10 Unconsolidated 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 unconsolidated financial statements of the State Bank of Pakistan (the Bank), which comprise the unconsolidated balance sheet as at June 30, 2019, and the unconsolidated profit and loss account, unconsolidated statement of comprehensive income, unconsolidated statement of changes in equity and unconsolidated statement of cash flows for the year then ended, and notes to the unconsolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at June 30, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

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Key Audit Matter	How the matter was addressed in our audit
Accuracy of the Liability for "Bank notes in circulation"	
As disclosed in notes 5.1 and 21 to the accompanying unconsolidated financial statements, bank notes in circulation represent the liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 (the Act) which comprise of 49% of the total liabilities of the Bank. In view of the significance of liability in relation to the unconsolidated financial statements of the Bank and complexities in the underlying processes relating to issuance of new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes, we have considered the existence and completeness of liability as a key audit matter.	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls related to process for new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes. We analysed the changes in the liability for bank notes in circulation during the year together with the underlying reports of banking and issue department. We considered the completeness of the liability by inspecting the year end statement of affairs of the Issue Circles. Further, we performed cut-off procedures on expansion and contraction of bank notes to assess the completeness of the year end balances of the liability. We considered the requirements of the Act with regard to underlying assets backing the bank notes in circulation and tested its compliance with the relevant information provided by the Bank.
"Foreign currency accounts and investments" and "Investments-local"	
As disclosed in note 9 and 14 to the accompanying unconsolidated financial statements of the Bank, "foreign currency accounts and investments" and "Investments-local" represent 12% and 70% respectively of the total assets of the Bank as at the year end. Furthermore, out of the total "foreign currency accounts and investments" of Rs. 1,376 billion at the year end, balance of Rs. 160.9 billion are invested through Fund Managers that are overseen by a Custodian. In addition, "investments-local" includes Market Related Treasury Bills (MRTBs) amounting to Rs. 569 billion and Pakistan	Our key procedures included the following: • We obtained understanding of the processes, assessed the design and implementation and tested effectiveness of key controls throughout the year over recognition, derecognition and valuation of investments and related revenue; • Sent direct confirmations to counter-parties to confirm the balances of investment holdings and where relevant, performed physical verification of other investments; • We compared the prices to independent sources where quoted market prices were used;

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Key Audit Matter	How the matter was addressed in our audit
Investment Bonds (PIBs) amounting to 7,189 billion that are issued under instructions of Federal Government. In view of the significance of these investments in relation to the total assets, the variation in type of investments and their management (involvement of Fund Managers, Custodian and in-house team) we have considered "foreign currency accounts and investments" and "Investments-local" as key audit matter.	• where valuation techniques with inputs based on observable market data were used, evaluating the appropriateness of the valuation methodologies and the reasonableness of the assumptions, and verifying the inputs to independent sources; and • where valuation techniques with inputs not based on observable market data were used, evaluating the appropriateness of the valuation methodologies and the reasonableness of the assumptions and inputs. Further, in respect of the investment made through fund managers: • We obtained Type-2 report from Custodian to assess that controls were suitably designed by custodian and operated effectively in respect of its activities. • We obtained the monthly statement of changes in net assets provided by the Custodian used by management for recognizing income in respect of foreign currency securities and traced with the accounting records of the Bank to assess that they are accurately recorded. • We performed substantive audit procedures on year-end balance of portfolio including evaluation of Fund Managers' and Custodian's statements, and re-performance of valuations on the basis of observable data at the year end. 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.

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Key Audit Matter	How the matter was addressed in our audit
“Adoption of IFRS 9 Financial instruments”	
As disclosed in note 4.1 to the accompanying financial statements, on 1 July 2018, the Bank adopted a new accounting standard for financial instruments, IFRS 9 Financial Instruments, which provides significant changes to the classification, recognition and measurement of financial assets. The new standard also requires the Bank to recognize expected credit losses (ECL) on financial instruments which involves significant judgement and estimates to be made by the Bank. Given the complexity of the requirements of IFRS 9 which includes the use of significant judgements and estimates by the management, due to first time application of the standard, we considered the above as key audit matter.	Our key procedures included the following: We analyzed the definition of business models used by the Bank to manage financial assets by making inquiries of responsible employees, reviewing the Bank’s internal documentation and analyzing internal business processes on selected significant portfolios of financial instruments. We evaluated the Bank’s assessment of whether contractual cash flows are solely payments of principal and interest for correctness by analyzing primary documents and contractual terms for a sample of financial instruments. We analyzed all the key aspects of the Bank’s methodology and policies related to expected credit losses (hereinafter referred to as “ECL”) measurement for compliance with the requirements of IFRS 9, including through involvement of our financial risk management specialists. In order to analyze the adequacy of professional judgment used by management and assumptions made when calculating ECL allowance, we also tested the correctness of credit risk stages assigned by the Bank by analyzing financial and non-financial information, as well as assumptions and professional judgments used by the Bank. We assessed the overall predictive capacity of the Bank’s ECL calculation methodology by comparing the estimate made as at July 1, 2018 with the actual results for 2019. We also evaluated that the financial statements provide an adequate disclosure of key aspects of financial instruments classification and recognition and credit

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Key Audit Matter	How the matter was addressed in our audit
	risk description, as well as of the effect of IFRS 9 adoption by the Bank.
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; • Identified the key IT Systems and application controls which were integral to the Bank's financial reporting; • Evaluated the design, implementation and operating effectiveness of IT general controls covering change management, access management and IT operations over in-scope systems and significant accounts-related IT automated controls which were critical to financial reporting; and • We tested the accuracy and completeness of key computer generated reports used in our audit.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner
Dated: October 24, 2019

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2019

	Note	2019	2018
		---------------(Rupees in '000)--------------	
ASSETS			
Gold reserves held by the Bank	7	**468,625,002**	315,610,772
Local currency - coins	8	**1,039,138**	989,497
Foreign currency accounts and investments	9	**1,375,854,388**	1,333,820,287
Earmarked foreign currency balances	10	**72,702,673**	12,277,462
Special Drawing Rights of the International Monetary Fund	11	**55,461,054**	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	12	**26,999**	20,362
Securities purchased under agreement to resell	13	**782,918,155**	1,562,309,789
Current accounts of Governments	22.2	**28,200,405**	33,104,114
Investments - local	14	**8,003,637,100**	3,917,177,273
Loans, advances and bills of exchange	15	**587,644,204**	444,266,238
Assets held with the Reserve Bank of India	16	**9,580,097**	6,652,678
Balances due from the Governments of India and Bangladesh	17	**12,266,548**	10,674,303
Property, plant and equipment	18	**79,875,653**	56,470,960
Intangible assets	19	**198,754**	309,232
Other assets	20	**10,020,508**	4,050,750
Total assets		**11,488,050,678**	7,757,006,493
LIABILITIES			
Bank notes in circulation	21	**5,285,025,504**	4,635,146,711
Bills payable		**1,146,660**	644,452
Current accounts of Governments	22.1	**1,101,513,930**	89,828,633
Current account with SBP Banking Services Corporation - a subsidiary		**44,969,274**	50,042,724
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		**105,235**	125,087
Payable to Islamic Banking Institutions against Bai Muajjal transactions	23	**124,410,232**	-
Payable under bilateral currency swap agreement	24	**469,397,756**	370,409,071
Deposits of banks and financial institutions	25	**1,246,238,770**	813,948,915
Other deposits and accounts	26	**1,116,033,768**	200,157,457
Payable to the International Monetary Fund	27	**1,150,064,353**	912,585,032
Other liabilities	28	**176,874,734**	78,148,159
Deferred liability - unfunded staff retirement benefits	29	**29,383,383**	31,180,934
Total liabilities		**10,745,163,599**	7,182,217,175
Net assets		**742,887,079**	574,789,318
REPRESENTED BY			
Share capital	30	**100,000**	100,000
Reserves	31	**112,706,196**	110,690,656
Unappropriated profit		**6,518,736**	12,516,827
Unrealised appreciation on gold reserves held by the Bank	32	**464,180,641**	311,313,769
Unrealised appreciation on remeasurement of investments - local	14.6	**68,490,671**	74,683,886
Surplus on revaluation of property and equipment		**90,890,835**	65,484,180
Total equity		**742,887,079**	574,789,318
CONTINGENCIES AND COMMITMENTS	33		

Pursuant to the requirements of section 26 (1) of SBP Act, 1956, the assets of the Bank specifically earmarked against the liabilities of the issue department have been detailed in note 21.1 to these unconsolidated financial statements.

The annexed notes from 1 to 53 form an integral part of these unconsolidated financial statements.

Dr. Reza Baqir **Governor**	**Jameel Ahmad** **Deputy Governor**	**Saleemullah** **Executive Director**

STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		--------------(Rupees in '000)--------------	
Discount, interest / mark-up and / or profit earned on financial assets measured at;			
Amortised cost	34	**645,524,016**	314,153,097
Fair value through profit or loss		**10,943,995**	9,141,663
Less: interest / mark-up expense	35	**(110,759,499)**	(31,837,162)
		545,708,512	291,457,598
Commission income	36	**4,136,396**	4,083,397
Exchange loss - net	37	**(505,911,025)**	(72,277,906)
Dividend income		**2,390,000**	415,000
Other operating income / (expense) - net	38	**4,391,840**	(1,115,579)
Other income - net	39	**113,396**	731,807
		50,829,119	223,294,317
Less: Operating expenses			
- Bank notes printing charges	40	**13,755,031**	11,776,206
- Agency commission	41	**10,642,735**	10,945,396
- General administrative and other expenses	42	**26,781,911**	26,984,115
Provision for / (reversal of provision against):			
- Other doubtful assets	28.3.1.1	**456,042**	76,145
- Others		**(76)**	-
Credit loss allowance on financial instruments - net	43	**39,622**	(39,475)
		495,588	36,670
		51,675,265	**49,742,387**
(Loss) / profit for the year		**(846,146)**	**173,551,930**

The annexed notes from 1 to 53 form an integral part of these unconsolidated financial statements.

Dr. Reza Baqir	Jameel Ahmad	Saleemullah
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	Note	**2019**	2018
		------ (Rupees in '000) -------	
(Loss) / profit for the year		**(846,146)**	173,551,930
Other comprehensive income			
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised (diminution) / appreciation on remeasurement of investments - local		**-**	(18,622,204)
Unrealised appreciation on gold reserves held by the Bank	7	**152,866,872**	44,986,168
		152,866,872	26,363,964
Items that will not be reclassified subsequently to the profit and loss account:			
Unrealised (diminution) / appreciation on remeasurement of investments - local	14.6	**(21,618,750)**	-
Remeasurements of property and equipment - SBP		**25,406,655**	-
Remeasurements of staff retirement defined benefit plans - SBP	42.6.3.1	**2,650,167**	(68,780)
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary	42.6.3.1	**6,038,910**	(2,961,549)
		12,476,982	(3,030,329)
Total comprehensive income for the year		**164,497,708**	196,885,565

The annexed notes from 1 to 53 form an integral part of these unconsolidated financial statements.

Dr. Reza Baqir **Governor**	**Jameel Ahmad** **Deputy Governor**	**Saleemullah** **Executive Director**

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2019

	Share capital	Reserves: Reserve fund	Reserves: Reserve for Acquisition of PSPC	Reserves: Rural credit fund	Reserves: Industrial credit fund	Reserves: Export credit fund	Reserves: Loans guarantee fund	Reserves: Housing credit fund	Reserves: Unappropriated profit	Unrealised appreciation on gold reserves held by the Bank	Unrealised appreciation/ (diminution) on remeasurement of investments - local	Surplus on revaluation of property and equipment	Total
	(Rupees in '000)												
Balance as at July 01, 2017	**100,000**	**65,155,438**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**43,957,846**	**266,327,601**	**93,306,090**	**65,489,407**	**611,100,382**
Total comprehensive income for the year													
Profit for the year	-	-	-	-	-	-	-	-	173,551,930	-	-	-	173,551,930
Transfer to the reserve fund		13,771,218							(13,771,218)				-
Other comprehensive income													
Unrealised diminution on remeasurement of investments - local (note 14.6)	-	-	-	-	-	-	-	-	-	-	(18,622,204)	-	(18,622,204)
Unrealised appreciation on gold reserves held by the Bank (note 7)	-	-	-	-	-	-	-	-	-	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 - SBP	-	-	-	-	-	-	-	-	(68,780)	-	-	-	(68,780)
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary (note 42.6.3.1)	-	-	-	-	-	-	-	-	(2,961,549)	-	-	-	(2,961,549)
	-	13,771,218	-	-	-	-	-	-	156,755,610	44,986,168	(18,622,204)	(5,227)	196,885,565
Transactions with owners													
Dividend	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	(45,000,000)	-	-	-	-	-	-	(188,186,629)	-	-	-	(233,186,629)
	-	(45,000,000)	-	-	-	-	-		(188,196,629)	-	-	-	(233,196,629)
Balance as at June 30, 2018	**100,000**	**33,926,656**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**12,516,827**	**311,313,769**	**74,683,886**	**65,484,180**	**574,789,318**
Impact of adopting of IFRS 9 - SBP									691,593		15,425,535		16,117,128
Impact of adopting of IFRS 9 allocated by - SBP BSC									(248)				(248)
Restated balance as at July 01, 2018	**100,000**	**33,926,656**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**13,208,172**	**311,313,769**	**90,109,421**	**65,484,180**	**590,906,198**
Total comprehensive income for the year													
Loss for the year	-	-	-	-	-	-	-		(846,146)	-	-	-	(846,146)
Transfer to the reserve fund	-	15,540	-	-	-	-	-	-	(15,540)	-	-	-	
Transfer to the reserve for acquisition of PSPC			2,000,000						(2,000,000)				
Other comprehensive income													-
Unrealised diminution on remeasurement of investments - local (note 14.6)	-	-	-	-	-	-	-	-	-	-	(21,618,750)	-	(21,618,750)
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	-	152,866,872	-	-	152,866,872
Surplus realised on revaluation of property, plant and equipment (note 18.1)												25,406,655	25,406,655
Remeasurements of staff retirement defined benefit plans - SBP	-	-	-	-	-	-	-	-	2,650,167	-	-	-	2,650,167
Remeasurements of staff retirement defined benefit plans allocated by - SBP Banking Services Corporation - a subsidiary (note 42.6.3.1)	-	-	-	-	-	-	-	-	6,038,910	-	-	-	6,038,910
	-	15,540	2,000,000	-	-	-	-	-	5,827,391	152,866,872	(21,618,750)	25,406,655	164,497,708
Transactions with owners													
Dividend	-	-	-	-	-	-	-		-	-	-	-	-
Profit transferred to the Government of Pakistan	-		-	-	-	-	-		(12,516,827)	-	-	-	(12,516,827)
	-	-	-	-	-	-	-	-	(12,516,827)	-	-	-	(12,516,827)
Balance as at June 30, 2019	**100,000**	**33,942,196**	**67,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**6,518,736**	**464,180,641**	**68,490,671**	**90,890,835**	**742,887,079**

The annexed notes from 1 to 53 form an integral part of these unconsolidated financial statements.

Dr. Reza Baqir
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	44	**194,241,985**	296,833,104
(Increase) / decrease in assets:			
Foreign currency investments and placements		**340,817,199**	(4,078,052)
Reserve tranche with the International Monetary Fund under quota arrangements		**(6,637)**	(2,980)
Securities purchased under agreement to resell		**779,391,608**	(28,936,476)
Investments - local		**(4,091,414,607)**	(1,148,876,104)
Loans, advances and bills of exchange		**(143,451,408)**	(91,151,160)
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh		**(4,519,664)**	(1,650,811)
Other assets		**(5,969,758)**	273,904
		(3,125,153,267)	(1,274,421,679)
		(2,930,911,282)	(977,588,575)
Increase / (decrease) in liabilities:			
Bank notes issued - net		**649,878,793**	468,010,904
Bills payable		**502,208**	13,905
Current accounts of Governments		**1,016,441,648**	(114,861,601)
Current account with SBP Banking Services Corporation - a subsidiary		**(11,577,029)**	(7,273,285)
Current account National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		**(19,852)**	(10,525)
Payable to Islamic Banking Institutions against Bai Muajjal transactions		**124,410,232**	(25,137,230)
Payable under bilateral currency swap agreement		**98,988,685**	214,858,661
Deposits of banks and financial institutions		**432,289,855**	144,611,376
Payment of retirement benefits and employees' compensated absences		**3,370,531**	(6,476,916)
Other deposits and accounts		**915,876,311**	36,130,174
Other liabilities		**98,185,887**	32,469,519
		3,328,347,269	742,334,982
Net cash generated from / (used in) operating activities		**397,435,987**	(235,253,593)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		**2,390,000**	415,000
Capital expenditure		**(294,111)**	(801,854)
Proceeds from disposal of property, plant and equipment		**16,881**	47,654
Contribution of initial capital in Deposit Protection Corporation		**(500,000)**	-
Net cash generated from / (used in) investing activities		**1,612,770**	(339,200)
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		**(12,516,827)**	(233,186,629)
Net change in balances pertaining to IMF		**237,479,321**	125,203,766
Dividend paid		**-**	(10,000)
Net cash generated from / (used in) financing activities		**224,962,494**	(107,992,863)
Increase / (decrease) in cash and cash equivalents during the year		**624,011,251**	(343,585,656)
Cash and cash equivalents at the beginning of the year		**1,064,481,971**	1,519,577,900
Effect of exchange (loss) on cash and cash equivalents		**(184,496,821)**	(111,510,273)
Cash and cash equivalents at the end of the year	45	**1,503,996,401**	1,064,481,971

The annexed notes from 1 to 53 form an integral part of these unconsolidated financial statements.

Dr. Reza Baqir	Jameel Ahmad	Saleemullah
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

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

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

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

b) National Institute of Banking and Finance (Guarantee) Limited - wholly owned subsidiary:
National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated in Pakistan under the Companies Act, 2017 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 NIBAF Building, Street 4, Pitras Bukhari Road, H-8/1, 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 Companies Act, 2017 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 on behalf of the Bank.

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

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after 1 July 2018, but are considered not to be relevant or do not have any significant effect on the Bank's operations and are, therefore, not disclosed in these unconsolidated financial statements except for IFRS 9 and IFRS 7R.

4.1 IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 retrorespectively with date of initial application of 1 July 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. As permitted by the transitional provisions of IFRS 9, The Bank elected not to restate comparative figures. IFRS 9 replaces IAS 39 for annual periods beginning on or after 1 January 2018. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in statement of changes in equity under 'unappropriated profit' and 'unrealised appreciation on remeasurement of investments - local' as of 1 July 2018. The impact on carrying amounts of the financial assets and liabilities is disclosed in Note 4.1.4.

4.1.1 Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and loans and recievables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Bank's classification of its financial assets and liabilities is explained in Notes 4.1.3 and 5.2. The quantitative impact of applying IFRS 9 as at 1 July 2018 is disclosed in Note 4.1.4.

4.1.2 Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Bank's impairment method are disclosed in Note 5.2.13. The quantitative impact of applying IFRS 9 as at 1 July 2018 is disclosed in Note 4.1.4.

4.1.3 Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 July 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial Assets	**Measurement category**	**Carrying Amount**	**Measurement category**	**Carrying Amount**
		--------------------(Rupees in '000)--------------------		
Foreign currency assets				
Investments	FVPL	570,862,480	FVPL	570,862,480
Deposit & Current accounts	Loans and receivable	64,616,542	Amortised cost	64,616,533
Securities purchased under agreement to resell	Loans and receivable	349,903,518	Amortised cost	349,903,518
Money market placements	Loans and receivable	7,355,454	Amortised cost	7,355,397
Sovereign bond of foreign country (CNY)	Held to maturity	341,082,293	FVPL	341,082,293
Sepcial drawing rights of International Monetary Fund	Loans and receivable	59,272,776	Amortised cost	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangement	Loans and receivable	20,362	Amortised cost	20,362
Local currency assets				
Securities purchased under agreement to resell	Loans and receivable	1,562,309,789	Amortised cost	1,562,309,774
Current accounts of Governments	Loans and receivable	33,104,114	Amortised cost	33,104,114
Government securities	Loans and receivable	3,670,358,454	Amortised cost	3,670,358,454
ZTBL preference shares	Held to maturity	54,274,670	Amortised cost	54,274,670
Listed equity investments	Available for sale	75,784,692	FVOCI	75,784,692
Unlisted equity investments	Available for sale	15,581,197	FVOCI	31,745,168
Term finance certificates	Available for sale	-	Amortised cost	-
Certificate of deposits	Available for sale	-	Amortised cost	-
Loans to banks, financial institutions & Others	Loans and receivable	444,266,238	Amortised cost	444,219,477
Asset held with Reserve Bank of India	Loans and receivable	-	Amortised cost	-
Balances due from Government of India and Bangladesh	Loans and receivable	-	Amortised cost	-

4.1.4 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to Note 5.2 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on July 1, 2018:

	IAS 39 carrying amount 30 June 2018	**Reclassifications**	**Remeasurements**	**IFRS 9 carrying amount 1 July 2018**
		--------------------(Rupees in '000)--------------------		
Amortised Cost				
Foreign currency accounts and investments				
As at 30 June 2018	762,957,807			762,957,807
Reclassification to FVPL		(341,082,293)		(341,082,293)
Remeasurement of ECL			(66)	(66)
As at 1 July 2018			**(66)**	**421,875,448**
Investment - local				
As at 30 June 2018	3,724,633,124	-	-	3,724,633,124
As at 1 July 2018			**-**	**3,724,633,124**
Securities purchased under agreement to resell				
As at 30 June 2018	1,562,309,789			1,562,309,789
Remeasurement of ECL		-	(15)	(15)
As at 1 July 2018			**(15)**	**1,562,309,774**
Loans, advances and bills of exchange				
As at 30 June 2018	444,266,238			444,266,238
Remeasurement of ECL		-	(46,761)	(46,761)
As at 1 July 2018			**(46,761)**	**444,219,477**
Special drawing rights of International Monetary Fund				
As at 30 June 2018	59,272,776	-	-	59,272,776
As at 1 July 2018			**-**	**59,272,776**
Reserve tranche with the International Monetary Fund under quota arrangement				
As at 30 June 2018	20,362	-	-	20,362
As at 1 July 2018			**-**	**20,362**
Current accounts of Governments				
As at 30 June 2018	33,104,114	-	-	33,104,114
As at 1 July 2018			**-**	**33,104,114**
Total financial assets measured at amortised cost			**(46,842)**	**6,245,435,075**
Fair value through profit or loss				
Foreign currency investments				
As at 30 June 2018	570,862,480			570,862,480
Reclassification: from held to maturity		341,082,293	-	341,082,293
As at 1 July 2018			**-**	**911,944,773**
Total financial assets measured at fair value through profit or loss			**-**	**911,944,773**
Fair value through OCI				
Investments- Local				
As at 30 June 2018	91,365,889			91,365,889
Remeasurement		-	16,163,970	16,163,970
As at 1 July 2018			**16,163,970**	**107,529,859**
Total financial assets measured at fair value through OCI			**16,163,970**	**107,529,859**
			16,117,128	**7,264,909,707**

The total remeasurement gain of Rs. 16,117 million was recognised in opening equity at July 1, 2018. This includes recalssification of provision against diminution in vaue of investments amounting to Rs. 738 million (Note 14.5) from unappropriated profit to unrealised appreciation / (diminution) on remeasurement of investments - local.

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Bank as shown in the table above:

Designation of equity instruments at FVOCI

The Bank has elected to irrevocably designate strategic investments of Rs. 16,319 million in non-trading equity securities in financial institutions at FVOCI as permitted under IFRS 9. These securities were previously classified as AFS. The changes in fair value of such securities will no longer be reclassified to profit or loss when they will be disposed-off.

Reclassification from retired categories with no change in measurement

The following debt instruments, and loans and receivables have also been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis:

(i) Those previously classified as held to maturity and now classified as measured at amortised cost, and
(ii) Those previously classified as loans and receivables and now classified as measured at amortised cost.

4.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 July 2018. Changes include transition disclosures as shown in Note 4, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 4.1.2

Reconciliations from opening to closing ECL allowances are presented in Notes 9.2, 13.2 and 15.2

4.3 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive revenue recognition framework and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leasing agreements is outside the scope of IFRS 15 requirements and will be regulated by other applicable standards (IFRS 9 and IFRS 16 Leases). The Bank has initially applied IFRS 15 at 1 July 2018. The application of IFRS 15 did not have a material impact on the Bank's financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

The significant accounting policies applied in the preparation of these unconsolidated financial statements are set out below.

5.1 Banknotes in circulation and local currency - coins

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

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

5.2 Financial assets and financial liabilities

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

5.2.1 Financial instruments – initial recognition

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

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the profit and loss account. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in Note 6.1 is recognised in the profit and loss account.

5.2.2 Classification and subsequent measurement of financial assets and liabilities

From 1 July 2018, the Bank classifies all of its financial assets based on two criteria: a) the Bank’s business model for managing the assets; and b) whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the ‘SPPI test’), measured at either:

- Amortised cost, as explained in Note 5.2.3
- FVOCI, as explained in Notes 5.2.4 and 5.2.5
- FVPL as explained in note 5.2.6

a) Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's board/ board committees
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The expected frequency, value and timing of sales are also important aspects of the Bank’s assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case’ scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

b) The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. The most significant elements of 'interest' within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

The Bank classifies and measures its derivative and trading portfolio at FVPL as explained in Notes 5.2.8. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 5.2.6.

Before 1 July 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 5.2.1, 5.2.9 and 5.2.10 .

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 5.2.6 and 5.2.7.

5.2.3 *Financial assets at amortised cost*

From 1 July 2018, the Bank classifies its financial assets at amortized cost only if both of the following conditions are met:

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

After initial measurement, these financial instruments are subsequently measured at amortized cost using the Effective interest Rate (EIR), less impairment (if any).

Before 1 July 2018, loans and receivables included non-derivative financial assets with fixed or determinable payments that were 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 were recognized when cash is advanced to borrowers. When a loan became uncollectible, it was written off against the related provision for impairment. Subsequent recoveries were credited in the profit and loss account.

5.2.4 *Debt instruments at FVOCI (Policy applicable from 1 July 2018)*

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

These instruments largely comprise assets that had previously been classified as financial investments available-for-sale under IAS 39.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 5.11.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

5.2.5 *Equity instruments at FVOCI (Policy applicable from 1 July 2018)*

Upon initial recognition, the Bank elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of 'Equity' under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss account. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

5.2.6 *Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or
- The liabilities (and assets until 1 July 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The liabilities (and assets until 1 July 2018 under IAS 39) containing one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earnt on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate.

5.2.7 *Financial liabilities at amortised cost*

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

5.2.8 *Derivative financial instruments*

The Bank uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.Derivatives are re-measured to fair value on subsequent reporting dates. The resultant gains or losses from derivatives are included in the profit and loss account. Forwards, futures and swaps are shown under commitments in Note 33.2.

5.2.9 *Available-for-sale financial investments (Policy applicable before 1 July 2018)*

Before 1 July 2018, available for sale financial assets included non derivative financial assets which were either designated in this category or which did not fall in any of the other categories. Subsequent to initial recognition, these securities were measured at fair value, except investments in those securities the fair value of which could not be determined reliably and were stated at cost. Gain or loss on changes in fair value was taken to and kept in equity until the investments were sold or disposed off, or until the investments were determined to be impaired. At that time, cumulative gain or loss previously recognised in equity was re-classified to the profit and loss account.

5.2.10 *Held-to-maturity financial investments (Policy applicable before 1 July 2018)*

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

5.2.11 Reclassification of financial assets and liabilities

From 1 July 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

5.2.12 Derecognition of financial asset and financial liabilities

a) Financial assets

The Bank derecognises a financial asset, such as a loan, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

b) Financial liabilities

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

5.2.13 Impairment of financial assets

5.2.13.1 Overview of the ECL principles

As described in Note 4.1.2, the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 July 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 5.2.13.2). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 47.1.7.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 47.1.4

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 47.1.3).The bank records an allowance for the LTECLs.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

5.2.13.2 The calculation of ECLs

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 47.1.4.
- EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 47.1.5.
- LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 47.1.6.

When estimating the ECLs, the Bank considers three scenarios (a base case, a best case, and a worse case). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 47.1.3), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

5.2.13.3 Forward looking information

The Bank formulates a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information. This process involves developing three different economic scenarios, which represent a range of scenarios linked to GDP growth and CPI.

5.2.13.4 Credit Enhancements: Collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral.The collateral comes in various forms, such as cash, securities, letters of credit/guarantees and demand promissory notes. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral.

5.2.14 Impairment of financial assets (Policy applicable before 1 July 2018)

a) Financial assets carried at amortised cost

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

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was 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 was reduced through the use of an allowance account and the amount of the loss was recognised in the profit and loss account. If in a subsequent year the amount of the estimated impairment loss increased or decreasesd because of an event occurring after the impairment was recognised, the previously recognised impairment loss was increased or reduced by adjusting the allowance account. If in a subsequent period the amount of impairment loss decreased and the decrease could be linked objectively to an event occurring after the write down, the write down or allowance was reversed through the profit and loss account.

b) Available-for-sale financial assets

For available-for-sale financial assets, the Bank assessed at each balance sheet date whether there was an objective evidence that an investment was 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 was considered in determining whether the assets were impaired. If any such evidence existed for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss account, was reclassified from other comprehensive income and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments were not reversed through the income statement till the time investments were sold or disposed off.

5.2.15 Offsetting of financial assets and financial liabilities

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

5.3 Collateralised borrowings / lending

5.3.1 Reverse repurchase and repurchase agreements

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

5.3.2 Payable under bilateral currency swap agreement

Bilateral currency swap agreements with counterpart central banks involve the purchase / sale and subsequent resale / repurchase of local currencies of counterpart central banks against PKR at the applicable exchange rate (determined in accordance with the terms of the agreement). The actual use of facility by the Bank / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Bank and interest is charged / earned at agreed rates to the profit and loss account on a time proportion basis from the date of actual use. Any unutilised limit of the counterpart's drawing is reported as commitments in note 33.2.1.

5.3.3 Payable to Islamic Banking Institutions against Bai Muajjal transactions

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

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

5.5 Property, Plant and equipment

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

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

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

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

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

5.6 Intangibles

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

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

5.7 Impairment of non-financial assets

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

5.8 Compensated absences

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

5.9 Staff retirement benefits

The Bank operates:

a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank between 1st July 2005 to 31st May 2007 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 Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from June 1, 2007. Employees joining the Bank service after June 1, 2007 are covered under the new scheme. Under ECPF (new scheme), contribution is made both by the Bank and employee at the rate of 6% of the monetized salary.

b) an unfunded General Provident Fund (GPF) scheme for all those employees who joined the Bank between 1st May 1977 to 30th June 2005 and opted to remain under this scheme after introduction of the new scheme (ECPF). Under GPF contribution is made by the employee only at the rate of 5% of the monetized salary.

c) following are other staff retirement benefit schemes:

- an unfunded gratuity scheme (old scheme) for those employees who joined the Bank between 1st July 2005 to 31st May 2007 and opted to remain under the old scheme.
- 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 to remain in pension scheme or unfunded gratuity scheme (old scheme).
- an unfunded pension scheme for those employees who joined the Bank between 1st May 1977 to 30th June 2005 and opted to remain under this scheme after introduction of the new scheme (NCBS);
- an unfunded benevolent fund scheme;
- an unfunded post retirement medical benefit scheme; and
- six months post retirement benefit facility.

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

Annual provisions are made by the Bank to cover the obligations arising under defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2019. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the periods in which they occur.

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

5.10 Deferred income

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

5.11 Revenue recognition

- Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset. However, income on balances with Bangladesh (former East Pakistan), doubtful loans and advances and overdue return on investments are recognised as income on receipt basis.

- Commission income is recognised when related services are rendered.
- Dividend income is recognised when the Bank's right to receive dividend is established.
- Gains / losses on disposal of securities are recognised in the profit and loss account at trade date.

5.12 Finances under profit and loss sharing arrangements

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

5.13 Taxation

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

5.14 Foreign currency translation

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

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 5.15, which are transferred to the Government of Pakistan account.

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

Commitments for outstanding foreign exchange forward and swap contracts disclosed in note 33.2 to these financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

5.15 Transactions and balances with the International Monetary Fund

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

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

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

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

5.16 Provisions

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

5.17 Cash and Cash Equivalents

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

5.18 Fair value measurement principles

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

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

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

	Effective date (annual periods beginning on or after)
Standards	
- IFRS 16 - 'Leases'	01 January 2019
- IFRS 17 - 'Insurance contracts'	01 January 2021
Amendments	
Amendments to IFRS 9 - Prepayment Features with Negative Compensation	01 January 2019
Amendments to IAS 28 - Long term interest in Associates and Joint Ventures	01 January 2019
Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement	01 January 2019
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 IFRS 3 - Definition of Business	01 January 2020
Amendments to IAS 1 and IAS 8 - Definition of Material	01 January 2020
Interpretations	
IFRIC 23, 'Uncertainty over Income Tax'	01 January 2019
Improvements	
IFRS 3, '*Business Combination*' regarding previously held interest in a joint operation.	01 January 2019
IFRS 11, '*Joint Arrangements*' regarding previously held interest in a joint operation.	01 January 2019
IAS 12, *'Income Taxes'* regarding income tax consequences of payments on financial instruments classified as equity.	01 January 2019
IAS 23, '*Borrowing Cost*' regarding borrowing cost eligible for capitalisation.	01 January 2019

6 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:

6.1 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 balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates may include items like considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 5.18 to these unconsolidated financial statements.

6.2 Effective Interest Rate (EIR) method

The Bank’s EIR methodology recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of financial instruments. This estimation, by nature, requires an element of judgement 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.

6.3 Impairment losses on financial assets (Policy applicable after 1 July 2018)

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. Assumptions regarding the impairment of financial assets are presented in the Note 47.1.2 to these financial statements.

6.4 Impairment losses on financial assets (Policy applicable before 1 July 2018)

a) Loans and advances

The Bank reviews its loan portfolio to assess recoverability of loans and advances and impairment allowance required thereagainst 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.

b) Available-for-sale investments

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

6.5 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 42.6.1 to these unconsolidated financial statements.

6.6 Useful life and residual value of property and equipment

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

7 GOLD RESERVES HELD BY THE BANK

	Note	Net content in troy ounces	2019	2018
			(Rupees in '000)	
Opening balance		**2,077,397**	**315,610,772**	270,361,202
Additions during the year		**640**	**147,358**	263,402
Appreciation for the year due to revaluation	32		**152,866,872**	44,986,168
	21.1	**2,078,037**	**468,625,002**	315,610,772

8 LOCAL CURRENCY - COINS

	Note	2019	2018
		(Rupees in '000)	
Bank notes held by the Banking Department		**159,748**	191,541
Coins held as an asset of the Issue Department	8.1 & 21.1	**1,039,138**	989,497
		1,198,886	1,181,038
Less: bank notes held by the Banking Department	21	**(159,748)**	(191,541)
		1,039,138	989,497

8.1 As mentioned in note 5.1, the Bank is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of coins held by the Bank at the year end (also refer note 21.1).

9 FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2019	2018*
		(Rupees in '000)	
At fair value through profit or loss:			
- Investments	9.3	**202,587,281**	568,776,731
- Unrealised gain on derivative financial instruments - net	9.4	**2,763,285**	2,085,749
At amortized cost			
- Sovereign Bonds	9.5	**-**	341,082,293
- Deposit accounts	9.3	**24,252,334**	29,509,408
- Current accounts		**362,836,378**	35,107,134
- Securities purchased under agreement to resell	9.6	**336,209,469**	349,903,518
- Money market placements	9.7	**447,218,637**	7,355,454
Credit Loss Allowance	9.2	**(12,996)**	-
		1,375,854,388	1,333,820,287

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

	Note	2019	2018*
Issue Department	21.1	**447,218,637**	723,362,840
Banking Department		**928,635,751**	610,457,447
		1,375,854,388	1,333,820,287

* Comparative amounts as at 30 June, 2018 reflect the measurements basis under under IAS 39

9.1 The following table sets out information about the credit quality of foreign currency accounts and investments of the bank measured at amortized cost and maximum exposure to credit risk as at 30 June 2019. Details of the Bank's internal grading system are explained in Note 47.1.4

	Note	Stage 1	2019
		-------- (Rupees in '000) --------	
Deposit accounts			
High rating	9.3	**24,252,334**	**24,252,334**
		24,252,334	**24,252,334**
Current accounts			
High rating		**362,827,265**	**362,827,265**
Standard rating		**9,113**	**9,113**
		362,836,378	**362,836,378**
Securities purchased under agreement to resell			
High rating	9.6	**336,209,469**	**336,209,469**
		336,209,469	**336,209,469**
Money market placements			
High rating	9.7	**447,218,637**	**447,218,637**
		447,218,637	**447,218,637**
		1,170,516,818	**1,170,516,818**

9.2 An analysis of changes in the ECL allowances in relation to foreign currency accounts and investments of the Bank measured at amortized cost is as follows:

	Nostros (Note 9.8)	Money market placements	2019
	----------------- (Rupees in '000)	-----------------	
Stage 1			
Opening balance as of 30 June 2018	-	-	-
Adjustments on initial recognition of IFRS 9	9	57	**66**
Restated balance as of 1 July 2018	9	57	**66**
Charge of allowance	23	12,906	**12,929**
Balance as of 30 June 2019	32	12,963	**12,996**

9.3 These represent investments made (by the Bank) in foreign sukuks, sovereign securities of foreign countries, 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, 2019 cumulatively amounts to USD 1,005.5 million (2018: USD 4,723.5 million). These investments carry interest of 0.12% per annum in USD (2018: 0.43% to 1.01% per annum), having maturity of July 16, 2019 (2018: 12 July, 2018 to 1 November 2018) and 2.23% to 2.28% per annum in CNY (2018: nil per annum) having maturities ranging from July 8, 2019 to September 14, 2019 (2018: nil).

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

9.5 This represented investments in sovereign bonds of foreign countries; 2019: nil (2018: 2.34% to 3.69% per annum and having maturities from July 01, 2018 to September 24, 2018).

9.6 These represent lending under repurchase agreements and carry mark-up in USD ranging from 1.83 % to 3.1 % per annum (2018: 0.016% to 2.12% per annum) and these are due to mature on July 01, 2019 (2018: July 02, 2018).

9.7 These represent money market placements carrying interest of 2.43% per annum in USD (2018: 2.17% per annum), 0.55% per annum in GBP (2018: 0.4% per annum) and 2.44% per annum in CNY (2018: none) and having maturities ranging from July 2, 2019 to August 22, 2019 (2018: July 03, 2018).

9.8 These include deposit accounts, current accounts and securities purchased under agreement to resell.

10 EARMARKED FOREIGN CURRENCY BALANCES

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

11 SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the IMF. In addition, the member countries can purchase the SDRs from the IMF and other member countries in order to settle their obligations. The figures given below represent the rupee value of the SDRs held by the Bank as at June 30, 2019. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

	Note	2019	2018
SDRs are held as follows:		-------- (Rupees in '000)	-------------
- By the Issue Department	21.1	**34,152,690**	25,618,350
- By the Banking Department		**21,308,364**	33,654,426
		55,461,054	59,272,776

12 RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

	2019	2018
Quota allocated by the International Monetary Fund	**460,387,623**	347,210,944
Liability under quota arrangements	**(460,360,624)**	(347,190,582)
	26,999	20,362

13 SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

This represents collaterised lendings made to various financial institutions under repurchase arrangement carrying markup ranging from 12.33% to 12.45% per annum (2018: 6.53% to 7% per annum) and are due to mature on July 5, 2019 (2018: July 03, 2018 to July 06, 2018). The fair value of securities collateralised as on June 30, 2019 amounts to Rs. 782,504 million (2018: Rs. 1,562,577 million). The collaterals held by the Bank consist of Pakistan Investment Bonds and Market Treasury Bills.

13.1 The following table sets out information about the credit quality of securities purchased under agreement to resell of the bank measured at amortized cost as at 30 June 2019.

	Stage 1	2019
	-------- (Rupees in '000)	-------------
High rating	**777,680,180**	**777,680,180**
Standard rating	**5,238,002**	**5,238,002**
Rating below standard	**-**	**-**
Less: Credit Loss allowance	**(27)**	**(27)**
	782,918,155	**782,918,155**

13.2 An analysis of changes in the ECL allowances in relation to securities purchased under agreement resell of the Bank measured at amortized cost is, as follows:

	Stage 1	2019
	-------- (Rupees in '000)	--------
Opening balance as of 30 June 2018	-	-
Adjustments on initial recognition of IFRS 9	15	**15**
Restated balance as of 1 July 2018	15	**15**
Credit loss allowance	12	**12**
Balance as of 30 June 2019	27	**27**

14 INVESTMENTS - LOCAL

	Note	2019	2018*
		---------- (Rupees in '000)	-------------
At amortized cost			
Government securities			
Market Related Treasury Bills (MRTBs)		**569,202,498**	3,667,618,454
Pakistan Investment Bonds (PIB)		**7,189,706,100**	-
Federal Government scrips		**2,740,000**	2,740,000
	14.2	**7,761,648,598**	3,670,358,454
Zarai Taraqiati Bank Limited (ZTBL) Preference shares - unlisted	14.3	**54,399,134**	54,274,670
Term Finance Certificates		**56,483**	56,483
Certificates of Deposits		**22,470**	22,470
		78,953	78,953
Credit loss allowance	14.1	**(78,953)**	(78,953)
		7,816,047,732	3,724,633,124

	Note	2019	2018*
		---------- (Rupees in '000) --------------	
At fair value through other comprehensive income			
Investments in banks and other financial institutions			
Ordinary shares			
- Listed		**53,850,807**	75,784,692
- Unlisted		**32,560,301**	15,581,197
	14.4	**86,411,108**	91,365,889
		7,902,458,840	3,815,999,013
Investments in wholly owned subsidiaries - at cost			
Pakistan Security Printing Corporation (Private) Limited		**100,149,000**	100,149,000
SBP Banking Services Corporation		**1,000,000**	1,000,000
National Institute of Banking and Finance (Guarantee) Limited		**29,260**	29,260
		101,178,260	101,178,260
		8,003,637,100	3,917,177,273
The above investments are held as follows:			
Issue Department	21.1	**4,324,569,688**	3,563,104,115
Banking Department		**3,679,067,412**	354,073,158
		8,003,637,100	3,917,177,273

* Comparative amounts as at 30 June, 2018 reflect the measurements basis under under IAS 39

14.1 The following table sets out information about the credit quality of Government securities of the Bank measured at amortized cost as at 30 June 2019.

	Stage 1	Stage 2	Stage 3	2019
	------------------------------- (Rupees in '000)			---
High rating	**7,816,047,732**	-	-	**7,816,047,732**
Standard rating	-	-	-	-
Rating below standard	-	-	**78,953**	**78,953**
	7,816,047,732	-	**78,953**	**7,816,126,685**
Less: Credit Loss allowance	-	-	**(78,953)**	**(78,953)**
	7,816,047,732	-	-	**7,816,047,732**

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

	2019	2018
	% per annum	
Market Related Treasury Bills	**6.83 to 13.13**	6.01 to 6.35
Pakistan Investment Bonds	**13.72 to 13.88**	-
Federal Government scrips	**3**	3

MRTBs are created for a period of six months & one year, PIBs are created for one to ten years while Federal Government Scrips are of perpetual nature.

The Federal Government retired all its MRTBs portfolio on June 30, 2019. Further, the Federal Government issued fresh MRTBs with maturity of six months and one year amounting to Rs. 285,000 million and Rs. 284,000 million respectively. The Federal Government issued PIBs with maturity of one year to ten years amounting to Rs. 7,187,000 million.

14.3 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 Zarai Taraqiati Bank Limited. These preference shares are redeemable on March 7, 2027.

14.4 Investments in shares of banks and other financial institutions

	Note	Percentage holding	Cost	Unrealised (diminution) / appreciation	2019	2018
		%	---- (Rupees in '000) ----			
Listed						
- National Bank of Pakistan	14.4.2	**75.20**	**1,100,805**	**52,750,001**	**53,850,807**	75,784,692
Unlisted						
More than 50% Shareholding						
- Zarai Taraqiati Bank Limited		**76.23**	**10,199,621**	**(1,078,035)**	**9,121,586**	10,199,622
- House Building Finance Company Limited		**90.31**	**1,482,304**	**273,413**	**1,755,717**	1,482,304
- Deposit Protection Corporation	14.4.3	**100**	**500,000**	**(500,000)**	**-**	-
Less than or equal to 50% Shareholding						
Other investments			**4,637,706**	**17,045,292**	**21,682,998**	3,899,271
			16,819,631	**15,740,670**	**32,560,301**	15,581,197
			17,920,436	**68,490,671**	**86,411,108**	91,365,889

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

14.4.2 Cost of the Bank's investment in the shares of National Bank of Pakistan at June 30, 2019 amounted to Rs. 1,100.8 million (2018: Rs. 1,100.8 million).

14.4.3 During the year 2018-19, in accordance with Section 9 of the Deposit Protection Corporation Act, 2016, the Bank has made an initial capital contribution of Rs. 500 million in the Deposit Protection Corporation (DPC). This represents 100% of the paid-up portion of the capital of DPC, which was 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 shareholders of the DPC are not entitled to receive any dividend in terms of section 9(5) of DPC Act. As the Bank is not exposed, or has rights, to variable returns from its involvement with the DPC and does not have the ability to affect its returns. Consequently, the DPC is not treated as a subsidiary in these financial statements. Considering the substance of this transaction, the capital injection in the DPC was fully provided.

		Note	2019	2018
14.5	**Credit loss allowance**		---- (Rupees in '000) ----	
	Opening balance		**817,388**	856,863
	Impact on opening balances on initial recognition of IFRS 9		**(738,435)**	-
			78,953	856,863
	Recoveries during the year		**-**	(39,475)
	Closing balance		**78,953**	817,388

		2019	2018
14.6	**Unrealised (diminution) / appreciation on remeasurement of investments**		
		---- (Rupees in '000) ----	
	Opening balance	**74,683,886**	93,306,090
	Impact on opening balances on initial recognition of IFRS 9	**15,425,535**	-
		90,109,421	93,306,090
	Diminution during the year	**(21,618,750)**	(18,622,204)
	Closing balance	**68,490,671**	74,683,886

		Note	2019	2018*
15	**LOANS, ADVANCES AND BILLS OF EXCHANGE**			
			---- (Rupees in '000) ----	
	Government owned / controlled financial institutions	15.3	**69,716,308**	56,453,942
	Private sector financial institutions	15.4	**508,155,373**	379,101,059
			577,871,681	435,555,001
	Employees		**11,976,201**	10,841,473
			589,847,882	446,396,474
	Credit loss allowance	15.6	**(2,203,678)**	(2,130,236)
			587,644,204	444,266,238

* Comparative amounts as at 30 June, 2018 reflect the measurements basis under under IAS 39

15.1 The following table sets out information about the credit quality of loans advances and bills of exchange of the Bank measured at amortized cost as at 30 June 2019.

	Stage 1	Stage 2	Stage 3	2019
	---- (Rupees in '000) ----			
Government owned / controlled financial institutions				
High rating	54,912,148	-	-	**54,912,148**
Rating below standard	19,047	-	14,785,113	**14,804,160**
	54,931,195	**-**	**14,785,113**	**69,716,308**
Private sector financial institutions				
High rating	498,823,075	-	-	**498,823,075**
Standard rating	8,177,076	-	-	**8,177,076**
Rating below standard	90,608	-	1,064,614	**1,155,222**
	507,090,759	**-**	**1,064,614**	**508,155,373**
Employees				
Performing loans	11,976,201	-	-	**11,976,201**
	11,976,201	**-**	**-**	**11,976,201**
	573,998,155	**-**	**15,849,727**	**589,847,882**
Less: Credit loss allowance	**(27,381)**		**(2,176,297)**	**(2,203,678)**
	573,970,774	**-**	**13,673,430**	**587,644,204**

15.2

An analysis of changes in the ECL allowances in relation to loans and advances of the Bank measured at amortized cost is, as follows:

	Government owned / controlled	Private sector financial institutions	Employees	2019
	---- (Rupees in '000) ----			
Stage 1				
Opening balance as of 30 June 2018	-	-	-	-
Adjustments on initial recognition of IFRS 9	-	284	416	700
Balance as of 1 July 2018	**-**	**284**	**416**	**700**
Charge/(recovery) of allowance		26,703	(22)	26,681
Balance as of 30 June 2019	**-**	**26,987**	**394**	**27,381**
Stage 3				
Opening balance as of 30 June 2018	1,066,606	1,063,630	-	2,130,236
Adjustments on initial recognition of IFRS 9	46,061	-	-	46,061
Balance as of 1 July 2018	**1,112,667**	**1,063,630**	**-**	**2,176,297**
Charge/(recovery) of allowance	-	-	-	-
Balance as of 30 June 2019	**1,112,667**	**1,063,630**	**-**	**2,176,297**
	1,112,667	**1,090,617**	**394**	**2,203,678**

15.3 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2019	2018	**2019**	2018	**2019**	2018
	(Rupees in '000)					
Agricultural sector	**455,387**	364,768	-	-	**455,387**	364,768
Industrial sector (15.3.1)	**17,402,283**	13,086,096	-	-	**17,402,283**	13,086,096
Export sector	**38,115,729**	29,333,293	**3,567**	3,567	**38,119,296**	29,336,860
Housing sector	-	-	**4,696**	2,035	**4,696**	2,035
Others (15.3.2)	**13,734,646**	13,664,183	-	-	**13,734,646**	13,664,183
	69,708,045	56,448,340	**8,263**	5,602	**69,716,308**	56,453,942

15.3.1 This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) credit line amounting to Rs. 1,054 million (2018: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2018: 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'. Further, the Cabinet Committee on Privatization in its meeting held on October 31, 2018 approved to delist IDBL from privatization programme. The Federal Cabinate also ratified the decision of the Cabinet Committee on Privatization. Accordingly, the process of winding up of IDBL is under process

15.3.2 These balances include Rs.327.9 million (2018: Rs. 327.9 million) which are recoverable from various financial institutions operating in Bangladesh (former East Pakistan). The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh.

15.4 Loans and advances to private sector financial institutions

	Scheduled banks		Other financial institutions		Total	
	2019	**2018**	**2019**	2018	**2019**	2018
	(Rupees in '000)					
Agricultural sector	**834,426**	704,043	**279,970**	363,682	**1,114,396**	1,067,725
Industrial sector	**133,682,133**	101,492,447	**12,527,579**	10,640,707	**146,209,712**	112,133,154
Export sector (15.4.1)	**348,723,589**	263,202,036	-	-	**348,723,589**	263,202,036
Others (15.4.2, 15.4.3)	**2,967,281**	2,698,144	**9,140,395**	-	**12,107,676**	2,698,144
	486,207,429	368,096,670	**21,947,944**	11,004,389	**508,155,373**	379,101,059

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

15.4.2 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, 2019 is Rs. 2,946 million (2018: Rs. 2,695 million). The principal amount (Rs. 5,000 million) of the facility along with the profit will be recovered at its maturity.

15.4.3 Loans to other financial instituitions include advances made to microfinance banks under Financial Inclusion and Infrastructure Project (FIIP). These loans are fully secured against demand promissory notes.

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

	2019	2018
	(% per annum)	
Government owned / controlled and private sector financial institutions	**0 to 12**	0 to 9.75
Employees loans (where applicable)	**0 to 10**	0 to 10

15.6 Credit loss allowance

	2019	2018
	------------ (Rupees in '000) -----------	
Opening balance	**2,130,236**	2,130,236
Impact on opening balances due to initial application of IFRS 9	**46,761**	-
	2,176,997	2,130,236
Charge during the year	**26,681**	-
Closing balance	**2,203,678**	2,130,236

16 ASSETS HELD WITH THE RESERVE BANK OF INDIA

	Note	2019	2018
		------------ (Rupees in '000) -----------	
Gold reserves			
- Opening balance		**5,102,356**	4,374,538
- Appreciation for the year due to revaluation	28.3.1.1	**2,471,387**	727,819
		7,573,743	5,102,357
Sterling securities		**670,887**	528,510
Government of India securities		**331,449**	253,591
Rupee coins		**6,726**	5,196
	16.1	**8,582,805**	5,889,654
Indian notes representing assets receivable from the Reserve Bank of India	16.2	**997,292**	763,024
	21.1	**9,580,097**	6,652,678

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 Bank is subject to final settlement between the Governments of Pakistan and India (also refer note 28.3.1).

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 28.3.1).

17 BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH

	Note	2019	2018
		------------ (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	**11,406,171**	9,813,926
		12,226,095	10,633,850
	17.2	**12,266,548**	10,674,303

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 28.1 and 28.3.1).

18 PROPERTY, PLANT AND EQUIPMENT

	Note	2019	2018
		------------ (Rupees in '000) -----------	
Operating fixed assets	18.1	**79,496,485**	55,911,802
Capital work-in-progress	18.3	**379,168**	559,158
		79,875,653	56,470,960

18.1 Operating fixed assets

2019

	Cost / revalued amount at July 1, 2018	** Additions / (deletions) / adjustments during the year	Revaluation during the year	Cost / revalued amount at June 30, 2019	Accumulated depreciation at July 1, 2018	**Depreciation/ (deletions)/ adjustments for the year	Reversal due to revaluation	Accumulated depreciation at June 30, 2019	Net book value at June 30, 2019	Useful life / Rate of depreciation
	---------- (Rupees in '000) ----------									
Freehold land*	13,035,959	- - - **	4,460,730	17,496,689	-	- -	- - -	- - -	17,496,689	-
Leasehold land*	38,505,682	- - 4,667 **	15,610,795	54,121,144	2,590,461	1,364,352	(3,954,813)	-	54,121,144	30-99 years
Buildings on freehold land*	2,229,775	73,551 (30,555) - **	53,891	2,326,662	255,448	109,828 (1,696)	(363,580)	-	2,326,662	20 years
Buildings on leasehold land*	4,328,303	142,690 (123,993) 1,396 **	272,330	4,620,726	501,326	212,940 (23,750) -	(690,516)	-	4,620,726	20 years
Plant & Machinery	1,229,169	28,905 - 8,491 **	-	1,266,565	649,188	85,597 - 4,853 **	-	739,638	526,927	10%
Furniture and fixtures	107,604	8,461 (64,296) - **	-	51,769	95,124	2,769 (57,072) -	-	40,821	10,948	10%
Office equipment	239,431	30,711 (30,455) - **	-	239,687	221,556	7,054 (12,554) -	-	216,056	23,631	20%
EDP equipment	2,089,217	164,842 (173,228) - **	-	2,080,831	1,776,409	232,469 (73,821) -	-	1,935,057	145,774	33.33%
Motor vehicles	535,338	106,679 (77,645) - **	-	564,372	299,164	102,208 (60,984) -	-	340,388	223,984	20%
	62,300,478	**555,839 (500,172) 14,554 **	**20,397,746**	**82,768,445**	**6,388,676**	**2,117,217 (229,877) 4,853 **	**(5,008,909)**	**3,271,960**	**79,496,485**	

2018

	Cost / revalued amount at July 01, 2017	Additions / (deletions) during the year	Revaluation during the year	Cost / revalued amount at June 30, 2018	Accumulated depreciation at July 01, 2017	Depreciation for the year/ (deletions)	Reversal due to revaluation	Accumulated depreciation at June 30, 2018	Net book value at June 30, 2018	Useful life / Rate of depreciation
	---------- (Rupees in '000) ----------									
Freehold land*	13,094,840	- (5,881) (53,000) **	-	13,035,959	-	- - - **	-	-	13,035,959	-
Leasehold land*	38,492,269	13,976 - (563) **	-	38,505,682	1,226,621	1,363,840 - - **	-	2,590,461	35,915,221	30-99 years
Buildings on freehold land *	2,208,966	20,469 - 340 **	-	2,229,775	145,673	109,775 - - **	-	255,448	1,974,327	20 years
Buildings on leasehold land*	4,303,486	20,007 (8) 4,818 **	-	4,328,303	287,594	213,740 (8) - **	-	501,326	3,826,977	20 years
Plant & Machinery	1,139,303	73,771 - 16,095 **		1,229,169	563,315	85,873 - - **		649,188	579,981	10%
Furniture and fixtures	109,610	988 (2,994) - **	-	107,604	95,176	2,942 (2,994) - **	-	95,124	12,480	10%
Office equipment	231,970	7,656 (195) - **	-	239,431	214,634	7,127 (205) - **	-	221,556	17,875	20%
EDP equipment	1,880,915	250,167 (41,028) (837) **	-	2,089,217	1,578,040	218,581 (20,212) - **	-	1,776,409	312,808	33.33%
Motor vehicles	470,793	105,674 (41,129) - **	-	535,338	233,521	92,067 (26,424) - **	-	299,164	236,174	20%
	61,932,152	492,708 (91,235) (33,147) **	-	62,300,478	4,344,574	2,093,945 - (49,843)	-	6,388,676	55,911,802	

* These represents revalued assets

**Adjustments include reclassification within different categories of assets

18.2 Land and Buildings of the Bank are carried at revalued amount. The latest revaluation was carried out on June 30, 2019 by M/S M.J.Surveyors (Pvt.) Ltd which resulted in a surplus of Rs. 25,407 million. The revaluation was carried out based on the market value assessment being the fair value of the land and buildings. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:

	2019	2018
	------- (Rupees in '000) ------	
Freehold land	**39,205**	39,205
Leasehold land	**194,626**	163,442
Buildings on freehold land	**453,574**	330,772
Buildings on leasehold land	**869,918**	698,915
	1,557,323	1,232,334

18.3 Capital work-in-progress

Buildings on freehold land	**14,738**	66,473
Buildings on leasehold land	**264,620**	334,491
Office equipment	**61,570**	43,568
EDP equipment	**195**	37,027
Plant & machinery	**38,045**	77,599
	379,168	559,158

19 INTANGIBLE ASSETS

		2019	2018
		------- (Rupees in '000) ------	
Softwares	19.1	**198,754**	141,694
Capital work-in-progress		**-**	167,538
		198,754	309,232

19.1 Intangible assets

		Cost at July 1	Additions during the year	Cost at June 30	Accumulated amortisation at July 1	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
		(Rupees in '000)							
Software	**2019**	**790,063**	**184,404**	**974,467**	**648,369**	**127,344**	**775,713**	**198,754**	**33.33**
Software	2018	617,417	172,646	790,063	612,781	35,588	648,369	141,694	33.33

		Note	2019	2018
20	**OTHER ASSETS**		**--------- (Rupees in '000)**	**-------------**
	Commission receivable and others		**3,563,949**	3,260,605
	Other advances, deposits and prepayments		**6,456,559**	790,145
			10,020,508	4,050,750

		Note	2019	2018
21	**BANKNOTES IN CIRCULATION**			
	Total bank notes issued	21.1	**5,285,185,252**	4,635,338,252
	Bank notes held with the Banking Department		**(159,748)**	(191,541)
	Notes in circulation		**5,285,025,504**	4,635,146,711

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

	Note	2019	2018
		------------ (Rupees in '000)	**------------**
Gold reserves held by the Bank	7	**468,625,002**	315,610,772
Local currency - coins	8	**1,039,138**	989,497
Foreign currency accounts and investments	9	**447,218,637**	723,362,840
Special Drawing Rights of the International Monetary Fund	11	**34,152,690**	25,618,350
Investments - local	14	**4,324,569,688**	3,563,104,115
Assets held with the Reserve Bank of India	16	**9,580,097**	6,652,678
		5,285,185,252	4,635,338,252

		Note	2019	2018
22	**CURRENT ACCOUNTS OF GOVERNMENTS**		**------------ (Rupees in '000)**	**------------**
22.1	**Current accounts of Governments - payable balances**			
	Federal Government	22.3	**953,723,619**	24,853,643
	Provincial Governments			
	- Punjab	22.4	**71,904,587**	6,207,539
	- Sindh	22.5	**22,340,295**	11,180,750
	- Khyber Pakhtunkhwa	22.6	**18,825,192**	25,367,613
	- Baluchistan	22.7	**20,449,672**	6,331,168
	Government of Azad Jammu and Kashmir	22.8	**97,061**	-
	Gilgit - Baltistan Administration Authority	22.9	**14,173,504**	15,887,920
			147,790,311	64,974,990
			1,101,513,930	89,828,633
22.2	**Current accounts of Governments - receivable balance**			
	Government of Azad Jammu and Kashmir		**-**	5,515,438
	Railways Account		**28,200,405**	27,588,676
		22.10	**28,200,405**	33,104,114
22.3	**Federal Government**			
	Non-food account		**929,325,959**	2,566,586
	Zakat fund accounts		**9,256,663**	7,715,414
	Other accounts		**15,140,997**	14,571,643
			953,723,619	24,853,643
22.4	**Provincial Government - Punjab**			
	Non-food account		**42,007,486**	(26,818,268)
	Zakat fund account		**1,565,166**	1,093,706
	Other accounts		**28,331,935**	31,932,101
			71,904,587	6,207,539

		Note	2019	2018
			------------ (Rupees in '000) -----------	
22.5	**Provincial Government - Sindh**			
	Non-food account		**20,279,182**	8,296,644
	Zakat fund account		**1,599,775**	1,728,036
	Other accounts		**461,338**	1,156,070
			22,340,295	11,180,750
22.6	**Provincial Government - Khyber Pakhtunkhwa**			
	Non-food account		**9,396,814**	20,946,678
	Zakat fund account		**7,585,840**	1,422,771
	Other accounts		**1,842,538**	2,998,164
			18,825,192	25,367,613
22.7	**Provincial Government - Baluchistan**			
	Non-food account		**17,067,872**	5,220,576
	Zakat fund account		**1,377,537**	1,002,334
	Other accounts		**2,004,263**	108,258
			20,449,672	6,331,168
22.8	**Government of Azad Jammu and Kashmir**			
	Classified as payable balance	22.1	**97,061**	-
			97,061	-
22.9	**Gilgit - Baltistan Administration Authority**		**14,173,504**	15,887,920
			14,173,504	15,887,920

22.10 These balances carry mark-up nil (2018: 6.01% to 6.83 % per annum).

23 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).

24 PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

24.1 Payable under bilateral currency swap agreement with the People's Bank of China (PBoC)

A bilateral currency swap agreement was entered between the Bank and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was renewed on December 23, 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 amount increased 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 (2018: CNY 20,000 million with maturity bucket of three months to 1 year). These purchases have been fully utilized as on June 30, 2019 and the same amounts are outstanding as on June 30, 2019. Interest is charged on outstanding balance at agreed rates.

25 DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS

	Note	2019	2018
		(Rupees in '000)	
Foreign currency			
Scheduled banks		**37,854,192**	21,073,426
Held under Cash Reserve Requirement	25.1	**244,598,533**	179,222,542
		282,452,725	200,295,968
Local currency			
Scheduled banks	25.1	**950,672,620**	598,605,138
Financial institutions		**13,031,466**	14,968,288
Others		**81,959**	79,521
		963,786,045	613,652,947
		1,246,238,770	813,948,915

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

26 OTHER DEPOSITS AND ACCOUNTS

	Note	2019	2018
Foreign currency			
Foreign central banks		**152,341,810**	54,830,309
International organisations	26.2	**364,429,695**	30,825,771
Foreign government		**487,918,827**	-
Others		**29,067,136**	35,566,507
	26.1	**1,033,757,468**	121,222,587
Local currency			
Special debt repayment	26.3	**24,243,841**	24,243,841
Government	26.4	**17,850,348**	17,850,348
Foreign central banks		**2,172**	2,115
International organisations		**5,788,171**	6,574,820
Others		**34,391,768**	30,263,746
		82,276,300	78,934,870
		1,116,033,768	200,157,457

26.1 This includes FCY deposits equivalent to Rs.480,156 million (based on exchange rate as of June 30, 2019), carrying interest at twelve month LIBOR plus 175 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.

26.2 The interest rate profile of the interest bearing deposits is as follows:

	2019	2018
	(% per annum)	
Foreign central banks	**2.03 to 3.00**	1.10 to 2.39
International organisations	**3.00 to 4.53**	3.09 to 3.74
Others	**1.98 to 2.51**	1.15 to 1.92
Foreign government	**3.00**	-

26.3 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.

26.4 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.

27 PAYABLE TO THE INTERNATIONAL MONETARY FUND

	Note	2019	2018
		(Rupees in '000)	
Borrowings under:			
- Fund facilities	27.1 & 27.3	**924,568,518**	743,484,251
- Allocation of SDRs	27.2	**225,495,788**	169,100,741
		1,150,064,306	912,584,992
Current account for administrative charges		**47**	40
		1,150,064,353	912,585,032

27.1 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 semiannual installments. A total amount of SDR 4,393 million has been disbursed under twelve (12) tranches of EFF. The repayment under this facility started from March 2018 and will continue till September 2026.

27.2 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	2019	2018
27.3	Interest profile of amount payable to the IMF is as under:		**(% per annum)**	
	Fund facilities	27.3.1	**1.89 to 2.16**	1.53 to 1.99

27.3.1 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	2019	2018
28	**OTHER LIABILITIES**		**--------- (Rupees in '000) --------**	
	Local currency			
	Provisioin against overdue mark-up	28.1	**11,012,018**	9,419,825
	Special Reserve fund under FIIP		**9,140,395**	-
	Remittance clearance account		**1,591,851**	1,432,952
	Exchange loss payable under exchange risk coverage scheme		**563,869**	346,177
	Dividend payable	28.2	**-**	10,000
	Unrealised loss on derivative financial instruments - net		**112,862,311**	27,277,082
	Other accruals and provisions	28.3	**32,878,496**	29,954,085
	Others	28.4	**8,825,794**	9,708,038
			176,874,734	78,148,159

28.1 This represents suspended markup which is recoverable from Government of Bangladesh (former East Pakistan) subject to the final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

28.2 This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to NIL (2018: Rs. 9.99 million).

		Note	2019	2018
28.3	**Other accruals and provisions**		**-------- (Rupees in '000) ---------**	
	Agency commission		**14,538,592**	14,041,953
	Provision for employees' compensated absences	42.6.9	**3,019,130**	2,934,430
	Provision for other doubtful assets	28.3.1	**10,384,165**	7,456,736
	Other provisions	28.3.2	**2,850,288**	2,848,701
	Others		**2,086,321**	2,672,265
			32,878,496	29,954,085
28.3.1	**Provision for other doubtful assets**			
	Provision against assets held with / receivable from Government of India and the Reserve Bank of India			
	- Issue Department		**9,580,107**	6,652,678
	- Banking Department		**40,483**	40,483
			9,620,590	6,693,161
	Provision against assets receivable from Government of Bangladesh			
	- Issue Department		**-**	-
	- Banking Department		**763,575**	763,575
			763,575	763,575
		28.3.1.1	**10,384,165**	7,456,736

28.3.1.1 Movement of provisions for other doubtful assets

	2019	2018
Opening balance	**7,456,736**	6,652,772
Charge during the year	**456,042**	76,145
Appreciation relating to gold reserves held by the Reserve Bank of India	**2,471,387**	727,819
Closing balance	**10,384,165**	7,456,736

28.3.2 This represent provision against Home Remittance amounting to Rs. 260.363 million (2018: Rs. 260.363 million), specific claims pertaining to provision made against claims under arbitration amounting to Rs. 1,600 million (2018: Rs. 1,600 million) and other provision made in respect of various litigations and claims against the Bank amounting to Rs. 989.92 million (2018: Rs. 988.34 million).

28.4 This includes liability maintained against balances due from Government of Bangladesh amounting to Rs. 778.399 million (2018: Rs. 778.399 million).

29 DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS

	Note	2019	2018
		--------- (Rupees in '000) ------------	
Pension		**19,235,767**	22,486,289
Gratuity scheme		**60,967**	52,919
Benevolent fund scheme		**285,915**	384,472
Post retirement medical benefits		**9,052,574**	7,548,086
Six months post retirement facility		**542,990**	493,134
	42.6.3	**29,178,213**	30,964,900
Provident fund scheme		**205,170**	216,034
		29,383,383	31,180,934

30 SHARE CAPITAL

2019	2018		2019	2018
---------- (Number of shares) ---------			--------- (Rupees in '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
Authorised share capital				
1,000,000	1,000,000	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.

31 RESERVES

31.1 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.

31.2 The reserves for acquisition of PSPC

This represents reserves against Bank's exposure in PSPC.

31.3 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.

32 UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK

	Note	2019	2018
		--------- (Rupees in '000) ------------	
Opening balance		**311,313,769**	266,327,601
Appreciation for the year due to revaluation	7	**152,866,872**	44,986,168
		464,180,641	311,313,769

33 CONTINGENCIES AND COMMITMENTS

33.1 Contingencies

	Note	2019	2018
a) Contingent liability in respect of guarantees given on behalf of:			
Federal Government	33.1.1	**16,387,061**	14,697,951
Federal Government owned / controlled bodies and authorities		**9,094,341**	7,552,403
		25,481,402	22,250,354

b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme amounting to Rs. 157 million approximately. The Tribunal decided the case in favor of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. In prior years, the Honorable Bench of the Supreme Court of Pakistan set aside the judgment of FST and allowed employees to avail proper forum. The employees filed an appeal in the Honorable Lahore High Court, Rawalpindi Bench, from where it has been transferred to Islamabad High Court. The decision is pending. On the last hearing on June 15, 2017 the petition was adjourned sine die. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.

c) In addition to these claims, there are several other lawsuits/investigation 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/forum. The management of the Bank believes that the Bank has reasonable position in respect of these litigations and accordingly no provision for any liability may be needed in the unconsolidated financial statements.

	Note	**2019**	2018
		----------(Rupees in '000)---------	
d) Other claims against the Bank not acknowledged as debts	33.1.2	**86,826**	330,303

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

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

		2019	2018
33.2	**Commitments**	----------(Rupees in '000)---------	
33.2.1	Foreign currency forward and swap contracts - sale	**1,838,743,608**	1,112,127,341
33.2.2	Foreign currency forward and swap contracts - purchase	**548,529,115**	248,969,098
33.2.3	Futures - sale	**8,204,543**	41,585,759
33.2.4	Futures - purchase	**6,411,196**	26,130,491
33.2.5	Capital Commitments	**353,753**	136,846

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

33.2.6 Tha Bank has a commitment to extend equivalent PKR of CNY 20,000 million to Peoples Bank of China under bilateral currency swap agreement as disclosed in note 24.1 to these unconsolidated financial statements.

33.2.7 The Bank has made commitments to extend advance under ways and means limits to the Provincial Governments of Pakistan, Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority in the normal course of its operations. The unutilised limits as on June 30, 2019 amounted to Rs. 76,900 million (2018: Rs. 44,566 million).

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

		Note	**2019**	2018
34	**DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED**		------(Rupees in '000)------	
	Discount, interest / mark-up on government transactions:			
	- Government Securities		**568,337,040**	209,176,153
	- Federal Government Scrips		**82,200**	82,200
	- Loans and advances to and current accounts of Governments	34.1	**358,435**	802,946
	Securities purchased under agreement to resale		**43,833,298**	74,134,857
	Interest income on preference shares		**4,209,078**	4,198,938
	Return on loans and advances to financial institutions		**11,643,681**	9,884,733
	Foreign currency deposits		**16,084,959**	10,530,113
	Foreign currency securities		**730,371**	5,341,727
	Others		**244,954**	1,430
			645,524,016	314,153,097

		2019	2018
34.1	Interest profile on loans and advances to facilities are as under:	**(% per annum)**	
	Mark-up on facility	**6.83 to 13.13**	6.01 to 6.83
	Additional mark-up (where ways and means facility limit is exceeded)	**4**	4

		Note	2019	2018
			------(Rupees in '000)------	
35	**INTEREST / MARK-UP EXPENSE**			
	Deposits		**37,261,669**	14,217,669
	Interest on Special Drawing Rights		**18,812,906**	14,118,476
	Securities sold under agreement to repurchase		**47,978,340**	1,148,589
	Profit on sukuks purchased under bai muajjal agreement		**4,636,357**	1,167,287
	Charges on allocation of Special Drawing Rights of the IMF		**2,070,227**	1,185,141
			110,759,499	31,837,162
36	**COMMISSION INCOME**			
	Market Treasury Bills	36.1	**2,870,683**	2,763,675
	Management of public debts	36.1	**731,831**	818,072
	Prize Bonds and National Saving Certificates	36.1	**526,374**	494,238
	Draft / payment orders		**7,456**	7,284
	Others		**52**	128
			4,136,396	4,083,397

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

		2019	2018
		------(Rupees in '000)------	
37	**EXCHANGE LOSS - NET**		
	(Loss) / gain on:		
	- Foreign currency placements, deposits, securities and other accounts - net	**(233,100,619)**	51,992,338
	- Forward covers under Exchange Risk Coverage Scheme	**(4,101)**	(2,690)
	- IMF Fund Facilities	**(232,359,891)**	(109,358,935)
	- Special Drawing Rights of the IMF	**(40,486,086)**	(14,945,566)
		(505,950,697)	(72,314,853)
	Exchange risk fee income	**39,672**	36,947
		(505,911,025)	(72,277,906)

		Note	2019	2018
38	**OTHER OPERATING INCOME / (EXPENSE) - NET**			
	Penalties levied on banks and financial institutions		**2,033,174**	1,341,013
	License / Credit Information Bureau fee recovered		**951,784**	967,216
	Gain / (loss) on disposal of investment:			
	Local - 'at fair value through profit or loss'		**186,113**	-
	Foreign - 'at fair value through profit or loss'		**(2,552,143)**	237,415
			(2,366,030)	237,415
	Gain / (loss) on remeasurement of securities classified as 'fair value through profit or loss'		**3,748,571**	(3,850,029)
	Others		**24,341**	188,806
			4,391,840	(1,115,579)
39	**OTHER INCOME - NET**			
	(Loss) / gain on disposal of property and equipment		**(145,109)**	6,262
	Liabilities and provisions written back - net		**7,493**	11,351
	Grant income under foreign assistance program		**61,971**	3,312
	Income from subsidiary	39.1	**54,379**	35,819
	Others	39.2	**134,662**	675,063
			113,396	731,807

39.1 This represents income of a subsidiary - SBP Banking Services Corporation for the year ended June 30, 2019 transferred to the Bank in accordance with the arrangements mentioned in note 42.4 to these unconsolidated financial statements.

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

40 BANK NOTES PRINTING CHARGES

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

41 AGENCY COMMISSION

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

42 GENERAL ADMINISTRATIVE AND OTHER EXPENSES

	Note	2019	2018
		------(Rupees in '000)------	
Salaries and other benefits		**4,278,337**	3,922,775
Retirement benefits and employees' compensated absences	42.1 & 42.6	**3,621,190**	3,654,833
Rent and taxes		**52,804**	79,818
Insurance		**53,608**	50,997
Electricity, gas and water		**54,835**	52,372
Depreciation	18.1	**2,117,217**	2,093,945
Amortisation of intangible assets	19	**127,344**	35,588
Repairs and maintenance		**466,673**	435,303
Auditors' remuneration	42.5	**8,160**	7,700
Legal and professional		**72,505**	28,479
Fund managers / custodian expenses		**346,315**	553,592
Travelling expenses		**95,843**	302,706
Daily expenses		**87,827**	89,052
Postages, telegram / telex and telephone		**205,409**	181,219
Training		**274,507**	249,798
Stationery		**15,578**	11,634
Books and newspapers		**44,866**	33,877
Advertisement		**8,667**	30,079
Board committee expenses		**11,000**	12,789
Recruitment charges		**10,525**	1,297
Others		**280,224**	238,534
		12,233,434	12,066,387
Expenses allocated by:			
SBP Banking Services Corporation	42.2	**6,487,836**	6,373,080
		6,487,836	6,373,080
Expenses reimbursed to:			
SBP Banking Services Corporation	42.3	**8,060,641**	8,544,648
		8,060,641	8,544,648
		26,781,911	26,984,115

42.1 This includes an amount relating to defined contribution plan aggregating 255.93 million (2018: Rs. 238.98 million).

42.2 Expenses allocated by SBP Banking Services Corporation

	2019	2018
	------(Rupees in '000)------	
Retirement benefits and employees' compensated absences	**6,174,970**	6,090,087
Depreciation	**312,745**	282,993
Credit loss allowance	**121**	-
	6,487,836	6,373,080

42.3	Expenses reimbursed to SBP Banking Services Corporation	Note	2019	2018
			------(Rupees in '000)------	
	Salaries and other benefits		**5,931,240**	6,513,589
	Rent and taxes		**42,714**	39,591
	Insurance		**17,905**	17,402
	Electricity, gas and water		**391,813**	357,749
	Repairs and maintenance		**336,502**	268,493
	Auditors' remuneration	42.5	**8,160**	7,700
	Legal and professional		**15,188**	15,357
	Travelling expenses		**29,966**	24,146
	Daily expenses		**50,058**	38,246
	Recreation allowance		**293,380**	312,066
	Fuel		**4,523**	3,688
	Conveyance		**21,127**	19,368
	Postage and telephone		**17,521**	14,643
	Training		**100,411**	204,817
	Remittance of treasure		**174,077**	147,329
	Stationery		**33,462**	15,677
	Books and newspapers		**2,565**	2,151
	Advertisement		**19,391**	19,600
	Bank guards		**198,601**	174,231
	Uniforms		**34,436**	32,626
	Others		**337,601**	316,179
			8,060,641	8,544,648

42.4 SBP Banking Services Corporation ("the Corporation"), a wholly owned subsidiary of the Bank, carries out certain functions and activities principally relating to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly, under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while profit of the Corporation for the year ended June 30, 2019, as mentioned in note 39.1 to these unconsolidated financial statements, has also been transferred to the Bank.

42.5 Auditors' remuneration	2019			2018		
	EY Ford Rhodes	**KPMG**	**Total**	EY Ford Rhodes	KPMG	Total
	-------------------------------- (Rupees in '000) ----------------------------------					
State Bank of Pakistan						
Audit fee	**3,500**	**3,500**	**7,000**	3,300	3,300	6,600
Out of pocket expenses	**580**	**580**	**1,160**	550	550	1,100
	4,080	**4,080**	**8,160**	3,850	3,850	7,700
SBP Banking Services Corporation						
Audit fee	**2,915**	**2,915**	**5,830**	2,750	2,750	5,500
Out of pocket expenses	**1,165**	**1,165**	**2,330**	1,100	1,100	2,200
	4,080	**4,080**	**8,160**	3,850	3,850	7,700
	8,160	**8,160**	**16,320**	7,700	7,700	15,400

42.6 Staff retirement benefits

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

	2019	2018
- Discount rate for year end obligation	**14.25% p.a**	9.00% p.a
- Salary increase rate	**15.00% p.a**	10.00% p.a
- Pension indexation rate	**8.50% p.a**	7.50% p.a
- Medical cost increase rate	**14.25% p.a**	9.00% p.a
- Petrol price increase rate (where applicable)	**15.00% p.a**	10.00% p.a
- Personnel turnover	**6.4% p.a**	9.5% p.a
- Normal retirement age	**60 Years**	60 Years

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

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

Discount rate risk

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

Salary increase / inflation risk

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

Pension Increase

The risk that the actual pension increase is 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 from assumed.

Withdrawal risk

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

42.6.3 Change in present value of defined benefit obligation

	2019					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
Present value of defined benefit obligation July 01, 2018	**22,486,289**	**52,919**	**7,548,086**	**384,472**	**493,134**	**30,964,900**
Current service cost	**289,504**	**5,637**	**154,352**	**3,348**	**34,657**	**487,498**
Interest cost on defined benefit obligation	**1,940,670**	**4,679**	**661,379**	**33,001**	**43,663**	**2,683,392**
Benefits Paid	**(1,846,585)**	**(1,856)**	**(398,869)**	**(35,586)**	**(15,970)**	**(2,298,866)**
Liability Transferred to SBP-BSC	**-**	**-**	**(6,919)**	**(178)**	**(1,447)**	**(8,544)**
Remeasurements:						**-**
Actuarial (gains) / losses from changes in financial assumptions	**(4,806,367)**	**(2,274)**	**243,971**	**(97,204)**	**(10,514)**	**(4,672,388)**
Experience adjustments	**1,172,256**	**1,862**	**850,574**	**(1,938)**	**(533)**	**2,022,221**
Present value of defined benefit obligation as on June 30, 2019	**19,235,767**	**60,967**	**9,052,574**	**285,915**	**542,990**	**29,178,213**

	2018					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	(Rupees in '000)					
Present value of defined benefit obligation July 01, 2017	23,077,020	45,984	7,297,641	407,505	414,266	31,242,416
Current service cost	300,364	6,289	149,148	3,601	29,295	488,697
Past service cost (credit)	-	-	-	-	-	-
Interest cost on defined benefit obligation	1,687,385	3,424	553,399	29,888	31,432	2,305,528
Benefits due but not paid (Payables)						-
Benefits Paid	(2,608,614)	(3,600)	(314,007)	(43,714)	(17,371)	(2,987,306)
Liability Transferred to SBP- BSC	(116,667)		(29,442)	(2,391)	(4,715)	(153,215)
Remeasurements:						-
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(34,500)	-	(34,500)
Experience adjustments	146,801	822	(108,653)	24,083	40,227	103,280
Present value of defined benefit obligation as on June 30, 2018	22,486,289	52,919	7,548,086	384,472	493,134	30,964,900

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

Remeasurements recognised in statement of comprehensive income

	2019					
	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	**4,806,367**	**2,274**	**(243,971)**	**97,204**	**10,514**	**4,672,388**
- Experience adjustments	**(1,172,256)**	**(1,862)**	**(850,574)**	**1,938**	**533**	**(2,022,221)**
	3,634,111	**412**	**(1,094,545)**	**99,142**	**11,047**	**2,650,167**
Allocated by SBP Banking Services Corporation - a subsidiary*	**6,555,808**	**21**	**(701,087)**	**174,670**	**9,498**	**6,038,910**

	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	-	-	-	34,500	-	34,500
- Experience adjustments	(146,801)	(822)	108,653	(24,083)	(40,227)	(103,280)
	(146,801)	(822)	108,653	10,417	(40,227)	(68,780)
Allocated by SBP Banking Services Corporation - a subsidiary*	(2,697,663)	(598)	(585,645)	312,713	9,644	2,961,549

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

42.6.4 Amount recognised in the profit and loss account

	2019					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	---(Rupees in '000)---					
Current service cost	**289,504**	**5,637**	**154,352**	**3,348**	**34,657**	**487,498**
Interest cost on defined benefit obligation	**1,940,670**	**4,679**	**661,379**	**33,001**	**43,663**	**2,683,392**
Contribution made by Employees	**-**	**-**	**-**	**(3,521)**	**-**	**(3,521)**
	2,230,174	**10,316**	**815,731**	**32,828**	**78,320**	**3,167,369**

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

42.6.5 Movement of present value of defined benefit obligation

	2019					
	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, 2018	**22,486,289**	**52,919**	**7,548,086**	**384,472**	**493,134**	**30,964,900**
Amount recognised in the profit and loss account	**2,230,174**	**10,316**	**815,731**	**32,828**	**78,320**	**3,167,369**
Remeasurements	**(3,634,111)**	**(412)**	**1,094,545**	**(99,142)**	**(11,047)**	**(2,650,167)**
Benefits paid during the year	**(1,846,585)**	**(1,856)**	**(398,869)**	**(35,586)**	**(15,970)**	**(2,298,866)**
Liability Transferred to BSC	**-**	**-**	**(6,919)**	**(178)**	**(1,447)**	**(8,544)**
Employees contribution / amount transferred	**-**	**-**	**-**	**(3,521)**	**-**	**(3,521)**
Net recognised liabilities at June 30, 2019	**19,235,767**	**60,967**	**9,052,574**	**278,873**	**542,990**	**29,171,171**

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

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

		Impact on defined benefit obligation - Increase / (Decrease)	
	Change in Assumption	**Increase in assumption**	**Decrease in assumption**
		------(Rupees in '000)------	
Pension			
Discount rate	1%	(1,107,596)	1,208,508
Future salary increase	1%	314,670	(304,795)
Future pension increase	1%	988,515	(892,785)
Expected mortality rates	1 Year	(431,980)	472,815
Gratuity			
Discount rate	1%	(53,983)	69,102
Future salary increase	1%	68,969	(53,969)
Post retirement medical benefit scheme			
Discount rate	1%	(1,082,305)	1,375,415
Future Pre-Retirement medical cost increase	1%	34,274	(29,192)
Future Post-Retirement medical cost increase	1%	1,381,435	(1,101,468)
Expected mortality rates	1 Year	(187,803)	182,474
Benevolent			
Discount rate	1%	(12,948)	14,366
Six months post retirement facility			
Discount rate	1%	(43,480)	49,313
Future salary increase	1%	49,255	(44,204)

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

42.6.7 Duration of defined benefit obligation

	Pension	Gratuity scheme	Post retirement medical benefit	Benevolent fund scheme	Six months post retirement facility
Weighted average duration of the defined benefit obligation	**6 Years**	**12 Years**	**14 Years**	**5 Years**	**9 Years**

42.6.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2020

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2020 would be as follows:

	Pension	Gratuity scheme	Post retirement medical benefit	Benevolent fund scheme	Six months post retirement facility	Total
	(Rupees in '000)					
Current service cost	273,656	8,645	188,866	1,789	38,562	511,518
Interest cost on defined benefit obligation	2,741,097	8,688	1,289,992	40,743	77,376	4,157,896
Amount chargeable to profit and loss account	3,014,753	17,333	1,478,858	42,532	115,938	4,669,414

42.6.9 Employees' compensated absences

The Bank's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 3,019.130 million (2018:Rs. 2,934.430 million). An amount of Rs. 203.167 million (2018:Rs. 615.969 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2020 would be Rs 639.973 million. The benefits paid during the year amounted to Rs. 111.516 million (2018: Rs 281.357 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 231.111 million and Rs. 264.918 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 266.258 million and Rs. 237.079 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 8 years.

43 MOVEMENT IN EXPECTED CREDIT LOSSES

The following table reconciles the expected credit losses allowance for the year ended 30 June 2019 by classes of financial instruments:

	2019				
	Foreign currency accounts and investments	**Loans, advances and bills of exchange**	**Current accounts of Governments**	**Securities purchased under agreement to resell**	**Total**
	(Rupees in '000)				
As of 30 June 2018 (under IAS 39)	-	2,130,236	-	-	2,130,236
Adjustments on initial recognition of IFRS 9	66	46,761	-	15	46,842
As of 1 July 2018 (under IFRS 9)	**66**	**2,176,997**	**-**	**15**	**2,177,078**
(Recovery)/charge of allowance	12,929	26,681	-	12	39,622
As at 30 June 2019	**12,995**	**2,203,678**	**-**	**27**	**2,216,700**

44 PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS

		2019	2018
		(Rupees in '000)	
(Loss) / profit for the year		**(846,146)**	173,551,930
Adjustments for:			
Depreciation	*18.1 & 42.2*	**2,429,962**	2,376,938
Amortisation of intangible assets	*19.1*	**127,344**	35,588
Credit loss on financial instruments		**26,693**	(39,475)
Provision / (reversal) for / write-off:			
- retirement benefits and employees' compensated absences		**9,796,160**	9,742,967
- other doubtful assets	*28.3.1.1*	**456,042**	76,145
(Gain) / loss on disposal of property, plant and equipment	*39*	**145,109**	(6,262)
Dividend income		**(2,390,000)**	(415,000)
Effect of exchange loss on cash and cash equivalents		**184,496,821**	111,510,273
		194,241,985	296,833,104

		2019	2018
		Rupees in '000	
45	**CASH AND CASH EQUIVALENTS**		
	Local currency - coins	**1,039,138**	989,497
	Foreign currency accounts and investments	**1,374,793,536**	991,942,236
	Earmarked foreign currency balances	**72,702,673**	12,277,462
	Special Drawing Rights of the International Monetary Fund	**55,461,054**	59,272,776
		1,503,996,401	1,064,481,971

46 RELATED PARTY TRANSACTIONS

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

46.1 National Institute of Banking & Finance (Guarantee) Limited

	2019	2018
Balances at the year end		
Payable against training programs	**33,049**	54,886
Current account with the Institute	**105,235**	125,087
Transactions during the year		
Training expense	**271,257**	232,534
Payments/ (Receipts)	**293,094**	179,870
Grant during the year	**70,546**	36,530

46.2 Pakistan Security Printing Corporation (Private) Limited

	2019	2018
Balances at the year end		
Payable against printing charges	**1,262,615**	1,354,769
Receivable against salaries	**79,691**	38,174
Transactions during the year		
Bank notes printing charges	**13,755,031**	11,776,206

46.3 Governments and related entities

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

Transactions during the year

	2019	2018
- Creation of MRTBs	**19,225,370,000**	9,118,640,000
- Creation of PIBs	**7,187,000,000**	-
- Retirement / rollover of MRTBs	**22,250,040,000**	7,993,340,000

- Commission income from sale of Market Treasury Bills, issuance of prize bonds, National Saving Certificates and management of public debt (refer note 36.1)

46.4 Remuneration to key management personnel

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

	2019	2018
	------(Rupees in '000)------	
Short-term employee benefit	471,777	395,112
Post-employment benefit	62,525	139,708
Loans disbursed during the year	123,765	149,451
Loans repaid during the year	109,194	141,584
Directors' fees	11,904	13,781
Number of key management personnel	19	19

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

46.5 Subsidiaries of the Bank

Material transactions with the subsidiaries have been disclosed in these unconsolidated financial statements in note 39.1 and 42. The subsidiaries of the Bank and their primary activities are given in note 1.3 to these unconsolidated financial statements.

46.6 Associated undertakings of the Bank

46.6.1 SICPA Inks Pakistan (Private) Limited - associated undertaking

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

46.6.2 Security Papers Limited - associated undertaking

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

47 RISK MANAGEMENT POLICIES

The Bank is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 47.1 to 47.9 to these unconsolidated financial statements. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

47.1 Credit risk management

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

47.1.1 Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position.

47.1.2 Impairment assessment (Policy applicable from 1 July 2018)

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

47.1.3 Definition of default

The Bank defines a financial instrument as in default when the financial asset is credit - impaired and meets one or more of the following criteria:

Quantitative criteria
The borrower is more than 90 days past due on its contractual payments are considered default by the Bank.

Qualitative criteria
- a breach of contract, such as default or past due event
- the lenders of the counterparty have granted a concession to the counterparty for economic or contractual reasons,
- relating to the counterparty's financial difficulty that the lender would not otherwise consider,
- the likelihood or probability that the counterparty will enter bankruptcy or other financial reorganization, or
- the dissolution of an active market for that financial asset due to financial difficulties.

47.1.4 Credit rating and PD estimation process

The Bank's PD estimation process is based on the probability of default assigned to each counterparty according to their external credit ratings and the related historical credit losses experience, adjusted for forward-looking information.

Internal rating description	12 month PD	External Rating
Performing		
High grade	-	Sovereign
High grade	0.0000%-0.0318%	AAA
High grade	0.0318%-0.0751%	AA+ to AA-
High grade	0.0751%-0.2334%	A+ to A-
Standard grade	0.2334%-0.5574%	BBB+ to BBB-
Standard grade	0.5574%-1.3393%	BB+ to BB-
Standard grade	1.3393%-3.3597%	B+ to B-
Rating below standard	3.3597%-9.6562%	CCC+ to CCC-
Rating below standard	9.6562%-100%	CC
Non performing		
Individually impaired	100%	

47.1.5 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

47.1.6 Loss given default

Loss given default represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

47.1.7 Significant increase in credit risk

The Bank considers a financial asset to have experienced a significant increase in credit risk when:

- credit rating falls below investment grade in case of investments made in financial assets, or
- the contractual payments are 30 days past due.

47.1.8 Collateral and other credit enhancements

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees and demand promissory notes. The collaterals held against financials assets of the Bank have been disclosed in their respective notes, where applicable.

47.2 Concentrations of risk

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

47.2.1 Geographical analysis

	2019						
	Pakistan	**Asia (other than Pakistan)**	**America**	**Europe**	**Australia**	**Others**	**Grand Total**
	------ (Rupees in '000) ------						
Financial assets							
Local currency - coins	1,039,138	-	-	-	-	-	**1,039,138**
Foreign currency accounts and investments	12,055,314	572,079,960	477,623,720	309,635,731	1,186,136	3,273,527	**1,375,854,388**
Earmarked foreign currency balance	72,702,673	-		-	-	-	**72,702,673**
Special Drawing Rights of International							**-**
Monetary Fund	-	-	55,461,054	-	-	-	**55,461,054**
Reserve tranche with the International Monetary							
Fund under quota arrangements	-	-	26,999	-	-	-	**26,999**
Securities purchased under agreement to resell	782,918,155	-		-	-	-	**782,918,155**
Current accounts of Governments	28,200,405	-	-	-	-	-	**28,200,405**
Investments - local	7,902,458,840	-	-	-	-	-	**7,902,458,840**
Loans, advances and bills of exchange	587,644,204	-	-	-	-	-	**587,644,204**
Assets held with the Reserve Bank of India	-	2,006,354	-	-	-	-	**2,006,354**
Balances due from the Governments of India and							
Bangladesh	-	12,266,548	-	-	-	-	**12,266,548**
Other assets	8,772,719	84,456	162,039	140,563	-	-	**9,159,777**
Total financial assets	9,395,791,448	586,437,318	533,273,812	309,776,294	1,186,136	3,273,527	**10,829,738,535**

	2018						
	Pakistan	**Asia (other than Pakistan)**	**America**	**Europe**	**Australia**	**Others**	**Grand Total**
	------ (Rupees in '000) ------						
Financial assets							
Local currency - coins	989,497						989,497
Foreign currency accounts and investments	28,158,826	452,796,136	705,297,405	97,916,940	15,639,892	34,011,088	1,333,820,287
Earmarked foreign currency balance	12,277,462	-		-	-	-	12,277,462
Special Drawing Rights of International							-
Monetary Fund	-	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary							-
Fund under quota arrangements	-	-	20,362	-	-	-	20,362
Securities purchased under agreement to resell	1,562,309,789	-		-	-	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	-	33,104,114
Investments - local	3,815,999,013	-	-	-	-	-	3,815,999,013
Loans, advances and bills of exchange	443,941,856	324,382	-	-	-	-	444,266,238
Assets held with the Reserve Bank of India	-	1,550,321	-	-	-	-	1,550,321
Balances due from the Governments of India and							-
Bangladesh	-	10,674,303	-	-	-	-	10,674,303
Other assets	2,699,911	571	93,552	288	-	-	2,794,322
Total financial assets	5,899,480,468	465,345,713	764,684,095	97,917,228	15,639,892	34,011,088	7,277,078,484

The geographical analysis 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".

47.2.2 Industrial analysis

	2019						
	Sovereign	**Supranational**	**Public Sector Entities**	**Corporate**	**Banks & Financial Institutions**	**Others**	**GrandTotal**
	---------- (Rupees in '000) ----------						
Financial assets							
Local currency - coins	1,039,138	-	-	-	-	-	**1,039,138**
Foreign currency accounts and investments	398,497,442	1,063,905			976,293,041	-	**1,375,854,388**
Earmarked foreign currency balance	72,702,673	-	-	-	-	-	**72,702,673**
Special Drawing Rights of International Monetary Fund	-	55,461,054	-	-	-	-	**55,461,054**
Reserve tranche with the International Monetary Fund under quota arrangements	-	26,999	-	-	-	-	**26,999**
Securities purchased under agreement to resell	-	-	-	-	782,918,155	-	**782,918,155**
Current accounts of Governments	28,200,405	-	-	-	-	-	**28,200,405**
Investments - local	7,816,047,730	-	11,741,968	-	74,862,614	-	**7,902,652,312**
Loans, advances and bills of exchange	-	-	69,098,478		506,569,919	11,975,807	**587,644,204**
Assets held with the Reserve Bank of India	2,006,354	-	-	-	-	-	**2,006,354**
Balances due from the Governments of India and Bangladesh	12,266,548	-	-	-	-	-	**12,266,548**
Other assets	8,328,549	103,253	126,330	-	175,313	537,984	**9,271,429**
Total financial assets	**8,339,088,839**	**56,655,211**	**80,966,776**	**-**	**2,340,819,042**	**12,513,791**	**10,830,043,659**

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

47.3 CREDIT EXPOSURE BY CREDIT RATING

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

	2019							
	Sovereign (47.3.1)	**AAA**	**AA**	**A**	**BBB**	**Lower than BBB**	**Unrated**	**Grand Total**
		---(Rupees in 000')---						
Financial assets								
Local currency - coins	1,039,138							**1,039,138**
Foreign currency accounts and investments	1,177,140	660,969,824	64,310,345	637,190,089	264,911	11,942,079	-	**1,375,854,388**
Earmarked foreign currency balance	72,702,673	-	-	-	-	-	-	**72,702,673**
Special Drawing Rights of International Monetary Fund	-	-	-	-	-	-	55,461,054	**55,461,054**
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	26,999	**26,999**
Securities purchased under agreement to resell	-	523,385,265	233,372,228	20,924,775	-	5,235,887	-	**782,918,155**
Current accounts of Governments	28,200,405	-	-	-	-	-	-	**28,200,405**
Investments - local	7,816,047,732	53,850,807	-	-	-	-	32,560,301	**7,902,458,840**
Loans, advances and bills of exchange	-	237,596,742	290,797,706	25,320,599	8,177,076	19,047	25,733,034	**587,644,204**
Assets held with the Reserve Bank of India	-	-	-	-	2,006,354	-	-	**2,006,354**
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	11,512,667	-	**11,553,120**
Other assets	8,211,659	262,440	34,358	98,658	-	-	664,314	**9,271,429**
Total financial assets	**7,927,378,747**	**1,476,065,078**	**588,514,637**	**683,534,121**	**10,488,794**	**28,709,680**	**114,445,702**	**10,829,136,759**

	2018							
	Sovereign (47.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
		---(Rupees in 000')---						
Financial assets								
Local currency - coins	989,497							989,497
Foreign currency accounts and investments	923,676	79,266,748	725,307,790	474,599,234	19,181,159	28,030,908	6,510,772	1,333,820,287
Earmarked foreign currency balance	12,277,462					-		12,277,462
Special Drawing Rights of International Monetary Fund		-	-	-	-	-	59,272,776	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements		-	-	-	-	-	20,362	20,362
Securities purchased under agreement to resell	-	-	-	1,560,763,664	1,546,125		-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	-		33,104,114
Investments - local	3,724,633,125		-	-	-	-		3,724,633,125
Loans, advances and bills of exchange	14,453,451	65,105,010	58,032,166	294,003,469	-	15,477	12,656,665	444,266,238
Assets held with the Reserve Bank of India	-	-	-	-	1,550,321	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	10,633,850		10,674,303
Other assets	1,808,263	-	-	1,158	-	-	984,902	2,794,323
Total financial assets	3,788,189,588	144,371,758	783,339,956	2,329,367,525	22,318,058	38,680,235	79,445,477	7,185,712,597

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

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

47.4 LIQUIDITY ANALYSIS WITH INTEREST / MARK-UP RATE RISK

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

	2019						
	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:							
Local currency - coins	-	-	-	1,039,138	-	1,039,138	**1,039,138**
Foreign currency accounts and investments	892,741,689	120,092,725	1,012,834,414	356,432,350	2,956,972	359,389,322	**1,372,223,736**
Earmarked foreign currency balance	-	-	-	72,702,673	-	72,702,673	**72,702,673**
Special Drawing Rights of International Monetary Fund	55,461,054	-	55,461,054	-	-	-	**55,461,054**
Reserve tranche with the International Monetary							**-**
Fund under quota arrangements	-	-	-	26,999	-	26,999	**26,999**
Securities purchased under agreement to resell	782,918,156	-	782,918,156	-	-	-	**782,918,156**
Current accounts of Governments	28,200,405	-	28,200,405	-	-	-	**28,200,405**
Investments - local	569,202,498	7,246,108,128	7,815,310,626	-	87,341,686	87,341,686	**7,902,652,312**
Loans, advances and bills of exchange	372,117,616	163,810,398	535,928,014	51,677,784	38,406	51,716,190	**587,644,204**
Assets held with the Reserve Bank of India	-	-	-	2,006,354	-	2,006,354	**2,006,354**
Balances due from the Governments of India and							**-**
Bangladesh	10,692,743	-	10,692,743	1,573,805	-	1,573,805	**12,266,548**
Other assets	395,456	-	395,456	8,874,929	1,044	8,875,973	**9,271,429**
	2,711,729,617	**7,530,011,251**	**10,241,740,868**	**494,334,032**	**90,338,108**	**584,672,140**	**10,826,413,008**
Derivative assets							
Foreign currency accounts and investments			-	3,630,968	-	3,630,968	**3,630,968**
	-	-	-	3,630,968	-	3,630,968	**3,630,968**
Grand Total	**2,711,729,617**	**7,530,011,251**	**10,241,740,868**	**497,965,000**	**90,338,108**	**588,303,108**	**10,830,043,976**
Financial liabilities							
Bank notes issued	-	-	-	5,285,025,504	-	5,285,025,504	**5,285,025,504**
Bills payable	-	-	-	1,146,660	-	1,146,660	**1,146,660**
Current accounts of the Governments*	1,101,513,930	-	1,101,513,930			-	**1,101,513,930**
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	44,969,274	-	44,969,274	**44,969,274**
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	105,235	-	105,235	**105,235**
Payable to Islamic Banking Institutions against Bai Muajjal transactions	124,410,232	-	124,410,232	-	-	-	**124,410,232**
Payable under bilateral currency swaps agreements	466,280,000	-	466,280,000	3,117,756	-	3,117,756	**469,397,756**
Deposits of banks and financial institutions		-	-	1,246,238,770	-	1,246,238,770	**1,246,238,770**
Other deposits and accounts	777,431,946	232,075,545	1,009,507,491	104,418,924	2,107,353	106,526,277	**1,116,033,768**
Payable to International Monetary Fund	340,687,793	805,394,995	1,146,082,788	3,981,565	-	3,981,565	**1,150,064,353**
Other liabilities		9,140,395	9,140,395	24,860,916	-	24,860,916	**34,001,311**
	2,810,323,901	1,046,610,935	3,856,934,836	6,713,864,604	2,107,353	6,715,971,957	**10,572,906,793**
Derivative Liabilities							
Other liabilities		-	-	112,862,311		112,862,311	**112,862,311**
	2,810,323,901	1,046,610,935	3,856,934,836	6,826,726,915	2,107,353	6,828,834,268	**10,685,769,104**
On balance sheet gap (a)	**(98,594,284)**	**6,483,400,316**	**6,384,806,032**	**(6,328,761,915)**	**88,230,755**	**(6,240,531,160)**	**144,274,872**
Foreign currency forward and swap contracts - sale	-	-	-	(1,838,743,608)	-	(1,838,743,608)	**(1,838,743,608)**
Foreign currency forward and swap contracts - purchase	-	-	-	548,529,115	-	548,529,115	**548,529,115**
Futures - sale	-	-	-	(8,204,543)	-	(8,204,543)	**(8,204,543)**
Futures - purchase	-	-	-	6,411,196	-	6,411,196	**6,411,196**
Capital Commitments				353,753		353,753	**353,753**
Off balance sheet gap	-	-	-	(1,291,654,087)	-	(1,291,654,087)	**(1,291,654,087)**
Total yield / interest risk sensitivity gap	**(98,594,284)**	**6,483,400,316**	**6,384,806,032**	**(5,037,107,828)**	**88,230,755**	**(4,948,877,073)**	**1,435,928,959**
Cumulative yield / interest risk sensitivity gap	**(98,594,284)**	**6,384,806,032**	**12,769,612,064**	**7,732,504,236**	**7,820,734,991**	**2,871,857,918**	**2,871,857,919**
Contingent liabilities in respect of guarantees given	**-**	**-**	**-**	**-**	**25,481,402**	**25,481,402**	**25,481,402**

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

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

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

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

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

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

47.5 Interest rate risk

47.5.1 Cash flow interest rate risk

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

If interest rates had been 10 basis points higher / lower and all other variables were held constant, the Bank's profit for the year ended June 30, 2019 would increase / decrease by Rs 1,749.27 million (2018: Rs 964.67 million). This is mainly attributable to the Bank's exposure to interest rates on its variable rate instruments.

47.5.2 Fair value interest rate risk

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

The Bank is exposed to fair value interest rate risk on its fixed income securities, classified as financial assets at fair value through profit or loss. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 47.9 to these unconsolidated financial statements.

As at June 30, 2019, a 10 basis points shift in market value, mainly as a result of change in interest rates with all other variables held constant, would result in profit for the year to increase by Rs 345.71 million (2018: Rs 2,348.54 million) or decrease by Rs 345.71 million (2018: Rs 2,352.19 million) mainly as a result of a increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit and loss.

47.6 Currency risk management

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

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

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

The sensitivity analysis calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Bank had significant exposure as at June 30, 2018 with all other variables constant profit for the year would have been Rs. 1,425.56 million higher / lower (2018: 1,985.23 million). Net foreign currency exposure of the Bank is as follows:

	2019	2018
	(Rupees in '000)	
US Dollar	**(972,112,595)**	294,299,500
Pound Sterling	**(81,468,161)**	(58,496,395)
Chinese Yuan	**49,812,533**	(95,640,926)
Euro	**(345,499,790)**	(274,661,162)
Japense Yen	**(83,450,003)**	(60,355,570)
United Arab Emirates Dirham	**3,109,629**	1,935,381
Australian Dollar	**16,052**	250,077
Canadian Dollar	**346,500**	47,390
Others	**3,686,836**	(5,901,735)
	(1,425,558,999)	(198,523,440)

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

The composition of the Bank's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 47.6 and 47.7 prepared as of June 30, 2019 are not necessarily indicative of the effects on the Bank's profit and loss of future movements in different variables.

47.7 Price Risk

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

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

In case of 5% increase or decrease in KSE 100 index on June 30, 2019, other comprehensive income would increase or decrease by Rs. 655.904 million (2018: Rs. 834.626 million) and equity of the Bank would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Bank's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Bank's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2019 is not necessarily indicative of the effect on the Bank's equity instruments of future movements in the level of KSE 100 index.

47.8 Liquidity risk management

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

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

47.9 Portfolio risk management

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

48 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 summarizes the carrying amounts and fair values of financial assets and liabilities.

	Carrying Value		Fair value	
	2019	2018	**2019**	2018
	-----------------------------(Rupees in '000)-----------------------------			
Financial assets				
Local currency - coins	**1,039,138**	989,497	**1,039,138**	989,497
Foreign currency accounts and investments	**1,375,854,388**	1,333,820,287	**1,375,854,388**	1,333,820,287
Earmarked foreign currency balances	**72,702,673**	12,277,462	**72,702,673**	12,277,462
Special Drawing Rights of the International Monetary Fund	**55,461,054**	59,272,776	**55,461,054**	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	**26,999**	20,362	**26,999**	20,362
Securities purchased under agreement to resell	**782,918,155**	1,562,309,789	**782,918,155**	1,562,309,789
Current accounts of Governments	**28,200,405**	33,104,114	**28,200,405**	33,104,114
Investments - local	**8,003,637,100**	3,917,177,273	**8,003,637,100**	3,917,177,273
Loans, advances and bills of exchange	**587,644,204**	444,266,238	**587,644,204**	444,266,238
Assets held with the Reserve Bank of India	**2,006,354**	1,550,321	**2,006,354**	1,550,321
Balances due from the Governments of India and Bangladesh	**12,266,548**	10,674,303	**12,266,548**	10,674,303
Other assets	**10,020,508**	2,794,322	**10,020,508**	2,794,322

	Carrying Value		Fair value	
	2019	2018	**2019**	2018
	-----------------------------(Rupees in '000)-----------------------------			
Financial Liability				
Bank notes in circulation	**5,285,025,504**	4,635,146,711	**5,285,025,504**	4,635,146,711
Bills payable	**1,146,660**	644,452	**1,146,660**	644,452
Current accounts of Governments	**1,101,513,930**	89,828,633	**1,101,513,930**	89,828,633
Current account with SBP Banking Services Corporation	**44,969,274**	50,042,724	**44,969,274**	50,042,724
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	**105,235**	125,087	**105,235**	125,087
Payable to Islamic Banking Institutions against Bai Muajjal transactions	**124,410,232**	-	**124,410,232**	-
Payable under bilateral currency swap agreement	**469,397,756**	370,409,071	**469,397,756**	370,409,071
Deposits of banks and financial institutions	**1,246,238,770**	813,948,915	**1,246,238,770**	813,948,915
Other deposits and accounts	**1,116,033,768**	200,157,457	**1,116,033,768**	200,157,457
Payable to the International Monetary Fund	**1,150,064,353**	912,585,032	**1,150,064,353**	912,585,032
Other liabilities	**176,874,734**	51,030,210	**176,874,734**	51,030,210

48.1 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).

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring Fair Value Measurements	-----------------------------(Rupees in '000)-----------------------------			
On balance sheet financial instruments				
Financial Assets				
Foreign currency accounts and investments	158,582,716	44,004,565	-	**202,587,281**
Investments - local	53,850,807	32,560,301	-	**86,411,108**
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	-	78,565,221	**78,565,221**
Gold reserves held by the Bank	468,625,002	-	-	**468,625,002**
	681,058,525	**76,564,866**	**78,565,221**	**836,188,612**
Off balance sheet financial instruments				
Foreign currency forward and swap contracts - sale	**-**	**1,838,743,608**	**-**	**1,838,743,608**
Foreign currency forward and swap contracts - purchase	**-**	**548,529,115**	**-**	**548,529,115**
Futures - sale	**8,204,543**	**-**	**-**	**8,204,543**
Futures - purchase	**6,411,196**	**-**	**-**	**6,411,196**

	2018			
	Level 1	Level 2	Level 3	Total
Recurring Fair Value Measurements	-----------------------------**(Rupees in '000)**-----------------------------			
On balance sheet financial instruments				
Financial Assets				
Foreign currency accounts and investments - held for trading	410,298,797	158,477,934	-	568,776,731
Investments - local	75,784,692	-	-	75,784,692
Non-Financial Assets				
Operating fixed assets (Land and buildings)	-	-	54,752,484	54,752,484
Gold reserves held by the Bank	315,610,772	-	-	315,610,772
	801,694,261	158,477,934	54,752,484	1,014,924,679
Off balance sheet financial instruments				
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

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

All financial assets and liabilities except the items disclosed above, have fair value equal to the carrying amount.

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 9.1 related to foreign currency accounts and investment in listed shares in Note 14.2 classified as FVOCI.

(b) Financial instruments in level 2

Financial instruments in level 2 comprise of financial assets in Note 9.1 related to sovereign bonds of foreign countries, derivatives and internally managed sukuks, including un-listed shares in note 14 classified as FVOCI

(c) Financial instruments in level 3

Currently, no financial instruments are classified through level 3.

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

Item	Valuation approach and input used
Forward foreign exchange contract	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.
Operating fixed assets (Land and building)	The fair value of land and building are derived using the sale comparison approach. The sales value is determined by physically analysing the condition of land and building and by ascertaining the current market value of similar land, which is selling in near vicinity. Moreover, for buildings, the valuer has also considered prevailing current cost of construction for relevant type of civil work carried out thereon, where ever required. Please refer note 18.2 highlighting the year of valuation and external valuer name.
US Treasury Bills	These are valued using the mid rates communicated by the Federal Reserve Bank of New York.

49 Classification of financial instruments

	2019			
	Assets at fair value through profit or loss	**Amortized Cost**	**Assets at fair value through other comprehensive income**	**Total**
	----------------------------------(Rupees in '000)--------------------------			
Financial assets				
Local currency - coins	-	1,039,138	-	**1,039,138**
Foreign currency accounts and investments	205,350,566	1,170,516,818	-	**1,375,867,384**
Earmarked foreign currency balances	-	72,702,673	-	**72,702,673**
Special Drawing Rights of the International Monetary Fund	-	55,461,054	-	**55,461,054**
Reserve tranche with the International Monetary Fund under quota arrangements	-	26,999	-	**26,999**
Securities purchased under agreement to resell	-	782,918,155	-	**782,918,155**
Current accounts of Governments	-	28,200,405	-	**28,200,405**
Investments - local	-	7,816,047,732	86,411,108	**7,902,458,840**
Loans, advances and bills of exchange	-	587,644,204	-	**587,644,204**
Assets held with the Reserve Bank of India	-	2,006,354	-	**2,006,354**
Balances due from the Governments of India and Bangladesh (former East Pakistan)	-	12,266,548	-	**12,266,548**
Other assets		3,145,470	-	**3,145,470**

	2018*				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	---(Rupees in '000)---				
Financial assets					
Local currency - coins	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	3,670,358,454	-	54,274,670	91,365,889	3,815,999,013
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 (former East Pakistan)	10,674,303	-	-	-	10,674,303
Other assets	2,793,165	1,157	-	-	2,794,322

* Comparative amounts as at 30 June, 2018 reflect the measurements basis under under IAS 39

	2019		
	Carried at amortised cost	**Liabilities at fair value through profit or loss**	**Total**
	-----------------------------(Rupees in '000)-----------------------------		
Financial liabilities			
Bank notes in circulation	5,285,025,504	-	**5,285,025,504**
Bills payable	1,146,660	-	**1,146,660**
Current accounts of Governments	1,101,513,930	-	**1,101,513,930**
Current account with SBP Banking Services Corporation - a subsidiary	44,969,274		**44,969,274**
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	125,087	-	**125,087**
Payable under bilateral currency swap agreement	469,397,756	-	**469,397,756**
Deposits of banks and financial institutions	1,246,238,770	-	**1,246,238,770**
Other deposits and accounts	1,116,033,768	-	**1,116,033,768**
Payable to the International Monetary Fund	1,150,064,353	-	**1,150,064,353**
Other liabilities	64,012,423	112,862,311	**176,874,734**

	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
Current account with SBP Banking Services Corporation - a subsidiary	50,042,724		50,042,724
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	125,087	-	125,087
Payable under bilateral currency swap agreement	370,409,071	-	370,409,071
Deposits of banks and financial institutions	813,948,915	-	813,948,915
Other deposits and accounts	200,157,457	-	200,157,457
Payable to the International Monetary Fund	912,585,032	-	912,585,032
Other liabilities	23,753,428	27,277,082	51,030,510

50 NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 12, 2019 have appropriated an amount of Rs NIL million to "Revenue Reserve". The balance of profit after allocation of such appropriation will be transferred to the Government of Pakistan. The financial statements of the Bank for the year ended June 30, 2019 do not include the effect of above appropriation and transfer of balance profit to the Government of Pakistan, which will be accounted for in the financial statements of the Bank for the year ending June 30, 2019.

51 DATE OF AUTHORISATION

These financial statements were authorised for issue on **October 12, 2019** by the Board of the Bank.

52 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	2018 Rupees in '000
Other operating income- net - Gain on disposal of investment	Discount, interest / mark-up and / or profit earned - Financial assets measured at fair value through profit and loss	2,072,597
Discount, interest / mark-up and / or profit earned - Foreign currency deposits	Discount, interest / mark-up and / or profit earned - Financial assets measured at fair value through profit and loss	905,037
Discount, interest / mark-up and / or profit earned - Foreign currency securities	Discount, interest / mark-up and / or profit earned - Financial assets measured at fair value through profit and loss	6,164,029
Interest / mark-up expense - Deposits	Interest / mark-up expense - Interest on Special Drawing Rights	14,118,476

53 GENERAL

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

Dr. Reza Baqir
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director