

10 Unconsolidated Financial Statements of SBP

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Independent Auditor's Report

To the Board of Directors of State Bank of Pakistan

Opinion

We have audited the unconsolidated financial statements of the State Bank of Pakistan (the Bank), which comprise the unconsolidated balance sheet as at June 30, 2018, and the unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and notes to the unconsolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at June 30, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in our audit
Accuracy of the Liability for "Bank notes in circulation" As disclosed in notes 4.1 and 19 to the accompanying unconsolidated financial	We obtained an understanding, evaluated the design, and tested the operating effectiveness of

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statements, bank notes in circulation represent the liability of the Bank towards bank notes issued as a legal tender under the State Bank of

Pakistan Act, 1956 (the Act) which comprise of 65% of the total liabilities of the Bank.

In view of the significance of liability in relation to the unconsolidated financial statements of the Bank and complexities in the underlying processes relating to issuance of new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes, we have considered the existence and completeness of liability as a key audit matter.

“Foreign currency accounts and investments” and “Investments-local”

As disclosed in note 7 and 12 to the accompanying unconsolidated financial statements of the Bank, “foreign currency accounts and investments” and “Investments-local” represent 17% and 50% respectively of the total assets of the Bank as at the year end.

Furthermore, out of the total “foreign currency accounts and investments” of Rs 1,334 billion at the year end, balance of Rs 378.4 billion are invested through Fund Managers that are overseen by a Custodian.

In addition, “investments-local” includes Market Related Treasury Bills (MRTBs) amounting to Rs 3,668 billion that are issued under instructions of Federal Government.

In view of the significance of these investments in relation to the total assets, the variation in type of investments and their management (involvement of Fund Managers, Custodian and in-house team) we have considered “foreign currency accounts

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controls related to process for new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes.

We analysed the changes in the liability for bank notes in circulation during the year together with the underlying reports of banking and issue department.

We considered the completeness of the liability by inspecting the year end statement of affairs of the Issue Circles. Further, we performed cut-off procedures on expansion and contraction of bank notes to assess the completeness of the year end balances of the liability.

We considered the requirements of the Act with regard to underlying assets backing the bank notes in circulation and tested its compliance with the relevant information provided by the Bank.

Our key procedures included the following:

- We obtained understanding of the processes, assessed the design and implementation and tested effectiveness of key controls throughout the year over recognition, derecognition and valuation of investments and related revenue.
- Sent direct confirmations to counter-parties to confirm the balances of investment holdings and where relevant, performed physical verification of other investments.

Further, in respect of the investment made through fund managers:

- We obtained Type-2 report from Custodian to assess that controls were suitably designed by custodian and operated effectively in respect of its activities.
- We obtained the monthly statement of changes in net assets provided by the Custodian used by management for recognizing income in respect of foreign currency securities and traced with

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and investments” and “Investments-local” as key audit matter.

IT systems and controls over financial reporting

We identified IT systems and IT general controls over financial reporting as a key audit matter because of the pervasive nature and complexity of the IT environment, the extensive volume of transactions processed daily and the reliance of the Bank’s financial accounting and reporting process on IT systems and controls.

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the accounting records of the Bank to assess that they are accurately recorded.

- We performed substantive audit procedures on year-end balance of portfolio including evaluation of Fund Managers’ and Custodian’s statements, and re-performance of valuations on the basis of observable data at the year end.

In respect of financial instruments not carried at fair value, we evaluated the Bank’s assessment whether objective evidence of impairment exists for individual investments.

We also evaluated the adequacy of the overall disclosures in the financial statements in respect of the investment portfolio in accordance with the requirements of applicable financial reporting framework.

Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems and changes to such systems. Given the specialized nature of this area of audit, we involved our specialist IT team to assist with our audit procedures. We:

- Obtained an understanding of the IT governance over the Bank’s IT organization;
- Assessed relevant controls over data migration in relation to the upgrade of the core banking system during the reporting period;
- Identified the key IT Systems and application controls which were integral to the Bank’s financial reporting;
- Evaluated the design, implementation and operating effectiveness of IT general controls covering change management, access management and IT operations over in-scope systems and significant accounts-related IT automated controls which were critical to financial reporting; and
- We tested the accuracy and completeness of key computer generated reports used in our audit.

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Other Matter

The financial statements of the Bank for the year ended June 30, 2017 were audited by A.F. Ferguson & Co. and EY Ford Rhodes who had expressed an unmodified opinion thereon vide their report dated October 27, 2017.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going

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concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

EY Ford Rhodes
Chartered Accountants
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

Mohammad Mahmood Hussain
Audit Engagement Partner

Dated: 30 October 2018

Karachi

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2018

	Note	2018	2017
------(Rupees in '000)-----			
ASSETS			
Gold reserves held by the Bank	5	315,610,772	270,361,202
Local currency - coins	6	989,497	861,860
Foreign currency accounts and investments	7	1,333,820,287	1,782,539,188
Earmarked foreign currency balances	8	12,277,462	10,319,532
Special Drawing Rights of the International Monetary Fund	9	59,272,776	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	10	20,362	17,382
Securities purchased under agreement to resell	11	1,562,309,789	1,533,373,313
Current accounts of Governments	20.2	33,104,114	36,797,935
Investments - local	12	3,917,177,273	2,786,883,898
Loans, advances and bills of exchange	13	444,266,238	353,115,078
Assets held with the Reserve Bank of India	14	6,652,678	5,758,914
Balances due from the Governments of India and Bangladesh	15	10,674,303	9,917,256
Property, plant and equipment	16	56,470,960	58,041,805
Intangible assets	17	309,232	107,458
Other assets	18	4,050,750	4,324,654
Total assets		7,757,006,493	6,916,076,794
LIABILITIES			
Bank notes in circulation	19	4,635,146,711	4,167,135,807
Bills payable		644,452	630,547
Current accounts of Governments	20.1	89,828,633	208,120,653
Current account with SBP Banking Services Corporation - a subsidiary		50,042,724	50,746,464
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		125,087	135,612
Payable to Islamic Banking Institutions against Bai Muajjal transactions	21	-	25,137,230
Payable under bilateral currency swap agreement	22	370,409,071	155,550,410
Deposits of banks and financial institutions	23	813,948,915	669,337,539
Other deposits and accounts	24	200,157,457	164,027,283
Payable to the International Monetary Fund	25	912,585,032	787,381,266
Other liabilities	26	78,148,159	45,311,133
Deferred liability - unfunded staff retirement benefits	27	31,180,934	31,462,468
Total liabilities		7,182,217,175	6,304,976,412
Net assets		574,789,318	611,100,382
REPRESENTED BY			
Share capital	28	100,000	100,000
Reserves	29	110,690,656	141,919,438
Unappropriated profit		12,516,827	43,957,846
Unrealised appreciation on gold reserves held by the Bank	30	311,313,769	266,327,601
Unrealised appreciation on remeasurement of investments - local	12.5	74,683,886	93,306,090
Surplus on revaluation of property, plant and equipment		65,484,180	65,489,407
Total equity		574,789,318	611,100,382
CONTINGENCIES AND COMMITMENTS	31		

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

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

Tariq Bajwa
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2018

	<i>Note</i>	2018	2017
		------(Rupees in '000)-----	
Discount, interest / mark-up and / or profit earned	32	321,222,163	260,827,528
Less: interest / mark-up expense	33	(31,839,115)	(21,368,844)
		289,383,048	239,458,684
Commission income	34	4,083,397	2,591,194
Exchange (loss) / gain - net	35	(72,277,906)	24,569,614
Dividend income		415,000	12,248,843
Other operating income - net	36	957,018	599,968
Other income - net	37	731,807	270,878
		223,292,364	279,739,181
Less: Operating expenses			
- Bank notes printing charges	38	11,776,206	9,164,435
- Agency commission	39	10,945,396	9,679,298
- General administrative and other expenses	40	26,982,162	22,948,328
Provision for / (reversal of provision against)			
- loans and advances	13.4	-	(6,266)
- diminution in value of investments - local - net	12.4	(39,475)	-
- other doubtful assets	26.3.1.1	76,145	16,842
- others		-	(14,674)
		36,670	(4,098)
		49,740,434	41,787,963
Profit for the year		173,551,930	237,951,218

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

Tariq Bajwa
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

**STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018**

	2018	2017
	------(Rupees in '000)-----	
Profit for the year	173,551,930	237,951,218
Other comprehensive income		
Items that will be reclassified to the profit and loss account when specific conditions are met:		
Unrealised (diminution) / appreciation on remeasurement of investments - local	12.5 (18,622,204)	1,919,814
Unrealised appreciation / (diminution) on gold reserves held by the Bank	5 44,986,168	(17,015,000)
	<u>26,363,964</u>	<u>(15,095,186)</u>
Items that will not be reclassified subsequently to the profit and loss account:		
Remeasurements of staff retirement defined benefit plans - SBP	40.6.3.1 (68,780)	(2,130,727)
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary	40.6.3.1 (2,961,549)	(1,667,758)
	<u>(3,030,329)</u>	<u>(3,798,485)</u>
Total comprehensive income for the year	<u><u>196,885,565</u></u>	<u><u>219,057,547</u></u>

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

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STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2018

	Reserves										Surplus on revaluation of property, plant and equipment	Total	
	Share capital	Reserve fund	The Reserve for acquisition of PSPC	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Unappropriated profit	Unrealised appreciation on gold reserves held by the Bank			Unrealised appreciation on remeasurement of investments - local
Balance as at July 1, 2016	100,000	164,619,871	-	2,600,000	1,600,000	1,500,000	900,000	4,700,000	3,820,167	283,342,601	91,386,276	65,489,407	619,658,322
Total comprehensive income for the year													
Profit for the year	-	-	-	-	-	-	-	-	237,951,218	-	-	-	237,951,218
Transfer to the reserve fund	-	1,999,567	-	-	-	-	-	-	(1,999,567)	-	-	-	-
Transfer from the reserve fund	-	(65,464,000)	65,464,000	-	-	-	-	-	-	-	-	-	-
<i>Other comprehensive income</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrealised appreciation on remeasurement of investments - local (note 12.5)	-	-	-	-	-	-	-	-	-	1,919,814	-	-	1,919,814
Unrealised diminution on gold reserves held by the Bank (note 5)	-	-	-	-	-	-	-	-	(17,015,000)	-	-	-	(17,015,000)
Surplus realised on disposal of property, plant and equipment	-	-	-	-	-	-	-	-	(2,130,727)	-	-	-	(2,130,727)
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	-	-	-	-	-	-
Remeasurements of staff retirement defined benefit plans allocated by - SBP	-	-	-	-	-	-	-	-	(1,687,758)	-	-	-	(1,687,758)
Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	(63,464,433)	65,464,000	-	-	-	-	-	232,153,166	(17,015,000)	1,919,814	-	219,657,547
Transactions with owners													
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	(36,000,000)	-	-	-	-	-	-	(19,895,467)	-	-	-	(227,895,467)
Balance as at June 30, 2017	100,000	65,155,438	65,464,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	43,957,846	286,327,601	93,306,090	65,489,407	611,100,382
Total comprehensive income for the year													
Profit for the year	-	-	-	-	-	-	-	-	173,551,930	-	-	-	173,551,930
Transfer to the reserve fund	-	13,771,218	-	-	-	-	-	-	(13,771,218)	-	-	-	-
Transfer from the reserve fund	-	(45,000,000)	-	-	-	-	-	-	-	-	-	-	-
<i>Other comprehensive income</i>	-	-	-	-	-	-	-	-	-	-	-	-	-
Unrealised diminution on remeasurement of investments - local (note 12.5)	-	-	-	-	-	-	-	-	-	(18,622,204)	-	-	(18,622,204)
Unrealised appreciation on gold reserves held by the Bank (note 5)	-	-	-	-	-	-	-	-	-	44,986,188	-	-	44,986,188
Surplus realised on disposal of property, plant and equipment	-	-	-	-	-	-	-	-	5,227	-	-	-	5,227
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	-	(68,780)	-	-	-	(68,780)
Remeasurements of staff retirement defined benefit plans allocated by - SBP	-	-	-	-	-	-	-	-	(2,961,549)	-	-	-	(2,961,549)
Banking Services Corporation - a subsidiary (note 40.6.3.1)	-	13,771,218	-	-	-	-	-	-	156,735,610	44,986,188	(18,622,204)	(5,227)	196,885,565
Transactions with owners													
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	(45,000,000)	-	-	-	-	-	-	(188,186,629)	-	-	-	(233,186,629)
Balance as at June 30, 2018	100,000	33,926,656	65,464,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	12,516,827	311,515,789	74,683,866	65,484,180	574,789,318

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

Tariq Bajwa
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
------(Rupees in '000)-----			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	41	296,833,104	234,033,776
(Increase) / decrease in assets:			
Foreign currency investments and placements		(4,078,052)	(98,569,273)
Reserve tranche with the International Monetary Fund under quota arrangements		(2,980)	73
Securities purchased under agreement to resell		(28,936,476)	200,846
Investments - local		(1,148,876,104)	(472,577,454)
Loans, advances and bills of exchange		(91,151,160)	(10,186,741)
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh		(1,650,811)	(724,717)
Other assets		273,904	(194,708)
		<u>(1,274,421,679)</u>	<u>(582,051,974)</u>
		(977,588,575)	(348,018,198)
Increase / (decrease) in liabilities:			
Bank notes issued - net		468,010,904	612,213,750
Bills payable		13,905	32,405
Current accounts of Governments		(114,861,601)	(434,585,465)
Current account with SBP Banking Services Corporation - a subsidiary		(7,273,285)	(69,554,900)
Current account National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		(10,525)	112,794
Payable to Islamic Banking Institutions against Bai Muajjal transactions		(25,137,230)	(19,815,708)
Payable under bilateral currency swap agreement		214,858,661	(2,957,221)
Deposits of banks and financial institutions		144,611,376	277,577,070
Payment of retirement benefits and employees' compensated absences		(6,476,916)	(2,240,110)
Other deposits and accounts		36,130,174	2,567,089
Other liabilities		32,469,519	2,472,152
		<u>742,334,982</u>	<u>365,821,856</u>
		(235,253,593)	17,803,658
Net cash (used in) / generated from operating activities			
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		415,000	12,248,843
Capital expenditure		(801,854)	(637,300)
Proceeds from disposal of property, plant and equipment		47,654	26,895
Acquisition of Pakistan Security Printing Corporation (Private) Limited - a subsidiary		-	(100,149,000)
Net cash used in investing activities		<u>(339,200)</u>	<u>(88,510,562)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(233,186,629)	(227,805,487)
Net change in balances pertaining to IMF		125,203,766	8,641,761
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		<u>(107,992,863)</u>	<u>(219,173,726)</u>
Decrease in cash and cash equivalents during the year		(343,585,656)	(289,880,630)
Cash and cash equivalents at the beginning of the year		1,519,577,900	1,811,145,674
Effect of exchange (loss) / gain on cash and cash equivalents		(111,510,273)	(1,687,144)
Cash and cash equivalents at the end of the year	42	<u>1,064,481,971</u>	<u>1,519,577,900</u>

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

Tariq Bajwa
Governor

Jameel Ahmad
Deputy Governor

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Executive Director

STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

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

a) SBP Banking Services Corporation - wholly owned subsidiary

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

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

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

National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated in Pakistan under the 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

Pakistan Security Printing Corporation (Private) Limited ("the PSPC") was incorporated in Pakistan under the repealed Companies Ordinance, 1984 (the Ordinance) and is a wholly owned subsidiary of State Bank of Pakistan. The PSPC is principally engaged in the printing of currency notes and national prize bonds.

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

d) Deposit Protection Corporation

Deposit Protection Corporation ("the DPC") has been incorporated as a wholly owned subsidiary of the Bank and is established under the Deposit Protection Corporation Act, 2016 ("the Act"). 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 appointment of Board of Directors of DPC was notified in April 2018, with Deputy Governor SBP as its Chairman. The DPC has formally commenced its business from June 1, 2018. The share capital of DPC was contributed by the Bank on July 03, 2018.

The registered office of the DPC is situated at State Bank of Pakistan Building, Bolton Market, M.A. Jinnah Road, Karachi, in the province of Sindh, Pakistan.

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. 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 4.4 to these unconsolidated financial statements.

3.3.2 Effective Interest Rate (EIR) method

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

3.3.3 Impairment against loans and advances

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

3.3.4 Impairment of available-for-sale investments

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

3.3.5 Retirement benefits

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

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

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

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

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

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 January 1, 2019
- IFRS 16 - 'Leases'	Early adoption is permitted only if IFRS 15 is adopted at the same time
- IFRS 17 - 'Insurance contracts'	January 1, 2021
Amendments	
Amendments to IFRS 2 - ' <i>Share based payments</i> ' on clarifying how to account for certain types of share-based payment transactions	01 January 2018
Amendments to IFRS 4 - ' <i>Insurance contracts</i> ' regarding the implementation of IFRS 9, 'Financial instruments'	01 January 2018
Amendments to IAS 28 - ' <i>Long term interest in Associates and joint Ventures</i> '	01 January 2019
Amendment to IAS 40 - ' <i>Investment property</i> ' relating to transfers of investment property	01 January 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
Amendments to IAS 19 - ' <i>Employee Benefits</i> ' relating to plan amendment, curtailment or settlement	01 January 2019
Interpretations	
IFRIC 22, ' <i>Foreign currency transactions and advance consideration</i> '	01 January 2018
IFRIC 23, ' <i>Uncertainty over income tax</i> '	01 January 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.	01 January 2018
IFRS 3, ' <i>Business Combination</i> ' regarding previously held interest in a joint operation.	01 January 2019
IFRS 11, ' <i>Joint Arrangements</i> ' regarding previously held interest in a joint operation.	01 January 2019
IAS 12, ' <i>Income Taxes</i> ' regarding income tax consequences of payments on financial instruments classified as equity.	01 January 2019
IAS 23, ' <i>Borrowing Cost</i> ' regarding borrowing cost eligible for capitalisation.	01 January 2019
IAS 28, ' <i>Investments in associates and joint ventures</i> ' regarding measuring an associate or joint venture at fair value.	01 January 2018

The Bank expects that the adoption of the above standards, amendments, interpretations and improvements will not have any material impact on the Bank's financial statements in the period of initial application other than the initial application of IFRS 9, 'Financial Instruments' as described below:

- In July 2014, the IASB issued the final version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 eliminates the existing financial asset categories and adopts a principles-based approach to the classification of financial assets, which is driven by a financial instrument's cash-flow characteristics and the business model in which it is held.

IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss (FVTPL). The model has three stages:

- (i) on initial recognition, 12-month expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset;
- (ii) if credit risk increases significantly from initial recognition, lifetime expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset; and
- (iii) when a financial asset is considered credit-impaired, interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

IFRS 9 also includes a new hedge accounting model, together with corresponding disclosures about risk management activities for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant changes apply to those entities that hedge non-financial risk.

The Bank has made a preliminary assessment based on certain premises regarding its exposure to Sovereigns and their Central banks and expects that transition to IFRS 9 is not likely to impact significantly the Bank's financial statements except reclassifications and measurements of certain financial instruments.

3.5 New and amended standards, interpretations and amendments to published approved accounting standards that are effective in the current year

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2017 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are, therefore, not disclosed in these unconsolidated financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Banknotes in circulation and local currency - coins

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

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

4.2 Financial assets and financial liabilities

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

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

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

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

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

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

4.2.2 Held to maturity investments

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

4.2.3 Loans and receivables

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

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

4.2.4 Available-for-sale financial assets

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

4.2.5 Financial liabilities at amortised cost

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

4.3 Derecognition of financial asset and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.4 Fair value measurement principles

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

4.5 Impairment of financial assets

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

a) Financial assets carried at amortised cost

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

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

b) Available-for-sale financial assets

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

4.6 Offsetting of financial assets and financial liabilities

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

4.7 Derivative financial instruments

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

4.8 Collateralised borrowings / lending**4.8.1 Reverse repurchase and repurchase agreements**

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

4.8.2 Payable under bilateral currency swap agreement

Bilateral currency swap agreements with counterpart central banks involve the purchase / sale and subsequent resale / repurchase of local currencies of counterpart central banks against PKR at the applicable exchange rate (determined in accordance with the terms of the agreement). The actual use of facility by the Bank / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Bank and interest is charged / earned at agreed rates to the profit and loss account on a time proportion basis from the date of actual use. Any unutilised limit of the counterpart's drawing is reported as commitments in notes 22 and 31.2.6.

4.9 Payable to Islamic Banking Institutions against Bai Muajjal transactions

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

4.10 Gold reserves held by the Bank

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

4.11 Property, plant and equipment

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

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

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

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

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

4.12 Intangibles

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

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

4.13 Impairment of non-financial assets

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

4.14 Compensated absences

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

4.15 Staff retirement benefits

The Bank operates:

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

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

Annual provisions are made by the Bank to cover the obligations arising under defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2018. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur.

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

4.16 Deferred income

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

4.17 Revenue recognition

- Discount, interest / mark-up and / or profit 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, doubtful loans and advances and overdue return on investments are recognised as income on receipt basis.
- Commission income is recognised when related services are rendered.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Gains / losses on disposal of securities are recognised in the profit and loss account at the trade date.
- All other revenues are recognised on a time proportion basis.

4.18 Finances under profit and loss sharing arrangements

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

4.19 Taxation

The income of the Bank is exempt from tax under section 49 of the State Bank of Pakistan Act, 1956 and clause 66(xx) of Part I of second schedule to the Income Tax Ordinance, 2001.

4.20 Foreign currency translation

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

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

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

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

4.21 Transactions and balances with the International Monetary Fund

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

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

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

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

4.22 Provisions

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

4.23 Cash and cash equivalents

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

5. GOLD RESERVES HELD BY THE BANK	Note	Net content in troy ounces	2018 ------(Rupees in '000)-----	2017
Opening balance		2,075,634	270,361,202	287,170,323
Additions during the year		1,763	263,402	205,879
Appreciation / (diminution) for the year due to revaluation	30		44,986,168	(17,015,000)
	19.1	<u>2,077,397</u>	<u>315,610,772</u>	<u>270,361,202</u>

6. LOCAL CURRENCY - COINS	Note	2018 ------(Rupees in '000)-----	2017
Bank notes held by the Banking Department		191,541	111,406
Coins held as an asset of the Issue Department		<u>989,497</u>	<u>861,860</u>
		1,181,038	973,266
Less: bank notes held by the Banking Department	19	<u>(191,541)</u>	<u>(111,406)</u>
	6.1 & 19.1	<u>989,497</u>	<u>861,860</u>

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

7. FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2018 ------(Rupees in '000)-----	2017
At fair value through profit or loss - held-for-trading:			
- Investments	7.1	568,776,731	379,452,397
- Unrealised gain on derivative financial instruments - net	7.2	2,085,749	2,688,587
Held to maturity investment	7.3	341,082,293	337,120,388
Loans and receivables			
- Deposit accounts	7.1	29,509,408	90,760,872
- Current accounts		35,107,134	20,926,003
- Securities purchased under agreement to resell	7.4	349,903,518	178,482,457
- Money market placements	7.5	7,355,454	773,108,484
		<u>1,333,820,287</u>	<u>1,782,539,188</u>
The above foreign currency accounts and investments are held as follows:			
Issue Department	19.1	723,362,840	1,495,115,694
Banking Department		<u>610,457,447</u>	<u>287,423,494</u>
		<u>1,333,820,287</u>	<u>1,782,539,188</u>

7.1 These represent investments made (by the Bank) in foreign sukuks, 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 sukuks 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, 2018 cumulatively amounts to USD 4,723.5 million (2017: USD 4,103.57 million).

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

7.3 This represents investments in sovereign bonds of foreign countries carrying yield ranging from 2.34% to 3.69% per annum and having maturities from July 1, 2018 to September 24, 2018 (2017: 0.82% to 4.11% per annum and having maturities from July 6, 2017 to September 24, 2018).

7.4 These represent lending under repurchase agreements and carry mark-up in USD ranging from 0.016% to 2.12% per annum (2017: 0.02% to 1.16% per annum) and these will mature on July 2, 2018 (2017: July 3, 2017).

7.5 These represents money market placements carrying interest of 2.17% per annum in USD (2017: 0.85% to 1.52% per annum) and 0.4% per annum in GBP (2017: 0.10% to 0.20% per annum), maturing on July 3, 2018 (2017: having maturities from July 3, 2017 to September 22, 2017).

8. EARMARKED FOREIGN CURRENCY BALANCES

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

9. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Bank as at June 30, 2018. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

	Note	2018	2017
		------(Rupees in '000)-----	
SDRs are held as follows:			
- By the Issue Department	19.1	25,618,350	51,051,350
- By the Banking Department		33,654,426	12,605,969
		<u>59,272,776</u>	<u>63,657,319</u>
10. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS			
Quota allocated by the International Monetary Fund		347,210,944	296,398,560
Liability under quota arrangements		(347,190,582)	(296,381,178)
		<u>20,362</u>	<u>17,382</u>
11. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL			
This represents collateralised lendings made to various financial institutions under repurchase arrangement carrying markup ranging from 6.53% to 7% per annum (2017: 5.77% to 6.25% per annum) and are due to mature from on July 3, 2018 to July 6, 2018 (2017: July 4, 2017 to July 7, 2017). The fair value of securities collateralised as on June 30, 2018 amounts to Rs. 1,562,577 million (2017: Rs. 1,534,782 million). The collaterals held by the Bank consist of Pakistan Investment Bonds and Market Treasury Bills.			
12. INVESTMENTS - LOCAL	Note	2018	2017
		------(Rupees in '000)-----	
Loans and receivables			
Government securities			
Market Related Treasury Bills (MRTBs)		3,667,618,454	2,518,817,198
Federal Government scrips		2,740,000	2,740,000
	12.1	<u>3,670,358,454</u>	<u>2,521,557,198</u>
Held to maturity			
Zarai Taraqati Bank Limited (ZTBL) preference shares - unlisted	12.2	54,274,670	54,160,348
Available- for-sale investments			
Ordinary shares			
- Listed		75,784,692	94,406,896
- Unlisted		16,319,632	16,319,632
	12.3	<u>92,104,324</u>	<u>110,726,528</u>
Term Finance Certificates		56,483	84,722
Certificates of Deposits		22,470	33,705
		<u>92,183,277</u>	<u>110,844,955</u>
Provision against diminution in value of investments	12.4	(817,388)	(856,863)
		<u>91,365,889</u>	<u>109,988,092</u>
Investments in wholly owned subsidiaries - at cost			
Pakistan Security Printing Corporation (Private) Limited		100,149,000	100,149,000
SBP Banking Services Corporation		1,000,000	1,000,000
National Institute of Banking and Finance (Guarantee) Limited		29,260	29,260
		<u>101,178,260</u>	<u>101,178,260</u>
		<u>3,917,177,273</u>	<u>2,786,883,898</u>
The above investments are held as follows:			
Issue Department - MRTBs	19.1	3,563,104,115	2,344,098,193
Banking Department		354,073,158	442,785,705
		<u>3,917,177,273</u>	<u>2,786,883,898</u>
12.1 These represent investments guaranteed / issued by the Government. The profile of return on securities is as follows:			
		2018	2017
		(% per annum)	
Market Related Treasury Bills		6.01 to 6.35	5.90 to 6.01
Federal Government scrips		3	3

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

12.2 This represents 5,446.153 million preference shares of Rs. 10 each carrying mark-up at the rate of 7.5% per annum payable semi-annually, issued by ZTBL. These preference shares are redeemable on March 7, 2027.

12.3 Investments in shares of banks and other financial institutions

	Note	2018 % of holding	2017	2018 ------(Rupees in '000)-----	2017
Listed					
- National Bank of Pakistan	12.3.2	75.20	75.20	75,784,692	94,406,896
Unlisted - at cost					
More than 50% Shareholding					
- Zarai Taraqati Bank Limited		76.23	76.23	10,199,622	10,199,622
- House Building Finance Company Limited (HBFCL)		90.31	90.31	1,482,304	1,482,304
Less than or equal to 50% Shareholding					
Other investments				4,637,706	4,637,706
				16,319,632	16,319,632
				<u>92,104,324</u>	<u>110,726,528</u>

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

12.3.2 Cost of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2018 amounted to Rs. 1,100.8 million (2017: Rs. 1,100.8 million).

	Note	2018	2017
12.4 Provision against diminution in value of investments			
------(Rupees in '000)-----			
Opening balance		856,863	856,863
Reversal during the year		(39,475)	-
Closing balance		<u>817,388</u>	<u>856,863</u>

	2018	2017
12.5 Unrealised appreciation on remeasurement of investments		
------(Rupees in '000)-----		
Opening balance	93,306,090	91,386,276
(Diminution) / appreciation during the year	(18,622,204)	1,919,814
Closing balance	<u>74,683,886</u>	<u>93,306,090</u>

13. LOANS, ADVANCES AND BILLS OF EXCHANGE

		2018	2017
------(Rupees in '000)-----			
Government owned / controlled financial institutions	13.1	56,453,942	47,796,089
Private sector financial institutions	13.2	379,101,059	297,555,950
		435,555,001	345,352,039
Employees		10,841,473	9,893,275
		446,396,474	355,245,314
Provision against doubtful balances	13.4	(2,130,236)	(2,130,236)
		<u>444,266,238</u>	<u>353,115,078</u>

13.1 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2018	2017	2018	2017	2018	2017
Agricultural sector	364,768	439,900	-	-	364,768	439,900
Industrial sector (13.1.1)	13,086,096	8,063,316	-	-	13,086,096	8,063,316
Export sector (13.1.1)	29,333,293	25,554,323	3,567	3,567	29,336,860	25,557,890
Housing sector	-	-	2,035	-	2,035	-
Others (13.1.1 & 13.1.2)	13,664,183	13,734,983	-	-	13,664,183	13,734,983
	56,448,340	47,792,522	5,602	3,567	56,453,942	47,796,089

13.1.1 This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) credit line amounting to Rs. 1,054 million (2017: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2017: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. The Cabinet Committee on Privatisation, in its meeting held on May 07, 2016 approved the inclusion of IDBL in the 'Privatisation Program For Early Implementation'.

13.1.2 These balances include Rs. 327.9 million (2017: Rs. 417.7 million) which are recoverable from various financial institutions operating in Bangladesh. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh.

13.2 Loans and advances to private sector financial institutions

	Scheduled banks		Other financial institutions		Total	
	2018	2017	2018	2017	2018	2017
	----- (Rupees in '000) -----					
Agricultural sector	704,043	744,204	363,682	420,901	1,067,725	1,165,105
Industrial sector	101,492,447	72,186,912	10,640,707	8,892,963	112,133,154	81,079,875
Export sector (13.2.1)	263,202,036	212,825,188	-	-	263,202,036	212,825,188
Others (13.2.2)	2,698,144	2,485,782	-	-	2,698,144	2,485,782
	368,096,670	288,242,086	11,004,389	9,313,864	379,101,059	297,555,950

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

13.2.2 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, 2018 is Rs. 2,695 million (2017: Rs. 2,465 million). The principal amount (Rs. 5,000 million) of the facility along with the profit will be recovered at its maturity.

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

	2018	2017
	(% 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

13.4 Provision against doubtful assets		2018	2017
		----- (Rupees in '000) -----	
Opening balance		2,130,236	5,340,825
Reversal during the year on			
- issuance of preference shares of Zarai Taraqati Bank Limited		-	(3,204,323)
- cash recovery		-	(6,266)
Closing balance		<u>2,130,236</u>	<u>2,130,236</u>
14. ASSETS HELD WITH THE RESERVE BANK OF INDIA	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
Gold reserves			
- Opening balance		4,374,538	4,650,103
- Appreciation / (diminution) for the year due to revaluation	26.3.1.1	<u>727,819</u>	<u>(275,565)</u>
		<u>5,102,357</u>	<u>4,374,538</u>
Sterling securities		528,510	450,221
Government of India securities		253,591	231,832
Rupee coins		5,196	4,769
	14.1	<u>5,889,654</u>	<u>5,061,360</u>
Indian notes representing assets receivable from the Reserve Bank of India			
	14.2	<u>763,024</u>	<u>697,554</u>
	19.1	<u>6,652,678</u>	<u>5,758,914</u>
14.1		These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Bank is subject to final settlement between the Governments of Pakistan and India (also refer note 26.3.1).	
14.2		These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 26.3.1).	
15. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		837	837
		<u>40,453</u>	<u>40,453</u>
Bangladesh			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	15.1	<u>9,813,926</u>	<u>9,056,879</u>
		<u>10,633,850</u>	<u>9,876,803</u>
	15.2	<u>10,674,303</u>	<u>9,917,256</u>
15.1		These represent interest bearing loans and advances (including commercial papers) provided to the Government of Bangladesh.	
15.2		The realisability of the above balances is subject to final settlement between the Government of Pakistan and Government of Bangladesh and India (also refer notes 26.1 and 26.3.1).	
16. PROPERTY, PLANT AND EQUIPMENT	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
Operating fixed assets	16.1	55,911,802	57,587,578
Capital work-in-progress	16.3	559,158	454,227
		<u>56,470,960</u>	<u>58,041,805</u>

16.1 Operating fixed assets

	2018							Useful life / Rate of depreciation
	Cost / revalued amount at July 1, 2017	Additions / (deletions) / Adjustments** during the year	Cost / revalued amount at June 30, 2018	Accumulated depreciation at July 1, 2017	Depreciation for the year / (deletions) / Adjustments**	Accumulated depreciation at June 30, 2018	Net book value at June 30, 2018	
	(Rupees in '000)							
Freehold land*	13,094,840	- (5,881) (53,000) **	13,035,959	-	- - -	-	13,035,959	-
Leasehold land*	38,492,269	13,976 - (563) **	38,505,682	1,226,621	1,363,840 -	2,590,461	35,915,221	30-99 years
Buildings on freehold land*	2,208,966	20,469 - 340 **	2,229,775	145,673	109,775 -	255,448	1,974,327	20 years
Buildings on leasehold land*	4,303,486	20,007 (8) 4,818 **	4,328,303	287,594	213,740 (8) -	501,326	3,826,977	20 years
Plant and machinery	1,139,303	73,771 - 16,095 **	1,229,169	563,315	85,873 -	649,188	579,981	10%
Furniture and fixtures	109,610	988 (2,994) - **	107,604	95,176	2,942 (2,994) -	95,124	12,480	10%
Office equipment	231,970	7,656 (195) - **	239,431	214,634	7,127 (205) -	221,556	17,875	20%
EDP equipment	1,880,915	250,167 (41,028) (837) **	2,089,217	1,578,040	218,581 (20,212) -	1,776,409	312,808	33.33%
Motor vehicles	470,793	105,674 (41,129) - **	535,338	233,521	92,067 (26,424) -	299,164	236,174	20%
	61,932,152	492,708 (91,235) (33,147) **	62,300,478	4,344,574	2,093,945 (49,843) -	6,388,676	55,911,802	
	2017							
	Cost / revalued amount at July 1, 2016	Additions / (deletions) / Adjustments** during the year	Cost / revalued amount at June 30, 2017	Accumulated depreciation at July 1, 2016	Depreciation for the year / (deletions) / Adjustments**	Accumulated depreciation at June 30, 2017	Net book value at June 30, 2017	Useful life / Rate of depreciation
	(Rupees in '000)							
Freehold land*	13,041,840	53,000 - - **	13,094,840	-	- - -	-	13,094,840	-
Leasehold land*	38,491,706	563 - - **	38,492,269	-	1,361,913 - (135,292) **	1,226,621	37,265,648	30-99 years
Buildings on freehold land *	2,301,474	63,068 - (155,576) **	2,208,966	-	106,874 - 38,799 **	145,673	2,063,293	20 years
Buildings on leasehold land*	4,509,573	146,469 - (352,556) **	4,303,486	-	196,446 - 91,148 **	287,594	4,015,892	20 years
Plant and machinery	-	30,155 (1,499) 1,110,647 **	1,139,303	-	64,939 (628) 499,004 **	563,315	575,988	10%
Furniture and fixtures	106,322	3,288 - - **	109,610	91,986	3,190 - - **	95,176	14,434	10%
Office equipment	824,335	10,590 (440) (602,515) **	231,970	682,988	26,804 (202) (494,956) **	214,634	17,336	20%
EDP equipment	1,809,392	156,807 (85,284) - **	1,880,915	1,470,923	190,545 (83,487) 59 **	1,578,040	302,875	33.33%
Motor vehicles	464,256	53,886 (47,349) - **	470,793	173,911	85,502 (27,130) 1,238 **	233,521	237,272	20%
	61,548,898	517,826 (134,572) - **	61,932,152	2,419,808	2,036,213 (111,447) -	4,344,574	57,587,578	

* These represent revalued assets

**Adjustments include reclassifications within different categories of assets

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

	Note	2018 ------(Rupees in '000)-----	2017
Freehold land		39,205	92,858
Leasehold land		163,442	157,415
Buildings on freehold land		330,772	327,372
Buildings on leasehold land		698,915	710,875
		<u>1,232,334</u>	<u>1,288,520</u>

16.3 Capital work-in-progress

Buildings on freehold land		66,473	63,536
Buildings on leasehold land		334,491	224,657
Office equipment		43,568	50,637
EDP equipment		37,027	92,329
Plant and machinery		77,599	23,068
		<u>559,158</u>	<u>454,227</u>

17. INTANGIBLE ASSETS

Softwares	17.1	141,694	4,636
Capital work-in-progress		167,538	102,822
		<u>309,232</u>	<u>107,458</u>

17.1 Intangible assets

	Cost at July 1	Additions during the year	Cost at June 30	Accumulated amortisation at July 1	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
----- (Rupees in '000) -----								
Software 2018	617,417	172,646	790,063	612,781	35,588	648,369	141,694	33.33
Software 2017	613,390	4,027	617,417	609,557	3,224	612,781	4,636	33.33

18. OTHER ASSETS

	Note	2018 ------(Rupees in '000)-----	2017
Commission, receivable and others		3,260,605	3,231,736
Unrealised gain on derivative financial instruments - net		-	505,076
Other advances, deposits and prepayments		790,145	587,842
		<u>4,050,750</u>	<u>4,324,654</u>

19. BANK NOTES IN CIRCULATION

Total bank notes issued	19.1	4,635,338,252	4,167,247,213
Bank notes held with the Banking Department		(191,541)	(111,406)
Notes in circulation		<u>4,635,146,711</u>	<u>4,167,135,807</u>

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

	Note	2018 ------(Rupees in '000)-----	2017
Gold reserves held by the Bank	5	315,610,772	270,361,202
Local currency - coins	6	989,497	861,860
Foreign currency accounts and investments	7	723,362,840	1,495,115,694
Special Drawing Rights of the International Monetary Fund	9	25,618,350	51,051,350
Investments - local	12	3,563,104,115	2,344,098,193
Assets held with the Reserve Bank of India	14	6,652,678	5,758,914
		<u>4,635,338,252</u>	<u>4,167,247,213</u>

20. CURRENT ACCOUNTS OF GOVERNMENTS

20.1 Current accounts of Governments - payable balances

Federal Government	20.3	24,853,643	105,597,218
Provincial Governments			
- Punjab	20.4	6,207,539	38,899,196
- Sindh	20.5	11,180,750	20,398,680
- Khyber Pakhtunkhwa	20.6	25,367,613	31,526,641
- Baluchistan	20.7	6,331,168	2,459,725
Gilgit - Baltistan Administration Authority	20.8	15,887,920	9,239,193
		<u>64,974,990</u>	<u>102,523,435</u>
		<u>89,828,633</u>	<u>208,120,653</u>

	Note	2018 ------(Rupees in '000)-----	2017
20.2 Current accounts of Governments - receivable balance			
Government of Azad Jammu and Kashmir		5,515,438	7,279,247
Railways accounts		27,588,676	29,518,688
	20.9	<u>33,104,114</u>	<u>36,797,935</u>
20.3 Federal Government			
Non-food account		2,566,586	40,062
Zakat fund accounts		7,715,414	80,317,636
Other accounts		14,571,643	25,239,520
		<u>24,853,643</u>	<u>105,597,218</u>
20.4 Provincial Government - Punjab			
Non-food account		(26,818,268)	24,344,157
Zakat fund account		1,093,706	753,583
Other accounts		31,932,101	13,801,456
		<u>6,207,539</u>	<u>38,899,196</u>
20.5 Provincial Government - Sindh			
Non-food account		8,296,644	18,180,177
Zakat fund account		1,728,036	1,694,383
Other accounts		1,156,070	524,120
		<u>11,180,750</u>	<u>20,398,680</u>
20.6 Provincial Government - Khyber Pakhtunkhwa			
Non-food account		20,946,678	29,771,904
Zakat fund account		1,422,771	1,281,569
Other accounts		2,998,164	473,168
		<u>25,367,613</u>	<u>31,526,641</u>
20.7 Provincial Government - Baluchistan			
Non-food account		5,220,576	1,183,617
Zakat fund account		1,002,334	999,379
Other accounts		108,258	276,729
		<u>6,331,168</u>	<u>2,459,725</u>
20.8 Gilgit - Baltistan Administration Authority		<u>15,887,920</u>	9,239,193
		<u>15,887,920</u>	<u>9,239,193</u>

20.9 These balances carry mark-up at rates ranging from 6.01% to 6.83% per annum (2017: 5.89% to 6.01% per annum).

21. PAYABLE TO ISLAMIC BANKING INSTITUTIONS AGAINST BAI MUAJJAL TRANSACTIONS

This represents amount payable to various Islamic Banking Institutions against purchases of Government of Pakistan (GoP) Ijara Sukuks by the Bank on Bai Muajjal basis (deferred payment basis).

22. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

A bilateral currency swap agreement (CSA) was entered between the Bank and the People's Bank of China 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 renewed on 23rd December, 2014 for a period of three years with overall limit of CNY 10,000 million and equivalent PKR. The bilateral CSA has been further extended on May 23, 2018 for a period of three years, with amounts increasing from CNY 10,000 million to CNY 20,000 million and equivalent PKR. The Bank has purchased and utilized CNY 20,000 million against PKR during the year with the maturity buckets of three months to 1 year (2017: CNY 10,000 million with maturity bucket of three months and six months). These purchases have been fully utilized as on June 30, 2018 and the same amounts are outstanding as on June 30, 2018. Interest is charged on outstanding balance at agreed rates.

23. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	Note	2018 ------(Rupees in '000)-----	2017
Foreign currency			
Scheduled banks		21,073,426	7,619,462
Held under Cash Reserve Requirement	23.1	<u>179,222,542</u>	<u>137,166,870</u>
		200,295,968	144,786,332
Local currency			
Scheduled banks	23.1	<u>598,605,138</u>	516,209,260
Financial institutions		<u>14,968,288</u>	8,264,427
Others		<u>79,521</u>	77,520
		613,652,947	524,551,207
		813,948,915	669,337,539

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

24. OTHER DEPOSITS AND ACCOUNTS

Foreign currency			
Foreign central banks		54,830,309	47,257,038
International organisations		30,825,771	26,533,361
Others		<u>35,566,507</u>	<u>18,013,438</u>
	24.1	121,222,587	91,803,837
Local currency			
Special debt repayment	24.3	<u>24,243,841</u>	24,243,841
Government	24.4	<u>17,850,348</u>	17,850,348
Foreign central banks		2,115	2,059
International organisations		<u>6,574,820</u>	6,302,580
Others		<u>30,263,746</u>	23,824,618
		78,934,870	72,223,446
	24.2	200,157,457	164,027,283

24.1 This includes FCY deposits equivalent to Rs.121,497.2 million (based on exchange rate as of June 30, 2018), carrying interest at six month LIBOR plus 100 bps, payable semi-annually. These deposits have been set off against the Rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantee whereby the MoF has agreed to assume all liabilities and risks arising from these deposits.

24.2 The interest rate profile of the interest bearing deposits is as follows:	2018 (% per annum)	2017
Foreign central banks	1.10 to 2.39	0.59 to 1.49
International organisations	3.09 to 3.74	2.62 to 3.09
Others	1.15 to 1.92	0.38 to 1.00

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

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

25. PAYABLE TO THE INTERNATIONAL MONETARY FUND	Note	2018 ------(Rupees in '000)-----	2017
Borrowings under:			
- Fund facilities	25.1 & 25.3	743,484,251	643,054,775
- Allocation of SDRs	25.2	<u>169,100,741</u>	<u>144,326,457</u>
		912,584,992	787,381,232
Current account for administrative charges		<u>40</u>	34
		912,585,032	787,381,266

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

Under GRA financing, IMF granted Extended Fund Facility (EFF) amounting to SDR 4,393 million in FY 2013-14, 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. The repayment under this facility has started from March 2018 and will continue till September 2026.

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

	Note	2018	2017
25.3		(% per annum)	
Interest profile of amount payable to the IMF is as under:			
Fund facilities	25.3.1	1.53 to 1.99	1.05 to 1.63

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

	Note	2018	2017
26. OTHER LIABILITIES		----- (Rupees in '000) -----	
Local currency			
Provision against overdue mark-up	26.1	9,419,825	8,662,726
Remittance clearance account		1,432,952	2,215,088
Exchange loss payable under exchange risk coverage scheme		346,177	239,068
Dividend payable	26.2	10,000	10,000
Unrealised loss on derivative financial instruments - net		27,277,082	-
Other accruals and provisions	26.3	29,954,085	26,203,559
Others	26.4	9,708,038	7,980,692
		78,148,159	45,311,133
		78,148,159	45,311,133

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

26.2 This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to Rs. 9.99 (2017: Rs. 9.99 million).

	Note	2018	2017
26.3 Other accruals and provisions		------(Rupees in '000)-----	
Agency commission		14,041,953	12,451,275
Provision for employees' compensated absences	40.6.9	2,934,430	2,643,068
Provision for other doubtful assets	26.3.1	7,456,736	6,652,772
Other provisions	26.3.2	2,848,701	2,848,701
Others		2,672,265	1,607,743
		29,954,085	26,203,559
		29,954,085	26,203,559

26.3.1 Provision for other doubtful assets

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

- Issue Department	6,652,678	5,758,914
- Banking Department	40,483	40,483
	6,693,161	5,799,397

Provision against assets receivable from Government of Bangladesh

- Issue Department	-	-
- Banking Department	763,575	853,375
	763,575	853,375

26.3.1.1 **7,456,736** 6,652,772

26.3.1.1 Movement of provisions for other doubtful assets

Opening balance	6,652,772	6,911,495
Charge during the year	76,145	16,842
Appreciation / (diminution) relating to gold reserves held by the Reserve Bank of India	727,819	(275,565)
Closing balance	7,456,736	6,652,772
	7,456,736	6,652,772

26.3.2 This represent provision against Home Remittance amounting to Rs. 260.363 million (2017: Rs. 260.363 million), Specific claims pertaining to provision made against claims under arbitration amounting to Rs. 1,600 million (2017: Rs. 1,600 million) and other provision made in respect of various litigations and claims against the Bank amounting to Rs. 988.34 million (2017: Rs. 988.34 million).

26.4 This includes liability maintained against balances due from Government of Bangladesh amounting to Rs. 778.399 million (2017: Rs. 778.399 million).

27. DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS	<i>Note</i>	2018	2017
		------(Rupees in '000)-----	
Pension		22,486,289	23,077,020
Gratuity scheme		52,919	45,984
Benevolent fund scheme		384,472	407,505
Post retirement medical benefits		7,548,086	7,297,641
Six months post retirement facility		493,134	414,266
	40.6.3	30,964,900	31,242,416
Provident fund scheme		216,034	220,052
		31,180,934	31,462,468

28. SHARE CAPITAL

2018	2017		2018	2017
----- (Number of shares) ----			------(Rupees in '000)-----	
Authorised share capital				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	100,000	100,000
Issued, subscribed and paid-up capital				
1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	100,000	100,000

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

29. RESERVES

29.1 Reserve fund

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

29.2 The Reserve for acquisition of PSPC

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

29.3 Other funds

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

30. UNREALISED APPRECIATION ON GOLD	<i>Note</i>	2018	2017
RESERVES HELD BY THE BANK		----- (Rupees in '000) -----	
Opening balance		266,327,601	283,342,601
Revaluation reserve relating to gold reserves held by the Reserve			
Bank of India transferred to provision for other doubtful assets			
Appreciation / (diminution) for the year due to revaluation	5	<u>44,986,168</u>	<u>(17,015,000)</u>
		<u>311,313,769</u>	<u>266,327,601</u>

31. CONTINGENCIES AND COMMITMENTS

31.1 Contingencies

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

Federal Government	31.1.1	14,697,951	16,889,529
Federal Government owned / controlled bodies and authorities		<u>7,552,403</u>	<u>7,103,733</u>
		<u>22,250,354</u>	<u>23,993,262</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 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 filed an appeal in the Honorable Lahore High Court, Rawalpindi Bench, from where it has been transferred to Islamabad High Court. The decision is pending. On the last hearing on June 15, 2017 the petition was adjourned sine die. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.
- c) In addition to these claims, there are several other investigations / lawsuits filed by various parties as a result of the regulatory actions / investigations taken by the Bank in its capacity as regulator and banker to the government, which the Bank is currently contesting in various courts of laws / forums. The management of the Bank, believes that the Bank has reasonable position in respect of these litigations and accordingly no provision for any liability may be needed in the unconsolidated financial statements.

	Note	2018 ------(Rupees in '000)-----	2017 ------(Rupees in '000)-----
d) Other claims against the Bank not acknowledged as debts	31.1.2	<u>330,303</u>	<u>350,216</u>

31.1.1 Above guarantees are secured by counter guarantees from the Government of Pakistan.

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

31.2	Commitments	2018 ------(Rupees in '000)-----	2017 ------(Rupees in '000)-----
31.2.1	Foreign currency forward and swap contracts - sale	<u>1,112,127,341</u>	<u>935,079,726</u>
31.2.2	Foreign currency forward and swap contracts - purchase	<u>248,969,098</u>	<u>498,678,723</u>
31.2.3	Futures - sale	<u>41,585,759</u>	<u>43,038,829</u>
31.2.4	Futures - purchase	<u>26,130,491</u>	<u>35,430,566</u>
31.2.5	Capital commitments	<u>136,846</u>	<u>189,027</u>

31.2.5.1 This represent amounts committed by the Bank to purchase assets from successful bidders.

31.2.6 The Bank has a commitment to extend PKR equivalent to CNY 20,000 million to People's Bank of China under bilateral currency swap agreement as disclosed under note 22 to these unconsolidated financial statements.

31.2.7 The Bank has made commitments to extend advance under ways and means limits to the Provincial Governments of Pakistan, Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority in the normal course of its operations. The unutilised limits as on June 30, 2018 amounted to Rs. 44,566 million (2017: Rs. 67,325 million).

In case the Governments exceed their respective ways and means limits, the Bank charges a penal rate of 4% over and above the normal rate of return on the amount exceeding the ways and means limit.

32.	DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED	Note	2018 ------(Rupees in '000)-----	2017 ------(Rupees in '000)-----
	Discount, interest / mark-up on government transactions:			
	- Market Related Treasury Bills		<u>209,176,153</u>	171,366,069
	- Federal Government Scrips		<u>82,200</u>	82,200
	- Loans and advances to and current accounts of Governments	32.1	<u>802,946</u>	442,256
	Securities purchased under agreement to resell		<u>74,134,857</u>	63,193,756
	Interest income on preference shares		<u>4,198,938</u>	1,333,659
	Return on loans and advances to financial institutions		<u>9,884,733</u>	6,392,333
	Foreign currency deposits		<u>11,435,150</u>	9,034,732
	Foreign currency securities		<u>11,505,756</u>	8,970,869
	Profit on sukuk purchased under bai muajjal agreement		-	10,745
	Others		<u>1,430</u>	909
			<u>321,222,163</u>	<u>260,827,528</u>

		2018	2017
		(% per annum)	
32.1	Interest profile on loans and advances to facilities are as under:		
	Mark-up on facility	6.01 to 6.83	6.89 to 6.01
	Additional mark-up (where ways and means facility limit is exceeded)	4	4
		<i>Note</i>	
		2018	2017
		------(Rupees in '000)-----	
33.	INTEREST / MARK-UP EXPENSE		
	Deposits	28,336,145	19,087,345
	Securities sold under agreement to repurchase	1,148,589	152,737
	Return on sukuk purchased under bai muajjal agreement	1,167,287	1,735,682
	Charges on allocation of Special Drawing Rights of the IMF	1,185,141	388,071
	Others	1,953	5,009
		<u>31,839,115</u>	<u>21,368,844</u>
		<i>Note</i>	
		2018	2017
		------(Rupees in '000)-----	
34.	COMMISSION INCOME		
	Market Treasury Bills	2,763,675	1,163,377
	Management of public debts	818,072	959,936
	Prize Bonds and National Saving Certificates	494,238	459,422
	Draft / payment orders	7,284	8,408
	Others	128	51
		<u>4,083,397</u>	<u>2,591,194</u>
34.1	These represent commission income earned from services provided to the Federal Government.		
		<i>Note</i>	
		2018	2017
		------(Rupees in '000)-----	
35.	EXCHANGE (LOSS) / GAIN - NET		
	Gain / (loss) on:		
	- Foreign currency placements, deposits, securities and other accounts - net	51,992,338	21,802,161
	- Forward covers under Exchange Risk Coverage Scheme	(2,690)	(109)
	- IMF Fund Facilities	(109,358,935)	2,642,689
	- Special Drawing Rights of the IMF	(14,945,566)	80,160
		<u>(72,314,853)</u>	<u>24,524,901</u>
	Others	-	446
	Exchange risk fee income	36,947	44,267
		<u>(72,277,906)</u>	<u>24,569,614</u>
36.	OTHER OPERATING INCOME - NET		
	Penalties levied on banks and financial institutions	1,341,013	1,131,474
	License / Credit Information Bureau fee recovered	967,216	904,202
	Gain on disposal of investment:		
	Local - 'at fair value through profit or loss'	-	-
	Foreign - 'at fair value through profit or loss'	2,310,012	39,949
		<u>2,310,012</u>	<u>39,949</u>
	Gain / loss on restructuring of exposure of Zarai Taraqiati Bank Limited and House Building Finance Company Limited	-	3,311,793
	Loss on remeasurement of securities classified as 'fair value through profit or loss'	(3,850,029)	(4,898,446)
	Others	188,806	110,996
		<u>957,018</u>	<u>599,968</u>
37.	OTHER INCOME - NET		
	Gain on disposal of property, plant and equipment	6,262	3,770
	Liabilities and provisions written back - net	11,351	11,780
	Grant income under foreign assistance program	3,312	9,064
	Income from subsidiary	35,819	41,572
	Others	675,063	204,692
		<u>731,807</u>	<u>270,878</u>

37.1 This represents income of a subsidiary - SBP Banking Services Corporation for the year ended June 30, 2018 transferred to the Bank in accordance with the arrangements mentioned in note 40.4 to these unconsolidated financial statements.

37.2 These include service charges at the rate of 0.12% of the total value of re-issuable cash deposited by various banks with SBP Banking Services Corporation field offices and NBP chest branches.

38. BANK NOTES PRINTING CHARGES

Bank notes printing charges are paid to Pakistan Security Printing Corporation (Private) Limited, a wholly owned subsidiary of the Bank, at agreed rates under specific arrangements.

39. AGENCY COMMISSION

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

40. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	<i>Note</i>	2018	2017
		------(Rupees in '000)-----	
Salaries and other benefits		3,877,210	3,509,361
Retirement benefits and employees' compensated absences	40.1	3,652,880	2,838,624
Rent and taxes		79,818	18,877
Insurance		50,997	34,810
Electricity, gas and water		52,372	50,509
Depreciation	16.1	2,093,945	2,036,213
Amortisation of intangible assets	17.1	35,588	3,224
Repairs and maintenance		435,303	407,768
Auditors' remuneration	40.5	7,700	7,000
Legal and professional		29,315	44,231
Fund managers / custodian expenses		553,592	475,909
Travelling expenses		302,706	255,719
Daily expenses		89,052	76,326
Fuel		49,842	39,974
Conveyance		7,204	7,191
Postages, telegram / telex and telephone		181,219	215,210
Training		249,798	215,139
Stationery		11,634	8,224
Books and newspapers		33,877	35,309
Memorial chair		17,461	-
Advertisement		30,540	37,147
Uniforms		1,308	1,361
Others		221,073	135,064
		12,064,434	10,453,190
Expenses allocated by:			
SBP Banking Services Corporation	40.2	6,373,080	5,071,183
Expenses reimbursed to:			
SBP Banking Services Corporation	40.3	8,544,648	7,423,955
		26,982,162	22,948,328

40.1 This includes an amount relating to defined contribution plan aggregating 238.98 million (2017: Rs. 196.209 million).

40.2 Expenses allocated by SBP Banking Services Corporation	2018	2017
	------(Rupees in '000)-----	
Retirement benefits and employees' compensated absences	6,090,087	4,853,297
Depreciation	282,993	217,886
	6,373,080	5,071,183

40.3 Expenses reimbursed to SBP Banking Services Corporation	Note	2018	2017
		------(Rupees in '000)-----	
Salaries and other benefits		6,513,589	5,709,601
Rent and taxes		39,591	37,604
Insurance		17,402	12,979
Electricity, gas and water		357,749	323,968
Repairs and maintenance		268,493	218,084
Auditors' remuneration	40.5	7,700	7,000
Legal and professional		15,357	9,270
Travelling expenses		24,146	16,864
Daily expenses		38,246	30,638
Recreation allowance		312,066	258,419
Fuel		3,688	2,810
Conveyance		19,368	17,456
Postage and telephone		14,643	11,399
Training		204,817	203,964
Remittance of treasure		147,329	132,636
Stationery		15,677	10,408
Books and newspapers		2,151	1,813
Advertisement		19,600	11,028
Bank guards		174,231	147,587
Uniforms		32,626	34,983
Others		316,179	225,444
		<u>8,544,648</u>	<u>7,423,955</u>

40.4 SBP Banking Services Corporation ("the Corporation"), a wholly owned subsidiary of the Bank, carries out certain functions and activities principally relating to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly, under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while profit of the Corporation for the year ended June 30, 2018, as mentioned in note 37.1 to these unconsolidated financial statements, has also been transferred to the Bank.

40.5 Auditors' remuneration	2018			2017		
	EY Ford Rhodes	KPMG	Total	EY Ford Rhodes	A. F. Ferguson & Co.	Total
	------(Rupees in '000)-----					
State Bank of Pakistan						
Audit fee	3,300	3,300	6,600	3,000	3,000	6,000
Out of pocket expenses	550	550	1,100	500	500	1,000
	<u>3,850</u>	<u>3,850</u>	<u>7,700</u>	<u>3,500</u>	<u>3,500</u>	<u>7,000</u>
SBP Banking Services Corporation						
Audit fee	2,750	2,750	5,500	2,500	2,500	5,000
Out of pocket expenses	1,100	1,100	2,200	1,000	1,000	2,000
	<u>3,850</u>	<u>3,850</u>	<u>7,700</u>	<u>3,500</u>	<u>3,500</u>	<u>7,000</u>
	<u>7,700</u>	<u>7,700</u>	<u>15,400</u>	<u>7,000</u>	<u>7,000</u>	<u>14,000</u>

40.6 Staff retirement benefits

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

	2018	2017
- Discount rate for year end obligation	9.00% p.a	7.75% p.a
- Salary increase rate	10.00% p.a	8.75% p.a
- Pension indexation rate	7.50% p.a	6.25% p.a
- Medical cost increase rate	9.00% p.a	7.75% p.a
- Petrol price increase rate (where applicable)	10.00% p.a	8.75% p.a
- Personnel turnover	9.5% p.a	4.8% p.a
- Normal retirement age	60 Years	60 Years

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

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

Discount rate risk

The risk of changes in discount rate, since discount rate is based on corporate / government bonds, any decrease in bond yields will increase plan liabilities.

Salary increase / inflation risk

The risk that the actual salary increase are higher 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

The risk that the actual pension 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 lighter 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 circulation.

40.6.3 Change in present value of defined benefit obligation

	2018					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	
	------(Rupees in '000)-----					
Present value of defined benefit obligation as on July 1, 2017	23,077,020	45,984	7,297,641	407,505	414,266	31,242,416
Current service cost	300,364	6,289	149,148	3,601	29,295	488,697
Interest cost on defined benefit obligation	1,687,385	3,424	553,399	29,888	31,432	2,305,528
Benefits paid	(2,608,614)	(3,600)	(314,007)	(43,714)	(17,371)	(2,987,306)
Liability transferred to SBP - BSC	(116,667)	-	(29,442)	(2,391)	(4,715)	(153,215)
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(34,500)	-	(34,500)
Experience adjustments	146,801	822	(108,653)	24,083	40,227	103,280
Present value of defined benefit obligation as on June 30, 2018	<u>22,486,289</u>	<u>52,919</u>	<u>7,548,086</u>	<u>384,472</u>	<u>493,134</u>	<u>30,964,900</u>

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

40.6.3.1 Remeasurements recognised in statement of comprehensive income

	2018					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	
	------(Rupees in '000)-----					
- Actuarial gains / (losses) from changes in financial assumptions	-	-	-	34,500	-	34,500
- Experience adjustments	(146,801)	(822)	108,653	(24,083)	(40,227)	(103,280)
	<u>(146,801)</u>	<u>(822)</u>	<u>108,653</u>	<u>10,417</u>	<u>(40,227)</u>	<u>(68,780)</u>
Allocated by SBP Banking Services Corporation - a subsidiary*	<u>(2,697,663)</u>	<u>(598)</u>	<u>(585,645)</u>	<u>312,713</u>	<u>9,644</u>	<u>(2,961,549)</u>

	2017					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	
	------(Rupees in '000)-----					
- Actuarial gains / (losses) from changes in financial assumptions	(1,117,608)	-	(144,363)	14,781	(76)	(1,247,266)
- Experience adjustments	(1,293,464)	1,976	392,429	14,597	1,001	(883,461)
	<u>(2,411,072)</u>	<u>1,976</u>	<u>248,066</u>	<u>29,378</u>	<u>925</u>	<u>(2,130,727)</u>
Allocated by SBP Banking Services Corporation - a subsidiary*	<u>1,798,535</u>	<u>22</u>	<u>(80,740)</u>	<u>(48,454)</u>	<u>(1,605)</u>	<u>(1,667,758)</u>

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

40.6.4 Amount recognised in the profit and loss account

	2018					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	
	(Rupees in '000)					
Current service cost	300,364	6,289	149,148	3,601	29,295	488,697
Interest cost on defined benefit obligation	1,687,385	3,424	553,399	29,888	31,432	2,305,528
Contribution made by employees	-	-	-	(3,648)	-	(3,648)
	1,987,749	9,713	702,547	29,841	60,727	2,790,577

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

40.6.5 Movement of present value of defined benefit obligation

	2018					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	
	(Rupees in '000)					
Net recognised liabilities at July 1, 2017	23,077,020	45,984	7,297,641	407,505	414,266	31,242,416
Amount recognised in the profit and loss account	1,987,749	9,713	702,547	29,841	60,727	2,790,577
Remeasurements	146,801	822	(108,653)	(10,417)	40,227	68,780
Benefits paid during the year	(2,608,614)	(3,600)	(314,007)	(43,714)	(17,371)	(2,987,306)
Liability transferred to SBP - BSC	(116,667)	-	(29,442)	(2,391)	(4,715)	(153,215)
Employees contribution	-	-	-	3,648	-	3,648
Net recognised liabilities at June 30, 2018	22,486,289	52,919	7,548,086	384,472	493,134	30,964,900

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

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

	Impact on defined benefit obligation - Increase / (decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
	(Rupees in '000)		
Pension			
Discount rate	1%	(1,677,594)	1,906,605
Future salary increase	1%	378,230	(363,679)
Future pension increase	1%	1,569,171	(1,377,678)
Expected mortality rates	1 Year	(504,977)	552,713
Gratuity			
Discount rate	1%	(6,939)	8,294
Salary increase rate	1%	8,129	(6,939)
Post retirement medicabenefit scheme			
Discount rate	1%	(913,193)	1,160,373
Salary increase	1%	35,417	(30,199)
Post-Retirement medical cost increase rate	1%	1,159,590	(924,860)
Expected mortality rates	1 Year	(156,591)	152,148
Benevolent			
Discount rate	1%	(23,731)	27,161
Six months post retirement facility			
Discount rate	1%	(42,997)	49,229
Salary / petrol price increase rate	1%	48,959	(43,575)

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

40.6.7 Duration of defined benefit obligation

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

40.6.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2019

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2019 would be as follows:

	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
------(Rupees in '000)-----						
Current service cost	289,504	5,637	154,352	3,348	34,657	487,498
Interest cost on defined benefit obligation	2,023,766	4,763	679,328	34,602	44,382	2,786,841
Amount chargeable to profit and loss account	2,313,270	10,400	833,680	37,950	79,039	3,274,339

40.6.9 Employees' compensated absences

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 2,934.430 million (2017 :Rs. 2,643.068 million). An amount of Rs. 615.969 million (2017: Rs. 171.511 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2019 would be Rs 480.827 million. The benefits paid during the year amounted to Rs. 281.357 million (2017: Rs 68.969 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 253.234 million and Rs. 294.141 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 294.485 million and Rs. 259.032 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employees' compensated absences is 9 years.

	2018	2017
	------(Rupees in '000)-----	
41 PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS		
Profit for the year	173,551,930	237,951,218
Adjustments for:		
Depreciation	16.1 & 40.2	2,376,938
Amortisation of intangible assets	17.1	35,588
Provision / (reversal) for:		
- retirement benefits and employees' compensated absences	9,742,967	7,691,921
- loans and advances	-	(6,266)
- diminution in value of investments - local -net	12.4	(39,475)
- other doubtful assets	26.3.1	76,145
Gain on disposal of property, plant and equipment	37	(6,262)
Gain / loss on restructuring of exposure of Zarai Taraqati Bank Limited (ZTBL) and House Building Finance Company Limited (HBFCCL)	-	(3,311,793)
Dividend income	(415,000)	(12,248,843)
Effect of exchange loss on cash and cash equivalents	111,510,273	1,687,144
	<u>296,833,104</u>	<u>234,033,776</u>
42. CASH AND CASH EQUIVALENTS		
Local currency - coins	989,497	861,860
Foreign currency accounts and investments	991,942,236	1,444,739,189
Earmarked foreign currency balances	12,277,462	10,319,532
Special Drawing Rights of the International Monetary Fund	59,272,776	63,657,319
	<u>1,064,481,971</u>	<u>1,519,577,900</u>
43. RELATED PARTY TRANSACTIONS		
The Bank enters into transactions with related parties in its normal course of business. Related parties include the Federal Government as major shareholder of the Bank, Provincial Governments, Government of Azad Jammu and Kashmir, Gilgit-Baltistan Administration Authority, Government controlled enterprises / entities, retirement benefit plans, directors and key management personnel of the Bank.		
43.1 National Institute of Banking & Finance (Guarantee) Limited	2018	2017
	------(Rupees in '000)-----	
Balances at the year end		
Payable against training programs	54,886	2,223
Current account with the Institute	125,087	135,612
Transactions during the year		
Training expense	232,534	199,306
Payments	179,870	219,901
Restricted grant paid during the year	36,530	-

43.2 Pakistan Security Printing Corporation (Private) Limited	2018	2017
	----- (Rupees in '000) -----	
Balances at the year end		
Payable against printing charges	1,354,769	788,031
Receivable against salaries	38,174	941
Transactions during the year		
Bank notes printing charges	11,776,206	396,169

43.3 Governments and related entities

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

	2018	2017
	----- (Rupees in '000) -----	
<i>Transactions during the year</i>		
- Creation of MRTBs	<u>9,118,640,000</u>	<u>6,250,800,000</u>
- Retirement / rollover of MRTBs	<u>7,993,340,000</u>	<u>5,799,530,000</u>
- Outstanding foreign currency swap contracts	<u>-</u>	<u>89,778,296</u>
- Commission income from sale of Market Treasury Bills, issuance of Prize Bonds, National Saving Certificates and management of public debt (refer note 34.1)		

43.4 Remuneration to key management personnel

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

	2018	2017
	----- (Rupees in '000) -----	
Short-term employee benefit	395,112	360,060
Post-employment benefit	139,708	56,127
Loans disbursed during the year	149,451	60,458
Loans repaid during the year	141,584	77,397
Directors' fees	13,781	13,050
Number of key management personnel	19	18

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

43.5 Subsidiaries of the Bank

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

43.6 Associated undertakings of the Bank**43.6.1 SICPA Inks Pakistan (Private) Limited (SICPA)**

SICPA Pakistan is a joint venture of SICPA SA, Switzerland and the PSPC, incorporated in 1995. The company operates a facility in Karachi for manufacturing security inks for printing of all denominations of currency notes and other value documents, such as, passports, postage stamps and stamp papers, etc.

43.6.2 Security Papers Limited (SPL)

SPL is an associated company of the PSPC. It was established in 1965. It became a joint venture company of Iran, Turkey and Pakistan in 1967, under the protocol of regional corporation of development - now economic corporation organisation - in 1967. The company is engaged in manufacturing of paper required by the PSPC for printing banknotes, Prize Bonds, Non-judicial Stamp Paper, share certificates and watermarked certificate / degree papers for various educational institutions of Pakistan.

44 RISK MANAGEMENT POLICIES

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

44.1 Credit risk management

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

44.2 Concentrations of risk

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

44.2.1 Geographical analysis

	2018						Grand Total
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	
	(Rupees in '000)						
Financial assets							
Local currency - coins	989,497	-	-	-	-	-	989,497
Foreign currency accounts and investments	28,158,826	452,796,136	705,297,405	97,916,940	15,639,892	34,011,088	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	-	-	12,277,462
Special Drawing Rights of International Monetary Fund	-	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	20,362	-	-	-	20,362
Securities purchased under agreement to resell	1,562,309,789	-	-	-	-	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	-	33,104,114
Investments - local	3,815,999,013	-	-	-	-	-	3,815,999,013
Loans, advances and bills of exchange	443,941,856	324,382	-	-	-	-	444,266,238
Assets held with the Reserve Bank of India	-	1,550,321	-	-	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	-	10,674,303	-	-	-	-	10,674,303
Other assets	2,699,911	571	93,552	288	-	-	2,794,322
Total financial assets	5,899,480,468	465,345,713	764,684,095	97,917,228	15,639,892	34,011,088	7,277,078,484
	2017						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(Rupees in '000)						
Financial assets							
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 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	36,797,935	-	-	-	-	-	36,797,935
Investments - local	2,685,705,638	-	-	-	-	-	2,685,705,638
Loans, advances and bills of exchange	352,697,329	417,749	-	-	-	-	353,115,078
Assets held with the Reserve Bank of India	-	1,384,376	-	-	-	-	1,384,376
Balances due from the Governments of India and Bangladesh	-	9,917,256	-	-	-	-	9,917,256
Other assets	2,675,299	743,347	117,504	559,715	2,307	-	4,098,172
Total financial assets	4,646,392,052	465,551,702	716,429,617	561,328,687	48,498,458	43,586,533	6,481,787,049

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

44.2.2 Industrial analysis

	2018					Grand Total
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	
	----- (Rupees in '000) -----					
Financial assets						
Local currency - coins	989,497	-	-	-	-	989,497
Foreign currency accounts and investments	1,188,726,580	34,767,681	4,246,075	86,719,501	19,360,450	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	-	12,277,462
Special Drawing Rights of the International Monetary Fund	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	-	20,362	-	-	-	20,362
Securities purchased under agreement to resell	-	-	-	1,562,309,789	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	33,104,114
Investments - local	3,724,633,125	-	87,466,618	3,899,271	-	3,815,999,014
Loans, advances and bills of exchange	14,453,450	-	42,364,421	376,606,894	10,841,473	444,266,238
Assets held with the Reserve Bank of India	1,550,321	-	-	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	10,674,303	-	-	-	-	10,674,303
Other assets	1,470,185	93,254	387,324	1,158	842,402	2,794,323
Total financial assets	4,987,879,037	94,154,073	134,464,438	2,029,536,613	31,044,325	7,277,078,486

	2017					Grand Total
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	
	----- (Rupees in '000) -----					
Financial assets						
Local currency - coins	861,860	-	-	-	-	861,860
Foreign currency accounts and investments	831,724,378	213,375,369	2,494,010	718,737,738	16,207,693	1,782,539,188
Earmarked foreign currency balance	10,319,532	-	-	-	-	10,319,532
Special Drawing Rights of 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	36,797,935	-	-	-	-	36,797,935
Investments - local	2,521,557,198	-	160,249,170	3,899,270	-	2,685,705,638
Loans, advances and bills of exchange	13,340,783	-	32,990,934	296,890,086	9,893,275	353,115,078
Assets held with the Reserve Bank of India	1,384,376	-	-	-	-	1,384,376
Balances due from the Governments of India and Bangladesh	9,917,256	-	-	-	-	9,917,256
Other assets	1,844,622	252,614	267,856	1,222,763	510,317	4,098,172
Total financial assets	3,427,747,940	277,302,684	196,001,970	2,554,123,170	26,611,285	6,481,787,049

44.3 Credit exposure by credit rating

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

	2018							Grand Total
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	
(Rupees in '000')								
Financial assets								
Local currency - coins	989,497							989,497
Foreign currency accounts and investments	923,676	79,266,748	725,307,790	474,599,234	19,181,159	28,030,908	6,510,772	1,333,820,287
Earmarked foreign currency balance	12,277,462	-	-	-	-	-	-	12,277,462
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	59,272,776	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	20,362	20,362
Securities purchased under agreement to resell	-	-	-	1,560,763,664	1,546,125	-	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	-	-	33,104,114
Investments - local	3,724,633,125	-	-	-	-	-	-	3,724,633,125
Loans, advances and bills of exchange	14,453,451	65,105,010	58,032,166	294,003,469	-	15,477	12,656,665	444,266,238
Assets held with the Reserve Bank of India	-	-	-	-	1,550,321	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	10,633,850	-	10,674,303
Other assets	1,808,263	-	-	1,158	-	-	984,902	2,794,323
Total financial assets	3,788,189,588	144,371,758	783,339,956	2,329,367,525	22,318,058	38,680,235	79,445,477	7,185,712,597

	2017							Grand Total
	Sovereign (44.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	
(Rupees in '000')								
Financial assets								
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 balance	10,319,532	-	-	-	-	-	-	10,319,532
Special Drawing Rights of 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	36,797,935	-	-	-	-	-	-	36,797,935
Investments - local	2,575,717,546	-	-	-	-	-	-	2,575,717,546
Loans, advances and bills of exchange	13,340,783	106,832,276	204,791,850	17,816,145	-	23,000	10,311,024	353,115,078
Assets held with the Reserve Bank of India	-	-	-	-	1,384,376	-	-	1,384,376
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	9,876,803	-	9,917,256
Other assets	1,844,622	280,764	224,919	889,481	21,250	-	837,136	4,098,172
Total financial assets	2,641,700,415	435,022,220	995,624,615	2,196,909,120	14,282,681	11,155,124	77,104,782	6,371,798,957

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

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

44.4 Details of financial assets impaired and provisions recorded thereagainst:

	Gross Amount		Impairment Provision	
	2018	2017	2018	2017
(Rupees in '000)				
Available for sale investment - unlisted	2,392,283	2,431,758	817,388	856,863
Loans and advances - agriculture sector	12,321	12,321	12,321	12,321
Loans and advances - industrial sector	1,054,285	1,054,285	1,054,285	1,054,285
Loans and advances - others	1,063,630	1,063,630	1,063,630	1,063,630
Assets held with the Reserve Bank of India	1,550,321	1,384,376	1,550,321	1,384,376
Balances due from the Governments of India and Bangladesh (including loans recoverable from financial institutions operating in Bangladesh)	11,002,252	10,340,535	11,002,252	10,340,535

44.5 LIQUIDITY ANALYSIS WITH INTEREST / MARK-UP RATE RISK

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

	2018						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-derivative assets							
Local currency - coins	-	-	-	989,497	-	989,497	989,497
Foreign currency accounts and investments	1,032,575,912	262,325,274	1,294,901,186	36,037,562	795,790	36,833,352	1,331,734,538
Earmarked foreign currency balances	-	-	-	12,277,462	-	12,277,462	12,277,462
Special Drawing Rights of International Monetary Fund	59,272,776	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	20,362	-	20,362	20,362
Securities purchased under agreement to resell	1,561,748,056	-	1,561,748,056	561,733	-	561,733	1,562,309,789
Current accounts of Governments	33,104,114	-	33,104,114	-	-	-	33,104,114
Investments - local	3,593,670,000	57,014,671	3,650,684,671	73,618,469	91,365,889	164,984,358	3,815,669,029
Loans, advances and bills of exchange	289,838,222	115,495,733	405,333,955	32,520,163	6,412,120	38,932,283	444,266,238
Assets held with the Reserve Bank of India	-	-	-	1,550,321	-	1,550,321	1,550,321
Balances due from the Governments of India and Bangladesh	9,813,926	-	9,813,926	860,377	-	860,377	10,674,303
Other assets	-	-	-	2,793,278	1,044	2,794,322	2,794,322
	6,580,023,006	434,835,678	7,014,858,684	161,229,224	98,574,843	259,804,067	7,274,662,751
Derivative assets							
Foreign currency accounts and investments	-	-	-	2,085,749	-	2,085,749	2,085,749
	-	-	-	2,085,749	-	2,085,749	2,085,749
Grand total	6,580,023,006	434,835,678	7,014,858,684	163,314,973	98,574,843	261,889,816	7,276,748,500
Financial liabilities							
Non-derivative liabilities							
Bank notes issued	-	-	-	4,635,146,711	-	4,635,146,711	4,635,146,711
Bills payable	-	-	-	644,452	-	644,452	644,452
Current accounts of the Governments*	89,828,633.00	-	89,828,633	-	-	-	89,828,633
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	50,042,724	-	50,042,724	50,042,724
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	125,087	-	125,087	125,087
Payable under bilateral currency swaps agreement	367,252,000	-	367,252,000	3,157,071	-	3,157,071	370,409,071
Deposits of banks and financial institutions	-	-	-	813,948,915	-	813,948,915	813,948,915
Other deposits and accounts	112,523,260	-	112,523,260	87,634,198	-	87,634,198	200,157,458
Payable to International Monetary Fund	214,993,928	694,592,843	909,586,771	2,998,260	-	2,998,260	912,585,031
Other liabilities	-	-	-	23,753,428	-	23,753,428	23,753,428
	784,597,821	694,592,843	1,479,190,664	5,617,450,846	-	5,617,450,846	7,096,641,510
Derivative Liabilities							
Other liabilities	-	-	-	27,277,082	-	27,277,082	27,277,082
Grand total	784,597,821	694,592,843	1,479,190,664	5,644,727,928	-	5,644,727,928	7,123,918,592
On balance sheet gap (a)	5,795,425,185	(259,757,165)	5,535,668,020	(5,481,412,955)	98,574,843	(5,382,838,112)	152,829,908
Foreign currency forward and swap contracts - sale	-	-	-	(1,112,127,341)	-	(1,112,127,341)	(1,112,127,341)
Foreign currency forward and swap contracts - purchase	-	-	-	248,969,098	-	248,969,098	248,969,098
Futures - sale	-	-	-	(41,585,759)	-	(41,585,759)	(41,585,759)
Futures - purchase	-	-	-	26,130,491	-	26,130,491	26,130,491
Capital commitments	-	-	-	(136,846)	-	(136,846)	(136,846)
Off balance sheet gap	-	-	-	(878,750,357)	-	(878,750,357)	(878,750,357)
Total yield / interest risk sensitivity gap	5,795,425,185	(259,757,165)	5,535,668,020	(4,602,662,598)	98,574,843	(4,504,087,755)	1,031,580,265
Cumulative yield / interest risk sensitivity gap	5,795,425,185	5,535,668,020	11,071,336,040	6,468,673,442	6,567,248,285	2,063,160,530	2,063,160,530
Contingent liabilities in respect of guarantees given	-	-	-	1,413,195	20,837,159	22,250,354	22,250,354

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

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

	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-derivative assets							
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 balance	-	-	-	10,319,532	-	10,319,532	10,319,532
Special Drawing Rights of 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	37,093,793	-	37,093,793	(295,858)	-	(295,858)	36,797,935
Investments - local	2,468,370,000	56,900,348.00	2,525,270,348	150,235,668	10,199,622.00	160,435,290	2,685,705,638
Loans, advances and bills of exchange	244,254,109	83,641,459	327,895,568	16,492,850	8,726,660	25,219,510	353,115,078
Assets held with the Reserve Bank of India	-	-	-	1,384,376	-	1,384,376	1,384,376
Balances due from the Governments of India and Bangladesh	9,056,879	-	9,056,879	860,377	-	860,377	9,917,256
Other assets	-	-	-	3,592,061	1,035	3,593,096	3,593,096
	5,862,111,796	390,930,279	6,253,042,075	205,944,354	19,606,957	225,551,311	6,478,593,386
Derivative 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	5,862,111,796	390,974,360	6,253,086,156	209,093,936	19,606,957	228,700,893	6,481,787,049
Financial liabilities							
Bank notes issued	-	-	-	4,167,135,807	-	4,167,135,807	4,167,135,807
Bills payable	-	-	-	630,547	-	630,547	630,547
Current accounts of the Governments*	208,120,653.00	-	208,120,653.00	-	-	-	208,120,653
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	50,746,464	-	50,746,464	50,746,464
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	135,612	-	135,612	135,612
Payable to Islamic Banking Institutions against Bai Muajjal transactions	25,098,651	-	25,098,651	38,579	-	38,579	25,137,230
Payable under bilateral currency swaps agreements	154,669,000	-	154,669,000	881,410	-	881,410	155,550,410
Deposits of banks and financial institutions	96,686,622	-	96,686,622	572,650,917	-	572,650,917	669,337,539
Other deposits and accounts	85,599,474	-	85,599,474	78,427,809	-	78,427,809	164,027,283
Payable to International Monetary Fund	144,192,970	622,436,124	766,629,094	20,752,172	-	20,752,172	787,381,266
Other liabilities	-	-	-	19,157,376	-	19,157,376	19,157,376
Grand total	714,367,370	622,436,124	1,336,803,494	4,910,556,693	-	4,910,556,693	6,247,360,187
On balance sheet gap (a)	5,147,744,426	(231,461,764)	4,916,282,662	(4,701,462,757)	19,606,957	(4,681,855,800)	234,426,862
Foreign currency forward and swap contracts - sale	-	-	-	(935,079,726)	-	(935,079,726)	(935,079,726)
Foreign currency forward and swap contracts - purchase	-	-	-	498,678,723	-	498,678,723	498,678,723
Futures - sale	-	-	-	(43,038,829)	-	(43,038,829)	(43,038,829)
Futures - purchase	-	-	-	35,430,566	-	35,430,566	35,430,566
Capital commitments	-	-	-	(189,027)	-	(189,027)	(189,027)
Off balance sheet gap	-	-	-	(444,198,293)	-	(444,198,293)	(444,198,293)
Total yield / interest risk sensitivity gap	5,147,744,426	(231,461,764)	4,916,282,662	(4,257,264,464)	19,606,957	(4,237,657,507)	678,625,155
Cumulative yield / interest risk sensitivity gap	5,147,744,426	4,916,282,662	9,832,565,324	5,575,300,860	5,594,907,817	1,357,250,310	1,357,250,310
Contingent liabilities in respect of guarantees given	-	-	-	3,384,264	20,608,998	23,993,262	23,993,262

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

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

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

44.6 Interest rate risk

44.6.1 Cash flow interest rate risk

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

If interest rates had been 10 basis points higher / lower and all other variables were held constant, the Bank's profit for the year ended June 30, 2018 would increase / decrease by Rs 964.67 million (2017: Rs 806.82 million). This is mainly attributable to the Bank's exposure to interest rates on its variable rate instruments.

44.6.2 Fair value interest rate risk

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

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

As at June 30, 2018, a 10 basis points shift in market value, mainly as a result of change in interest rates with all other variables held constant, would result in profit for the year to increase by Rs 2,348.54 million (2017: Rs 1,562.32 million) or decrease by Rs 2,352.19 million (2017: Rs 1,565.47 million) mainly as a result of a increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit and loss.

44.7 Currency risk management

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

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

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

The sensitivity analysis calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Bank had significant exposure as at June 30, 2018 with all other variables constant profit for the year would have been Rs. 1,985.23 million higher / lower (2017: 6,784.87 million). Net foreign currency exposure of the Bank is as follows:

	2018	2017
	------(Rupees in '000)-----	
US Dollar	294,299,500	1,072,083,483
British Pound Sterling	(58,496,395)	(62,074,847)
Chinese Yuan	(95,640,926)	(87,260,316)
Euro	(274,661,162)	(224,807,106)
Japanese Yen	(60,355,570)	(55,935,160)
United Arab Emirates Dirham	1,935,381	1,625,688
Australian Dollar	250,077	(139,679)
Canadian Dollar	47,390	(19,128)
Others	(5,901,735)	35,014,019
	<u>(198,523,440)</u>	<u>678,486,954</u>

Net exposure in Special Drawing Rights (SDR) is allocated to its five basket currencies i.e. the US dollar, the Euro, the Chinese Yuan, the Japanese Yen and the British pound sterling in the ratio of their percentage allocated by IMF for SDR basket.

The composition of the Bank's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 44.6 and 44.7 to these unconsolidated financial statements, prepared as of June 30, 2018 are not necessarily indicative of the effects on the Bank's profit and loss of future movements in different variables.

44.8 Price Risk

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

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

In case of 5% increase or decrease in KSE 100 index on June 30, 2018, other comprehensive income would increase or decrease by Rs. 834.626 million (2017: Rs. 945.263 million) and equity of the Bank would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Bank's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Bank's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2018 is not necessarily indicative of the effect on the Bank's equity instruments of future movements in the level of KSE 100 index.

44.9 Liquidity risk management

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

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

44.10 Portfolio risk management

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

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following tables summarizes the carrying amounts and fair values of financial assets and liabilities.

	Carrying Value		Fair value	
	2018	2017	2018	2017
------(Rupees in '000)-----				
Financial assets				
Local currency - coins	989,497	861,860	989,497	861,860
Foreign currency accounts and investments	1,333,820,287	1,782,539,188	1,333,820,287	1,782,539,188
Earmarked foreign currency balances	12,277,462	10,319,532	12,277,462	10,319,532
Special Drawing Rights of the International Monetary Fund	59,272,776	63,657,319	59,272,776	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	20,362	17,382	20,362	17,382
Securities purchased under agreement to resell	1,562,309,789	1,533,373,313	1,562,309,789	1,533,373,313
Current accounts of Governments	33,104,114	36,797,935	33,104,114	36,797,935
Investments - local	3,917,177,273	2,786,883,898	3,917,177,273	2,786,883,898
Securities given as collateral under repurchase agreement	-	-	-	-
Loans, advances and bills of exchange	444,266,238	353,115,078	444,266,238	353,115,078
Assets held with the Reserve Bank of India	1,550,321	1,384,376	1,550,321	1,384,376
Balances due from the Governments of India and Bangladesh	10,674,303	9,917,256	10,674,303	9,917,256
Other assets	2,794,322	4,098,172	2,794,322	4,098,172

	Carrying Value		Fair value	
	2018	2017	2018	2017
------(Rupees in '000)-----				
Financial liabilities				
Bank notes in circulation	4,635,146,711	4,167,135,807	4,635,146,711	4,167,135,807
Bills payable	644,452	630,547	644,452	630,547
Current accounts of Governments	89,828,633	208,120,653	89,828,633	208,120,653
Current account with SBP Banking Services Corporation - a subsidiary	50,042,724	50,746,464	50,042,724	50,746,464
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	125,087	135,612	125,087	135,612
Payable to Islamic Banking Institutions against Bai Muajjal transactions	-	25,137,230	-	25,137,230
Payable under bilateral currency swap agreement	370,409,071	155,550,410	370,409,071	155,550,410
Deposits of banks and financial institutions	813,948,915	669,337,539	813,948,915	669,337,539
Other deposits and accounts	200,157,457	164,027,283	200,157,457	164,027,283
Payable to the International Monetary Fund	912,585,032	787,381,266	912,585,032	787,381,266
Other liabilities	51,030,510	19,157,376	51,030,510	19,157,376

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

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

	2018			Total
	Level 1	Level 2	Level 3	
------(Rupees in '000)-----				
Recurring fair value measurements				
On balance sheet				
Financial assets				
Foreign currency accounts and investments - held for trading	410,298,797	158,477,934	-	568,776,731
Investments - local	75,784,692	-	-	75,784,692
Non-financial assets				
Operating fixed assets (Land and buildings)	-	-	54,752,484	54,752,484
Gold reserves held by the Bank	315,610,772	-	-	315,610,772
	<u>801,694,261</u>	<u>158,477,934</u>	<u>54,752,484</u>	<u>1,014,924,679</u>
Off balance sheet				
Foreign currency forward and swap contracts - sale	-	1,112,127,341	-	1,112,127,341
Foreign currency forward and swap contracts - purchase	-	248,969,098	-	248,969,098
Futures - sale	41,585,759	-	-	41,585,759
Futures - purchase	26,130,491	-	-	26,130,491

2017				
	Level 1	Level 2	Level 3	Total
------(Rupees in '000)-----				
Recurring fair value measurements				
On balance sheet				
Financial assets				
Foreign currency accounts and investments - held for trading	376,765,673	2,686,724	-	379,452,397
Investments - local	94,406,896	-	-	94,406,896
Non-financial assets				
Operating fixed assets (Land and buildings)	-	-	56,439,673	56,439,673
Gold reserves held by the Bank	270,361,202	-	-	270,361,202
	<u>741,533,771</u>	<u>2,686,723.61</u>	<u>56,439,673</u>	<u>800,660,168</u>
Off balance sheet				
Foreign currency forward and swap contracts - sale	-	935,079,726	-	935,079,726
Foreign currency forward and swap contracts - purchase	-	498,678,723	-	498,678,723
Futures - sale	43,038,829	-	-	43,038,829
Futures - purchase	35,430,566	-	-	35,430,566

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

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

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of forward and swap contracts, and US Treasury Bills.

(c) Financial instruments in level 3

Currently, no financial instruments are classified through level 3.

