# 9 Consolidated Financial Statements of SBP and its Subsidiaries

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## Independent Auditor's Report

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

### Opinion

We have audited the consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at June 30, 2018, and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at June 30, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

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

### 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 4.2 and 22 to the accompanying consolidated financial statements, bank notes in circulation represent the liability of the Group towards bank notes issued as a legal | We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls related to process for new notes, expansion |

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| tender under the State Bank of Pakistan Act, 1956 (the Act) which comprise of 64% of the total liabilities of the Group.<br><br>In view of the significance of liability in relation to the consolidated financial statements of the Group 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. | and contraction of bank notes in circulation and cancellation of bank notes.<br><br>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.<br><br>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.<br><br>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 Group. |
| **"Foreign currency accounts and investments" and "Investments-local"**<br>As disclosed in note 8 and 13 to the accompanying consolidated financial statements of the Group, "foreign currency accounts and investments" and "Investments-local" represent 17% and 49% respectively of the total assets of the Group as at the year end.<br><br>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.<br><br>In addition, "investments-local" includes Market Related Treasury Bills (MRTBs) amounting to Rs 3,668 billion that are issued under instructions of Federal Government.<br><br>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 and | Our key procedures included the following:<br><br>• 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.<br><br>• Sent direct confirmations to counter-parties to confirm the balances of investment holdings and where relevant, performed physical verification of other investments.<br><br>Further, in respect of the investment made through fund managers:<br><br>• We obtained Type-2 report from Custodian to assess that controls were suitably designed by custodian and operated effectively in respect of its activities.<br><br>• We obtained the monthly statement of changes in net assets provided by the Custodian used by |

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Chartered Accountants

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

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Chartered Accountants

management for recognizing income in respect of foreign currency securities and traced with the accounting records of the Group 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 Group’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.

**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.

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

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- We tested the accuracy and completeness of key computer generated reports used in our audit.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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|---|---|
| Chartered Accountants | Chartered Accountants |

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

| | |
|---|---|
| **Y Ford Rhodes** | **KPMG Taseer Hadi & Co.** |
| Chartered Accountants | Chartered Accountants |
| Karachi | Karachi |
| **Omer Chughtai** | **Mohammad Mahmood Hussain** |
| Audit Engagement Partner | Audit Engagement Partner |
| Dated: 30 October 2018 | |

Karachi

# STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
## CONSOLIDATED BALANCE SHEET
## AS AT JUNE 30, 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | --------------------(Rupees in '000)-------------------- | |
| **ASSETS** | | | |
| Cash and bank balances held by subsidiaries | 5 | **586,651** | 2,190,657 |
| Gold reserves held by the Bank | 6 | **315,610,772** | 270,361,202 |
| Local currency - coins | 7 | **989,497** | 861,860 |
| Foreign currency accounts and investments | 8 | **1,333,820,287** | 1,782,539,188 |
| Earmarked foreign currency balances | 9 | **12,277,462** | 10,319,532 |
| Special Drawing Rights of the International Monetary Fund | 10 | **59,272,776** | 63,657,319 |
| Reserve tranche with the International Monetary Fund under quota arrangements | 11 | **20,362** | 17,382 |
| Securities purchased under agreement to resell | 12 | **1,562,309,789** | 1,533,373,313 |
| Current accounts of Governments | 23.2 | **33,104,114** | 36,797,935 |
| Investments - local | 13 | **3,824,128,547** | 2,694,286,076 |
| Long term investment in associates | 14 | **2,345,584** | 2,134,590 |
| Loans, advances and bills of exchange | 15 | **453,500,448** | 362,703,790 |
| Taxation - net | | **505,899** | 398,414 |
| Assets held with the Reserve Bank of India | 16 | **6,652,678** | 5,758,914 |
| Balances due from the Governments of India and Bangladesh | 17 | **10,674,303** | 9,917,256 |
| Property, plant and equipment | 18 | **109,583,229** | 111,142,903 |
| Intangible assets | 19 | **309,238** | 107,554 |
| Deferred taxation | 20 | **243,999** | 193,274 |
| Other assets | 21 | **7,052,906** | 8,657,388 |
| **Total assets** | | 7,732,988,541 | 6,895,418,547 |
| **LIABILITIES** | | | |
| Bank notes in circulation | 22 | **4,635,146,711** | 4,167,135,807 |
| Bills payable | | **644,452** | 630,547 |
| Current accounts of Governments | 23.1 | **89,828,633** | 208,120,653 |
| Payable to Islamic Banking Institutions against Bai Muajjal transactions | 24 | **-** | 25,137,230 |
| Payable under bilateral currency swap agreement | 25 | **370,409,071** | 155,550,410 |
| Deposits of banks and financial institutions | 26 | **813,948,915** | 669,337,539 |
| Other deposits and accounts | 27 | **200,428,200** | 164,665,074 |
| Payable to the International Monetary Fund | 28 | **912,585,032** | 787,381,266 |
| Other liabilities | 29 | **84,506,219** | 57,515,443 |
| Deferred liability - staff retirement benefits | 30 | **90,107,820** | 89,806,875 |
| Endowment fund | | **102,793** | 98,421 |
| **Total liabilities** | | 7,197,707,846 | 6,325,379,265 |
| **Net assets** | | 535,280,695 | 570,039,282 |
| **REPRESENTED BY** | | | |
| Share capital | 31 | **100,000** | 100,000 |
| Reserves | 32 | **69,435,670** | 100,664,452 |
| Unappropriated profit | | **14,324,252** | 44,154,941 |
| Unrealised appreciation on gold reserves held by the Bank | 33 | **311,313,769** | 266,327,601 |
| Unrealised appreciation on remeasurement of investments - local | 13.6 | **74,622,824** | 93,302,881 |
| Surplus on revaluation of property, plant and equipment | | **65,484,180** | 65,489,407 |
| **Total equity** | | 535,280,695 | 570,039,282 |
| **CONTINGENCIES AND COMMITMENTS** | 34 | | |

Pursuant to the requirements of section 26 (1) of the SBP Act, 1956, the assets of the Group specifically earmarked against the liabilities of the issue department have been detailed in note 22.1 to these consolidated financial statements.

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

| **Tariq Bajwa** | **Jameel Ahmad** | **Saleemullah** |
|---|---|---|
| Governor | Deputy Governor | Executive Director |

# STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED JUNE 30, 2018

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| Discount, interest / mark-up and / or profit earned | 35 | **321,606,845** | 260,870,627 |
| Less: interest / mark-up expense | 36 | **(31,842,388)** | (21,368,844) |
| | | **289,764,457** | 239,501,783 |
| Commission income | 37 | **4,083,398** | 2,591,194 |
| Exchange (loss) / gain - net | 38 | **(72,280,199)** | 24,569,638 |
| Dividend income | | **415,000** | 12,248,843 |
| Share of profit from associates | 39 | **691,417** | |
| Other operating income - net | 40 | **1,298,090** | 574,355 |
| Other income - net | 41 | **796,526** | 302,049 |
| | | **224,768,689** | 279,814,058 |
| Less: Operating expenses | | | |
| - Cost of printing bank notes and Prize Bonds | 42 | **9,362,218** | 9,127,971 |
| - Agency commission | 43 | **10,945,396** | 9,679,298 |
| - General administrative and other expenses | 44 | **27,703,661** | 22,941,749 |
| Provision for / (reversal of provision against) | | | |
| - loans and advances - net | 15.4 | **(22)** | (6,139) |
| - diminution in value of investments - local - net | 13.5 | **(39,475)** | - |
| - other doubtful assets | 29.3.1.1 | **76,145** | 16,842 |
| - others | | **-** | (14,674) |
| | | **36,648** | (3,971) |
| | | **48,047,923** | 41,745,047 |
| **Profit before taxation** | | **176,720,766** | 238,069,011 |
| Taxation | 45 | **1,048,115** | 5,414 |
| **Profit after taxation** | | **175,672,651** | 238,063,597 |

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

| **Tariq Bajwa** | **Jameel Ahmad** | **Saleemullah** |
|---|---|---|
| Governor | Deputy Governor | Executive Director |

**STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED JUNE 30, 2018**

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | ------- (Rupees in '000) ------- | |
| Profit after taxation | | **175,672,651** | 238,063,597 |
| **Other comprehensive income** | | | |
| **Items that will be reclassified subsequently to the profit and loss account when specific conditions are met:** | | | |
| **Unrealised (diminution) / appreciation on remeasurement of investments** | | | |
| - Investments - local | 13.6 | **(18,625,464)** | 1,918,895 |
| - Share of associates of other comprehensive loss - net of deferred tax | | **(54,593)** | (2,290) |
| | | **(18,680,057)** | 1,916,605 |
| **Unrealised appreciation / (diminution) on gold reserves held by the Group** | 6 | **44,986,168** | (17,015,000) |
| | | **26,306,111** | (15,098,395) |
| **Items that will not be reclassified subsequently to the consolidated profit and loss account:** | | | |
| Remeasurements of staff retirement defined benefit plans - net of deferred tax | 44.3.4 & 44.4.7 | **(3,540,720)** | (3,805,653) |
| **Total comprehensive income for the year** | | **198,438,042** | 219,159,549 |

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

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|---|---|---|
| **Tariq Bajwa** | **Jameel Ahmad** | **Saleemullah** |
| Governor | Deputy Governor | Executive Director |

# STATE BANK OF PAKISTAN & ITS SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED JUNE 30, 2018

| | Share capital | Reserves: Reserve for acquisition of PSPC | Reserve fund | Rural credit fund | Industrial credit fund | Export credit fund | Loans guarantee fund | Housing credit fund | Reserve created as a result of acquisition of PSPC | Unappropriated profit | Unrealised appreciation on gold reserves held by the Bank | Unrealised appreciation on remeasurement of investments - local | Surplus on revaluation of property, plant and equipment | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Rupees in '000) | | | | | | | | | | | | | |
| **Balance as at July 1, 2016** | 100,000 | - | 164,644,238 | 2,600,000 | 1,600,000 | 1,500,000 | 900,000 | 4,700,000 | - | 3,712,051 | 283,342,601 | 91,386,276 | 65,489,407 | 619,974,573 |
| **Total comprehensive income for the year** | | | | | | | | | | | | | | |
| Profit after taxation for the year | - | - | - | - | - | - | - | - | - | 238,063,597 | - | - | - | 238,063,597 |
| Transfer to the reserve fund | - | - | 1,999,567 | - | - | - | - | - | - | (1,999,567) | - | - | - | - |
| Transfer from the reserve fund | - | 65,464,000 | (65,464,000) | - | - | - | - | - | - | - | - | - | - | - |
| Reserve created as a result of acquisition of PSPC | - | - | - | - | - | - | - | - | (41,279,353) | - | - | - | - | (41,279,353) |
| **Other comprehensive income** | | | | | | | | | | | | | | |
| Share of associates of other comprehensive loss - net of deferred tax | - | - | - | - | - | - | - | - | - | - | - | (2,290) | - | (2,290) |
| Unrealised appreciation on remeasurement of investments - local | - | - | - | - | - | - | - | - | - | - | - | 1,918,895 | - | 1,918,895 |
| Unrealised diminution on gold reserves held by the Bank | - | - | - | - | - | - | - | - | - | - | (17,015,000) | - | - | (17,015,000) |
| Remeasurements of staff retirement defined benefit plans | - | - | - | - | - | - | - | - | - | (3,805,653) | - | - | - | (3,805,653) |
| | - | 65,464,000 | (63,464,433) | - | - | - | - | - | (41,279,353) | 232,258,377 | (17,015,000) | 1,916,605 | - | 177,880,196 |
| **Transactions with owners** | | | | | | | | | | | | | | |
| Dividend | - | - | - | - | - | - | - | - | - | (10,000) | - | - | - | (10,000) |
| Profit transferred to the Government of Pakistan | - | - | (36,000,000) | - | - | - | - | - | - | (191,805,487) | - | - | - | (227,805,487) |
| | - | - | (36,000,000) | - | - | - | - | - | - | (191,815,487) | - | - | - | (227,815,487) |
| **Balance as at June 30, 2017** | 100,000 | 65,464,000 | 65,179,805 | 2,600,000 | 1,600,000 | 1,500,000 | 900,000 | 4,700,000 | (41,279,353) | 44,154,941 | 266,327,601 | 93,302,881 | 65,489,407 | 570,039,282 |
| **Total comprehensive income for the year** | | | | | | | | | | | | | | |
| Profit after taxation for the year | - | - | - | - | - | - | - | - | - | 175,672,651 | - | - | - | 175,672,651 |
| Transfer to the reserve fund | - | - | 13,771,218 | - | - | - | - | - | - | (13,771,218) | - | - | - | - |
| Transfer from the reserve fund | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Other comprehensive income** | | | | | | | | | | | | | | |
| Share of associates of other comprehensive loss - net of deferred tax | - | - | - | - | - | - | - | - | - | - | - | (54,593) | - | (54,593) |
| Unrealised diminution on remeasurement of investments - local | - | - | - | - | - | - | - | - | - | - | - | (18,625,464) | - | (18,625,464) |
| Unrealised appreciation on gold reserves held by the Bank | - | - | - | - | - | - | - | - | - | - | 44,986,168 | - | - | 44,986,168 |
| Surplus realised on disposal of property, plant and equipment | - | - | - | - | - | - | - | - | - | 5,227 | - | - | (5,227) | - |
| Remeasurements of staff retirement defined benefit plans | - | - | - | - | - | - | - | - | - | (3,540,720) | - | - | - | (3,540,720) |
| | - | - | 13,771,218 | - | - | - | - | - | - | 158,365,940 | 44,986,168 | (18,680,057) | (5,227) | 198,438,042 |
| **Transactions with owners** | | | | | | | | | | | | | | |
| Dividend | - | - | - | - | - | - | - | - | - | (10,000) | - | - | - | (10,000) |
| Profit transferred to the Government of Pakistan | - | - | (45,000,000) | - | - | - | - | - | - | (188,186,629) | - | - | - | (233,186,629) |
| | - | - | (45,000,000) | - | - | - | - | - | - | (188,196,629) | - | - | - | (233,196,629) |
| **Balance as at June 30, 2018** | 100,000 | 65,464,000 | 33,951,023 | 2,600,000 | 1,600,000 | 1,500,000 | 900,000 | 4,700,000 | (41,279,353) | 14,324,252 | 311,313,769 | 74,622,824 | 65,484,180 | 535,280,695 |

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

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|---|---|---|
| **Tariq Bajwa** | **Jameel Ahmad** | **Saleemullah** |
| Governor | Deputy Governor | Executive Director |

# STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
## CONSOLIDATED 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 | 46 | **299,421,488** | 234,134,201 |
| Taxes (paid) / received | | **(1,206,325)** | 20,102 |
| (Increase) / decrease in assets: | | | |
| Foreign currency accounts and investments | | **(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 | | **(1,148,428,460)** | (471,377,545) |
| Loans, advances and bills of exchange | | **(90,796,636)** | (74,538,445) |
| Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh | | **(1,650,811)** | (724,717) |
| Other assets | | **1,604,482** | 1,230,399 |
| | | **(1,272,288,933)** | (643,778,662) |
| | | **(974,073,770)** | (409,624,359) |
| (Decrease) / increase 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) |
| 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 |
| Other deposits and accounts | | **35,763,126** | 3,112,076 |
| Payment of retirement benefits and employees' compensated absences | | **(13,091,110)** | (7,609,727) |
| Other liabilities | | **27,022,999** | 766,651 |
| Endowment fund | | **4,372** | 4,214 |
| | | **737,195,402** | 428,738,045 |
| **Net cash generated from operating activities** | | **(236,878,368)** | 19,113,686 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Dividend received | | **840,830** | 12,248,843 |
| Payment for acquisition of Pakistan Security Printing Corporation - net of cash acquired | | **-** | (98,649,872) |
| Capital expenditure | | **(1,221,192)** | (1,274,978) |
| Proceeds from disposal of property, plant and equipment | | **61,931** | 46,074 |
| **Net cash used in investing activities** | | **(318,431)** | (87,629,933) |
| **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** | | **(107,992,863)** | (219,173,726) |
| Increase in cash and cash equivalents during the year | | **(345,189,662)** | (287,689,973) |
| Cash and cash equivalents at the beginning of the year | | **1,521,768,557** | 1,811,145,674 |
| Effect of exchange gain on cash and cash equivalents | | **(111,510,273)** | (1,687,144) |
| **Cash and cash equivalents at the end of the year** | 47 | **1,065,068,622** | 1,521,768,557 |

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

| **Tariq Bajwa** | **Jameel Ahmad** | **Saleemullah** |
|---|---|---|
| Governor | Deputy Governor | Executive Director |

## STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES
## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED JUNE 30, 2018

**1. STATUS AND NATURE OF OPERATIONS**

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

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

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

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

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

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

**a) SBP Banking Services Corporation - wholly owned subsidiary**

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

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

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

National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated in Pakistan under the 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 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 consolidated financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

**3. BASIS OF MEASUREMENT**

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

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

**3.3 Use of estimates and judgments**

The preparation of 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 consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates may include items like considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see note 4.5 to these consolidated financial statements.

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

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

**3.3.3** ***Impairment against loans and advances***

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

**3.3.4** ***Impairment of available-for-sale investments***

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

**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 44.3.1 and 44.4.1 to these consolidated financial statements.

**3.3.6 *Useful life and residual value of property and equipment***

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

**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 |
| - IFRS 16, 'Leases' | January 1, 2019<br>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 - 'Share based payments' on clarifying how to account for certain types of share-based payment transactions | January 1, 2018 |
| - Amendments to IFRS 4 - 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments' | January 1, 2018 |
| - Amendments to IAS 28 - Long term interest in Associates and joint Ventures | January 1, 2019 |
| - Amendment to IAS 40 - *'Investment property'* relating to transfers of investment property | January 1, 2018 |
| - Amendments to IFRS 10 – *'Consolidated Financial Statements'* and IAS 28 – *'Investments in Associates and Joint Ventures'* regarding sale or contribution of assets between an investor and its associate or joint venture | Date yet to be finalized |
| - Amendments to IAS 19 - 'Employee Benefits' relating to plan amendment, curtailment or settlement | January 1, 2019 |
| **Interpretations** | |
| - IFRIC 22, 'Foreign currency transactions and advance consideration' | January 1, 2018 |
| - IFRIC 23, 'Uncertainty over income tax treatment' | January 1, 2019 |
| **Improvements** | |
| - IFRS 1, *'First-time adoption of IFRS'*, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 | January 1, 2018 |
| - IFRS 3, 'Business Combination' regarding previously held interest in a joint operation. | January 1, 2019 |
| - IFRS 11, 'Joint Arrangements' regarding previously held interest in a joint operation. | January 1, 2019 |
| - IAS 12, 'Income Taxes' regarding income tax consequences of payments on financial instruments classified as equity. | January 1, 2019 |
| - IAS 23, 'Borrowing Cost' regarding borrowing cost eligible for capitalisation. | January 1, 2019 |
| - IAS 28, *'Investments in associates and joint ventures'* regarding measuring an associate or joint venture at fair value | January 1, 2018 |

The Group expects that the adoption of the above standards, amendments, interpretations and improvements will not have any material impact on the Group's financial statements in the period of initial application other than the initial application of IFRS 9, 'Financial instruments' 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 Group 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 Group'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 Group's operations and are, therefore, not disclosed in these consolidated financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

**4.1 Basis of consolidation**

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

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

All material inter group balances and transactions have been eliminated.

**4.2 Bank notes in circulation and local currency - coins**

The liability of the 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 notes including printing charges is charged to the consolidated profit and loss account as and when incurred. Any un-issued fresh bank notes lying with the Bank and previously issued notes held by the Bank are not reflected in the balance sheet.

The 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.

**4.3 Financial assets and financial liabilities**

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

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

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

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

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

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

**4.3.2 *Held to maturity investments***

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

**4.3.3 *Loans and receivables***

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

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

**4.3.4 *Available-for-sale financial assets***

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

**4.3.5 *Long term investment in associates***

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

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

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

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

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

**4.3.6 *Financial liabilities at amortised cost***

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

**4.4 Derecognition of financial asset and financial liabilities**

**a) Financial assets**

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

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

**b) Financial liabilities**

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

**4.5 Fair value measurement principles**

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

**4.6 Offsetting of financial assets and financial liabilities**

A financial asset and a financial liability are offset and the net amount is reported in the consolidated financial statements when the Group 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 Group uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at fair value and are re-measured to fair value on subsequent reporting dates. Forwards, futures and swaps are shown under commitments in note 34.2. The resultant gains or losses from derivatives are included in the profit and loss account.

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

**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 Group / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Group and interest is charged / earned at agreed rates to the consolidated profit and loss account on a time proportion basis from the date of actual use. Any unutilised limit of the counterpart's drawing is reported as commitments in notes 25 & 34.2.7.

**4.9** **Payable to Islamic Banking Institutions against Bai Muajjal transactions**

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

**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 consolidated profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the consolidated statement of changes in equity pending transfer of these assets to the Group subject to final settlement between the Governments of Pakistan and India. Instead it is shown in "Other liabilities" as provision for other doubtful assets.

**4.11** **Cash and cash equivalents**

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

**4.12** **Property, plant and equipment**

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

Depreciation on property, plant and equipment is charged to the consolidated profit and loss account using the straight-line method whereby the cost / revalued amount of an asset is written off over its estimated useful life at the rates specified in note 18.1 to these consolidated financial statements. The useful life of assets is reviewed and adjusted, if appropriate, at each balance sheet date.

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

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

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

**4.13 Leased Assets**

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

**4.14 Investment property**

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

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

**4.15 Intangibles**

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

Intangible assets are amortised using straight-line method over the period specified in note 19.1 to these consolidated financial statements. Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

**4.16 Accounts receivables and other receivables**

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

**4.17 Impairment of financial assets**

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

**a) Financial assets carried at amortised cost**

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

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

**b) Available-for-sale financial assets**

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

**4.18 Impairment of non-financial assets**

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

**4.19 Stores and spares**

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

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

**4.20 Stock-in-trade**

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

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

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

**4.21 Stationery and other consumables**

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

**4.22 Provisions**

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

**4.23 Transactions and balances with the International Monetary Fund**

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

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

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

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

**4.24 Staff retirement benefits**

**4.24.1 *The Bank operates:***

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

b) an unfunded General Provident Fund (GPF) scheme for all those employees who joined the Bank after 1975 and those employees who had joined prior to 1975 but opted for this scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary;

c) an unfunded gratuity scheme (old scheme) for all employees other than those who opted for the new general provident fund scheme, or joined the Bank after 1975 and are entitled only to pension scheme benefits;

d) a funded Employees Gratuity Fund (EGF) was introduced by the Bank effective from June 1, 2007 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);

e) an unfunded pension scheme for those employees who joined the Bank after 1975 and before the introduction of EGF which is effective from June 1, 2007;

f) an unfunded benevolent fund scheme;

g) an unfunded post retirement medical benefit scheme; and

h) six months post retirement benefit facility.

**4.24.2 *The Corporation operates the following staff retirement benefit schemes for employees:***

a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme. Under this scheme, contribution is made both by the Corporation and employee at the rate of 6% of the monetized salary. The Corporation provided an option to employees covered under old scheme to join the funded New Contributory Provident Fund Scheme - NCPF (new scheme) effective from July 1, 2010. Under this scheme contribution is made by both the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new scheme;

b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for this new scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary;

c) an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;

d) a funded New Gratuity Fund (NGF) which was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);

e) an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of EGF which is effective from July 1, 2010;

f) an unfunded benevolent fund scheme;

g) an unfunded post retirement medical benefit scheme; and

h) six months post retirement benefit facility.

**4.24.3** ***The PSPC operates following staff retirement benefits scheme for employees:***

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

a) employees who have completed the prescribed qualifying period of more than ten years of service and opt for the scheme are entitled to post retirement pension benefit; and

b) gratuity for employees who have opted for gratuity instead of pension or those who have completed five years of service but have not yet completed ten years of service.

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

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

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

**4.25 Compensated absences**

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

**4.26 Trade and other payables**

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

**4.27 Borrowing costs**

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

**4.28 Leases**

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

**4.29 Deferred income**

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

**4.30 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 is recognised on receipt basis.

- Revenue from sale of goods is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. The Group records revenue from sale of goods on dispatch of goods to its customers.

- Commission income is recognised when related services are rendered.
- Dividend income is recognised when the Group's right to receive the dividend is established.
- Gains / losses on disposal of securities are recognised in the consolidated profit and loss account at the trade date.
- Training, education and hostel services are recognised on accrual basis.
- Rental income from property is accrued on time proportion basis at agreed rates.
- Return on bank deposits is recognised on accrual basis taking into account the effective yield.
- Scrap sales and miscellaneous income are recognised on receipt basis.
- All other revenues are recognised on a time proportion basis.

**4.31 Finances under profit and loss sharing arrangements**

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

**4.32 Foreign currency translation**

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

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

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

Commitments for outstanding foreign exchange forward, future and swap contracts disclosed in note 34.2 to these consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

**4.33 Taxation**

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

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

**Current**

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

**Deferred**

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

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

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

**5. CASH AND BANK BALANCES HELD BY SUBSIDIARIES**

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| With banks in current accounts | 5.1 | **570,846** | 2,184,161 |
| Cash in hand | | **15,805** | 6,496 |
| | | **586,651** | 2,190,657 |

**5.1** This includes remunerative accounts carrying mark-up ranging from 4.50% to 6.25% (2017: 3.75% to 6.20%) per annum.

**6. GOLD RESERVES HELD BY THE BANK**

| | Note | Net content in troy ounces | 2018 | 2017 |
|---|---|---|---|---|
| | | | (Rupees in '000) | |
| Opening balance | | **2,074,634** | **270,361,202** | 287,170,323 |
| Additions during the year | | **1,763** | **263,402** | 205,879 |
| Appreciation / (diminution) for the year due to revaluation | 33 | | **44,986,168** | (17,015,000) |
| | 22.1 | **2,076,397** | **315,610,772** | 270,361,202 |

**7. LOCAL CURRENCY - COINS**

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Bank notes held by the Banking Department | | **191,541** | 111,406 |
| Coins held as an asset of the Issue Department | | **989,497** | 861,860 |
| | | **1,181,038** | 973,266 |
| Less: bank notes held by the Banking Department | 22 | **(191,541)** | (111,406) |
| | 7.1 & 22.1 | **989,497** | 861,860 |

7.1 As mentioned in note 4.2, 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 Group at the year end (also refer note 22.1).

## 8. FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | ----------------(Rupees in '000)--------------- | |
| **At fair value through profit or loss - held-for-trading** | | | |
| - Investments | 8.1 | **568,776,731** | 379,452,397 |
| - Unrealised gain / (loss) on derivative financial instruments - net | 8.2 | **2,085,749** | 2,688,587 |
| **Held to maturity investment** | 8.3 | **341,082,293** | 337,120,388 |
| **Loans and receivables** | | | |
| - Deposit accounts | | **29,509,408** | 90,760,872 |
| - Current accounts | | **35,107,134** | 20,926,003 |
| - Securities purchased under agreement to resell | 8.4 | **349,903,518** | 178,482,457 |
| - Money market placements | 8.5 | **7,355,454** | 773,108,484 |
| | | **1,333,820,287** | 1,782,539,188 |

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

| | Note | 2018 | 2017 |
|---|---|---|---|
| Issue Department | 22.1 | **723,362,840** | 1,495,115,694 |
| Banking Department | | **610,457,447** | 287,423,494 |
| | | **1,333,820,287** | 1,782,539,188 |

8.1 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).

8.2 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.

8.3 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).

8.4 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).

8.5 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).

## 9. EARMARKED FOREIGN CURRENCY BALANCES

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

## 10. SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

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

| | Note | 2018 | 2017 |
|---|---|---|---|
| SDRs are held as follows: | | --------------- (Rupees in '000) -------------- | |
| - By the Issue Department | | **25,618,350** | 51,051,350 |
| - By the Banking Department | | **33,654,426** | 12,605,969 |
| | | **59,272,776** | 63,657,319 |

## 11. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

| | 2018 | 2017 |
|---|---|---|
| | ----------------(Rupees in '000)--------------- | |
| Quota allocated by the International Monetary Fund | **347,210,944** | 296,398,560 |
| Liability under quota arrangements | **(347,190,582)** | (296,381,178) |
| | **20,362** | 17,382 |

## 12. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

This represents collaterised 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 Group consist of Pakistan Investment Bonds and Market Treasury Bills.

## 13. 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 |
| | 13.1 | **3,670,358,454** | 2,521,557,198 |
| **Others** | | | |
| - Term Deposit Receipt | 13.2 | **6,122,000** | 6,207,070 |
| | | **3,676,480,454** | 2,527,764,268 |
| **Held to maturity** | | | |
| **Government securities** | | | |
| - Pakistan Investment Bonds | | **-** | 105,118 |
| - Market Treasury Bills | 13.1 | **655,367** | 659,000 |
| | | **655,367** | 764,118 |
| - Zarai Taraqiati Bank Limited (ZTBL) preference shares - unlisted | 13.3 | **54,274,670** | 54,160,348 |
| | | **54,930,037** | 54,924,466 |
| **Fair value through profit and loss** | | | |
| - Mutual Funds | | **1,328,263** | 1,582,086 |
| **Available-for-sale investments** | | | |
| - Mutual funds | | **23,904** | 27,164 |
| **Investments in banks and other financial institutions** | | | |
| Ordinary shares | | | |
| - Listed | | **75,784,692** | 94,406,896 |
| - Unlisted | | **16,319,632** | 16,319,632 |
| | 13.4 | **92,104,324** | 110,726,528 |
| Term Finance Certificates | | **56,483** | 84,722 |
| Certificates of Deposits | | **22,470** | 33,705 |
| | | **92,207,181** | 110,872,119 |
| Provision against diminution in value of investments | 13.5 | **(817,388)** | (856,863) |
| | | **91,389,793** | 110,015,256 |
| | | **3,824,128,547** | 2,694,286,076 |
| The above investments are held as follows: | | | |
| Issue Department - MRTBs | 22.1 | **3,563,104,115** | 2,344,098,193 |
| Banking Department / subsidiaries | | **261,024,432** | 350,187,883 |
| | | **3,824,128,547** | 2,694,286,076 |

**13.1** 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 |
| Pakistan Investment Bonds | **-** | 11.25 |
| Market Treasury Bills | **5.91 to 6.49** | 5.91 to 6.11 |

- MRTBs are created for a period of six months while Federal Government Scrips are of perpetual nature.
- Market treasury bills held by the subsidiaries have maturities upto August, 2018 (2017: December 2017)

**13.2**

This represents term deposit receipts maturing upto 12 months with various banks bearing mark-up at rates ranging from 5.35% to 7% (2017: 5.6% to 7.6%) per annum. Term Deposit Receipt of Rs 22 million (2017: Rs 22 million) is marked under lien against bank guarantee.

**13.3** 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.

**13.4 Investments in shares of banks and other financial institutions**

| | Note | 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|---|
| | | ------% of holding------- | | ------------- (Rupees in '000) ------------- | |
| **Listed** | | | | | |
| - National Bank of Pakistan | 13.4.2 | **75.20** | 75.20 | **75,784,692** | 94,406,896 |
| **Unlisted - at cost** | | | | | |
| **More than 50% Shareholding** | | | | | |
| - Zarai Taraqiati 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 |
| | | | | **92,104,324** | 110,726,528 |

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

**13.4.2** Cost of the Group'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).

**13.5 Provision against diminution in value of investments**

| | 2018 | 2017 |
|---|---|---|
| | ------------- (Rupees in '000) ------------- | |
| Opening balance | **856,863** | 856,863 |
| Reversal during the year | **(39,475)** | - |
| Closing balance | **817,388** | 856,863 |

| | | 2018 | 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 13.6 | **Unrealised appreciation on remeasurement of investments** | | |
| | Opening balance | **93,302,881** | 91,386,276 |
| | (Diminution) / appreciation during the year | **(18,625,464)** | 1,918,895 |
| | Share in loss of associates relating to "Available for sale investment" | **(54,593)** | (2,290) |
| | Closing balance | **74,622,824** | 93,302,881 |

| | | 2018 | 2017 | 2018 | 2017 |
|---|---|---|---|---|---|
| | | Percentage holding | | (Rupees in '000) | |
| 14. | **LONG TERM INVESTMENTS IN ASSOCIATES** | % | % | | |
| | **Investments in associates are accounted for using equity method of accounting:** | | | | |
| | Security Papers Limited (SPL) | **40.03** | 40.03 | **1,741,299** | 1,624,763 |
| | SICPA Inks Pakistan (Private) Limited (SICPA) | **47** | 47 | **604,285** | 509,827 |
| | | | | **2,345,584** | 2,134,590 |

14.1 Summarised financial statements of the associates are as follows:

| | Security Papers Limited | | SICPA Inks Pakistan (Private) Limited | |
|---|---|---|---|---|
| | (audited) | | (unaudited) | |
| | June 30, 2018 | June 30, 2017 | March 31, 2018 | March 31, 2017 |
| | Rupees '000 | | | |
| Total assets of the Company | **5,891,505** | 5,679,207 | **2,152,650** | 1,982,402 |
| Total liabilities of the Company | **1,078,750** | 1,078,750 | **774,307** | 510,972 |

| | Year ended June 30, 2018 | Year ended June 30, 2017 | Year ended March 31, 2018 | Year ended March 31, 2017 |
|---|---|---|---|---|
| | Rupees '000 | | | |
| Total revenue of the Company | **3,466,918** | 2,842,085 | **3,469,552** | 2,519,454 |
| Profit after tax of the Company | **738,412** | 937,653 | **683,726** | 554,503 |
| Total other comprehensive (loss) / income of the Company | **(159,270)** | (142,265) | **3,231** | 1,509 |

14.2 The market value of SPL as at June 30, 2018 is Rs 121.02 per share (2017: Rs 145.95 per share) i.e. an aggregate amount of Rs 2,870.805 million (2017: Rs 3,462.188 million). The breakup value based on net assets of SICPA as per latest unaudited financial statements as on March 31, 2018 is Rs 241.81 per share (March 31, 2017: Rs 258.150 per share) i.e. an aggregate amount of Rs 647.821 million (March 31, 2017: Rs 691.572 million).

| | | Note | 2018 | 2017 |
|---|---|---|---|---|
| | | | (Rupees in '000) | |
| 15. | **LOANS, ADVANCES AND BILLS OF EXCHANGE** | | | |
| | Government owned / controlled financial institutions | 15.1 | **56,453,942** | 47,796,089 |
| | Private sector financial institutions | 15.2 | **379,101,059** | 297,555,950 |
| | | | **435,555,001** | 345,352,039 |
| | Employees | 15.3 | **20,083,398** | 19,489,724 |
| | | | **455,638,399** | 364,841,763 |
| | Provision against doubtful balances | 15.4 | **(2,137,951)** | (2,137,973) |
| | | | **453,500,448** | 362,703,790 |

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

| | Scheduled banks | | Other financial institutions | | Total | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ---------- (Rupees in '000) ---------- | | | | | |
| Agricultural sector | **364,768** | 439,900 | **-** | - | **364,768** | 439,900 |
| Industrial sector (15.1.1) | **13,086,096** | 8,063,316 | **-** | - | **13,086,096** | 8,063,316 |
| Export sector (15.2.1 ) | **29,333,293** | 25,554,323 | **3,567** | 3,567 | **29,336,860** | 25,557,890 |
| Housing sector (15.2.2) | **-** | - | **2,035** | - | **2,035** | - |
| Others (15.1.1 & 15.1.2) | **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 |

15.1.1 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'.

15.1.2 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.

**15.2 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 (15.2.1) | **101,492,447** | 72,186,912 | **10,640,707** | 8,892,963 | **112,133,154** | 81,079,875 |
| Export sector (15.2.1) | **263,202,036** | 212,825,188 | - | - | **263,202,036** | 212,825,188 |
| Others (15.2.2) | **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 |

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

15.2.2 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.

15.3 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 |

**15.4 Provision against doubtful assets**

| | **2018** | **2017** |
|---|---|---|
| | ----(Rupees in '000)---- | |
| Opening balance | **2,137,973** | 5,348,435 |
| Charge for the year | **-** | 127 |
| Reversal during the year on: | | - |
| - issuance of preference shares of Zarai Taraqiati Bank Limited | **-** | (3,204,323) |
| - cash recovery | **(22)** | (6,266) |
| Closing balance | **2,137,951** | 2,137,973 |

## 16. ASSETS HELD WITH THE RESERVE BANK OF INDIA

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------------(Rupees in '000)---------------- | |
| Gold reserves | | | |
| - Opening balance | | **4,374,538** | 4,650,103 |
| - Appreciation / (diminution) for the year due to revaluation | 29.3.1.1 | **727,819** | (275,565) |
| | | **5,102,357** | 4,374,538 |
| Sterling securities | | **528,510** | 450,221 |
| Government of India securities | | **253,591** | 231,832 |
| Rupee coins | | **5,196** | 4,769 |
| | 16.1 | **5,889,654** | 5,061,360 |
| Indian notes representing assets receivable from the Reserve Bank of India | 16.2 | **763,024** | 697,554 |
| | 22.1 | **6,652,678** | 5,758,914 |

**16.1** These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 29.3.1).

**16.2** 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 29.3.1).

## 17. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------------(Rupees in '000)---------------- | |
| **India** | | | |
| Advance against printing of notes | | **39,616** | 39,616 |
| Receivable from the Reserve Bank of India | | **837** | 837 |
| | | **40,453** | 40,453 |
| **Bangladesh** | | | |
| Inter office balances | | **819,924** | 819,924 |
| Loans, advances and commercial papers | 17.1 | **9,813,926** | 9,056,879 |
| | | **10,633,850** | 9,876,803 |
| | 17.2 | **10,674,303** | 9,917,256 |

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

**17.2** 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 29.1 and 29.3.1).

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------------(Rupees in '000)---------------- | |
| Operating fixed assets | 18.1 | **109,008,109** | 110,679,814 |
| Capital work-in-progress | 18.5 | **575,120** | 463,089 |
| | | **109,583,229** | 111,142,903 |

**18.1 Operating fixed assets**

**2018**

| | Cost / revalued amount at July 1, 2017 | Additions / Adjustments** / (deletions) during the year | Cost / revalued amount at June 30, 2018 | Accumulated depreciation at July 1, 2017 | Depreciation for the year / Adjustments** / (deletions) | Accumulated depreciation at June 30, 2018 | Net book value at June 30, 2018 | Useful life / Rate of depreciation |
|---|---|---|---|---|---|---|---|---|
| | (Rupees in '000) | | | | | | | |
| **Freehold land *** | 64,166,840 | -<br>(53,000) **<br>(5,881) | 64,107,959 | - | -<br>-<br>- | - | 64,107,959 | - |
| **Leasehold land *** | 38,492,269 | 13,976<br>(563) **<br>- | 38,505,682 | 1,226,621 | 1,363,840 | 2,590,461 | 35,915,221 | 30-99 years |
| **Buildings on freehold land *** | 2,944,098 | 28,982<br>340 **<br>- | 2,973,420 | 148,985 | 122,804<br>-<br>- | 271,789 | 2,701,631 | 20 years |
| **Buildings on leasehold land *** | 4,303,486 | 20,007<br>4,818 **<br>(8) | 4,328,303 | 287,594 | 213,740<br><br>(8) | 501,326 | 3,826,977 | 20 years |
| **Plant and machinery** | 7,817,504 | 76,926<br>16,095 **<br>- | 7,910,525 | 6,930,358 | 150,705<br>-<br>- | 7,081,063 | 829,462 | 10%-20% |
| **Furniture and fixtures** | 298,252 | 16,557<br>-<br>(44,287) | 270,522 | 220,949 | 14,727<br>-<br>(43,824) | 191,852 | 78,670 | 10%-20% |
| **Office equipment** | 2,120,930 | 225,769<br>-<br>(87,374) | 2,259,325 | 1,406,365 | 203,681<br>-<br>(85,445) | 1,524,601 | 734,724 | 10%-33% |
| **EDP equipment** | 2,438,079 | 352,462<br>6,271 **<br>(104,472) | 2,692,340 | 2,054,636 | 286,194<br>1,740 **<br>(83,642) | 2,258,928 | 433,412 | 33.33% |
| **Motor vehicles** | 784,289 | 164,899<br>-<br>(63,374) | 885,814 | 410,425 | 139,711<br>-<br>(44,375) | 505,761 | 380,053 | 20% |
| | 123,365,747 | 899,578<br>(26,039) **<br>(305,396) | 123,933,890 | 12,685,933 | 2,495,402<br>1,740 **<br>(257,294) | 14,925,781 | 109,008,109 | |

**2017**

| | Cost / revalued amount at July 1, 2016 | Asset transferred from PSPC | Additions / Adjustments** / (deletions) during the year | Cost / revalued amount at June 30, 2017 | Accumulated depreciation at July 1, 2016 | Accumulated depreciation transferred from PSPC | Depreciation for the year / Adjustments** / (deletions) | Accumulated depreciation at June 30, 2017 | Net book value at June 30, 2017 | Useful life / Rate of depreciation |
|---|---|---|---|---|---|---|---|---|---|---|
| | (Rupees in '000) | | | | | | | | | |
| Freehold land * | 13,041,840 | 51,072,000 | 53,000 | 64,166,840 | - | - | - | - | 64,166,840 | - |
| Leasehold land * | 38,491,706 | - | 563 | 38,492,269 | - | - | 1,226,621 | 1,226,621 | 37,265,648 | 30-99 years |
| Buildings on freehold land * | 2,301,474 | 735,132 | 63,068<br>(155,576) ** | 2,944,098 | - | 2,686 | 149,526<br>(3,227) | 148,985 | 2,795,113 | 20 years |
| Buildings on leasehold land * | 4,509,573 | | 146,469<br>(352,556) ** | 4,303,486 | - | - | 292,527<br>(4,933) | 287,594 | 4,015,892 | 20 years |
| Plant and machinery | - | 6,678,201 | 30,155<br>1,110,647 **<br>(1,499) | 7,817,504 | - | 6,362,813 | 70,414<br>497,759<br>(628) | 6,930,358 | 887,146 | 10%-20% |
| Furniture and fixtures | 268,758 | 44,044 | 16,376<br>(30,926) | 298,252 | | 34,618 | 13,865<br>(30,715) | 220,950 | 77,302 | 10%-20% |
| Office equipment | 1,979,570 | 193,651 | 583,288<br>(602,515) **<br>(33,064) | 2,120,930 | 1,629,247 | 157,668 | 146,590<br>(494,686)<br>(32,454) | 1,406,365 | 714,565 | 10%-33% |
| EDP equipment | 2,381,280 | - | 172,848<br>(116,049) | 2,438,079 | 1,912,107 | - | 256,440<br>(113,911) | 2,054,636 | 383,443 | 33.33% |
| Motor vehicles | 676,031 | 59,872 | 129,563<br>(81,176) | 784,290 | 297,164 | 44,486 | 122,047<br>(53,272) | 410,425 | 373,865 | 20% |
| | 63,650,232 | 58,782,900 | 1,195,330<br>-<br>(262,714) | 123,365,748 | 4,041,700 | 6,602,271 | 2,278,030<br>-<br>(230,980) | 12,685,934 | 110,679,814 | |

* These represent revalued assets

**Adjustments include reclassifications within different categories of assets

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

18.2 Land and buildings of the Group are carried at revalued amount. The latest revaluation of assets of the Bank was carried out on June 30, 2016 by M/S M.J.Surveyors (Pvt.) Ltd which resulted in a surplus of Rs. 33,870 million. The revaluation was carried out based on the market value assessment being the fair value of the land and buildings. The carrring value of these assets as at June 30, 2018 amounts to Rs. 54.752 million. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:

| | 2018 | 2017 |
|---|---|---|
| | ---------(Rupees in '000)-------- | |
| 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 |
| | **1,232,334** | 1,288,520 |

18.3 Land and buildings of the PSPC have been recorded based on their revalued amount as appearing in the financial statements of the PSPC as at June 30, 2018. These assets were revalued on April 1, 2017 by M/s Iqbal A. Nanjee & Co. (Private) Limited based on the market value assessment being the fair value of the land and buildings. Their carrying value as at June 30, 2018 amounts to Rs. 51.799 million. Had there been no revaluation of these assets, their carrying value would have been as follows:

| | 2018 | 2017 |
|---|---|---|
| | ---------(Rupees in '000)-------- | |
| Freehold land | **3,241** | 3,241 |
| Building on leasehold land | **106,464** | 107,928 |
| | **109,705** | 111,169 |

18.4 Depreciation charge for the year has been allocated as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| General administrative and other expenses | 44 | **2,421,512** | 2,273,363 |
| Cost of printing bank notes and Prize Bonds | 42 | **72,378** | 4,667 |
| Others | | **1,512** | - |
| | | **2,495,402** | 2,278,030 |

**18.5 Capital work-in-progress**

| | 2018 | 2017 |
|---|---|---|
| Buildings on freehold land | **66,473** | 63,536 |
| Buildings on leasehold land | **334,491** | 229,031 |
| Furniture and fixtures | **-** | 50,637 |
| Office equipment | **46,190** | 23,068 |
| EDP equipment | **39,544** | 92,329 |
| Plant and machinery | **88,422** | 4,488 |
| | **575,120** | 463,089 |

## 19. INTANGIBLE ASSETS

| | | 2018 | 2017 |
|---|---|---|---|
| Software | *19.1* | **141,700** | 4,732 |
| Capital work-in-progress | | **167,538** | 102,822 |
| | | **309,238** | 107,554 |

**19.1 Intangible assets**

| | | Cost at July 1 | Asset transferred from PSPC | Additions during the year | Cost at June 30 | Accumulated amortisation at July 1 | Accumulated amortisation transferred from PSPC | Amortisation for the year | Accumulated amortisation at June 30 | Net book value at June 30 | Annual rate of amortisation % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | ---(Rupees in '000)--- | | | | | | | | | |
| **Software** | **2018** | **637,950** | **-** | **172,646** | **810,596** | **633,218** | **-** | **35,678** | **668,896** | **141,700** | **20 - 33.33** |
| Software | 2017 | 613,585 | 20,533 | 4,027 | 638,145 | 609,752 | 20,430 | 3,231 | 633,413 | 4,732 | 20 - 33.33 |

19.2 Amortisation charge for the year has been allocated as follows:

| | | 2018 | 2017 |
|---|---|---|---|
| | | ---------(Rupees in '000)-------- | |
| General administrative and other expenses | 44 | **35,590** | 3,231 |
| Cost of printing bank notes and Prize Bonds | 42 | **88** | - |
| | | **35,678** | 3,231 |

## 20. DEFERRED TAXATION

| | 2018 | 2017 |
|---|---|---|
| | ---------(Rupees in '000)-------- | |
| **Deductible temporary differences** | | |
| Property, plant and equipment | **12,823** | 468 |
| Stores and spares - net | **7,911** | 8,176 |
| Stock-in-trade - net | **12,969** | 15,321 |
| Loans and advances and bills of exhange | **1,389** | 1,667 |
| Investments - local | **1,476** | - |
| Other advances, deposits and prepayments | **7,411** | 8,846 |
| Other liabilities - others | **9,383** | 5,053 |
| Deferred liabilities - funded staff retirement benefits | **692,911** | 626,542 |
| | **746,273** | 666,073 |
| **Taxable temporary differences** | | |
| Long term investment in associates | **(347,064)** | (262,849) |
| Investments - local | **-** | (22,782) |
| Surplus on revaluation of property, plant and equipment | **(155,210)** | (187,168) |
| | **(502,274)** | (472,799) |
| **Deferred taxation asset** | **243,999** | 193,274 |

## 21. OTHER ASSETS

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | --------------(Rupees in '000)------------- | |
| Commission receivable and others | | **3,337,813** | 4,999,406 |
| Stock-in-trade - net | | **2,321,705** | 2,073,947 |
| Other advances, deposits and prepayments | | **907,617** | 664,338 |
| Stores and spares - net | | **293,041** | 248,608 |
| Medical, stationery consumables and stamps on hand | | **192,730** | 166,013 |
| Unrealised gain on derivative financial instruments - net | | **-** | 505,076 |
| | | **7,052,906** | 8,657,388 |

## 22. BANK NOTES IN CIRCULATION

| | Note | 2018 | 2017 |
|---|---|---|---|
| Total bank notes issued | 22.1 | **4,635,338,252** | 4,167,247,213 |
| Bank notes held by the Banking Department | | **(191,541)** | (111,406) |
| Bank notes in circulation | | **4,635,146,711** | 4,167,135,807 |

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

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | --------------(Rupees in '000)------------- | |
| Gold reserves held by the Bank | 6 | **315,610,772** | 270,361,202 |
| Local currency - coins | 7 | **989,497** | 861,860 |
| Foreign currency accounts and investments | 8 | **723,362,840** | 1,495,115,694 |
| Special Drawing Rights of the International Monetary Fund | 10 | **25,618,350** | 51,051,350 |
| Investments - local | 13 | **3,563,104,115** | 2,344,098,193 |
| Assets held with the Reserve Bank of India | 16 | **6,652,678** | 5,758,914 |
| | | **4,635,338,252** | 4,167,247,213 |

## 23. CURRENT ACCOUNTS OF GOVERNMENTS

### 23.1 Current accounts of Governments - payable balances

| | Note | 2018 | 2017 |
|---|---|---|---|
| Federal Government | 23.3 | **24,853,643** | 105,597,218 |
| Provincial Governments | | | |
| - Punjab | 23.4 | **6,207,539** | 38,899,196 |
| - Sindh | 23.5 | **11,180,750** | 20,398,680 |
| - Khyber Pakhtunkhwa | 23.6 | **25,367,613** | 31,526,641 |
| - Baluchistan | 23.7 | **6,331,168** | 2,459,725 |
| Gilgit - Baltistan Administration Authority | 23.8 | **15,887,920** | 9,239,193 |
| | | **64,974,990** | 102,523,435 |
| | | **89,828,633** | 208,120,653 |

| | | Note | 2018 | 2017 |
|---|---|---|---|---|
| 23.2 | **Current accounts of Governments - receivable balances** | | ---------------(Rupees in '000)-------------- | |
| | Government of Azad Jammu and Kashmir | | **5,515,438** | 7,279,247 |
| | Railways accounts | | **27,588,676** | 29,518,688 |
| | | 23.9 | **33,104,114** | 36,797,935 |
| 23.3 | **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 |
| | | | **24,853,643** | 105,597,218 |
| 23.4 | **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 |
| | | | **6,207,539** | 38,899,196 |
| 23.5 | **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 |
| | | | **11,180,750** | 20,398,680 |
| 23.6 | **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 |
| | | | **25,367,613** | 31,526,641 |
| 23.7 | **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 |
| | | | **6,331,168** | 2,459,725 |
| 23.8 | **Gilgit - Baltistan Administration Authority** | | **15,887,920** | 9,239,193 |

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

## 24 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).

## 25. 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.

| | | Note | 2018 | 2017 |
|---|---|---|---|---|
| | | | -----------------(Rupees in '000)---------------- | |
| 26. | **DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS** | | | |
| | **Foreign currency** | | | |
| | Scheduled banks | | **21,073,426** | 7,619,462 |
| | Held under Cash Reserve Requirement | 26.1 | **179,222,542** | 137,166,870 |
| | | | **200,295,968** | 144,786,332 |
| | **Local currency** | | | |
| | Scheduled banks | 26.1 | **598,605,138** | 516,209,260 |
| | Financial institutions | | **14,968,288** | 8,264,427 |
| | Others | | **79,521** | 77,520 |
| | | | **613,652,947** | 524,551,207 |
| | | | **813,948,915** | 669,337,539 |

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

| | | Note | 2018 | 2017 |
|---|---|---|---|---|
| 27. | **OTHER DEPOSITS AND ACCOUNTS** | | -----------------(Rupees in '000)---------------- | |
| | **Foreign currency** | | | |
| | Foreign central banks | | **54,830,309** | 47,257,038 |
| | International organisations | | **30,825,771** | 26,533,361 |
| | Others | | **35,566,507** | 18,013,438 |
| | | 27.1 | **121,222,587** | 91,803,837 |
| | **Local currency** | | | |
| | Special debt repayment | 27.3 | **24,243,841** | 24,243,841 |
| | Government | 27.4 | **17,850,348** | 17,850,348 |
| | Foreign central banks | | **2,115** | 2,059 |
| | International organisations | | **6,574,820** | 6,302,580 |
| | Others | | **30,534,489** | 24,462,409 |
| | | | **79,205,613** | 72,861,237 |
| | | 27.2 | **200,428,200** | 164,665,074 |

**27.1** 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.

| | | 2018 | 2017 |
|---|---|---|---|
| 27.2 | The interest rate profile of the interest bearing deposits is as follows: | ----------(% per annum)---------- | |
| | 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 |

**27.3** 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.

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

| | | Note | 2018 | 2017 |
|---|---|---|---|---|
| **28.** | **PAYABLE TO THE INTERNATIONAL MONETARY FUND** | | -----------------(Rupees in '000)---------------- | |
| | Borrowings under: | | | |
| | - Fund facilities | 28.1 & 28.3 | **743,484,251** | 643,054,775 |
| | - Allocation of SDRs | 28.2 | **169,100,741** | 144,326,457 |
| | | | **912,584,992** | 787,381,232 |
| | Current account for administrative charges | | **40** | 34 |
| | | | | 787,381,266 |

**28.1** 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.

**28.2** 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 |
|---|---|---|---|---|
| **28.3** | Interest profile of amount payable to the IMF is as under: | | --------(% per annum)------- | |
| | Fund facilities | 28.3.1 | **1.53 to 1.99** | 1.05 to 1.63 |

**28.3.1** 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 |
|---|---|---|---|---|
| | | | --------------(Rupees in '000)--------------- | |
| **29.** | **OTHER LIABILITIES** | | | |
| | **Local currency** | | | |
| | Provision against overdue mark-up | 29.1 | **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 | 29.2 | **10,000** | 10,000 |
| | Unrealised loss on derivatives - net | | **27,277,082** | - |
| | Other accruals and provisions | 29.3 | **34,608,659** | 32,044,308 |
| | Payable to National Security Printing Company (NSPC) | | **905,862** | 5,774,651 |
| | Others | 29.4 | **10,505,662** | 8,569,602 |
| | | | **84,506,219** | 57,515,443 |

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

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

| | | Note | 2018 | 2017 |
|---|---|---|---|---|
| | | | --------------(Rupees in '000)--------------- | |
| **29.3** | **Other accruals and provisions** | | | |
| | Agency commission | | **14,041,953** | 12,451,275 |
| | Provision for employees' compensated absences | 44.5 | **6,990,016** | 7,098,384 |
| | Provision for other doubtful assets | 29.3.1 | **7,456,737** | 6,652,772 |
| | Trade and other payables | | **2,010,967** | 2,208,535 |
| | Other provisions | 29.3.2 | **2,848,701** | 2,848,701 |
| | Others | | **1,260,285** | 784,641 |
| | | | **34,608,659** | 32,044,308 |

**29.3.1 Provision for other doubtful assets**

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| 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 |
| | 29.3.1.1 | **7,456,736** | 6,652,772 |

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

| | 2018 | 2017 |
|---|---|---|
| Opening balance | **6,652,772** | 6,911,495 |
| Charge / (reversal) for the year - net | **76,145** | 16,842 |
| (Diminution) / appreciation relating to gold reserves held by the Reserve Bank of India | **727,819** | (275,565) |
| Closing balance | **7,456,736** | 6,652,772 |

**29.3.2** 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).

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

**30. DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS**

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| ***Unfunded staff retirement benefits*** | | | |
| Pension | | **59,531,106** | 61,733,525 |
| Gratuity scheme | | **56,885** | 48,799 |
| Post retirement medical benefits | | **16,440,593** | 21,789,331 |
| Benevolent fund scheme | | **8,489,555** | 1,602,183 |
| Six months post retirement facility | | **616,609** | 527,426 |
| | 44.3.3 | **85,134,748** | 85,701,264 |
| Provident fund scheme | | **874,695** | 959,344 |
| | | **86,009,443** | 86,660,608 |
| ***Funded staff retirement benefits*** | | | |
| Pension | 44.4.2 | **4,098,377** | 3,146,267 |
| Total | | **90,107,820** | 89,806,875 |

**31. 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.

## 32. RESERVES

### 32.1 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.

### 32.2 Reserve for acquisition of PSPC

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

### 32.3 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.

## 33. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| Opening balance | | **266,327,601** | 283,342,601 |
| Appreciation / (diminution) for the year due to revaluation | 6 | **44,986,168** | (17,015,000) |
| | | **311,313,769** | 266,327,601 |

## 34. CONTINGENCIES AND COMMITMENTS

### 34.1 Contingencies

### 34.1.1 State Bank of Pakistan

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

| | 2018 | 2017 |
|---|---|---|
| Federal Government | **14,697,951** | 16,889,529 |
| Federal Government owned / controlled bodies and authorities | **7,552,403** | 7,103,733 |
| | **22,250,354** | 23,993,262 |

b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme amounting to Rs. 157 million approximately. The Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. In prior years, the Honorable Bench of the Supreme Court of Pakistan set aside the judgment of FST and allowed employees to avail proper forum. The employees have filed an appeal in the Honorable Lahore High Court, Rawalpindi Bench, the decision of which is pending. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.

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

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | (Rupees in '000) | |
| d) Other claims against the Bank not acknowledged as debts | 34.1.1.1 | **333,265** | 353,153 |

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

**34.1.2 National Institute of Banking and Finance (Guarantee) Limited**

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

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

a) Imposition of sales tax amounting to Rs.13,675,649; and

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

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

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

**34.1.3 Pakistan Security Printing Corporation (Private) Limited**

a) The Corporation is defending certain cases filed by its ex-employees on account of their reinstatement in the Corporation and compensation for loss of their jobs. Management considers that the probability of any significant liability arising from such cases is remote.

b)

In the previous years the tax authorities initiated proceedings for amendment of deemed assessments for tax years 2004 to 2009 by issuing notices under sections 122 (5A) read with 122(9) of the Income Tax Ordinance, 2001. The amended orders were passed and certain demands were raised for which the Corporation subsequently filed rectification application as a result of which the demands were rectified to Rs 34.9 million. The Corporation, having paid the aforesaid net demand of Rs 34.9 million, had filed appeals before the Commissioner of Inland Revenue - Appeals {CIR(A)} which were decided against the Corporation. The Corporation, further filed appeal before the Appellate Tribunal Inland Revenue (ATIR) which vide order dated June 29, 2015 partially upheld the action of the Additional Commissioner Inland Revenue for amending the aforesaid assessments.

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

| | | Note | 2018 | 2017 |
|---|---|---|---|---|
| **34.2** | **Commitments** | | -----------------(Rupees in '000)---------------- | |
| **34.2.1** | Foreign currency forward and swap contracts - sale | | **1,112,127,341** | 935,079,726 |
| **34.2.2** | Foreign currency forward and swap contracts - purchase | | **248,969,098** | 498,678,723 |
| **34.2.3** | Futures - sale | | **41,585,759** | 43,038,829 |
| **34.2.4** | Futures - purchase | | **26,130,491** | 35,430,566 |
| **34.2.5** | Capital commitments | 34.2.5.1 | **295,241** | 272,021 |
| **34.2.5.1** | This represents amounts committed by the Group to purchase assets from successful bidders. | | | |
| **34.2.6** | Letter of guarantee / credit | | **1,617,255** | 4,701,000 |

34.2.7 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 25 to these consolidated financial statements.

34.2.8 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.

## 35. DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------(Rupees in '000)--------- | |
| Discount, interest / mark-up on Government transactions | | | |
| - Government securities | 35.1 | **209,210,293** | 171,399,674 |
| - Federal Government Scrips | | **82,707** | 82,769 |
| - Loans and advances to and current accounts of Governments | 35.2 | **802,946** | 442,256 |
| Securities purchased under agreement to resell | | **74,134,857** | 63,193,756 |
| Interest income on preference shares | | **4,198,938** | 1,333,659 |
| Return on loans and advances to financial institutions | | **10,231,755** | 6,400,591 |
| Foreign currency loan and advance including deposits | | **11,435,150** | 9,034,732 |
| Foreign currency securities | | **11,505,756** | 8,970,869 |
| Profit on Sukuks purchased under Bai Muajjal agreement | | **-** | 11,412 |
| Others | | **4,443** | 909 |
| | | **321,606,845** | 260,870,627 |

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

35.2 Interest profile on loans and advances to facilities are as under:

| | 2018 | 2017 |
|---|---|---|
| | -----(% per annum)---- | |
| 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 |

## 36. INTEREST / MARK-UP EXPENSE

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------(Rupees in '000)--------- | |
| Deposits | | **28,337,573** | 19,087,345 |
| Securities sold under agreement to repurchase | | **1,148,589** | 152,737 |
| Return on Sukuks purchased under Bai Muajjal agreement | | **1,168,403** | 1,735,682 |
| Charges on allocation of Special Drawing Rights of the IMF | | **1,185,141** | 388,071 |
| Others | | **2,682** | 5,009 |
| | | **31,842,388** | 21,368,844 |

## 37. COMMISSION INCOME

| | Note | 2018 | 2017 |
|---|---|---|---|
| Market Treasury Bills | 37.1 | **2,763,675** | 1,163,377 |
| Management of public debts | 37.1 | **818,072** | 959,936 |
| Prize Bonds and National Saving Certificates | 37.1 | **494,238** | 459,422 |
| Draft / payment orders | | **7,278** | 8,408 |
| Others | | **135** | 51 |
| | | **4,083,398** | 2,591,194 |

37.1 These represent commission income earned from services provided to the Federal Government.

## 38. EXCHANGE (LOSS) / GAIN - NET

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------(Rupees in '000)--------- | |
| 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 |
| | | **(72,314,853)** | 24,524,901 |
| Others | | **(2,293)** | 446 |
| Exchange risk fee income | | **36,947** | 44,291 |
| | | **(72,280,199)** | 24,569,638 |

## 39. SHARE OF PROFIT FROM ASSOCIATES

| | 2018 | 2017 |
|---|---|---|
| Security Papers Limited | **370,066** | 14,058 |
| SICPA Inks Pakistan (Private) Limited | **321,351** | 12,138 |
| | **691,417** | 26,196 |

## 40. OTHER OPERATING INCOME - NET

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------(Rupees in '000)--------- | |
| Penalties levied on banks and financial institutions | | **1,517,846** | 1,131,474 |
| License / Credit Information Bureau fee recovered | | **967,216** | 904,202 |
| Gain / (loss) on sale of investment-net | | | |
| Foreign - 'at fair value through profit or loss' | | **2,310,012** | 39,949 |
| Gain / (Loss) on restructuring of exposure of Zarai Taraqiati Bank Limited and House Building Finance Company Limited | | **-** | 3,311,793 |
| Gain / (Loss) on remeasurement of securities classified as 'fair value through profit or loss' | | **(3,947,032)** | (4,930,365) |
| Revenue from sale of Prize Bonds to Government of Pakistan | | **438,075** | 6,306 |
| Others | | **11,973** | 110,996 |
| | | **1,298,090** | 574,355 |

## 41. OTHER INCOME - NET

| | Note | 2018 | 2017 |
|---|---|---|---|
| Gain on disposal of property, plant and equipment | | **13,829** | 14,340 |
| Liabilities and provisions written back - net | | **11,351** | 11,780 |
| Grant income under foreign assistance program | | **18,090** | 9,064 |
| Others | 41.1 | **753,256** | 266,865 |
| | | **796,526** | 302,049 |

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

## 42. COST OF PRINTING BANK NOTES AND PRIZE BONDS

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------(Rupees in '000)--------- | |
| **Raw material** | | | |
| Opening stock | | **1,144,470** | 674,552 |
| Purchases including in transit | | **7,787,202** | 669,498 |
| Closing stock | | **(1,025,080)** | (1,144,470) |
| | | **7,906,592** | 199,580 |
| Salaries, wages and benefits | 42.1 | **1,226,762** | 53,783 |
| Stores and spares | | **344,812** | 5,624 |
| Fuel and power | | **98,820** | 5,069 |
| Insurance | | **6,497** | 402 |
| Transportation | | **1,617** | 66 |
| Rent, rates and taxes | | **27,048** | 881 |
| Depreciation | 18.4 | **72,378** | 4,667 |
| Provision for obsolete stores and spares - net | | **4,072** | - |
| Stock-in-trade - net | | **809** | - |
| Repairs and maintenance | | **40,680** | 2,585 |
| Amortisation | | **88** | 5 |
| | | **1,823,583** | 73,082 |
| Manufacturing cost | | **9,730,175** | 272,662 |
| Opening work-in-process | | **746,330** | 931,478 |
| Closing work-in-process | | **(1,344,144)** | (746,330) |
| | | **(597,814)** | 185,148 |
| Cost of goods manufactured | | **9,132,361** | 457,810 |
| Opening stock of finished goods | | **234,216** | 182,913 |
| Closing stock of finished goods | | **(4,359)** | (234,216) |
| | | **229,857** | (51,303) |
| Cost of finished goods purchased | 42.2 | **-** | 8,721,464 |
| | | **9,362,218** | 9,127,971 |

42.1 Salaries, wages and benefits include Rs 267.542 million (2017: Rs 12.862 million) in respect of staff pension.

42.2 This represents bank notes printing charges paid to PSPC until June 13, 2017 at agreed rates under specific arrangements. PSPC became part of the Group consequent to its acquistiion by the Bank effective June 14, 2017.

## 43. 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.

**44. GENERAL ADMINISTRATIVE AND OTHER EXPENSES**

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | -----------(Rupees in '000)--------- | |
| Salaries and other benefits | | **10,969,888** | 9,379,672 |
| Retirement benefits and employees' compensated absences | 44.1 | **9,742,967** | 7,691,921 |
| Contribution to Employee Staff Welfare Fund | | **116,898** | - |
| Rent and taxes | | **119,409** | 56,481 |
| Insurance | | **72,609** | 49,958 |
| Electricity, gas and water | | **436,231** | 399,577 |
| Depreciation | 18.1 | **2,421,512** | 2,273,363 |
| Amortisation of intangible assets | 19 | **35,590** | 3,231 |
| Repairs and maintenance | | **746,948** | 647,007 |
| Directors' fee | | **1,172** | - |
| Auditors' remuneration | 44.2 | **17,868** | 14,337 |
| Legal and professional | | **46,423** | 53,536 |
| Fund managers / custodian expenses | | **553,592** | 475,909 |
| Travelling expenses | | **676,197** | 543,492 |
| Daily expenses | | **127,298** | 106,964 |
| Fuel | | **78,576** | 43,876 |
| Conveyance | | **26,572** | 24,647 |
| Postages, telegram / telex and telephone | | **199,935** | 228,128 |
| Training | | **121,030** | 122,700 |
| Stationery | | **32,309** | 23,881 |
| Remittance of treasure | | **147,329** | 132,636 |
| Books and newspapers | | **36,414** | 37,289 |
| Memorial chair | | **17,461** | - |
| Advertisement | | **57,831** | 48,554 |
| Uniforms | | **33,934** | 36,345 |
| Others | | **867,668** | 548,245 |
| | | **27,703,661** | 22,941,749 |

**44.1** This includes an amount relating to defined contribution plan aggregating Rs. 347.887 million (2017: Rs. 238,396 million).

**44.2 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 |
| | **3,850** | **3,850** | **7,700** | 3,500 | 3,500 | 7,000 |
| **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 |
| | **3,850** | **3,850** | **7,700** | 3,500 | 3,500 | 7,000 |
| **National Institute of Banking and Finance** | | | | | | |
| Audit fee | **-** | **275** | **275** | - | 225 | 225 |
| Out of pocket expenses | **-** | **30** | **45** | - | 63 | 63 |
| | **-** | **305** | **320** | - | 288 | 288 |
| | | **A. F. Ferguson & Co.** | **Total** | | | |
| **Pakistan Security Printing Corporation** | | | | | | |
| Audit fee | **-** | **1,953** | **1,953** | - | 49 | 49 |
| Out of pocket expenses | **-** | **195** | **195** | - | - | - |
| | **-** | **2,148** | **2,148** | - | 49 | 49 |
| | **7,700** | **10,153** | **17,868** | 7,000 | 7,337 | 14,337 |

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

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

| | 2018 | 2017 |
|---|---|---|
| - Discount rate for year end obligation | **9.00% p.a.** | 7.75% p.a. |
| - Salary increase rate (where applicable) | **10.00% p.a.** | 8.75% p.a. |
| - Pension indexation rate (where applicable) | **7.5% 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 | | |
| SBP | **9.5% p.a.** | 4.8% p.a. |
| SBP-BSC | | 9.2% 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.

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

**Discount rate risk**
The risk of changes in discount rate, since discount rate is based on corporate / government bonds, any decrease in bond yields will 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 risk**

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.

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

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Pension** | **Gratuity scheme** | **Post retirement medical benefits** | **Benevolent fund scheme** | **Six months post retirement benefits** | **Total** |
| | (Rupees in '000) | | | | | |
| Present value of defined benefit obligation as on July 1, 2017 | **61,733,525** | **48,799** | **21,789,331** | **1,602,183** | **527,426** | **85,701,264** |
| Current service cost | **1,041,589** | **6,624** | **480,431** | **6,287** | **36,739** | **1,571,670** |
| Interest cost on defined benefit obligation | **4,378,743** | **3,642** | **1,657,665** | **121,052** | **40,166** | **6,201,268** |
| Benefits paid | **(10,467,215)** | **(3,600)** | **(800,212)** | **(80,451)** | **(18,305)** | **(11,369,783)** |
| Liability transferred to SBP - BSC | - | - | - | - | - | - |
| Remeasurements: | | | | | | |
| Actuarial (gains) / losses from changes in financial assumptions | **-** | **-** | **-** | **(96,592)** | **-** | **(96,592)** |
| Experience adjustments | **2,844,464** | **1,420** | **476,992** | **(226,538)** | **30,583** | **3,126,921** |
| Present value of defined benefit obligation as on June 30, 2018 | **59,531,106** | **56,885** | **23,604,207** | **1,325,941** | **616,609** | **85,134,748** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Pension** | **Gratuity scheme** | **Post retirement medical benefits** | **Benevolent fund scheme** | **Six months post retirement benefits** | **Total** |
| | (Rupees in '000) | | | | | |
| Present value of defined benefit obligation as on July 1, 2016 | 58,018,505 | 41,822 | 21,135,683 | 1,755,433 | 480,397 | 81,431,840 |
| Current service cost | 1,107,980 | 5,899 | 371,178 | 6,432 | 33,884 | 1,525,373 |
| Interest cost on defined benefit obligation | 4,003,135 | 3,032 | 1,500,117 | 119,954 | 34,158 | 5,660,396 |
| Benefits paid | (5,605,702) | - | (888,841) | (201,804) | (18,483) | (6,714,830) |
| Remeasurements: | | | | | | |
| Actuarial (gains) / losses from changes in financial assumptions | 3,011,670 | - | 388,832 | (45,471) | 8,593 | 3,363,624 |
| Experience adjustments | 1,197,937 | (1,954) | (717,638) | (32,361) | (11,123) | 434,861 |
| Present value of defined benefit obligation as on June 30, 2017 | 61,733,525 | 48,799 | 21,789,331 | 1,602,183 | 527,426 | 85,701,264 |

**44.3.4 Remeasurements recognised in consolidated statement of comprehensive income**

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Pension** | **Gratuity scheme** | **Post retirement medical benefits** | **Benevolent fund scheme** | **Six months post retirement benefits** | **Total** |
| | (Rupees in '000) | | | | | |
| - Actuarial gains / (losses) from changes in financial assumptions | **-** | **-** | **-** | **96,592** | **-** | **96,592** |
| - Experience adjustments | **(2,844,464)** | **(1,420)** | **(476,992)** | | **(30,583)** | **(3,126,921)** |
| | **(2,844,464)** | **(1,420)** | **(476,992)** | **323,130** | **(30,583)** | **(3,030,329)** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Pension** | **Gratuity scheme** | **Post retirement medical benefits** | **Benevolent fund scheme** | **Six months post retirement benefits** | **Total** |
| | (Rupees in '000) | | | | | |
| - Actuarial gains / (losses) from changes in financial assumptions | (3,011,670) | - | (388,832) | 45,471 | (8,593) | (3,363,624) |
| - Experience adjustments | (1,197,937) | 1,954 | 717,638 | 32,361 | 11,123 | (434,861) |
| | (4,209,607) | 1,954 | 328,806 | 77,832 | 2,530 | (3,798,485) |

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

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Pension | Gratuity scheme | Post retirement medical benefits | Benevolent fund scheme | Six months post retirement benefits | Total |
| | (Rupees in '000) | | | | | |
| Current service cost | **1,041,589** | **6,624** | **480,431** | **6,287** | **36,739** | **1,571,670** |
| Interest cost on defined benefit obligation | **4,378,743** | **3,642** | **1,657,665** | **121,052** | **40,166** | **6,201,268** |
| Contribution made by employees | **-** | **-** | **-** | **(11,561)** | **-** | **(11,561)** |
| | **5,420,332** | **10,266** | **2,138,096** | **115,778** | **76,905** | **7,761,377** |

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

**44.3.6 Movement of present value of defined benefit obligation**

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Pension | Gratuity Scheme | Post retirement medical benefits | Benevolent fund scheme | Six months post retirement benefits | Total |
| | (Rupees in '000) | | | | | |
| Net recognised liabilities at July 1, 2017 | **61,733,525** | **48,799** | **21,789,331** | **1,602,183** | **527,426** | **85,701,264** |
| Amount recognised in the consolidated profit and loss account | **5,420,332** | **10,266** | **2,138,096** | **115,778** | **76,905** | **7,761,377** |
| Remeasurements | **2,844,464** | **1,420** | **476,992** | **(323,130)** | **30,583** | **3,030,329** |
| Benefits paid during the year | **(10,467,215)** | **(3,600)** | **(800,212)** | **(80,451)** | **(18,305)** | **(11,369,783)** |
| Employees contribution | **-** | **-** | **-** | **11,561** | **-** | **11,561** |
| Net recognised liabilities at June 30, 2018 | **59,531,106** | **56,885** | **23,604,207** | **1,325,941** | **616,609** | **85,134,748** |

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

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

| | Impact on defined benefit obligation - Increase / (Decrease) | | |
|---|---|---|---|
| | Change in Assumption | Increase in assumption | Decrease in assumption |
| | | (Rupees in '000) | |
| **Pension** | | | |
| Discount rate | 1% | (1,711,928) | 1,946,870 |
| Salary increase rate | 1% | 416,145 | (399,899) |
| Pension increase rate | 1% | 1,608,541 | (1,342,591) |
| Expected mortality rates | 1 Year | (542,488) | 589,294 |
| **Gratuity** | | | |
| Discount rate | 1% | (10,704) | 12,475 |
| Salary increase rate | 1% | 12,306 | (10,704) |
| **Post retirement medicabenefit** | | | |
| Discount rate | 1% | (926,911) | 1,179,431 |
| Salary increase | 1% | 51,505 | (46,226) |
| Post-retirement medical cost increase rate | 1% | 1,178,702 | (938,506) |
| Expected mortality rates | 1 Year | (172,950) | 167,905 |
| **Benevolent** | | | |
| Discount rate | 1% | (24,629) | 28,151 |
| **Six months post retirement benefit** | | | |
| Discount rate | 1% | (43,114) | 49,360 |
| Salary / petrol price increase rate | 1% | 49,090 | (43,692) |

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

**44.3.8 Duration of defined benefit obligation**

| | Pension | Gratuity Scheme | Post retirement medical benefits | Benevolent fund scheme | Six months post retirement benefits |
|---|---|---|---|---|---|
| The weighted average duration of the defined benefit obligation is | **8 Years** | **5-14 Years** | **14-17 Years** | **5-7 Years** | **6-9 Years** |

**44.3.9 Estimated expenses to be charged to consolidated 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 | **1,030,729** | **5,972** | **485,635** | **6,034** | **42,101** | **1,570,471** |
| Interest cost on defined benefit obligation | **4,715,124** | **4,981** | **1,783,594** | **125,766** | **53,116** | **6,682,581** |
| Amount chargeable to the consolidated profit and loss account | **5,745,853** | **10,953** | **2,269,229** | **131,800** | **95,217** | **8,253,052** |

**44.4 Staff retirement benefits-funded (PSPC)**

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

| | 2018 | 2017 |
|---|---|---|
| - Discount rate | **10.00% p.a** | 9.25% p.a |
| - Salary increase rate | **10.00% p.a** | 9.25% p.a |
| - Pension increase rate | **6.00% p.a** | 5.25% p.a |

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.

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

**Asset volatility**
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The fund believes that due to long-term nature of the plan liabilities and the strength of the Corporation's support, the current investment strategy manages this risk adequately.

**Inflation risk**
The majority of the plan's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. However, the fund manages plan assets to off set inflationary impacts.

**Life expectancy / withdrawal rate**
The majority of the plan's obligations are to provide benefits on severance with the Corporation or on achieving retirement. Any change in life expectancy / withdrawal rate would impact plan liabilities.

**44.4.3 Amounts recognised in the consolidated balance sheet are determined as follows:**

| | 2018 | 2017 |
|---|---|---|
| | (Rupees in '000) | |
| Present value of defined benefit obligation | **5,788,238** | 4,957,302 |
| Fair value of plan assets | **(1,689,861)** | (1,811,035) |
| | **4,098,377** | 3,146,267 |

**44.4.4 Movement of present value of defined benefit obligation and fair value of plan assets**

| | 2018 | 2017 |
|---|---|---|
| | ---------------(Rupees in '000)--------------- | |
| Present value as at July 1, 2017 | **4,957,302** | 6,005,357 |
| Discontinued operations | **-** | (1,674,196) |
| Employees transferred to NSPC | **-** | 124,014 |
| Current service cost | **58,305** | 57,250 |
| Interest cost of defined benefit obligation | **448,191** | 495,342 |
| Benefits paid during the year | **(223,980)** | (276,492) |
| Past service cost | **-** | - |
| Actuarial remeasurement loss | **548,420** | 226,027 |
| Present value as at June 30, 2018 | **5,788,238** | 4,957,302 |
| **Movement in fair value of plan assets** | | |
| Fair value as at July 1, 2017 | **1,811,035** | 2,383,162 |
| Discontinued operations | **-** | (635,706) |
| Employees transferred from NSPC | **-** | 57,934 |
| Expected return on plan assets | **160,716** | 192,810 |
| Contribution made by employer | **76,844** | 83,163 |
| Benefits paid during the year | **(223,980)** | (276,492) |
| Actuarial remeasurement (loss) / gain | **(134,754)** | 6,164 |
| Fair value as at June 30, 2018 | **1,689,861** | 1,811,035 |

**44.4.5 Plan assets consist of the following:**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | (Rupees in '000) | % | (Rupees in '000) | % |
| Equity instruments | **582,186** | **26.12** | 721,954 | 30.22 |
| Debt instruments | **700,260** | **31.41** | 679,101 | 28.42 |
| Cash and cash equivalent | **946,867** | **42.47** | 988,115 | 41.36 |
| | **2,229,313** | **100.00** | 2,389,170 | 100.00 |
| Less: Pertaining to NSPC (being the multi employer fund) | **539,452** | | 578,135 | |
| | **1,689,861** | | 1,811,035 | |

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

| | 2018 | 2017 |
|---|---|---|
| Current service cost | **58,305** | 2,666 |
| Net interest cost on defined benefit obligation | **287,475** | 14,089 |
| | **345,780** | 16,755 |

**44.4.7 Amount recognised in consolidated other comprehensive income**

| | 2018 | 2017 |
|---|---|---|
| **Remeasurement (loss) / gain on obligation** | | |
| Actuarial (losses) / gains from changes in financial assumptions | **(548,420)** | (10,527) |
| **Remeasurement (loss) / gain on plan assets** | | |
| Actual net loss on plan assets | **(134,754)** | (287) |
| | **(683,174)** | (10,814) |

**44.4.8 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% | (614,172) | 746,291 |
| Salary growth rate | 1% | 207,563 | (191,040) |
| Pension indexation rate | 1% | 553,893 | (470,382) |

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

**44.4.9 Duration of defined benefit obligation**

| | Pension |
|---|---|
| The weighted average duration of the defined benefit obligation is | **13 Years** |

**44.4.10 Estimated expenses to be charged to consolidated 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 | |
|---|---|---|
| | **2018** | **2017** |
| | ----------------(Rupees in '000)---------------- | |
| Amount chargeable to the consolidated profit and loss account | **474,234** | 343,032 |

**44.5 Employees' compensated absences**

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 6,990.016 million (2017: Rs. 7,098.384 million). An amount of Rs. 1,626.349 million (2017: Rs. 281.365 million) has been charged to the consolidated profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2019 would be Rs 1,077.942 million. The benefits paid during the year amounted to Rs 1,734.717 million (2017: Rs 658.791 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 423.400 million and Rs. 486.945 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 499.455 million and Rs. 444.068 million respectively and the net liability would also be affected by the same amount. The weighted average durations of the liability against employees' compensated absences for the Bank and the Corporation are 9 years and 4 years respectively.

| | Note | 2018 | 2017 |
|---|---|---|---|
| **45. TAXATION** | | -----------(Rupees in '000)--------- | |
| Current - for the year | | **905,828** | 4,602 |
| - prior year | | **12,585** | - |
| Deferred | | **129,702** | 812 |
| | | **1,048,115** | 5,414 |
| **46. PROFIT FOR THE YEAR AFTER NON-CASH AND OTHER ITEMS** | | | |
| Profit before taxation | | **176,720,766** | 238,069,011 |
| Adjustments for: | | | |
| Depreciation | 18 | **2,495,402** | 2,273,363 |
| Amortisation of intangible assets | 19 | **35,678** | 3,231 |
| Provision / (reversal) for: | | | |
| - retirement benefits and employees' compensated absences | 44 | **9,742,967** | 7,691,921 |
| - loans and advances | | **(22)** | (6,139) |
| - diminution in value of investments - local - net | | **(39,475)** | - |
| - other doubtful assets | | **76,145** | 16,842 |
| Gain on restructuring of exposure of Zarai Taraqiati Bank Limited (ZTBL) and House Building Finance Company Limited (HBFCL) | | **-** | (3,311,793) |
| Gain on disposal of property, plant and equipment | | **(13,829)** | (14,340) |
| Share of profit from associate | | **(691,417)** | (26,196) |
| Dividend income | | **(415,000)** | (12,248,843) |
| Effect of exchange gain on cash and cash equivalents | | **111,510,273** | 1,687,144 |
| | | **299,421,488** | 234,134,201 |
| **47. CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 5 | **586,651** | 2,190,657 |
| Local currency - coins | 7 | **989,497** | 861,860 |
| Foreign currency accounts and investments | 8 | **991,942,236** | 1,444,739,189 |
| Earmarked foreign currency balances | 9 | **12,277,462** | 10,319,532 |
| Special Drawing Rights of the IMF | 10 | **59,272,776** | 63,657,319 |
| | | **1,065,068,622** | 1,521,768,557 |

## 48. RELATED PARTY TRANSACTIONS

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

### 48.1 Governments and related entities

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

| | 2018 | 2017 |
|---|---|---|
| *Transactions during the year* | -----------(Rupees in '000)--------- | |
| - Creation of MRTBs | **9,118,640,000** | 6,250,800,000 |
| - Retirement / rollover of MRTBs | **7,993,340,000** | 5,799,530,000 |
| - Outstanding foreign currency swap contracts | **-** | 89,778,296 |

- Commission income from sale of Market Treasury Bills, issuance of Prize Bonds, National Saving Certificates and management of public debt (refer note 37).

### 48.2 Remuneration to key management personnel

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

| | 2018 | 2017 |
|---|---|---|
| | -----------(Rupees in '000)--------- | |
| Short-term employee benefit | **699,178** | 453,614 |
| Post-employment benefit | **146,447** | 56,169 |
| Loans disbursed during the year | **149,451** | 60,458 |
| Loans repaid during the year | **141,584** | 77,397 |
| Directors' fees | **15,047** | 13,584 |
| Number of key management personnel | **88** | 37 |

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

## 49. RISK MANAGEMENT POLICIES

The Group is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 49.1 to 49.10 to these consolidated financial statements. The Group has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

### 49.1 Credit risk management

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

**49.2 Concentrations of risk**

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

**49.2.1 Geographical analysis**

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pakistan | Asia (other than Pakistan) | America | Europe | Australia | Others | Grand Total |
| | (Rupees in '000) | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and bank balances held by subsidiaries | **586,651** | **-** | **-** | **-** | **-** | **-** | **586,651** |
| 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 the International Monetary Fun | **-** | **-** | **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 | **3,824,128,547** | **-** | **-** | **-** | **-** | **-** | **3,824,128,547** |
| Loans, advances and bills of exchange | **453,176,066** | **324,382** | **-** | **-** | **-** | **-** | **453,500,448** |
| 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 | **2,743,075** | **571** | **93,552** | **288** | **-** | **-** | **2,837,486** |
| **Total financial assets** | **5,917,474,027** | **465,345,713** | **764,684,095** | **97,917,228** | **15,639,892** | **34,011,088** | **7,295,072,043** |

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pakistan | Asia (other than Pakistan) | America | Europe | Australia | Others | Grand Total |
| | (Rupees in '000) | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and bank balances held by subsidiaries | 2,190,657 | - | - | - | - | - | 2,190,657 |
| Local currency - coins | 861,860 | - | - | - | - | - | 861,860 |
| Foreign currency accounts and investments | 23,961,146 | 453,088,974 | 652,637,412 | 560,768,972 | 48,496,151 | 43,586,533 | 1,782,539,188 |
| Earmarked foreign currency balances | 10,319,532 | - | - | - | - | - | 10,319,532 |
| Special Drawing Rights of the International Monetary Fun | - | - | 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 | 2,694,286,076 | - | - | - | - | - | 2,694,286,076 |
| Loans, advances and bills of exchange | 362,286,041 | 417,749 | - | - | - | - | 362,703,790 |
| Assets held with the Reserve Bank of India | - | 1,384,376 | - | - | - | - | 1,384,376 |
| Balances due from the Governments of India and Bangladesh | - | 9,917,256 | - | - | - | - | 9,917,256 |
| Other assets | 2,677,144 | 743,347 | 117,504 | 559,715 | 2,307 | - | 4,100,017 |
| **Total financial assets** | 4,666,753,704 | 465,551,702 | 716,429,617 | 561,328,687 | 48,498,458 | 43,586,533 | 6,502,148,701 |

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".

**49.2.2 Industrial analysis**

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Sovereign** | **Supranational** | **Public Sector Entities** | **Banks & Financial Institutions** | **Others** | **Grand Total** |
| | ---- (Rupees in '000) ---- | | | | | |
| **Financial assets** | | | | | | |
| Cash and bank balances held by subsidiaries | **15,745** | **-** | **-** | **570,906** | **-** | **586,651** |
| 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 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 | **3,725,288,491** | **-** | **87,466,618** | **11,373,438** | **-** | **3,824,128,547** |
| Loans, advances and bills of exchange | **14,453,450** | **-** | **42,364,420** | **376,606,894** | **20,075,684** | **453,500,448** |
| 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** | **885,566** | **2,837,487** |
| **Total financial assets** | **4,988,550,148** | **94,154,073** | **134,464,437** | **2,037,581,686** | **40,321,700** | **7,295,072,044** |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Sovereign** | **Supranational** | **Public Sector Entities** | **Banks & Financial Institutions** | **Others** | **Grand Total** |
| | ---- (Rupees in '000) ---- | | | | | |
| **Financial assets** | | | | | | |
| Cash and bank balances held by subsidiaries | 6,496 | - | - | 2,184,161 | - | 2,190,657 |
| Local currency - coins | 861,860 | - | - | - | - | 861,860 |
| Foreign currency accounts and investments | 831,724,378 | 213,375,369 | 2,494,010 | 718,737,738 | 16,207,693 | 1,782,539,188 |
| Earmarked foreign currency balances | 10,319,532 | - | - | - | - | 10,319,532 |
| Special Drawing Rights of the International Monetary Fund Monetary Fund | - | 63,657,319 | - | - | - | 63,657,319 |
| Reserve tranche with the International Monetary Fund under quota arrangements | - | 17,382 | - | - | - | 17,382 |
| Securities purchased under agreement to resell | - | - | - | 1,533,373,313 | - | 1,533,373,313 |
| Current accounts of Governments | 36,797,935 | - | - | - | - | 36,797,935 |
| Investments - local | 2,522,321,316 | - | 160,249,170 | 11,715,590 | - | 2,694,286,076 |
| Loans, advances and bills of exchange | 13,340,783 | - | 32,990,934 | 296,890,086 | 19,481,987 | 362,703,790 |
| Assets held with the Reserve Bank of India | 1,384,376 | - | - | - | - | 1,384,376 |
| Balances due from the Governments of India and Bangladesh | 9,917,256 | - | - | - | - | 9,917,256 |
| Other assets | 1,844,622 | 252,614 | 267,856 | 1,222,763 | 512,162 | 4,100,017 |
| **Total financial assets** | 3,428,518,554 | 277,302,684 | 196,001,970 | 2,564,123,651 | 36,201,842 | 6,502,148,701 |

**49.3 Credit exposure by credit rating**

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

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sovereign (49.3.1) | AAA | AA | A | BBB | Lower than BBB | Unrated | Grand Total |
| | (Rupees in '000) | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and bank balances held by subsidiaries | 586,651 | - | - | - | - | - | - | 586,651 |
| Local currency - coins | 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 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 | - | - | - | 1,560,763,664 | 1,546,125 | - | - | 1,562,309,789 |
| Current accounts of Governments | 33,104,114 | - | - | - | - | - | - | 33,104,114 |
| Investments - local | 3,725,288,492 | - | 22,000 | 6,100,000 | - | - | - | 3,731,410,492 |
| Loans, advances and bills of exchange | 14,453,450 | 65,105,010 | 58,032,166 | 294,003,469 | - | 15,478 | 21,890,875 | 453,500,448 |
| 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 | - | - | 1,028,066 | 2,837,487 |
| **Total financial assets** | 3,789,431,605 | 144,371,758 | 783,361,956 | 2,335,467,525 | 22,318,058 | 38,680,236 | 88,722,851 | 7,202,353,989 |

| | 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sovereign (49.3.1) | AAA | AA | A | BBB | Lower than BBB | Unrated | Grand Total |
| | (Rupees in '000) | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and bank balances held by subsidiaries | - | - | - | 2,184,161 | - | - | 6,496 | 2,190,657 |
| Local currency - coins | 861,860 | - | - | - | - | - | - | 861,860 |
| Foreign currency accounts and investments | 2,818,137 | 327,909,180 | 790,607,846 | 646,085,502 | 12,836,602 | - | 2,281,921 | 1,782,539,188 |
| Earmarked foreign currency balances | 10,319,532 | - | - | - | - | - | - | 10,319,532 |
| Special Drawing Rights of the International Monetary Fund | - | - | - | - | - | - | 63,657,319 | 63,657,319 |
| Reserve tranche with the International Monetary Fund under quota arrangements | - | - | - | - | - | - | 17,382 | 17,382 |
| Securities purchased under agreement to resell | - | - | - | 1,532,117,992 | - | 1,255,321 | - | 1,533,373,313 |
| Current accounts of Governments | 36,797,935 | - | - | - | - | - | - | 36,797,935 |
| Investments - local | 2,576,481,664 | - | - | 6,207,070 | - | - | 1,609,250 | 2,584,297,984 |
| Loans, advances and bills of exchange | 13,340,783 | 106,832,276 | 204,791,850 | 17,816,145 | - | 23,000 | 19,899,736 | 362,703,790 |
| Assets held with the Reserve Bank of India | - | - | - | - | 1,384,376 | - | - | 1,384,376 |
| Balances due from the Governments of India and Bangladesh | - | - | - | - | 40,453 | 9,876,803 | - | 9,917,256 |
| Other assets | 1,844,622 | 280,764 | 224,919 | 889,481 | 21,250 | - | 838,981 | 4,100,017 |
| **Total financial assets** | 2,642,464,533 | 435,022,220 | 995,624,615 | 2,205,300,351 | 14,282,681 | 11,155,124 | 88,311,085 | 6,392,160,609 |

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

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

**49.4 Details of financial assets impaired and provision recorded there against:**

| | Gross Amount | | Impairment Provision | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (Rupees in '000) | | | |
| Available for sale investment - unlisted | 2,392,284 | 2,431,758 | 817,388 | 856,863 |
| Loans and advances - agriculture sector | 12,321 | 18,587 | 12,321 | 18,587 |
| Loans and advances - industrial sector | 1,054,285 | 1,054,285 | 1,054,285 | 1,054,285 |
| Loans and advances - others | 1,063,630 | 15,128,995 | 1,063,630 | 4,275,563 |
| 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 |

**49.5 Liquidity analysis with interest / mark-up rate risk**

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

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | Grand total |
| | ------------ (Rupees in '000) ------------ | | | | | | |
| **Financial assets** | | | | | | | |
| **Non-derivative assets** | | | | | | | |
| Cash and bank balances held by subsidiaries | 542,370 | - | 542,370 | 44,281 | - | 44,281 | 586,651 |
| 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 the 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 | 3,600,442,640 | 57,014,671 | 3,657,457,311 | 75,281,444 | 91,389,793 | 166,671,237 | 3,824,128,548 |
| Loans, advances and bills of exchange | 289,840,471 | 115,604,475 | 405,444,946 | 33,878,755 | 14,176,746 | 48,055,501 | 453,500,448 |
| 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 | - | - | - | 2,836,442 | 1,044 | 2,837,486 | 2,837,486 |
| | 6,587,340,265 | 434,944,421 | 7,022,284,685 | 164,338,236 | 106,363,373 | 270,701,610 | 7,292,986,295 |
| **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** | 6,587,340,265 | 434,944,421 | 7,022,284,685 | 166,423,985 | 106,363,373 | 272,787,359 | 7,295,072,044 |
| **Financial liabilities** | | | | | | | |
| **Non-derivative liabilities** | | | | | | | |
| Bank notes in circulation | - | - | - | 4,635,146,711 | - | 4,635,146,711 | 4,635,146,711 |
| Bills payable | - | - | - | 644,452 | - | 644,452 | 644,452 |
| Current accounts of the Government * | 89,828,633 | - | 89,828,633 | - | - | - | 89,828,633 |
| Payable to Islamic Banking Institutions | | | | | | | |
| against Bai Muajjal transactions | - | - | - | - | - | - | - |
| Payable under bilateral currency swaps agreements | 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 | 87,904,941 | - | 87,904,941 | 200,428,201 |
| 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 | 11,302 | 29,516 | 40,818 | 27,287,881 | - | 27,287,881 | 27,328,699 |
| | 784,609,123 | 694,622,359 | 1,479,231,482 | 5,571,088,231 | - | 5,571,088,231 | 7,050,319,713 |
| **Derivative liabilities** | | | | | | | |
| Other liabilities | - | - | - | 27,277,082 | - | 27,277,082 | 27,277,082 |
| **Grand total** | 784,609,123 | 694,622,359 | 1,479,231,482 | 5,598,365,313 | - | 5,598,365,313 | 7,077,596,795 |
| On balance sheet gap (a) | 5,802,731,142 | (259,677,938) | 5,543,053,203 | (5,431,941,328) | 106,363,373 | (5,325,577,954) | 217,475,249 |
| 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 | - | - | - | (295,241) | - | (295,241) | (295,241) |
| Off balance sheet gap | - | - | - | (878,908,752) | - | (878,908,752) | (878,908,752) |
| Total yield / interest risk sensitivity gap | 5,802,731,142 | (259,677,938) | 5,543,053,203 | (4,553,032,577) | 106,363,373 | (4,446,669,203) | 1,096,384,001 |
| Cumulative yield / interest risk sensitivity gap | 5,802,731,142 | 5,543,053,203 | | 6,533,073,830 | 6,639,437,203 | 2,192,768,000 | 2,192,768,001 |
| 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 Group has the contractual right and intention to offset these balances against their respective non-interest bearing deposit balances. Mark-up on these balances is charged only when these balances are in debit.

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | Grand total |
| | ---------- (Rupees in '000) ---------- | | | | | | |
| **Financial assets** | | | | | | | |
| **Non-derivative assets** | | | | | | | |
| Cash and bank balances held by subsidiaries | 1,231,312 | - | 1,231,312 | 959,345 | - | 959,345 | 2,190,657 |
| Local currency - coins | - | - | - | 861,860 | - | 861,860 | 861,860 |
| Foreign currency accounts and investments | 1,506,549,874 | 250,388,472 | 1,756,938,346 | 22,232,615 | 679,640 | 22,912,255 | 1,779,850,601 |
| Earmarked foreign currency balances | - | - | - | 10,319,532 | - | 10,319,532 | 10,319,532 |
| Special Drawing Rights of the International | - | - | - | - | - | - | - |
| Monetary Fund | 63,657,319 | - | 63,657,319 | - | - | - | 63,657,319 |
| Reserve tranche with the International Monetary | | | | | | | |
| Fund under quota arrangements | - | - | - | 17,382 | - | 17,382 | 17,382 |
| Securities purchased under agreement to resell | 1,533,129,822 | - | 1,533,129,822 | 243,491 | - | 243,491 | 1,533,373,313 |
| Current accounts of Governments* | 37,093,793 | - | 37,093,793 | (295,858) | - | (295,858) | 36,797,935 |
| Investments - local | 2,475,250,955 | 56,900,348 | 2,532,151,303 | 151,935,151 | 10,199,622 | 162,134,773 | 2,694,286,076 |
| Loans, advances and bills of exchange | 244,351,283 | 83,664,077 | 328,015,360 | 18,150,023 | 16,538,407 | 34,688,430 | 362,703,790 |
| Assets held with the Reserve Bank of India | - | - | - | 1,384,376 | - | 1,384,376 | 1,384,376 |
| Balances due from the Governments of India | | | - | | | - | - |
| and Bangladesh | 9,056,879 | - | 9,056,879 | 860,377 | - | 860,377 | 9,917,256 |
| Other assets | - | - | | 3,593,850 | 1,091 | 3,594,941 | 3,594,941 |
| | 5,870,321,237 | 390,952,897 | 6,261,274,134 | 210,262,144 | 27,418,760 | 237,680,904 | 6,498,955,038 |
| **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** | 5,870,321,237 | 390,996,978 | 6,261,318,215 | 213,411,726 | 27,418,760 | 240,830,486 | 6,502,148,701 |
| **Financial liabilities** | | | | | | | |
| Bank notes in circulation | - | - | - | 4,167,135,807 | - | 4,167,135,807 | 4,167,135,807 |
| Bills payable | - | - | - | 630,547 | - | 630,547 | 630,547 |
| Current accounts of the Government * | 208,120,653 | - | 208,120,653 | - | - | - | 208,120,653 |
| Payable to Islamic Banking Institutions | | | - | | | - | - |
| against Bai Muajjal transactions | 25,098,651 | - | 25,098,651 | 38,579 | - | 38,579 | 25,137,230 |
| Payable under bilateral currency swaps agreements | 154,669,000 | - | 154,669,000 | 881,410 | - | 881,410 | 155,550,410 |
| Deposits of banks and financial institutions | 96,686,622 | - | 96,686,622 | 572,650,917 | - | 572,650,917 | 669,337,539 |
| Other deposits and accounts | 85,599,474 | - | 85,599,474 | 79,065,600 | - | 79,065,600 | 164,665,074 |
| Payable to International Monetary Fund | 144,192,970 | 622,436,124 | 766,629,094 | 20,752,172 | | 20,752,172 | 787,381,266 |
| Other liabilities | 5,160 | 11,674 | 16,834 | 31,344,852 | - | 31,344,852 | 31,361,686 |
| | 714,372,530 | 622,447,798 | 1,336,820,328 | 4,872,499,884 | - | 4,872,499,884 | 6,209,320,212 |
| On balance sheet gap (a) | 5,155,948,707 | (231,450,820) | 4,924,497,887 | (4,659,088,158) | 27,418,760 | (4,631,669,398) | 292,828,489 |
| Foreign currency forward and swap contracts - sale | - | - | - | (1,084,484,958) | - | (1,084,484,958) | (1,084,484,958) |
| Foreign currency forward and swap contracts | | | | | | | |
| - purchase | - | - | - | 250,807,909 | - | 250,807,909 | 250,807,909 |
| Futures - sale | - | - | - | (41,585,759) | - | (41,585,759) | (41,585,759) |
| Futures - purchase | - | - | - | 26,130,491 | - | 26,130,491 | 26,130,491 |
| Capital commitments | - | - | - | (295,241) | - | (295,241) | (295,241) |
| Off balance sheet gap | - | - | - | (849,427,558) | - | (849,427,558) | (849,427,558) |
| Total yield / interest risk sensitivity gap | 5,155,948,707 | (231,450,820) | 4,924,497,887 | (3,809,660,600) | 27,418,760 | (3,782,241,840) | 1,142,256,047 |
| Cumulative yield / interest risk sensitivity gap | 5,155,948,707 | 4,924,497,887 | 9,848,995,774 | 6,039,335,174 | 6,066,753,934 | 2,284,512,093 | 2,284,512,093 |
| Contingent liabilities in respect of guarantees given | - | - | - | 3,382,264 | 20,608,998 | 23,991,262 | 23,991,262 |

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

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

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

### 49.6 Interest rate risk

### 49.6.1 Cash flow interest rate risk

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

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

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

**49.6.2 Fair value interest rate risk**

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

The Group is exposed to fair value interest rate risk on its fixed income securities classified as 'financial assets at fair value through profit or loss'. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 49.10 to these consolidated 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 consolidated 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 an increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

**49.7 Currency risk management**

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

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

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

The sensitivity analysis calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the consolidated profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Group had significant exposure as at June 30, 2017 with all other variables constant profit for the year would have been Rs. 1,985.23 million higher / lower (2017: Rs. 6,748.87 million). Net foreign currency exposure of the Group is as follows:

| | 2018 | 2017 |
|---|---|---|
| | -----------(Rupees in '000)--------- | |
| US Dollar | **294,299,500** | 1,072,083,483 |
| 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 |
| | **(198,523,440)** | 678,486,954 |

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 Group's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 49.6 and 49.7 to these consolidated financial statements prepared as of June 30, 2018 are not necessarily indicative of the effects on the Group's profit and loss of future movements in different variables.

**49.8 Price Risk**

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

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

In case of 5% increase or decrease in KSE 100 index on June 30, 2018, other comprehensive income would increase or decrease by Rs. 834.626 million (2017: Rs. 945.623 million) and equity of the Group would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

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

**49.9 Liquidity risk management**

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

The risk arising out of the Group's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Group's financial assets and financial liabilities is given in note 49.5.1.

**49.10 Portfolio risk management**

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

**50. Fair value of financial instruments**

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

| | **Carrying Value** | | **Fair value** | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | -----------------------------(Rupees in '000)----------------------------- | | | |
| **Financial assets** | | | | |
| Cash and bank balances held by subsidiaries | **586,651** | 2,190,657 | **586,651** | 2,190,657 |
| Local currency - coins | **989,497** | 861,860 | **989,497** | 861,860 |
| Foreign currency accounts and investments | **1,333,820,287** | | **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 | **3,824,128,547** | 2,694,286,076 | **3,824,128,547** | 2,694,286,076 |
| Loans, advances and bills of exchange | **453,500,448** | 362,703,790 | **453,500,448** | 362,703,790 |
| Assets held with the Reserve Bank of India | **1,550,321** | 5,758,914 | **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 | **2,837,486** | 4,100,017 | **2,824,709** | 4,100,017 |

| | 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 |
| 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 | **200,428,200** | 164,665,074 | **200,428,200** | 164,665,074 |
| Payable to the International Monetary Fund | **912,585,032** | 787,381,266 | **912,585,032** | 787,381,266 |
| Other liabilities | **54,605,781** | 31,361,686 | **54,605,781** | 31,361,686 |

**50.1**

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 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Recurring fair value measurements** | -----------------------------(Rupees in '000)----------------------------- | | | |
| **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) | **-** | **-** | **106,551,787** | **106,551,787** |
| Gold reserves held by the Bank | **315,610,772** | **-** | **-** | **315,610,772** |
| | **801,694,261** | **158,477,934** | 106,551,787 | **1,066,723,982** |
| **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 |
| **Recurring fair value measurements** | -----------------------------(Rupees in '000)----------------------------- | | | |
| **On balance sheet** | | | | |
| **Financial assets** | | | | |
| Foreign currency accounts and investments - held for trading | 376,765,673 | 2,686,724 | - | 379,452,397 |
| Investments - local | 96,016,146 | - | - | 96,016,146 |
| **Non-financial assets** | | | | |
| Operating fixed assets (Land and buildings) | - | - | 108,243,493 | 108,243,493 |
| Gold reserves held by the Bank | 270,361,202 | - | - | 270,361,202 |
| | 743,143,021 | 2,686,724 | 108,243,493 | 854,073,238 |
| **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 Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

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

**(a) Financial instruments in level 1**

Financial instruments included in level 1 comprise of financial assets in note 8.1 related to foreign currency accounts and investments and investment in listed shares in note 13.3 classified as available-for-sale.

**(b) Financial instruments in level 2**

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

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

Currently, no financial instruments are classified through level 3.

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

| Item | Valuation approach and input used |
|---|---|
| Forward foreign exchange contracts | The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan. |
| Operating fixed assets (Land and building) | Land and buildings are revalued to their fair values on a periodic basis by involving professional valuers. The fair values of land and building are determined by physically analysing the condition of land and building and in case of land by ascertaining the current market value of similar land, which is selling in near vicinity. Moreover, for buildings, the valuer has also considered prevailing current cost of construction for relevant type of civil work carried out thereon, where ever required. The management considers the above parameters used as the "highest and best use" and best evidence of fair value for its land and building. Note 18.1 to these consolidated financial statements highlights the year of valuation and external valuer name. The effect of changes in the unobservable inputs used in the valuations cannot be determined with certainty. Accordingly, a qualitative disclosure of sensitivity has not been presented in these consolidated financial statements. |
| Units of mutual funds | The fair values of investments in units of mutual funds are determined based on their net values as published at the close of each business day |
| US Treasury Bills | These are valued using the mid rates communicated by the Federal Reserve Bank of New York. |

**51. CLASSIFICATION OF FINANCIAL INSTRUMENTS**

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Loans and receivables | Assets at fair value through profit or loss | Held to maturity | Available for sale | Total |
| | (Rupees in '000) | | | | |
| **Financial assets** | | | | | |
| Cash and bank balances held by subsidiaries | 586,651 | - | - | - | 586,651 |
| Local currency - coins | 989,497 | - | - | - | 989,497 |
| Foreign currency accounts and investments | 421,875,514 | 570,862,480 | 341,082,293 | - | 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 | 3,676,480,454 | 1,328,263 | 54,930,037 | 91,389,793 | 3,824,128,547 |
| Loans, advances and bills of exchange | 444,266,238 | - | - | - | 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 | 2,823,552 | 1,157 | - | - | 2,824,709 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Loans and receivables** | **Assets at fair value through profit or loss** | **Held to maturity** | **Available for sale** | **Total** |
| | --------------------- | --------------------- | **(Rupees in '000)** | --------------------- | --------------------- |
| **Financial assets** | | | | | |
| Cash and bank balances held by a subsidiary | 2,190,657 | | | | 2,190,657 |
| Local currency - coins | | - | - | - | 861,860 |
| Foreign currency accounts and investments | 1,063,277,816 | 382,140,984 | 337,120,388 | - | 1,782,539,188 |
| Earmarked foreign currency balances | 10,319,532 | - | - | - | 10,319,532 |
| Special Drawing Rights of the International Monetary Fund | 63,657,319 | - | - | - | |
| 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 | 2,527,764,268 | 1,582,086 | 54,924,466 | 110,015,256 | 2,694,286,076 |
| Loans, advances and bills of exchange | 362,703,790 | - | - | - | 362,703,790 |
| Assets held with the Reserve Bank of India | 1,384,276 | - | - | - | 1,384,276 |
| Balances due from the Governments of India and Bangladesh | 9,917,256 | - | - | - | 9,917,256 |
| Other assets | 3,594,941 | 505,076 | - | - | 4,100,017 |

| | 2018 | | |
|---|---|---|---|
| | **Carried at amortised cost** | **Liabilities at fair value through profit or loss** | **Total** |
| | ------------------- | **(Rupees in '000)** | ------------------- |
| **Financial liabilities** | | | |
| Bank notes in circulation | **4,635,146,711** | **-** | **4,635,146,711** |
| Bills payable | **644,452** | **-** | **644,452** |
| Current accounts of Governments | **89,828,633** | **-** | **89,828,633** |
| Payable under bilateral currency swap agreement | **370,409,071** | **-** | **370,409,071** |
| Payable to Islamic Banking Institutions against Bai Muajjal transactions | **-** | **-** | **-** |
| Deposits of banks and financial institutions | **813,948,915** | **-** | **813,948,915** |
| Other deposits and accounts | **200,428,200** | **-** | **200,428,200** |
| Payable to the International Monetary Fund | **912,585,032** | **-** | **912,585,032** |
| Other liabilities | **27,328,699** | **27,277,082** | **54,605,781** |

| | 2017 | | |
|---|---|---|---|
| | **Carried at amortised cost** | **Liabilities at fair value through profit or loss** | **Total** |
| | ------------------- | **(Rupees in '000)** | ------------------- |
| **Financial liabilities** | | | |
| Bank notes in circulation | 4,167,135,807 | - | 4,167,135,807 |
| Bills payable | 630,547 | - | 630,547 |
| Current accounts of Governments | 208,120,653 | - | 208,120,653 |
| Payable under bilateral currency swap agreement | 155,550,410 | - | 155,550,410 |
| Payable to Islamic Banking Institutions against Bai Muajjal transactions | 25,137,230 | - | 25,137,230 |
| Deposits of banks and financial institutions | 669,337,539 | - | 669,337,539 |
| Other deposits and accounts | 164,665,074 | - | 164,665,074 |
| Payable to the International Monetary Fund | 787,381,266 | - | 787,381,266 |
| Other liabilities | 31,361,686 | - | 31,361,686 |

## 52. NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 23, 2018 have appropriated an Nil amount to "Revenue Reserve". The balance of profit after allocation of such appropriation will be transferred to the Government of Pakistan. The financial statements of the Group for the year ended June 30, 2018 do not include the effect of above appropriation and transfer of balance profit to the Government of Pakistan, which will be accounted for in the financial statements of the Group for the year ending June 30, 2019.

**53. DATE OF AUTHORISATION**

These consolidated financial statements were authorised for issue on **October 23, 2018** by the Board of Directors of the Bank (i.e. Parent entity).

**54. CORRESPONDING FIGURES**

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

| FROM | TO | 2017<br>Rupees in '000 |
|---|---|---|
| Current accounts of Governments<br>- payable balances - Federal Government | Current accounts of Governments<br>- receivable balances - Railways accounts | 29,518,688 |

**55. GENERAL**

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

**Tariq Bajwa** **Jameel Ahmad** **Saleemullah**