9 Consolidated Financial Statements of SBP and its Subsidiaries

EY FORD RHODES
Chartered Accountants
Progressive Plaza
Beaumont Road
Karachi-75530

KPMG TASEER HADI & CO.
Chartered Accountants
Sheikh Sultan Trust, Building No.
2 Beaumont Road
Karachi-75530

Independent Auditor's Report

To the Board of Directors of State Bank of Pakistan

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Key Audit Matter	How the matter was addressed in our audit
Accuracy of the Liability for "Bank notes in circulation"	
As disclosed in notes 5.2 and 24 to the accompanying consolidated financial statements, bank notes in circulation represent the liability of the Group 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 Group. In view of the significance of liability in relation to the consolidated financial statements of the Group and complexities in the underlying processes relating to issuance of new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes, we have considered the existence and completeness of liability as a key audit matter.	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 analyzed 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 Group.
"Foreign currency accounts and investments" and "Investments - local"	
As disclosed in note 10 and 15 to the accompanying consolidated financial statements of the Group, "foreign currency accounts and investments" and "Investments-local" represent 12% and 69% respectively of the total assets of the Group 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.	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.

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In addition, “investments - local” includes Market Related Treasury Bills (MRTBs) amounting to Rs. 569 billion and Pakistan Investment Bonds (PIBs) amounting to Rs.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 Group to assess that they are accurately recorded.

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

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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Chartered Accountants

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"Adoption of IFRS 9 Financial instruments"

As disclosed in note 4.1 to the accompanying consolidated financial statements, on 1 July 2018, the Group 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 Group to recognize expected credit losses (ECL) on financial instruments which involves significant judgement and estimates to be made by the Group.

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 Group to manage financial assets by making inquiries of responsible employees, reviewing the Group's internal documentation and analyzing internal business processes on selected significant portfolios of financial instruments.

We evaluated the Group'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 Group'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 Group by analyzing financial and non-financial information, as well as assumptions and professional judgments used by the Group.

We assessed the overall predictive capacity of the Group'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 risk description, as well as of the effect of IFRS 9 adoption by the Group.

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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 Consolidated Financial Statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's

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Chartered Accountants

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report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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Chartered Accountants	Chartered Accountants

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
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2019

	Note	2019	2018
		(Rupees in '000)	
ASSETS			
Cash and bank balances held by subsidiaries	7	**304,957**	586,651
Gold reserves held by the Bank	8	**468,625,002**	315,610,772
Local currency - coins	9	**1,039,138**	989,497
Foreign currency accounts and investments	10	**1,375,854,388**	1,333,820,287
Earmarked foreign currency balances	11	**72,702,673**	12,277,462
Special Drawing Rights of the International Monetary Fund	12	**55,461,054**	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	13	**26,999**	20,362
Securities purchased under agreement to resell	14	**782,918,155**	1,562,309,789
Current accounts of Governments	25.2	**28,200,405**	33,104,114
Investments - local	15	**7,906,282,006**	3,824,128,547
Long term investment in associates	16	**2,487,053**	2,345,584
Loans, advances and bills of exchange	17	**597,478,668**	453,500,448
Taxation - net		**1,048,075**	505,899
Assets held with the Reserve Bank of India	18	**9,580,097**	6,652,678
Balances due from the Governments of India and Bangladesh	19	**12,266,548**	10,674,303
Property, plant and equipment	20	**137,891,773**	109,583,229
Intangible assets	21	**198,758**	309,238
Deferred taxation	22	**367,566**	243,999
Other assets	23	**14,199,144**	7,052,906
Total assets		**11,466,932,459**	7,732,988,541
LIABILITIES			
Bank notes in circulation	24	**5,285,025,504**	4,635,146,711
Bills payable		**1,146,660**	644,452
Current accounts of Governments	25.1	**1,101,513,930**	89,828,633
Payable to Islamic Banking Institutions against Bai Muajjal transactions	26	**124,410,232**	-
Payable under bilateral currency swap agreement	27	**469,397,756**	370,409,071
Deposits of banks and financial institutions	28	**1,246,238,770**	813,948,915
Other deposits and accounts	29	**1,116,324,484**	200,428,200
Payable to the International Monetary Fund	30	**1,150,064,353**	912,585,032
Other liabilities	31	**182,539,239**	84,506,219
Deferred liability - staff retirement benefits	32	**83,989,607**	90,107,820
Endowment fund		**109,600**	102,793
Total liabilities		**10,760,760,135**	7,197,707,846
Net assets		**706,172,324**	535,280,695
REPRESENTED BY			
Share capital	33	**100,000**	100,000
Reserves	34	**69,451,210**	69,435,670
Unappropriated profit		**10,259,308**	14,324,252
Unrealised appreciation on gold reserves held by the Bank	35	**464,180,641**	311,313,769
Unrealised appreciation on remeasurement of investments - local	15.6	**68,490,606**	74,622,824
Surplus on revaluation of property, plant and equipment		**93,690,559**	65,484,180
Total equity		**706,172,324**	535,280,695
CONTINGENCIES AND COMMITMENTS	36		

Pursuant to the requirements of section 26 (1) of the SBP Act, 1956, the assets of the Group specifically earmarked against the liabilities of the issue department have been detailed in note 24.1 to these consolidated financial statements.

The annexed notes from 1 to 59 form an integral part of these consolidated financial statements.

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

STATE BANK OF PAKISTAN
CONSOLIDATED 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	37	**646,009,384**	314,537,779
Fair value through profit or loss		**10,943,995**	9,141,663
Less: interest / mark-up expense	38	**(110,763,556)**	(31,840,438)
		546,189,823	291,839,004
Commission income	39	**4,136,396**	4,083,398
Exchange loss - net	40	**(506,131,054)**	(72,280,199)
Dividend income		**390,000**	415,000
Share of profit from associates	41	**702,297**	691,417
Other operating income / (expense) - net	42	**4,346,933**	(774,507)
Other income - net	43	**318,414**	796,526
		49,952,809	224,770,639
Less: Operating expenses			
- Cost of printing bank notes and Prize Bonds	44	**11,419,149**	9,362,218
- Agency commission	45	**10,642,735**	10,945,396
- General administrative and other expenses	46	**27,909,418**	27,705,611
Provision for / (reversal of provision against):			
- other doubtful assets	31.3.1.1	**456,042**	76,145
- others		**(76)**	-
Credit loss allowance on financial instruments - net	48 & 15.5	**39,622**	(39,497)
		495,588	36,648
		50,466,890	48,049,873
(Loss) / profit before taxation		**(514,081)**	176,720,766
Taxation	49	**529,222**	1,048,115
(Loss) / profit after taxation		**(1,043,303)**	175,672,651

The annexed notes from 1 to 59 form an integral part of these consolidated financial statements.

Dr. Reza Baqir
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

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

	Note	2019	2018
		------- (Rupees in '000) -------	
(Loss) / profit after taxation		**(1,043,303)**	175,672,651
Other comprehensive income			
Items that may be reclassified subsequently to the consolidated profit and loss account:			
Unrealised diminution on remeasurement of investments			
- Investments - local	15.6	-	(18,625,464)
- Share of associates of other comprehensive loss - net of deferred tax		-	(54,593)
		-	(18,680,057)
Unrealised appreciation on gold reserves held by the Group	8	**152,866,872**	44,986,168
		152,866,872	26,306,111
Items that will not be reclassified subsequently to the consolidated profit and loss account:			
Unrealised diminution on remeasurement of investments - local	15.6	**(21,618,750)**	-
Remeasurements of property and equipment - net of deferred tax		**28,206,379**	-
Remeasurements of staff retirement defined benefit plans - net of deferred tax	46.3.4 & 46.4.7	**8,880,378**	(3,540,720)
Total comprehensive income for the year		**167,291,576**	198,438,042

The annexed notes from 1 to 59 form an integral part of these consolidated financial statements.

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

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

	Share capital	Reserves								Unappropriated profit	Unrealised appreciation on gold reserves held by the Bank	Unrealised appreciation on remeasurement of investments - local	Surplus on revaluation of property, plant and equipment	Total
		Reserve fund	Reserve for acquisition of PSPC	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Reserve created as a result of acquisition of PSPC					
	(Rupees in '000)													
Balance as at July 01, 2017	**100,000**	**65,179,805**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**(41,279,353)**	**44,154,941**	**266,327,601**	**93,302,881**	**65,489,407**	**570,039,282**
Total comprehensive income for the year														
Profit after taxation for the year	-	-	-	-	-	-	-	-	-	175,672,651	-	-	-	175,672,651
Transfer to the reserve fund	-	13,771,218	-	-	-	-	-	-	-	(13,771,218)	-	-	-	-
Transfer from the reserve fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income														-
Surplus realised on disposal of property, plant and equipment	-	-	-	-	-	-	-	-	-	5,227	-	-	(5,227)	-
Share of associates of other comprehensive loss - net of deferred tax	-	-	-	-	-	-	-	-	-	-	-	(54,593)	-	(54,593)
Unrealised diminution on remeasurement of investments - local (note 15.6)	-	-	-	-	-	-	-	-	-	-	-	(18,625,464)	-	(18,625,464)
Unrealised appreciation on gold reserves held by the Bank (note 8)	-	-	-	-	-	-	-	-	-	-	44,986,168	-	-	44,986,168
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	-	-	(3,540,720)	-	-	-	(3,540,720)
	-	-	-	-	-	-	-	-	-		-	-	-	-
	-	13,771,218	-	-	-	-	-	-	-	158,365,940	44,986,168	(18,680,057)	(5,227)	198,438,042
Transactions with owners														
Dividend	-	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	(45,000,000)	-	-	-	-	-	-	-	(188,186,629)	-	-	-	(233,186,629)
	-	(45,000,000)	-	-	-	-	-	-	-	(188,196,629)	-	-	-	(233,196,629)
Balance as at June 30, 2018	**100,000**	**33,951,023**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**(41,279,353)**	**14,324,252**	**311,313,769**	**74,622,824**	**65,484,180**	**535,280,695**
Impact of adopting of IFRS 9 - net of deferred tax	-	-	-	-	-	-	-	-	-	**630,348**	-	**15,486,532**	-	**16,116,880**
Restated balance as at July 01, 2018	**100,000**	**33,951,023**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**(41,279,353)**	**14,954,600**	**311,313,769**	**90,109,356**	**65,484,180**	**551,397,575**
Total comprehensive income for the year														
Loss after taxation for the year	-	-	-	-	-	-	-	-	-	(1,043,303)	-	-	-	(1,043,303)
Transfer to the reserve fund	-	15,540	-	-	-	-	-	-	-	(15,540)	-	-	-	-
Transfer from the reserve fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income														
Unrealised diminution on remeasurement of investments - local (note 15.6)	-	-	-	-	-	-	-	-	-	-	-	(21,618,750)	-	(21,618,750)
Unrealised appreciation on gold reserves held by the Bank (note 8)	-	-	-	-	-	-	-	-	-	-	152,866,872	-	-	152,866,872
Surplus on revaluation of property, plant and equipment - net of deferred tax (note 20.1)	-	-	-	-	-	-	-	-	-	-	-	-	28,206,379	28,206,379
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	-		8,880,378	-	-	-	8,880,378
	-	15,540	-	-	-	-	-	-	-	7,821,535	152,866,872	(21,618,750)	28,206,379	167,291,576
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**	**33,966,563**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**(41,279,353)**	**10,259,308**	**464,180,641**	**68,490,606**	**93,690,559**	**706,172,324**

The annexed notes from 1 to 59 form an integral part of these consolidated financial statements.

Dr. Reza Baqir
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED 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	50	**195,978,797**	299,421,488
Taxes paid		**(1,009,459)**	(1,206,325)
(Increase) / decrease in assets:			
Foreign currency accounts and investments		**340,817,132**	(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		**(4,087,108,240)**	(1,148,428,460)
Loans, advances and bills of exchange		**(144,051,789)**	(90,796,636)
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		**(7,681,894)**	1,604,482
		(3,123,159,484)	(1,272,288,933)
		(2,928,190,146)	(974,073,770)
(Decrease) / increase 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)
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
Other deposits and accounts		**915,896,284**	35,763,126
Payment of retirement benefits and employees' compensated absences		**(7,033,995)**	(13,091,110)
Other liabilities		**98,112,716**	27,022,999
Endowment fund		**6,811**	4,372
		3,329,493,237	737,195,402
Net cash generated from / (used in) operating activities		**401,303,091**	(236,878,368)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		**950,704**	840,830
Contribution of initial capital in Deposit Protection Corporation		**(500,000)**	-
Capital expenditure		**(3,003,938)**	(1,221,192)
Proceeds from disposal of property, plant and equipment		**16,881**	61,931
Net cash used in investing activities		**(2,536,353)**	(318,431)
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)
Decrease in cash and cash equivalents during the year		**623,729,232**	(345,189,662)
Cash and cash equivalents at the beginning of the year		**1,065,068,622**	1,521,768,557
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	51	**1,504,301,033**	1,065,068,622

The annexed notes from 1 to 59 form an integral part of these consolidated financial statements.

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

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

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

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

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

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

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

b) National Institute of Banking and Finance (Guarantee) Limited - wholly owned subsidiary
National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated in Pakistan under the repealed Companies Ordinance, 1984 as a company limited by guarantee having share capital. It is engaged in providing education and training in the field of banking, finance and allied areas.

The head office of the Institute is situated at 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 are located at Jinnah Avenue, Malir Halt Karachi, in the province of Sindh, Pakistan.

2 STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

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 Group's operations and are, therefore, not disclosed in these consolidated financial statements except for IFRS 9 and IFRS 7R.

4.1 IFRS 9 Financial Instruments

The Group 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 Group 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 receivables) 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 o 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 Group'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 Group'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 Group 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 Group's impairment method are disclosed in Note 5.3.13. 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	Amortised cost	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	31,006,732
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	453,562,424	Amortised cost	453,515,415
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	-
Mutual funds	FVPL	1,328,263	FVPL	1,328,263
Term Deposit Receipts	Held to maturity	6,122,000	Amortised cost	6,122,000
Mutual funds	Available for sale	23,904	FVPL	23,904
Market Treasury Bills	Held to maturity	552,574	Amortised cost	552,574

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

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 5.3 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 1 July 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	3,731,307,698	-	-	3,731,307,698
As at 1 July 2018			**-**	**3,731,307,698**
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	453,562,424	-	-	453,562,424
Remeasurement of ECL	-	-	(47,009)	(47,009)
As at 1 July 2018			**(47,009)**	**453,515,415**
Sepcial 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			**(47,090)**	**6,261,405,587**
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**
Investment - local				
As at 30 June 2018	1,328,263	-	-	1,328,263
Reclassification: from available for sale	-	23,904	-	23,904
As at 1 July 2018			**-**	**1,352,167**
Total financial assets measured at fair value through profit or loss			**-**	**913,296,940**
Fair value through OCI				
Investments - Local				
As at 30 June 2018	91,389,793	-	-	91,389,793
Remeasurement	-	(23,904)	16,163,970	16,140,066
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**
			16,116,880	**7,282,232,386**

The total remeasurement gain of Rs. 16,117 million was recognised in opening equity at 1 July 2018. This includes recalssification of 'provision against diminution in value of investments' amounting to Rs. 738 million (Note 15.5) and 'share of associates of other comprehensive loss - net of deferred tax' amounting to Rs. 61 million (Notes 16.1 and 16.2), from/to 'unappropriated profit' to/from 'unrealised appreciation / (diminution) on remeasurement of investments - local', respectively.

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

Designation of equity instruments at FVOCI

The Group has elected to irrevocably designate strategic investments of Rs. 17,420 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 & 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.

4.1.5 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Group 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 53.1.2.

Reconciliations from opening to closing ECL allowances are presented in Notes 10.2, 14.2, and 17.2.

4.2 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 Group has initially applied IFRS 15 at 1 July 2018. The application of IFRS 15 did not have a material impact on the Group's financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Basis of consolidation

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

The consolidated financial statements include collectively the financial statements of the Bank and its subsidiaries. Financial statements of the subsidiaries have been consolidated on a line-by-line basis. All intra-group assets and liabilities, equity, income, expenses and cashflow realating to transaction between members of the group are eliminated on consolidation.

5.2 Bank notes in circulation and local currency - coins

The liability of the Bank towards Bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956, is stated at face value and is represented by the specified assets of the Issue Department of the 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.

5.3 Financial assets and financial liabilities

Financial instruments carried on the consolidated balance sheet include cash and bank balances held a subsidiary, local currency - coins, foreign currency accounts and investments, earmarked foreign currency balances, investments - local, loans, advances and bills of exchange, assets held with Reserve Bank of India (other than gold held by Reserve Bank of India), balances due from the governments of India and Bangladesh, 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.

5.3.1 Financial instruments – initial recognition

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

All financial assets and financial liabilities are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction cost is taken directly to the 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.

5.3.2 Classification and subsequent measurement of financial assets and liabilities

From 1 July 2018, the Group classifies all of its financial assets based on two criteria: a) the Group'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 5.3.3
- FVOCI, as explained in Notes 5.3.4 and 5.3.5
- FVPL as explained in note 5.3.6

a) Business model assessment

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

The Group'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 Group'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
- The expected frequency, value and timing of sales are also important aspects of the Group'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 Group's original expectations, the Group 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 Group 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 Group 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 Group classifies and measures its derivative and trading portfolio at FVPL as explained in Note 5.3.8. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 5.3.6.

Before 1 July 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 5.3.1, 5.3.9 and 5.3.10.

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 5.3.6 and 5.3.7.

5.3.3 Financial assets at amortised cost

From 1 July 2018, the Group 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.

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

The Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of

- 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 availablefor-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.

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

Upon initial recognition, the Group elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of 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. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group 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.

5.3.6 *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 statement of financial position 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.

5.3.7 *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.

5.3.8 *Derivative financial instruments*

The Group 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 37.2.

5.3.9 *Available-for-sale financial investments (Policy applicable before 1 January 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

5.3.10 *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 Group has the positive intent and ability to hold till maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using 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.

5.3.11 Reclassification of financial assets and liabilities

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

5.3.12 Derecognition of financial asset and financial liabilities

a) Financial assets

The Group 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 Group 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 Group 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.

5.3.13 Impairment of financial assets

5.3.13.1 Overview of the ECL principles

As described in Note 4.1.2, the adoption of IFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 July 2018, the Group 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 5.3.13.2). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 53.1.7.

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 Group 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 53.1.7.

Based on the above process, the loans are grouped into Stage 1, Stage 2 and Stage 3 as described below:

- Stage 1: When loans are first recognised, the Group 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 Group 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 53.1.3).The Group records an allowance for the LTECLs.

For financial assets for which the Group 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

5.3.13.2 The calculation of ECLs

The Group calculates ECLs based on a 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 53.1.4.
- 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 53.1.5.
- 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 53.1.6.

When estimating the ECLs, the Group 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 Group 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 Group 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 Group 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 53.1.3), the Group 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 Group'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 Group 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.

5.3.13.3 Forward looking information

The Group 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.

5.3.13.4 Credit Enhancements: Collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Group 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 Group uses active market data for valuing financial assets held as collateral.

5.3.14 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 Group 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 Group 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 Group 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.

5.3.15 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 Group currently has a legally enforceable right to set off the recognised amount and it intends either to settle on a net basis or to realise the asset and to settle the liability simultaneously.

5.4 Collateralised borrowings / lending

5.4.1 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.

5.4.2 Payable under bilateral currency swap agreement

Bilateral currency swap agreements with counterpart central banks involve the purchase / sale and subsequent resale / repurchase of local currencies of counterpart central banks against PKR at the applicable exchange rate (determined in accordance with the terms of the agreement). The actual use of facility by the Group / counterpart central Group in the agreement is recorded as borrowing / lending in books of the Group 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 36.2.1.

5.4.3 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).

5.5 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 Group subject to final settlement between the Governments of Pakistan and India. Instead it is shown in other liabilities as provision for other doubtful assets.

5.6 Fair value measurement principles

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

5.7 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances of subsidiary company, foreign currency accounts and investments (other than deposit 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.

5.8 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 20.1 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.

5.9 Leased Assets

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

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

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

5.10 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.

5.11 Accounts receivables and other receivables

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

5.12 Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. The recoverable amount is higher of an asset's fair value less cost to sell and value in use. In assessing the value in use, future cash flows are estimated which are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. An impairment loss is recognised in the 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.

5.13 Stores and spares

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

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

5.14 Stock-in-trade

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

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

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

5.15 Stock of stationery and consumables

Stock of stationery and consumables are valued at the lower of cost and net realizable value. Cost comprises cost of purchases and other directly attributable costs incurred in bringing the items to their present location and condition. Replacement cost of the items is used to measure the net realizable value. The valuation is done on moving average basis. Provision is made for stocks which are not used for a considerable period of time or stocks which are not expected to be used in future.

5.16 Provisions

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

5.17 Transactions and balances with the International Monetary Fund

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

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

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

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

5.18 Staff retirement benefits

5.18.1 The Bank operates:

a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. Under this scheme, contribution is made both by the Bank and employee at the rate of 6% of the monetized salary.The Bank provided an option to employees covered under old scheme to join the 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 after 1975 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.

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

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

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

c) the following other staff retirement benefit schemes:

- an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
- a funded New Gratuity Fund (NGF) which was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
- an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of NGF which is effective from July 1, 2010;
- an un-funded contributory benevolent fund scheme;
- an un-funded post retirement medical benefit scheme; and
- six months post retirement benefit facility.

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

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

5.18.3 The PSPC operates following staff retirement benefits scheme for employees:

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

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

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

5.18.5

Annual provisions are made by the Group to cover the obligations arising under defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 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.

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

5.19 Compensated absences

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

5.20 Trade and other payables

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

5.21 Borrowing costs

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

5.22 Leases

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

5.23 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.

5.24 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.

- Revenue from sale of goods is recognised when or as performance obligations are satisfied by transferring control (i.e at the time of transfer of physical possession) of promised goods, and control either transfers over time or at a point in time. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, rebates and government levies.

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

5.25 Finances under profit and loss sharing arrangements

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

5.26 Foreign currency translation

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

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

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

Commitments for outstanding foreign exchange forward, future and swap contracts disclosed in note 36.2.2 to these consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

5.27 Long term investment in associates

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

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

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

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

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

5.28 Taxation

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

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

5.28.1 Current

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

5.28.2 Deferred

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

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

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

5.29 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 statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates may include items like considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 5.6 to these consolidated financial statements.

6.2 Effective Interest Rate (EIR) method

The Group's EIR methodology recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of financial instruments. This 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 53.1.2 to these financial statements.

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

a) Loans and advances

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

6.5 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 46.3 to these consolidated 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.

		Note	2019	2018
7	**CASH AND BANK BALANCES HELD BY SUBSIDIARIES**		---------(Rupees in '000)--------	
	With banks in current accounts	7.1	**294,916**	570,846
	Cash in hand		**10,041**	15,805
			304,957	586,651

7.1 This includes remunerative accounts carrying mark-up ranging from 5.85% to 11% (2018: 4.50% to 6.25%) per annum.

		Note	Net content in troy ounces	2019	2018
8.	**GOLD RESERVES HELD BY THE BANK**			---------(Rupees in '000)--------	
	Opening balance		**2,077,396**	**315,610,772**	270,361,202
	Additions during the year		**640**	**147,358**	263,402
	Appreciation / (diminution) for the year due to revaluation	35	**-**	**152,866,872**	44,986,168
		24.1	**2,078,036**	**468,625,002**	315,610,772

		Note	2019	2018
9.	**LOCAL CURRENCY - COINS**		------------- (Rupees in '000) ------------	
	Bank notes held by the Banking Department		**159,748**	191,541
	Coins held as an asset of the Issue Department	9.1 & 24.1	**1,039,138**	989,497
			1,198,886	1,181,038
	Less: bank notes held by the Banking Department	24	**(159,748)**	(191,541)
			1,039,138	989,497

9.1 As mentioned in note 5.2, the Bank is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of coins held by the Group at the year end (also refer note 24).

10. FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2019	2018*
		--------------(Rupees in '000)-------------	
At fair value through profit or loss			
- Investments	10.3	**202,587,281**	568,776,731
- Unrealised gain on derivative financial instruments - net	10.4	**2,763,285**	2,085,749
At amortized cost			
- Sovereign Bonds	10.5	-	341,082,293
- Deposit accounts		**24,252,334**	29,509,408
- Current accounts		**362,836,378**	35,107,134
- Securities purchased under agreement to resell	10.6	**336,209,469**	349,903,518
- Money market placements	10.7	**447,218,637**	7,355,454
Credit loss allowance	10.2	**(12,996)**	-
		1,375,854,388	1,333,820,287
The above foreign currency accounts and investments are held as follows:			
Issue Department	24.1	**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 IAS 39

10.1 The following table sets out information about the credit quality of foreign currency accounts and investments of the Group 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 53.1.4.

	Stage 1	2019
	-------- (Rupees in '000) --------	
Deposit accounts		
High rating	**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	**336,209,469**	**336,209,469**
	336,209,469	**336,209,469**
Money market placements		
High rating	**447,218,637**	**447,218,637**
	447,218,637	**447,218,637**
	1,170,516,818	**1,170,516,818**

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

	Nostros (Note 10.8)	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**

10.3 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).

10.4 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.

10.5 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).

10.6 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).

10.7 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).

10.8 These include deposit account, current accounts and securities purchased under agreement to resale.

11. EARMARKED FOREIGN CURRENCY BALANCES

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

12. 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
		(Rupees in '000)	
SDRs are held as follows:			
- By the Issue Department	24.1	**34,152,690**	25,618,350
- By the Banking Department		**21,308,364**	33,654,426
		55,461,054	59,272,776

13. 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

14. 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 Group consist of Pakistan Investment Bonds and Market Treasury Bills.

14.1. 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.

	Note	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	14.2	**(27)**	**(27)**
		782,918,155	**782,918,155**

14.2. 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) --------------	
Stage 1		
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**
Charge of allowance	12	**12**
Balance as of 30 June 2019	27	**27**

15. 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
Market Treasury Bills	15.1	**1,163,007**	655,367
	15.1	**7,762,811,605**	3,671,013,821
Term Deposit Receipt	15.2	**1,522,000**	6,122,000
Zarai Taraqiati Bank Limited (ZTBL) preference shares - unlisted	15.3	**54,399,134**	54,274,670
		7,818,732,739	3,731,410,491
Term Finance Certificates		**56,483**	56,483
Certificates of Deposits		**22,470**	22,470
		78,953	78,953
Credit loss allowance	15.5	**(78,953)**	(78,953)
		7,818,732,739	3,731,410,491
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
	15.4	**86,411,108**	91,365,889
		7,905,143,847	3,822,776,380
At fair value through profit or loss			
Mutual Funds Units		**1,138,159**	1,352,167
		7,906,282,006	3,824,128,547
The above investments are held as follows:			
Issue Department	24.1	**4,324,569,688**	3,563,104,115
Banking Department / subsidiaries		**3,581,712,318**	261,024,432
		7,906,282,006	3,824,128,547

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

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

	Stage 1	Stage 2	Stage 3	2019
	------------------------------------- (Rupees in '000)		-------------------------------------	
High rating	**7,818,732,739**	-	-	**7,818,732,739**
Standard rating	-	-	-	-
Rating below standard	-	-	**78,953**	**78,953**
	7,818,732,739	-	**78,953**	**7,818,811,692**
Less: Credit loss allowance	-	-	**(78,953)**	**(78,953)**
	7,818,732,739	-	-	**7,818,732,739**

15.1 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 6.83
Federal Government scrips	**3**	3
Pakistan Investment Bonds	**13.72 to 13.88**	-
Market Treasury Bills	**10.96 to 12.68**	5.91 to 6.49

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 million and Rs. 284 million respectively. The Federal Government issued PIBs with maturity of one year to ten years amounting to Rs. 7,187 million.

Market treasury bills held by the subsidiaries have maturities upto 04 July 2019 (2018: August 2018)

15.2 These represent Term Deposit Receipts maturing upto 12 months with various banks bearing mark-up ranging from 5.35% to 14.00% (2018: 5.35% to 7.00%) per annum. Term Deposit Receipt of Rs 22 million (2018: Rs 22 million) with Faysal Bank Limited is marked under lien against bank guarantee (note 36.2.6).

15.3 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.

15.4 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	15.4.2	**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	15.4.3	**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

15.4.1 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.

15.4.2 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).

15.4.3 During FY 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.

15.5 Credit loss allowance

	2019	2018
	---------- (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
		---------- (Rupees in '000) ----------	
15.6	**Unrealised appreciation on remeasurement of investments**		
	Opening balance	**74,622,824**	93,302,881
	Impact on opening balances on initial recognition of IFRS 9	**15,486,532**	-
		90,109,356	93,302,881
	(Diminution) / appreciation during the year	**(21,618,750)**	(18,625,464)
	Share in loss of associates relating to investement measured at FVOCI	**-**	(54,593)
	Closing balance	**68,490,606**	74,622,824

		2019	2018	2019	2018
		Percentage holding		---------- (Rupees in '000) ----------	
16.	**LONG TERM INVESTMENTS IN ASSOCIATES**	**%**	**%**		
	Investments in associates are accounted for using equity method of accounting:				
	Security Papers Limited (SPL)	**40.03**	40.03	**1,790,164**	1,741,299
	SICPA Inks Pakistan (Private) Limited (SICPA)	**47**	47	**696,889**	604,285
				2,487,053	2,345,584

		2019	2018
16.1	**Security Papers Limited**		
	Cost - as at 14 June 2017	**1,613,357**	1,613,357
	Share of post acquisition after tax profits	**648,961**	384,124
	Effect of first time application of IFRS 9 on after tax profits	**(67,239)**	-
	Share in after tax other comprehensive income	**(68,884)**	(66,408)
	Effect of first time application of IFRS 9 on after other comprehensive income	**67,239**	-
	Dividend received	**(403,270)**	(189,481)
		1,790,164	1,741,592
16.2	**SICPA Inks Pakistan (Private) Limited**		
	Cost - as at 14 June 2017	**497,655**	497,655
	Share of post acquisition after tax profits	**770,949**	333,489
	Effect of first time application of IFRS 9 on after tax profits	**394**	-
	Share in after tax other comprehensive income	**439**	1,553
	Effect of first time application of IFRS 9 on after other comprehensive income	**(394)**	-
	Dividend received	**(572,154)**	(228,412)
		696,889	604,285

16.3 Summarised financial statements of the associates are as follows:

	Security Papers Limited (audited)		SICPA Inks Pakistan (Private) Limited (unaudited)	
	June 30, 2019	**June 30, 2018**	**March 31, 2019**	**March 31, 2018**
	----------Rupees '000----------			
Total assets of the Company	**6,084,434**	5,891,505	**2,539,949**	2,152,650
Total liabilities of the Company	**1,146,338**	1,185,954	**937,043**	774,307
	Year ended June 30, 2019	**Year ended June 30, 2018**	**Year ended March 31, 2019**	**Year ended March 31, 2018**
	----------Rupees '000----------			
Total revenue of the Company	**4,001,591**	3,466,918	**5,345,618**	3,469,552
Profit after tax of the Company	**772,034**	738,412	**930,505**	683,726
Total other comprehensive (loss) / income of the Company	**(6,185)**	(159,270)	**(2,106)**	3,231

16.4 The market value of SPL as at June 30, 2019 is Rs 93.93 per share (2018: Rs 121.02 per share) i.e. an aggregate amount of Rs 2,228.183 million (2018: Rs 2,870.805 million). The breakup value based on net assets of SICPA as per latest unaudited financial information as on March 31, 2019 is Rs 281.21 per share (March 31, 2018: Rs 241.81 per share) i.e. an aggregate amount of Rs 753.365 million (March 31, 2018: Rs 647.821 million).

		Note	2019	2018*
			----------- (Rupees in '000) -----------	
17.	**LOANS, ADVANCES AND BILLS OF EXCHANGE**			
	Government owned / controlled financial institutions	17.3	**69,716,308**	56,453,942
	Private sector financial institutions	17.4	**508,155,373**	379,101,059
			577,871,681	435,555,001
	Employees	17.5	**21,817,796**	20,083,398
			599,689,477	455,638,399
	Credit loss allowance	17.6	**(2,210,809)**	(2,137,951)
			597,478,668	453,500,448

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

17.1 The following table sets out information about the credit quality of loans advances and bills of exchange of the Group 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	21,811,034	-	-	**21,811,034**
Non performing loans	-	-	6,762	**6,762**
	21,811,034	**-**	**6,762**	**21,817,796**
	583,832,988	**-**	**15,856,489**	**599,689,477**
Less: Credit loss allowance	(27,750)	-	(2,183,059)	**(2,210,809)**
	583,805,238	**-**	**13,673,430**	**597,478,668**

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

	Government owned / controlled financial institutions	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	664	948
Balance as of 1 July 2018	**-**	**284**	**664**	**948**
Charge/(recovery) of allowance	-	26,703	(22)	26,681
Other charges	-	-	121	121
Balance as of 30 June 2019	**-**	**26,987**	**763**	**27,750**
Stage 3				
Opening balance as of 30 June 2018	1,066,606	1,063,630	7,715	2,137,951
Adjustments on initial recognition of IFRS 9	46,061	-	-	46,061
Balance as of 1 July 2018	**1,112,667**	**1,063,630**	**7,715**	**2,184,012**
Other recoveries	-	-	(953)	(953)
Balance as of 30 June 2019	**1,112,667**	**1,063,630**	**6,762**	**2,183,059**
	1,112,667	**1,090,617**	**7,525**	**2,210,809**

17.3 **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 (17.3.1)	**17,402,283**	13,086,096	**-**	-	**17,402,283**	13,086,096
Export sector (17.4.1)	**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	**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

17.3.1 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.

17.3.2 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.

17.4 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 (17.4.1)	**348,723,589**	263,202,036	-	-	**348,723,589**	263,202,036
Others (17.4.2 and 17.4.3)	**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

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

17.4.2 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.

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

17.5 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

17.6 Credit loss allowance

	2019	**2018**
	-----(Rupees in '000)-----	
Opening balance	**2,137,951**	2,137,951
Impact on opening balances due to initial application of IFRS 9	**47,009**	-
	2,184,960	2,137,951
Charge during the year	**26,681**	-
Other recoveries - net	**(832)**	-
Closing balance	**2,210,809**	2,137,951

	Note	2019	2018
		-------------(Rupees in '000)------------	
18. ASSETS HELD WITH THE RESERVE BANK OF INDIA			
Gold reserves			
Opening balance		**5,102,356**	4,374,538
Appreciation / (diminution) for the year due to revaluation	31.3.1.1	**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
	18.1	**8,582,805**	5,889,654
Indian notes representing assets receivable from the Reserve Bank of India	18.2	**997,292**	763,024
	24.1	**9,580,097**	6,652,678

18.1 These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 31.3.1).

18.2 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 31.3.1).

	Note	2019	2018
19. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH		-------------(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	19.1	**11,406,171**	9,813,926
		12,226,095	10,633,850
	19.2	**12,266,548**	10,674,303

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

19.2 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 31.1 and 31.3.1).

	Note	2019	2018
		-------------(Rupees in '000)------------	
20. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	20.1	**135,921,588**	109,008,109
Capital work-in-progress	20.4	**1,970,185**	575,120
		137,891,773	109,583,229

20.1 Operating fixed assets

2019

	Cost / revalued amount at July 1, 2018	Additions / Adjustments** / (deletions) during the year	Revaluation during the year	Cost / revalued amount at June 30, 2019	Accumulated depreciation at July 1, 2018	Depreciation for the year / Adjustments** / (deletions)	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 *	**64,107,959**	**-** **- **** **-**	**7,046,475**	**71,154,434**	**-**	**-** **-** **-**	**-**	**-**	**71,154,434**	**-**
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 *	**2,973,420**	**73,642** **(30,555) **** **-**	**53,891**	**3,070,398**	**271,789**	**121,960** **(1,696)** **-**	**(392,053)**	**-**	**3,070,398**	**20 years**
Buildings on leasehold land *	**4,328,303**	**142,690** **1,396 **** **(123,993)**	**272,330**	**4,620,726**	**501,326**	**212,940** **-** **(23,750)**	**(690,516)**	**-**	**4,620,726**	**20 years**
Plant and machinery	**7,910,525**	**873,676** **8,491 **** **-**	**-**	**8,792,692**	**7,081,063**	**145,860** **4,853** **-**	**-**	**7,231,776**	**1,560,916**	**10%-20%**
Furniture and fixtures	**270,522**	**40,890** **-** **(67,250)**	**-**	**244,162**	**191,852**	**16,217** **-** **(60,027)**	**-**	**148,042**	**96,120**	**10%-20%**
Office equipment	**2,259,325**	**202,000** **-** **(37,197)**	**-**	**2,424,128**	**1,524,601**	**236,089** **-** **(19,296)**	**-**	**1,741,394**	**682,733**	**10%-33%**
EDP equipment	**2,692,340**	**173,509** **- **** **(183,063)**	**-**	**2,682,786**	**2,258,928**	**294,845** **470 **** **(83,497)**	**-**	**2,470,747**	**212,039**	**33.33%**
Motor vehicles	**885,814**	**204,288** **3,255** **(100,978)**	**-**	**992,379**	**505,761**	**160,169** **1,600** **(78,231)**	**-**	**589,300**	**403,078**	**20%**
	123,933,890	**1,710,695** **(12,746) **** **(512,481)**	**22,983,491**	**148,102,849**	**14,925,781**	**2,552,432** **5,227 **** **(264,800)**	**(5,037,382)**	**12,181,259**	**135,921,588**	

2018

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

* These represent revalued assets

**Adjustments include reclassifications within different categories of assets

Buildings on Leasehold land include investment property having nil book value. The fair value of the investment property was assessed to be Rs 32.315 million as at March 31, 2017 as a result of revaluation exercise carried out by an independent valuer. The value has not changed significantly as at 30 June 2019.

20.2 Land and buildings of the Group are carried at revalued amount. The latest revaluation was carried out on June 30, 2019 by M/S M.J.Surveyors (Pvt.) Ltd and M/s Iqbal A. Nanjee & Co. (Private) Limited which resulted in a surplus of Rs. 28,020 million. The revaluation of the property was carried out based on the market value assessment being the fair value of 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	**42,446**	39,205
Leasehold land	**194,626**	163,442
Buildings on freehold land	**550,608**	330,772
Buildings on leasehold land	**869,918**	698,915
	1,657,598	1,232,334

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

General administrative and other expenses	46	**2,481,655**	2,421,511
Cost of printing bank notes and Prize Bonds	44	**64,857**	72,378
Others		**3,538**	1,512
		2,550,050	2,495,401

20.4 Capital work-in-progress

Buildings on freehold land	**14,738**	66,473
Buildings on leasehold land	**264,620**	334,491
Office equipment	**61,570**	46,190
EDP equipment	**195**	39,544
Plant and machinery	**1,629,062**	88,422
	1,970,185	575,120

21 INTANGIBLE ASSETS

Software	*21.1*	**198,758**	141,700
Capital work-in-progress		**-**	167,538
		198,758	309,238

21.1 Intangible assets

		Cost at July 1	Asset transferred from PSPC	Additions during the year	Cost at June 30	Accumulated amortisation at July 1	Accumulated amortisation transferred from PSPC	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
		---(Rupees in '000) ---									
Software	**2019**	**810,596**	**-**	**184,404**	**995,000**	**668,896**	**-**	**127,346**	**796,242**	**198,758**	**20 - 33.33**
Software	2018	637,950	-	172,646	810,596	633,218	-	35,678	668,896	141,700	20 - 33.33

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

		2019	**2018**
		---------(Rupees in '000)--------	
General administrative and other expenses	46	**127,346**	35,590
Cost of printing bank notes and Prize Bonds	44	**-**	88
		127,346	35,678

22. DEFERRED TAXATION

	Note	2019	2018
		---------(Rupees in '000)--------	
Deductible temporary differences			
Property, plant and equipment		-	12,823
Stores and spares - net		**10,710**	7,911
Stock-in-trade - net		**14,856**	12,969
Loans and advances and bills of exhange		**1,611**	1,389
Investments - local		**36,311**	1,476
Other advances, deposits and prepayments		**8,702**	7,411
Other liabilities - others		**8,169**	9,383
Deferred liabilities - funded staff retirement benefits		**724,173**	692,911
		804,532	746,273
Taxable temporary differences			
Property, plant and equipment		**(68,681)**	-
Long term investment in associates		**(368,285)**	(347,064)
Investments - local		-	-
Surplus on revaluation of property, plant and equipment		-	(155,210)
		(436,966)	(502,274)
Deferred taxation asset		**367,566**	243,999

23. OTHER ASSETS

	2019	2018
Commission receivable and others	**3,788,268**	3,337,813
Stock-in-trade - net	**2,951,232**	2,321,705
Other advances, deposits and prepayments	**6,588,027**	907,617
Stores and spares - net	**622,715**	293,041
Medical, stationery consumables and stamps on hand	**248,902**	192,730
	14,199,144	7,052,906

24. BANK NOTES IN CIRCULATION

	Note	2019	2018
Total bank notes issued	24.1	**5,285,185,252**	4,635,338,252
Bank notes held by the Banking Department	9	**(159,748)**	(191,541)
Bank notes in circulation		**5,285,025,504**	4,635,146,711

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

	Note	2019	2018
		--------------(Rupees in '000)------------	
Gold reserves held by the Bank	8	**468,625,002**	315,610,772
Local currency - coins	9	**1,039,138**	989,497
Foreign currency accounts and investments	10	**447,218,637**	723,362,840
Special Drawing Rights of the International Monetary Fund	12	**34,152,690**	25,618,350
Investments - local	15	**4,324,569,688**	3,563,104,115
Assets held with the Reserve Bank of India	18	**9,580,097**	6,652,678
		5,285,185,252	4,635,338,252

25. CURRENT ACCOUNTS OF GOVERNMENTS

25.1 Current accounts of Governments - payable balances

	Note	2019	2018
Federal Government	25.3	**953,723,619**	24,853,643
Provincial Governments			
- Punjab	25.4	**71,904,587**	6,207,539
- Sindh	25.5	**22,340,295**	11,180,750
- Khyber Pakhtunkhwa	25.6	**18,825,192**	25,367,613
- Baluchistan	25.7	**20,449,672**	6,331,168
Gilgit - Baltistan Administration Authority	25.8	**14,173,504**	15,887,920
Government of Azad Jammu and Kashmir	25.9	**97,061**	-
		147,790,311	64,974,990
		1,101,513,930	89,828,633

		Note	2019	2018
25.2	**Current accounts of Governments - receivable balances**		**------------(Rupees in '000)-----------**	
	Government of Azad Jammu and Kashmir		-	5,515,438
	Railways accounts		**28,200,405**	27,588,676
			28,200,405	33,104,114
25.3	**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
25.4	**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
25.5	**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
25.6	**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
25.7	**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
25.8	**Gilgit - Baltistan Administration Authority**		**14,173,504**	15,887,920
25.9	**Government of Azad Jammu and Kashmir**		**97,061**	-

25.10 These balances carry mark-up at rates ranging from 6.01% to 6.83% per annum (2018: 6.01% to 6.83% per annum).

26 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).

27. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

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

A bilateral currency swap agreement (CSA) was entered between the Bank and the People's Bank of China on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was renewed on 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.

		Note	2019	2018
			--------------(Rupees in '000)------------	
28.	**DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS**			
	Foreign currency			
	Scheduled banks		**37,854,192**	21,073,426
	Held under Cash Reserve Requirement	28.1	**244,598,533**	179,222,542
			282,452,725	200,295,968
	Local currency			
	Scheduled banks	28.1	**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

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

		Note	2019	2018
29.	**OTHER DEPOSITS AND ACCOUNTS**		--------------(Rupees in '000)------------	
	Foreign currency			
	Foreign central banks		**152,341,810**	54,830,309
	International organisations		**364,429,695**	30,825,771
	Foreign government		**487,918,827**	-
	Others		**29,067,136**	35,566,507
		29.1	**1,033,757,468**	121,222,587
	Local currency			
	Special debt repayment	29.3	**24,243,841**	24,243,841
	Government	29.4	**17,850,348**	17,850,348
	Foreign central banks		**2,172**	2,115
	International organisations		**5,788,171**	6,574,820
	Others		**34,682,484**	30,534,489
			82,567,016	79,205,613
		29.2	**1,116,324,484**	200,428,200

29.1 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.

		2019	2018
29.2	The interest rate profile of the interest bearing deposits is as follows:	----------(% 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
	Foreign government	**3.00**	-
	Others	**1.98 to 2.51**	1.15 to 1.92

29.3 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.

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

		Note	2019	2018
30.	**PAYABLE TO THE INTERNATIONAL MONETARY FUND**		**--------------(Rupees in '000)------------**	
	Borrowings under:			
	Fund facilities	30.1 & 30.3	**924,568,518**	743,484,251
	Allocation of SDRs	30.2	**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

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

Under GRA financing, IMF granted Extended Fund Facility (EFF) amounting to SDR 4,393 million in FY 2013-14, having repayment period of 4½–10 years, with repayments in twelve equal semi-annual installments. A total amount of SDR 4,393 million has been disbursed under twelve (12) tranches of EFF. The repayment under this facility has started from March 2018 and will continue till September 2026.

30.2 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
30.3	Interest profile of amount payable to the IMF is as under:		**--------(% per annum)-------**	
	Fund facilities	30.3.1	**1.89 to 2.16**	1.53 to 1.99

30.3.1 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
			-------------(Rupees in '000)-------------	
31.	**OTHER LIABILITIES**			
	Local currency			
	Provision against overdue mark-up	31.1	**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	31.2	**-**	10,000
	Unrealised loss on derivatives - net		**112,862,311**	27,277,082
	Other accruals and provisions	31.3	**37,500,714**	34,608,659
	Payable to National Security Printing Company (NSPC)		**240,306**	905,862
	Others	31.4	**9,627,775**	10,505,662
			182,539,239	84,506,219

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

31.2 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
			-------------(Rupees in '000)-------------	
31.3	**Other accruals and provisions**			
	Agency commission		**14,538,592**	14,041,953
	Provision for employees' compensated absences	47.	**6,946,372**	6,990,016
	Provision for other doubtful assets	31.3.1	**10,384,165**	7,456,737
	Trade and other payables		**2,020,441**	2,010,967
	Other provisions	31.3.2	**2,850,288**	2,848,701
	Others		**760,856**	1,260,285
			37,500,714	34,608,659

		Note	2019	2018
31.3.1	**Provision for other doubtful assets**		**------------(Rupees in '000)-----------**	
	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
		31.3.1.1	**10,384,165**	7,456,736

31.3.1.1 Movement of provisions for other doubtful assets

	2019	2018
Opening balance	**7,456,736**	6,652,772
Charge / (reversal) for the year - net	**456,042**	76,145
(Diminution) / 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

31.3.2 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).

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

		Note	2019	2018
32.	**DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS**		**------------(Rupees in '000)-----------**	
	Unfunded staff retirement benefits			
	Pension		**49,924,084**	59,531,106
	Gratuity scheme		**65,700**	56,885
	Post retirement medical benefits		**18,386,278**	16,440,593
	Benevolent fund scheme		**9,797,597**	8,489,555
	Six months post retirement facility		**678,200**	616,609
		46.3.3	**78,851,859**	85,134,748
	Provident fund scheme		**825,904**	874,695
			79,677,763	86,009,443
	Funded staff retirement benefits			
	Funded staff retirement benefits Pension	46.4.2	**4,311,844**	4,098,377
	Total		**83,989,607**	90,107,820

33. SHARE CAPITAL

2019	2018		2019	2018
------(Number of shares)------			**--------(Rupees in '000)--------**	
Authorised share capital				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	**100,000**	100,000
Issued, subscribed and paid-up capital				
1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	**100,000**	100,000

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

34. RESERVES

34.1 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.

34.2 Reserve for acquisition of PSPC

This represents reserves against Bank's exposure in PSPC.

34.3 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.

35. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK	Note	2019	2018
		(Rupees in '000)	
Opening balance		**311,313,769**	266,327,601
Appreciation / (diminution) for the year due to revaluation	8	**152,866,872**	44,986,168
		464,180,641	311,313,769

36. CONTINGENCIES AND COMMITMENTS

36.1 Contingencies

36.1.1 State Bank of Pakistan

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

	2019	2018
Federal Government	**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 of which is pending. On the last hearing on June 15, 2017 the petition was adjourned sine die. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.

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

	Note	2019	2018
		(Rupees in '000)	
d) Other claims against the Bank not acknowledged as debts	36.1.1.1	**89,690**	333,265

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

36.1.2 National Institute of Banking and Finance (Guarantee) Limited

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

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

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

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

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

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

36.1.3 Pakistan Security Printing Corporation (Private) Limited

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

b) In the previous years, certain income tax demands were raised for amount of Rs 34.9 million. The Corporation, having paid the aforesaid demand of Rs 34.9 million, had filed appeals before the Commissioner of Inland Revenue (Appeals) [CIR(A)] which were decided against the Corporation. The Corporation further filed appeal before the Appellate Tribunal Inland Revenue [ATIR] which vide order dated June 29, 2015 partially upheld the action of the Additional Commissioner Inland Revenue [ACIR] for amending the aforesaid assessments. The Corporation, being aggrieved of the matters decided in favour of the tax authorities, filed miscellaneous application before ATIR, which were dismissed by the ATIR. A reference before the High Court of Sindh has been filed by the Corporation, the adjudication of which is pending to date.

The management is continuing with its view that the demand will eventually be revoked and the amount paid will be refunded / adjusted in favour of the Corporation. Therefore no provision has been made in the financial statements.

c) During the year, the tax demands aggregating Rs 515.487 million relating to the Corporation's tax years 2013 to 2018 were raised. In relation to the tax year 2017 a rectification application was filed as a result of which the aggregate tax demand was reduced to Rs 343.240 million. Simultaneously, appeals before the CIR(A) were filed which were partially decided in favour of the Corporation vide orders dated January 28, 2019 (for tax years 2013 to 2017) and August 6, 2019 (for tax year 2018) thus further reducing the tax demand to Rs 206.772 million mainly on account of apportionment of expenses and disallowance of credit claimed on sales.

Being aggrieved, the Corporation has filed appeals before the ATIR for tax years 2013 to 2017 which are pending for adjudication, while appeal for tax year 2018 shall be filed in due course. The Corporation has also filed application to the Deputy Commissioner Inland Revenue (DCIR) for giving appeal effect of the aforementioned CIR(A) order.The management, based on the advice of tax experts, expects a favourable outcome of the aforementioned matters and therefore no provision has been made in the financial statements.

		Note	2019	2018
36.2	**Commitments**		---------------(Rupees in '000)--------------	
36.2.1	Foreign currency forward and swap contracts - sale		**1,838,743,608**	1,112,127,341
36.2.2	Foreign currency forward and swap contracts - purchase		**548,529,115**	248,969,098
36.2.3	Futures - sale		**8,204,543**	41,585,759
36.2.4	Futures - purchase		**6,411,196**	26,130,491
36.2.5	Capital commitments	36.2.5.1	**628,904**	295,241
36.2.5.1	This represents amounts committed by the Group to purchase assets from successful bidders.			
36.2.6	Letter of guarantee / credit		**1,554,645**	1,617,255

36.2.7 The Bank has a commitment to extend PKR equivalent to CNY 20,000 million to People's Bank of China under bilateral currency swap agreement as disclosed under note 27 to these consolidated financial statements.

36.2.8 The Bank has made commitments to extend advance under ways and means limits to the Provincial Governments of Pakistan, Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority in the normal course of its operations. The unutilised limits as on June 30, 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.

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

	Note	2019	2018
		(Rupees in '000)	
Discount, interest / mark-up on Government transactions			
- Government securities	37.1	**568,488,867**	209,210,293
- Federal Government Scrips		**82,200**	82,707
- Loans and advances to and current accounts of Governments	37.2	**358,435**	802,946
Securities purchased under agreement to resell		**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		**11,944,817**	10,231,755
Foreign currency loan and advance including deposits		**16,084,959**	10,530,113
Foreign currency securities		**730,371**	5,341,727
Others		**277,359**	4,443
		646,009,384	314,537,779

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

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

	2019	2018
	(% 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

38. INTEREST / MARK-UP EXPENSE

	Note	2019	2018
		(Rupees in '000)	
Deposits		**37,263,022**	14,122,904
Interest on Special Drawing Rights		**18,812,906**	14,214,669
Securities sold under agreement to repurchase		**47,978,340**	1,148,589
Profit on Sukuks purchased under Bai Muajjal agreement		**4,636,357**	1,168,403
Charges on allocation of Special Drawing Rights of the IMF		**2,070,227**	1,185,141
Others		**2,704**	2,682
		110,763,556	31,842,388

39. COMMISSION INCOME

	Note	2019	2018
Market Treasury Bills	39.1	**2,870,683**	2,763,675
Management of public debts	39.1	**731,831**	818,072
Prize Bonds and National Saving Certificates	39.1	**526,374**	494,238
Draft / payment orders		**7,456**	7,278
Others		**52**	135
		4,136,396	4,083,398

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

40. EXCHANGE (LOSS) / GAIN - NET

	2019	2018
	(Rupees in '000)	
Gain / (loss) 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)
Others	**(220,029)**	(2,293)
Exchange risk fee income	**39,672**	36,947
	(506,131,054)	(72,280,199)

41. SHARE OF PROFIT FROM ASSOCIATES

	2019	2018
Security Papers Limited	**264,837**	370,066
SICPA Inks Pakistan (Private) Limited	**437,460**	321,351
	702,297	691,417

42. OTHER OPERATING INCOME - NET

	Note	2019	2018
		-----------(Rupees in '000')---------	
Penalties levied on banks and financial institutions		**2,033,174**	1,517,846
License / Credit Information Bureau fee recovered		**951,784**	967,216
Gain / (loss) on sale of investment-net			
Foreign - 'at fair value through profit or loss'		**(2,552,143)**	237,415
Local - 'at fair value through profit or loss'		**186,113**	-
Gain / (loss) on remeasurement of securities classified as 'fair value through profit or loss'		**3,511,526**	(3,947,032)
Revenue from sale of Prize Bonds to Government of Pakistan		**192,138**	438,075
Others		**24,341**	11,973
		4,346,933	(774,507)

43. OTHER INCOME - NET

	Note	2019	2018
(Loss) / gain on disposal of property, plant and equipment		**(132,139)**	13,829
Liabilities and provisions written back - net		**7,493**	11,351
Grant income under foreign assistance program		**189,271**	18,090
Others	43.1	**253,789**	753,256
		318,414	796,526

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

44. COST OF PRINTING BANK NOTES AND PRIZE BONDS

	Note	2019	2018
		-----------(Rupees in '000')---------	
Raw material			
Opening stock		**1,025,080**	1,144,470
Purchases including in transit		**9,585,440**	7,787,202
Closing stock		**(660,010)**	(1,025,080)
		9,950,510	7,906,592
Salaries, wages and benefits	44.1	**1,567,076**	1,226,762
Stores and spares		**603,522**	344,812
Fuel and power		**122,001**	98,820
Insurance		**10,329**	6,497
Transportation		**-**	1,617
Rent, rates and taxes		**33,001**	27,048
Depreciation	20.3	**64,857**	72,378
Provision for obsolete stores and spares - net		**5,286**	4,072
Stock-in-trade - net		**-**	809
Repairs and maintenance		**56,513**	40,680
Amortisation		**-**	88
		2,462,585	1,823,583
Manufacturing cost		**12,413,095**	9,730,175
Opening work-in-process		**1,344,144**	746,330
Closing work-in-process		**(2,328,955)**	(1,344,144)
		(984,811)	(597,814)
Cost of goods manufactured		**11,428,284**	9,132,361
Opening stock of finished goods		**4,359**	234,216
Closing stock of finished goods		**(13,494)**	(4,359)
		(9,135)	229,857
		11,419,149	9,362,218

44.1 Salaries, wages and benefits include Rs 421.941 million (2018: Rs 267.542 million) in respect of staff pension.

45. AGENCY COMMISSION

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

46. GENERAL ADMINISTRATIVE AND OTHER EXPENSES	Note	2019	2018
		-----------(Rupees in '000)--------	
Salaries and other benefits		**10,995,879**	10,957,099
Retirement benefits and employees' compensated absences	46.1	**9,796,160**	9,744,917
Contribution to Employee Staff Welfare Fund		**75,606**	116,898
Rent and taxes		**95,518**	119,409
Insurance		**76,215**	72,609
Electricity, gas and water		**472,969**	436,231
Depreciation	20.3	**2,481,655**	2,421,512
Amortisation of intangible assets	21	**127,346**	35,590
Repairs and maintenance		**866,531**	746,948
Directors' fee		**2,190**	1,172
Auditors' remuneration	46.2	**17,860**	17,868
Legal and professional		**92,563**	45,587
Fund managers / custodian expenses		**346,315**	553,592
Travelling expenses		**457,053**	676,197
Daily expenses		**137,885**	127,298
Fuel		**34,698**	78,576
Conveyance		**21,127**	26,572
Postages, telegram / telex and telephone		**229,521**	199,935
Training		**101,121**	121,030
Stationery		**54,895**	32,309
Remittance of treasure		**174,077**	147,329
Books and newspapers		**48,185**	36,414
Memorial chair		**-**	17,461
Advertisement		**36,532**	57,370
Uniforms		**34,436**	33,934
Board / Board committee expenses		**11,000**	12,789
Recruitment charges		**10,525**	1,297
Others		**1,111,557**	867,668
		27,909,419	27,705,611

46.1 This includes an amount relating to defined contribution plan aggregating Rs. 352.266 million (2018: Rs. 347.887 million).

46.2 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
National Institute of Banking and Finance						
Audit fee	**-**	**300**	**300**	-	275	275
Out of pocket expenses	**-**	**43**	**43**	-	45	45
	-	**343**	**343**	-	320	320
		A. F. Ferguson & Co.	Total		A. F. Ferguson & Co.	Total
Pakistan Security Printing Corporation						
Audit fee		**1,015**	**1,015**		1,953	1,953
Out of pocket expenses		**182**	**182**		195	195
		1,197	**1,197**		2,148	2,148
	8,160	**9,700**	**17,860**	7,700	10,168	17,868

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

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

	2019	2018
- Discount rate for year end obligation	**14.25% p.a**	9.00% p.a.
- Salary increase rate (where applicable)	**15.00% p.a**	10.00% p.a.
- Pension indexation rate (where applicable)	**8.50% p.a**	7.5% 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		
SBP	**6.4% p.a**	9.5% p.a.
SBP-BSC	**6.7% p.a.**	18.00% 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.

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

Discount rate risk

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

Salary increase / inflation risk

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

Pension Increase risk

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

Mortality risk

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

Withdrawal risk

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

46.3.3 Change in present value of defined benefit obligation

	2019					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement benefits**	**Total**
	(Rupees in '000)					
Present value of defined benefit obligation as on July 1, 2018	**59,531,106**	**56,885**	**23,604,207**	**1,325,941**	**616,609**	**85,134,748**
Current service cost	**922,911**	**6,068**	**543,732**	**6,086**	**43,330**	**1,522,127**
Interest cost on defined benefit obligation	**5,112,439**	**5,036**	**2,084,977**	**113,021**	**54,776**	**7,370,249**
Benefits paid	**(5,452,453)**	**(1,856)**	**(875,611)**	**(140,298)**	**(15,970)**	**(6,486,188)**
Liability transferred to SBP - BSC	-	-	-	-	-	-
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	**(11,254,507)**	**(2,333)**	**766,751**	**(279,064)**	**(10,705)**	**(10,779,858)**
Experience adjustments	**1,064,588**	**1,900**	**1,028,881**	**5,252**	**(9,840)**	**2,090,781**
Present value of defined benefit obligation as on June 30, 2019	**49,924,084**	**65,700**	**27,152,937**	**1,030,938**	**678,200**	**78,851,859**

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

46.3.4 Remeasurements recognised in consolidated 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	**11,254,507**	**2,333**	**(766,751)**	**279,064**	**10,705**	**10,779,858**
- Experience adjustments	**(1,064,588)**	**(1,900)**	**(1,028,881)**	**(5,252)**	**9,840**	**(2,090,781)**
	10,189,919	**433**	**(1,795,632)**	**273,812**	**20,545**	**8,689,077**

	2018					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement benefits**	**Total**
	(Rupees in '000)					
- Actuarial gains / (losses) from changes in financial assumptions	-	-	-	96,592	-	96,592
- Experience adjustments	(2,844,464)	(1,420)	(476,992)	226,538	(30,583)	(3,126,921)
	(2,844,464)	(1,420)	(476,992)	323,130	(30,583)	(3,030,329)

46.3.5 Amount recognised in the consolidated profit and loss account

	2019					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	(Rupees in '000)					
Current service cost	**922,911**	**6,068**	**543,732**	**6,086**	**43,330**	**1,522,127**
Interest cost on defined benefit obligation	**5,112,439**	**5,036**	**2,084,977**	**113,021**	**54,776**	**7,370,249**
Contribution made by employees	**-**	**-**	**-**	**(13,222)**	**-**	**(13,222)**
	6,035,350	**11,104**	**2,628,709**	**105,885**	**98,106**	**8,879,154**

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

46.3.6 Movement of present value of defined benefit obligation

	2019					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	(Rupees in '000)					
Net recognised liabilities at July 1, 2018	**59,531,106**	**56,885**	**23,604,207**	**1,325,941**	**616,609**	**85,134,748**
Amount recognised in the consolidated profit and loss account	**6,035,350**	**11,104**	**2,628,709**	**105,885**	**98,106**	**8,879,154**
Remeasurements	**(10,189,919)**	**(433)**	**1,795,632**	**(273,812)**	**(20,545)**	**(8,689,077)**
Benefits paid during the year	**(5,452,453)**	**(1,856)**	**(875,611)**	**(140,298)**	**(15,970)**	**(6,486,188)**
Employees contribution	**-**	**-**	**-**	**13,222**	**-**	**13,222**
Net recognised liabilities at June 30, 2019	**49,924,084**	**65,700**	**27,152,937**	**1,030,938**	**678,200**	**78,851,859**

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

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
		(Rupees in '000)	
Pension			
Discount rate	1%	(2,692,719)	3,009,960
Salary increase rate	1%	1,007,859	(965,453)
Pension increase rate	1%	2,189,756	(1,938,039)
Expected mortality rates	1 Year	(45,583)	88,782
Gratuity			
Discount rate	1%	(49,444)	74,039
Salary increase rate	1%	73,902	(49,430)
Post retirement medical benefit			
Discount rate	1%	(3,586,612)	4,554,785
Salary increase	1%	64,494	(56,538)
Post-retirement medical cost increase rate	1%	4,622,600	(3,686,801)
Expected mortality rates	1 Year	169,969	(171,091)
Benevolent			
Discount rate	1%	(38,594)	42,306
Six months post retirement benefit			
Discount rate	1%	(50,158)	56,777
Salary / petrol price increase rate	1%	56,995	(51,259)

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

46.3.8 Duration of defined benefit obligation

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits
Weighted average duration of defined benefit obligation	6 Years	4-12 Years	14-16 Years	4-5 Years	5-9 Years

46.3.9 Estimated expenses to be charged to consolidated 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 benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	----------	----------	----------	(Rupees in '000)	----------	----------
Current service cost	842,543	9,137	633,542	3,037	48,373	1,536,632
Interest cost on defined benefit obligation	7,114,182	9,362	3,869,294	146,909	96,643	11,236,390
Amount chargeable to the consolidated profit and loss account	7,956,725	18,499	4,502,836	149,946	145,016	12,773,022

46.4 Staff retirement benefits-funded (PSPC)

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

	2019	2018
- Discount rate	**14.50 % p.a**	10.00% p.a
- Salary increase rate	**12.50% p.a**	10.00% p.a
- Pension increase rate	**10.00% p.a**	6.00% p.a

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

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

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

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

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

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

	2019	2018
	---------(Rupees in	'000)---------
Present value of defined benefit obligation	**5,785,717**	5,788,238
Fair value of plan assets	**(1,473,873)**	(1,689,861)
	4,311,844	4,098,377

46.4.4 Movement of present value of defined benefit obligation and fair value of plan assets

	2019	2018
	---------(Rupees in '000)---------	
Movement in defined benefit obligation		
Present value as at July 1, 2018	**5,788,238**	4,957,302
Current service cost	**69,371**	58,305
Interest cost of defined benefit obligation	**564,011**	448,191
Benefits paid during the year	**(296,263)**	(223,980)
Past service cost	**88,194**	-
Actuarial remeasurement loss / (gain)	**(427,834)**	548,420
Present value as at June 30, 2019	**5,785,717**	5,788,238
Movement in fair value of plan assets		
Fair value as at July 1, 2018	**1,689,861**	1,811,035
Expected return on plan assets	**157,956**	160,716
Contribution made by employer	**75,658**	76,844
Benefits paid during the year	**(296,263)**	(223,980)
Actuarial remeasurement (loss) / gain	**(153,339)**	(134,754)
Fair value as at June 30, 2019	**1,473,873**	1,689,861

46.4.5 Plan assets consist of the following:

	2019		2018	
	(Rupees in '000)	%	(Rupees in '000)	%
Equity instruments	**89,092**	**4.62**	582,186	26.12
Debt instruments	**1,083,083**	**56.19**	700,260	31.41
Cash and cash equivalent	**755,540**	**39.19**	946,867	42.47
	1,927,715	**100.00**	2,229,313	100.00
Less: Pertaining to NSPC (being the multi employer fund)	**443,842**		539,452	
	1,483,873		1,689,861	

46.4.6 Amount recognised in the consolidated profit and loss account

	2019	2018
Current service cost	**69,371**	58,305
Past service cost	**88,194**	
Net interest cost on defined benefit obligation	**406,055**	287,475
	563,620	345,780

46.4.7 Amount recognised in consolidated other comprehensive income

	2019	2018
Remeasurement (loss) / gain on obligation		
Actuarial (losses) / gains from changes in financial assumptions	**427,834**	(548,420)
Remeasurement (loss) / gain on plan assets		
Actual net loss on plan assets	**(153,339)**	(134,754)
	274,495	(683,174)

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in assumption	Increase in assumption	Decrease in assumption
		----------(Rupees in '000)----------	
Pension			
Discount rate	1%	(587,234)	707,102
Salary growth rate	1%	179,205	(165,726)
Pension indexation rate	1%	541,945	(464,272)

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

46.4.9 Duration of defined benefit obligation

	Pension
Weighted average duration of defined benefit obligation	**11.86 Years**

46.4.10 Estimated expenses to be charged to consolidated 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 Rs. 675.572 million.

47. EMPLOYEES' COMPENSATED ABSENCES

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 6,946.386 million (2018: Rs. 6,990.016 million). An amount of Rs. 570.086 million (2018: Rs. 1,626.349 million) has been charged to the consolidated profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2020 would be Rs 1,431.786 million. The benefits paid during the year amounted to Rs 613.73 million (2018: Rs 1,734.717 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 394.956 million and Rs. 451.744 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 464.219 million and Rs. 414.554 million respectively and the net liability would also be affected by the same amount. The weighted average durations of the liability against employees' compensated absences for the Bank and the Corporation are 8 years and 4 years respectively.

48. 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)----------				
Opening balance as of 30 June 2018	-	2,137,951	-	-	2,137,951
Adjustments on initial recognition of IFRS 9	66	47,009	-	15	47,090
Balance as of 1 July 2018	**66**	**2,184,960**	**-**	**15**	**2,185,041**
(Recovery)/charge of allowance	12,929	26,681	-	12	39,622
Other recoveries - net	-	(832)	-	-	(832)
Balance as of 30 June 2019	**12,995**	**2,210,809**	**-**	**27**	**2,223,831**

49. TAXATION

	Note	2019	2018
		-----(Rupees in '000)-----	
Current - for the year		**545,432**	(905,828)
Current - prior year		**1,455**	(12,585)
Deferred		**(17,665)**	(129,702)
		529,222	(1,048,115)

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

	Note	2019	2018
Profit before taxation		**(514,081)**	176,720,766
Adjustments for:			
Depreciation	20.3	**2,550,050**	2,495,402
Amortisation of intangible assets	21.2	**127,346**	35,678
Credit loss allowance on financial instruments - net		**26,693**	(39,497)
Provision / (reversal) for:			
- retirement benefits and employees' compensated absences	46	**9,796,160**	9,742,967
- other doubtful assets		**456,042**	76,145
- others		**(76)**	-
Gain on disposal of property, plant and equipment		**132,139**	(13,829)
Share of profit from associate		**(702,297)**	(691,417)
Dividend income		**(390,000)**	(415,000)
Effect of exchange gain on cash and cash equivalents		**184,496,821**	111,510,273
		195,978,797	299,421,488

51. CASH AND CASH EQUIVALENTS

	Note	2019	2018
Cash and bank balances	7	**304,957**	586,651
Local currency - coins	9	**1,039,138**	989,497
Foreign currency accounts and investments	10	**1,374,793,211**	991,942,236
Earmarked foreign currency balances	11	**72,702,673**	12,277,462
Special Drawing Rights of the IMF	12	**55,461,054**	59,272,776
		1,504,301,033	1,065,068,622

52. RELATED PARTY TRANSACTIONS

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

52.1 Governments and related entities

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

	2019	2018
Transactions during the year	-----------(Rupees in '000)---------	
- 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 39).

52.2 Remuneration to key management personnel

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

	2019	2018
	-----------(Rupees in '000)---------	
Short-term employee benefit	**854,080**	699,178
Post-employment benefit	**77,978**	146,447
Loans disbursed during the year	**123,765**	149,451
Loans repaid during the year	**109,194**	141,584
Directors' fees	**14,418**	15,047
Number of key management personnel	**135**	88

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

53. RISK MANAGEMENT POLICIES

The Group is primarily subject to interest / mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 53.1 to 53.9 to these consolidated financial statements. The Group has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

53.1 Credit risk management

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

53.1.1 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.

53.1.2 Impairment assessment (Policy applicable from 1 July 2018)

The references below show where the Group'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.

53.1.3 Definition of default

The Group 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 Group.

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.

53.1.4 Credit rating and PD estimation process

The Group'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%	

53.1.5 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 Group 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 Group 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 Group's models.

53.1.6 Loss given default

Loss given default represents the Group'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.

53.1.7 Significant increase in credit risk

The Group 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.

53.1.8 Collateral and other credit enhancements

To mitigate its credit risks on financial assets, the Group 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 Group have been disclosed in their respective notes, where applicable.

53.2 Concentrations of risk

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

53.2.1 Geographical analysis

	2019						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(Rupees in '000)						
Financial assets							
Cash and bank balances held by subsidiaries	**304,957**	**-**	**-**	**-**	**-**	**-**	**304,957**
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 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	**782,918,156**	**-**	**-**	**-**	**-**	**-**	**782,918,156**
Current accounts of Governments	**28,200,405**	**-**	**-**	**-**	**-**	**-**	**28,200,405**
Investments - local	**7,906,282,006**	**-**	**-**	**-**	**-**	**-**	**7,906,282,006**
Loans, advances and bills of exchange	**597,523,032**	**-**	**-**	**-**	**-**	**-**	**597,523,032**
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	**8,892,505**	**84,456**	**162,039**	**140,563**	**-**	**-**	**9,279,563**
Total financial assets	**9,409,918,186**	**586,437,318**	**533,273,812**	**309,776,294**	**1,186,136**	**3,273,527**	**10,843,865,273**

	2018						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(Rupees in '000)						
Financial assets							
Cash and bank balances held by subsidiaries	586,651	-	-	-	-	-	586,651
Local currency - coins	989,497	-	-	-	-	-	989,497
Foreign currency accounts and investments	28,158,826	452,796,136	705,297,405	97,916,940	15,639,892	34,011,088	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	-	-	12,277,462
Special Drawing Rights of the International Monetary 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	3,824,128,547	-	-	-	-	-	3,824,128,547
Loans, advances and bills of exchange	453,176,066	324,382	-	-	-	-	453,500,448
Assets held with the Reserve Bank of India	-	1,550,321	-	-	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	-	10,674,303	-	-	-	-	10,674,303
Other assets	2,743,075	571	93,552	288	-	-	2,837,486
Total financial assets	5,917,474,027	465,345,713	764,684,095	97,917,228	15,639,892	34,011,088	7,295,072,043

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

53.2.2 Industrial analysis

	2019					
	Sovereign	**Supranational**	**Public Sector Entities**	**Banks & Financial Institutions**	**Others**	**Grand Total**
	(Rupees in '000)					
Financial assets						
Cash and bank balances held by subsidiaries	**10,041**	**-**	**-**	**294,916**	**-**	**304,957**
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 balances	**72,702,673**	**-**	**-**	**-**	**-**	**72,702,673**
Special Drawing Rights of the International Monetary Fund						**-**
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	**7,818,732,737**	**-**	**11,741,968**	**76,000,773**	**-**	**7,906,475,478**
Loans, advances and bills of exchange	**-**	**-**	**69,098,478**	**506,569,919**	**21,854,635**	**597,523,032**
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**	**198,754**	**191,019**	**569,640**	**9,391,215**
Total financial assets	**8,341,783,887**	**56,655,211**	**81,039,200**	**2,342,267,823**	**22,424,275**	**10,844,170,396**

	2018					
	Sovereign	**Supranational**	**Public Sector Entities**	**Banks & Financial Institutions**	**Others**	**Grand Total**
	(Rupees in '000)					
Financial assets						
Cash and bank balances held by subsidiaries	15,745	-	-	570,906	-	586,651
Local currency - coins	989,497	-	-	-	-	989,497
Foreign currency accounts and investments	1,188,726,580	34,767,681	4,246,075	86,719,501	19,360,450	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	-	12,277,462
Special Drawing Rights of the International Monetary Fund						
Monetary Fund	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary						
Fund under quota arrangements	-	20,362	-	-	-	20,362
Securities purchased under agreement to resell	-	-	-	1,562,309,789		1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	33,104,114
Investments - local	3,725,288,491	-	87,466,618	11,373,438	-	3,824,128,547
Loans, advances and bills of exchange	14,453,450	-	42,364,420	376,606,894	20,075,684	453,500,448
Assets held with the Reserve Bank of India	1,550,321	-	-	-	-	1,550,321
Balances due from the Governments of India and						
Bangladesh	10,674,303	-	-	-	-	10,674,303
Other assets	1,470,185	93,254	387,324	1,158	885,566	2,837,487
Total financial assets	4,988,550,148	94,154,073	134,464,437	2,037,581,686	40,321,700	7,295,072,044

53.3 Credit exposure by credit rating

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

	2019							
	Sovereign (53.3.1)	**AAA**	**AA**	**A**	**BBB**	**Lower than BBB**	**Unrated**	**Grand Total**
	(Rupees in '000)							
Financial assets								
Cash and bank balances held by subsidiaries	**10,713**	**-**	**-**	**294,244**	**-**	**-**	**-**	**304,957**
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 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	**-**	**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	**7,817,210,739**	**56,491,874**	**-**	**-**	**-**	**-**	**32,579,393**	**7,906,282,006**
Loans, advances and bills of exchange	**-**	**237,596,742**	**290,797,706**	**25,320,599**	**8,177,076**	**19,047**	**35,611,862**	**597,523,032**
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**	**264,085**	**34,358**	**98,658**	**-**	**-**	**782,455**	**9,391,215**
Total financial assets	**7,928,552,467**	**1,478,707,790**	**588,514,637**	**683,828,365**	**10,488,794**	**28,709,680**	**124,461,763**	**10,843,263,496**

	2018							
	Sovereign (53.3.1)	**AAA**	**AA**	**A**	**BBB**	**Lower than BBB**	**Unrated**	**Grand Total**
	(Rupees in '000)							
Financial assets								
Cash and bank balances held by subsidiaries	586,651	-	-	-	-	-	-	586,651
Local currency - coins	989,497	-	-	-	-	-	-	989,497
Foreign currency accounts and investments	923,676	79,266,748	725,307,790	474,599,234	19,181,159	28,030,908	6,510,772	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	-	-	-	12,277,462
Special Drawing Rights of the International								
Monetary Fund	-	-	-	-	-	-	59,272,776	59,272,776
Reserve tranche with the International Monetary								
Fund under quota arrangements	-	-	-	-	-	-	20,362	20,362
Securities purchased under agreement to resell	-	-	-	1,560,763,664	1,546,125	-	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	-	-	33,104,114
Investments - local	3,725,288,492	-	22,000	6,100,000	-	-	-	3,731,410,492
Loans, advances and bills of exchange	14,453,450	65,105,010	58,032,166	294,003,469	-	15,478	21,890,875	453,500,448
Assets held with the Reserve Bank of India	-	-	-	-	1,550,321	-	-	1,550,321
Balances due from the Governments of India								
and Bangladesh	-	-	-	-	40,453	10,633,850		10,674,303
Other assets	1,808,263	-	-	1,158	-	-	1,028,066	2,837,487
Total financial assets	3,789,431,605	144,371,758	783,361,956	2,335,467,525	22,318,058	38,680,236	88,722,851	7,202,353,989

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

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

53.4 Liquidity analysis with interest / mark-up rate risk

53.4.1 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 Group 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							
Cash and bank balances held by subsidiaries	268,924	-	268,924	36,033	-	36,033	304,957
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 balances	-	-	-	72,702,673	-	72,702,673	72,702,673
Special Drawing Rights of the 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	571,883,950	7,246,108,128	7,817,992,078	1,141,714	87,341,686	88,483,400	7,906,475,478
Loans, advances and bills of exchange	372,118,410	164,088,402	536,206,812	51,872,204	9,444,016	61,316,220	597,523,032
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	411,162	-	411,162	8,904,940	75,113	8,980,053	9,391,215
	2,714,696,493	7,530,289,255	10,244,985,748	495,736,210	99,817,787	595,553,997	10,840,539,745
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	2,714,696,493	7,530,289,255	10,244,985,748	499,367,178	99,817,787	599,184,965	10,844,170,713
Financial liabilities							
Non-derivative liabilities							
Bank notes in circulation	-	-	-	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 Government *	1,101,513,930	-	1,101,513,930	-	-	-	1,101,513,930
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	105,431,256	2,107,353	107,538,609	1,117,046,100
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	9,998	9,162,944	9,172,942	27,258,708	-	27,258,708	36,431,650
	2,810,333,899	1,046,633,484	3,856,967,383	6,672,200,219	2,107,353	6,674,307,572	10,531,274,955
Derivative liabilities							
Other liabilities	-	-	-	112,862,311	-	27,277,082	27,277,082
Grand total	2,810,333,899	1,046,633,484	3,856,967,383	6,785,062,530	2,107,353	6,701,584,654	10,558,552,037
On balance sheet gap (a)	(95,637,406)	6,483,655,771	6,388,018,365	(6,285,695,352)	97,710,434	(6,102,399,689)	285,618,676
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	-	-	-	628,904	-	628,904	628,904
Off balance sheet gap	-	-	-	(1,291,378,936)	-	(1,291,378,936)	(1,291,378,936)
Total yield / interest risk sensitivity gap	(95,637,406)	6,483,655,771	6,388,018,365	(4,994,316,416)	97,710,434	(4,811,020,753)	1,576,997,612
Cumulative yield / interest risk sensitivity gap	(95,637,406)	6,388,018,365	12,776,036,730	7,781,720,314	7,879,430,748	3,068,409,995	3,153,995,224
Contingent liabilities in respect of guarantees given	-	-	-		27,036,047	27,036,047	27,036,047

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

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

	2018						
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	Grand total
	(Rupees in '000)						
Financial assets							
Non-derivative assets							
Cash and bank balances held by subsidiaries	542,370	-	542,370	44,281	-	44,281	586,651
Local currency - coins	-	-	-	989,497	-	989,497	989,497
Foreign currency accounts and investments	1,032,575,912	262,325,274	1,294,901,186	36,037,562	795,790	36,833,352	1,331,734,538
Earmarked foreign currency balances	-	-	-	12,277,462	-	12,277,462	12,277,462
Special Drawing Rights of the International				-	-		-
Monetary Fund	59,272,776	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary	-	-		-	-		
Fund under quota arrangements	-	-	-	20,362	-	20,362	20,362
Securities purchased under agreement to resell	1,561,748,056	-	1,561,748,056	561,733	-	561,733	1,562,309,789
Current accounts of Governments*	33,104,114	-	33,104,114	-	-	-	33,104,114
Investments - local	3,600,442,640	57,014,671	3,657,457,311	75,281,444	91,389,793	166,671,237	3,824,128,548
Loans, advances and bills of exchange	289,840,471	115,604,475	405,444,946	33,878,755	14,176,746	48,055,501	453,500,448
Assets held with the Reserve Bank of India	-	-	-	1,550,321	-	1,550,321	1,550,321
Balances due from the Governments of India							-
and Bangladesh	9,813,926	-	9,813,926	860,377	-	860,377	10,674,303
Other assets	-	-	-	2,836,442	1,044	2,837,486	2,837,486
	6,587,340,265	434,944,421	7,022,284,685	164,338,237	106,363,373	270,701,610	7,292,986,295
Derivative assets							
Foreign currency accounts and investments	-	-	-	2,085,749	-	2,085,749	2,085,749
	-	-	-	2,085,749	-	2,085,749	2,085,749
Grand total	6,587,340,265	434,944,421	7,022,284,685	166,423,986	106,363,373	272,787,359	7,295,072,044
Financial liabilities							
Bank notes in circulation	-	-	-	4,635,146,711	-	4,635,146,711	4,635,146,711
Bills payable	-	-	-	644,452	-	644,452	644,452
Current accounts of the Government *	89,828,633	-	89,828,633	-	-	-	89,828,633
Payable to Islamic Banking Institutions							-
against Bai Muajjal transactions	-	-	-	-	-	-	-
Payable under bilateral currency swaps agreements	367,252,000	-	367,252,000	3,157,071	-	3,157,071	370,409,071
Deposits of banks and financial institutions	-	-	-	813,948,915	-	813,948,915	813,948,915
Other deposits and accounts	112,523,260	-	112,523,260	87,904,941	-	87,904,941	200,428,201
Payable to International Monetary Fund	214,993,928	694,592,843	909,586,771	2,998,260	-	2,998,260	912,585,031
Other liabilities	11,302	29,516	40,818	27,287,881	-	27,287,881	27,328,699
	784,609,123	694,622,359	1,479,231,482	5,571,088,231	-	5,571,088,231	7,050,319,713
Derivative liabilities							
Other liabilities	-	-	-	27,277,082	-	27,277,082	27,277,082
Grand total	784,609,123	694,622,359	1,479,231,482	5,598,365,313	-	5,598,365,313	7,077,596,795
On balance sheet gap (a)	5,802,731,142	(259,677,938)	5,543,053,203	(5,431,941,327)	106,363,373	(5,325,577,954)	217,475,249
Foreign currency forward and swap contracts - sale	-	-	-	(1,112,127,341)	-	(1,112,127,341)	(1,112,127,341)
Foreign currency forward and swap contracts							
- purchase	-	-	-	248,969,098	-	248,969,098	248,969,098
Futures - sale	-	-	-	(41,585,759)	-	(41,585,759)	(41,585,759)
Futures - purchase	-	-	-	26,130,491	-	26,130,491	26,130,491
Capital commitments	-	-	-	(295,241)	-	(295,241)	(295,241)
Off balance sheet gap	-	-	-	(878,908,752)	-	(878,908,752)	(878,908,752)
Total yield / interest risk sensitivity gap	5,802,731,142	(259,677,938)	5,543,053,203	(4,553,032,576)	106,363,373	(4,446,669,203)	1,096,384,001
Cumulative yield / interest risk sensitivity gap	5,802,731,142	5,543,053,203	11,086,106,407	6,533,073,831	6,639,437,204	2,192,768,001	2,192,768,001
Contingent liabilities in respect of guarantees given	-	-	-	-	23,867,609	23,867,609	23,867,609

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

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

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

53.5 Interest rate risk

53.5.1 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 Group'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.

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

53.5.2 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 Group is exposed to fair value interest rate risk on its fixed income securities classified as 'financial assets at fair value through profit or loss'. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 53.9 to these consolidated 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 consolidated 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.

53.6 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 Group's holding of foreign currency assets under its foreign reserves management function and the overall level of these assets is determined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Group's compliance with the limits established for foreign currency positions is being regularly monitored by the management.

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

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

The sensitivity analysis calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Group had significant exposure as at June 30, 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 Group 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)
Japanese 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 Group's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 53.5 and 53.6 to these consolidated financial statements prepared as of June 30, 2019 are not necessarily indicative of the effects on the Group's profit and loss of future movements in different variables.

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

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

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

53.8 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 Group manages the daily liquidity position of the banking system including advancing and withdrawal of funds from the system for smoothening out daily peaks and troughs.

The risk arising out of the Group's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Group's financial assets and financial liabilities is given in note 53.4.

53.9 Portfolio risk management

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

54. Fair value of financial instruments

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

	Carrying Value		Fair value	
	2019	**2018**	**2019**	**2018**
	-----------------------------(Rupees in '000)-----------------------------			
Financial assets				
Cash and bank balances held by subsidiaries	**304,957**	586,651	**304,957**	586,651
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	**7,906,282,006**	3,824,128,547	**7,906,282,006**	3,824,128,547
Loans, advances and bills of exchange	**597,523,032**	453,500,448	**597,523,032**	453,500,448
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	**9,279,563**	2,837,486	**9,279,563**	2,824,709

	Carrying Value		Fair value	
	2019	2018	2019	2018
	--------(Rupees in '000)--------			
Financial liabilities				
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
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	**1,117,046,100**	200,428,200	**1,117,046,100**	200,428,200
Payable to the International Monetary Fund	**1,150,064,353**	912,585,032	**1,150,064,353**	912,585,032
Other liabilities	**36,431,650**	54,605,781	**36,431,650**	54,605,781

54.1 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 assets				
Foreign currency accounts and investments	**158,582,716**	**44,004,565**	**-**	**202,587,281**
Investments - local	**54,988,966**	**32,560,301**	**-**	**87,549,267**
Non-financial assets				
Operating fixed assets (Land and buildings)	**-**	**-**	**137,891,773**	**137,891,773**
Gold reserves held by the Bank	**468,625,002**	**-**	**-**	**468,625,002**
	682,196,684	**76,564,866**	**137,891,773**	**896,653,323**
Off balance sheet				
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	**6,254,875**	**-**	**-**	**6,254,875**
Futures - purchase	**4,879,088**	**-**	**-**	**4,879,088**

	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	--------(Rupees in '000)--------			
On balance sheet				
Financial assets				
Foreign currency accounts and investments - held for trading	410,298,797	158,477,934	-	568,776,731
Investments - local	75,784,692	-	-	75,784,692
Non-financial assets				
Operating fixed assets (Land and buildings)	-	-	106,551,787	106,551,787
Gold reserves held by the Bank	315,610,772	-	-	315,610,772
	801,694,261	158,477,934	106,551,787	1,066,723,982
Off balance sheet				
Foreign currency forward and swap contracts - sale	-	1,112,127,341	-	1,112,127,341
Foreign currency forward and swap contracts - purchase	-	248,969,098	-	248,969,098
Futures - sale	41,585,759	-	-	41,585,759
Futures - purchase	26,130,491	-	-	26,130,491

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

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

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of financial assets in note 10.1 related to foreign currency accounts and investments and investment in listed shares in note 15.1 classified as financial assets at FVOCI.

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of forward and swap contracts, units of mutual funds, soverign bonds of foreign countries and unlisted shares classified as financial assets at FVOCI.

(c) Financial instruments in level 3

Currently, no financial instruments are classified through level 3.

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

Item	Valuation approach and input used
Forward foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.
Operating fixed assets (Land and building)	Land and buildings are revalued to their fair values on a periodic basis by involving professional valuers. The fair values of land and building are determined by physically analysing the condition of land and building and in case of land by ascertaining the current market value of similar land, which is selling in near vicinity. Moreover, for buildings, the valuer has also considered prevailing current cost of construction for relevant type of civil work carried out thereon, where ever required. The management considers the above parameters used as the "highest and best use" and best evidence of fair value for its land and building.In case of PSPC, the fair valuation of land has been assessed based on the use of the land which is not its current use i.e. 'highest and best use' concept. The Corporation is continuing with the land's current use because of the fact that the complete printing facility / factory is situated on that land. Note 20.1 to these consolidated financial statements highlights the year of valuation and external valuer name. The effect of changes in the unobservable inputs used in the valuations cannot be determined with certainty. Accordingly, a qualitative disclosure of sensitivity has not been presented in these consolidated financial statements.
Units of mutual funds	The fair values of investments in units of mutual funds are determined based on their net values as published at the close of each business day.
US Treasury Bills	These are valued using the mid rates communicated by the Federal Reserve Bank of New York.

55. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2019			
	Assets at fair value through profit or loss	**Amortized Cost**	**Assets at Fair Value through OCI**	**Total**
	(Rupees in '000)			
Financial assets				
Cash and bank balances held by subsidiaries	-	**304,957**	-	**304,957**
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	**1,138,159**	**7,818,732,739**	**86,411,108**	**7,906,282,006**
Loans, advances and bills of exchange	-	**597,523,032**	-	**597,523,032**
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	-	**3,265,256**	-	**3,265,256**
		-	-	

	2018			
	Assets at fair value through profit or loss	Amortized Cost	Assets at Fair Value through OCI	Total
	----------(Rupees in '000)----------			
Financial assets				
Cash and bank balances held by a subsidiary	-	586,651	-	586,651
Local currency - coins	-	989,497	-	989,497
Foreign currency accounts and investments	570,862,480	762,957,807	-	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	-	
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	1,328,263	3,731,410,491	91,389,793	3,824,128,547
Loans, advances and bills of exchange	-	444,266,238	-	444,266,238
Assets held with the Reserve Bank of India	-	1,550,321	-	1,550,321
Balances due from the Governments of India and Bangladesh	-	10,674,303	-	10,674,303
Other assets	1,157	2,823,552	-	2,824,709

	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**
Payable under bilateral currency swap agreement	**469,397,756**	**-**	**469,397,756**
Payable to Islamic Banking Institutions against Bai Muajjal transactions	**124,410,232**	**-**	**124,410,232**
Deposits of banks and financial institutions	**1,246,238,770**	**-**	**1,246,238,770**
Other deposits and accounts	**1,117,046,100**	**-**	**1,117,046,100**
Payable to the International Monetary Fund	**1,150,064,353**	**-**	**1,150,064,353**
Other liabilities	**66,438,383**	**112,862,311**	**179,300,694**

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

56. 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 Group 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 Group for the year ending June 30, 2020.

57. DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on **October 12, 2019** by the Board of Directors of the Bank (i.e. Parent entity).

58. 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

59. 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