivatives assets:							
Cash and bank balances held by a subsidiary	1,231,312	-	1,231,312	959,345	-	959,345	2,190,657
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	2,475,250,955	56,900,348	2,532,151,303	151,935,151	10,199,622	162,134,773	2,694,286,076
Loans, advances and bills of exchange	244,351,283	83,664,077	328,015,360	18,150,023	16,538,407	34,688,430	362,703,790
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	-	-	-	3,593,850	1,091	3,594,941	3,594,941
	5,840,802,549	390,952,897	6,231,755,446	210,262,144	27,418,760	237,680,904	6,469,436,350
Derivatives assets							
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
Grand Total	5,840,802,549	390,996,978	6,231,799,527	213,411,726	27,418,760	240,830,486	6,472,630,013
Financial liabilities							
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 Government *	178,601,965	-	178,601,965	-	-	-	178,601,965
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	79,065,600	-	79,065,600	164,665,074
Payable to International Monetary Fund	144,192,970	622,436,124	766,629,094	20,752,172	-	20,752,172	787,381,266
Other liabilities	5,160	11,674	16,834	31,344,852	-	31,344,852	31,361,686
	684,853,842	622,447,798	1,307,301,640	4,872,499,884	-	4,872,499,884	6,179,801,524
Derivatives liabilities							
Foreign currency accounts and investments	-	(103,955)	(103,955)	906,473	3,102,311	4,008,784	3,904,829
	684,853,842	622,343,843	1,307,197,685	4,873,406,357	3,102,311	4,876,508,668	6,183,706,353
On balance sheet gap (a)	5,155,948,707	(231,346,865)	4,924,601,842	(4,659,994,631)	24,316,449	(4,635,678,182)	288,923,660
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 Commitment	-	-	-	(272,021)	-	(272,021)	(272,021)
Off balance sheet gap	-	-	-	(444,281,287)	-	(444,281,287)	(444,281,287)
Total yield / interest risk sensitivity gap	5,155,948,707	(231,346,865)	4,924,601,842	(4,215,713,344)	24,316,449	(4,191,396,895)	733,204,947
Cumulative yield / interest risk sensitivity gap	5,155,948,707	4,924,601,842	9,849,203,684	5,633,490,340	5,657,806,789	1,466,409,894	1,466,409,894
Contingent liabilities in respect of guarantees given	-	-	-	3,382,264	20,608,998	23,991,262	23,991,262

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

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

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

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

50.6 Interest rate risk

50.6.1 Cash flow interest rate risk

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

If interest rates had been 10 basis points higher/ lower and all other variables were held constant, the Group's profit for the year ended June 30, 2017 would increase / decrease by Rs. 806.82 (2016: Rs. 566 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments.

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

50.6.2 Fair value interest rate risk

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

The Group is exposed to fair value interest rate risk on its fixed income securities classified as 'financial assets at fair value through profit or loss'. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 50.10 to these consolidated 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 consolidated 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 (2017: Rs. 1,918.47 million) mainly as a result of an increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

50.7 Currency risk management

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

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

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

The sensitivity analyses calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the consolidated profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Group had significant exposure as at June 30, 2017 with all other variables constant profit for the year would have been Rs. 6,748.87 million higher / lower (2016: Rs. 8,771.99 million). Net foreign currency exposure of the Group 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 Group's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 50.6 and 50.7 to these consolidated financial statements prepared as of June 30, 2017 are not necessarily indicative of the effects on the Group's profit and loss of future movements in different variables.

50.8 Price Risk

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

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

In case of 5% increase or decrease in KSE 100 index on June 30, 2017, other comprehensive income would increase or decrease by Rs. 945.623 million (2016: Rs. 901.429 million) and equity of the Group would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Group's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Group's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2017 is not necessarily indicative of the effect on the Group's equity of future movements in the level of KSE 100 index.

50.9 Liquidity risk management

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

The risk arising out of the Group's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Group's financial assets and financial liabilities is given in note 50.5.1.

50.10 Portfolio risk management

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

51. Fair Value of Financial Instruments

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

	Carrying Value		Fair value	
	2017	2016	2017	2016
	------(Rupees in '000)-----			
Financial assets				
Cash and bank balances held by a subsidiary	2,190,657	-	2,190,657	-
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	2,694,286,076	2,147,418,594	2,694,286,076	2,147,419,039
Loans, advances and bills of exchange	362,703,790	350,571,180	362,703,790	350,571,180
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	4,100,017	4,030,957	4,100,017	4,030,957

(a) Financial assets in level 1

Financial assets included in level 1 comprise of foreign currency investments, gold reserves, investments in listed shares and mutual funds.

(b) Financial assets in level 2

Financial assets included in level 2 comprise of preference shares of ZTBL and derivative financial instruments in respect of forward foreign exchange contracts.

(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 assets.

51.2 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 19.1 to these consolidated 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 consolidated 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 16.1.1 and 16.1.2 respectively to these consolidated 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 Cash flow 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.

52. 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)-----				
Financial assets					
Cash and bank balances held by a subsidiary	2,190,657	-	-	-	2,190,657
Local currency - coins	861,860	-	-	-	861,860
Foreign currency accounts and investments	1,063,277,816	382,140,984	337,120,388	-	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	10,319,532
Special Drawing Rights of the International Monetary Fund	63,657,319	-	-	-	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	17,382	-	-	-	17,382
Securities purchased under agreement to resell	1,533,373,313	-	-	-	1,533,373,313
Current accounts of Governments	7,279,247	-	-	-	7,279,247
Investments - local	2,527,764,268	1,582,086	54,924,466	110,015,256	2,694,286,076
Loans, advances and bills of exchange	362,703,790	-	-	-	362,703,790
Assets held with the Reserve Bank of India	1,384,376	-	-	-	1,384,376
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,917,256	-	-	-	9,917,256
Other assets	3,594,941	505,076	-	-	4,100,017
	------(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)-----				
Financial assets					
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	-	-	-	-
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	-	643,839	96,461,352	2,147,418,594
Loans, advances and bills of exchange	350,571,180	-	-	-	350,571,180
Assets held with the Reserve Bank of India	1,362,034	-	-	-	1,362,034
Balances due from the Governments of India and Bangladesh (former East Pakistan)	9,214,881	-	-	-	9,214,881
Other assets	2,588,460	1,442,497	-	-	4,030,957

	2017		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	------(Rupees in '000)-----		
Financial liabilities			
Bank notes in circulation	4,167,135,807	-	4,167,135,807
Bills payable	630,547	-	630,547
Current accounts of Governments	178,601,965	-	178,601,965
Payable under bilateral currency swap agreement	155,550,410	-	155,550,410
Payable to Islamic Banking Institutions against Bai Muajjal transactions	25,137,230	-	25,137,230
Deposits of banks and financial institutions	669,337,539	-	669,337,539
Other deposits and accounts	164,665,074	-	164,665,074
Payable to the International Monetary Fund	787,381,266	-	787,381,266
Other liabilities	31,361,686	-	31,361,686
	2016		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	------(Rupees in '000)-----		
Financial liabilities			
Bank notes in circulation	3,554,922,057	-	3,554,922,057
Bills payable	598,142	-	598,142
Current accounts of Governments	606,657,778	-	606,657,778
Payable under bilateral currency swap agreement	158,507,631	-	158,507,631
Payable to Islamic Banking Institutions against Bai Muajjal transactions	158,507,631	-	158,507,631
Deposits of banks and financial institutions	44,952,938	-	44,952,938
Other deposits and accounts	391,760,469	-	391,760,469
Payable to the International Monetary Fund	161,552,998	-	161,552,998
Other liabilities	778,739,505	-	778,739,505
	20,791,527	-	20,791,527

53. 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 Group 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 Group for the year ending June 30, 2018.

54. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on October 26, 2017 by the Board of Directors of the Bank (i.e. Parent entity).

55. 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
Property, plant and equipment	Intangible assets	
Capital work-in-progress	Capital work-in-progress	21,153

56. 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