11 Financial Statements of SBP-BSC (Bank)

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Independent Auditor's Report

To the Board of Directors and State Bank of Pakistan

Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2017, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

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

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

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

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Salman Hussain
Audit Engagement Partner

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

Dated: October 27, 2017

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2017

	Note	2017	2016
		------(Rupees in '000)------	
ASSETS			
Current account with the State Bank of Pakistan		**50,746,464**	47,810,651
Investments	5	**532,178**	525,525
Employee loans	6	**9,481,894**	10,853,432
Advances, deposits and prepayments	7	**49,581**	64,601
Medical and stationery consumables	8	**164,822**	138,878
Property and equipment	9	**880,477**	486,205
Total assets		**61,855,416**	59,879,292
LIABILITIES			
Deposits and other liabilities	10	**5,657,276**	5,332,294
Deferred liabilities - unfunded staff retirement benefits	11	**55,198,140**	53,546,998
Total liabilities		**60,855,416**	58,879,292
Net assets		**1,000,000**	1,000,000
REPRESENTED BY:			
Share capital	12	**1,000,000**	1,000,000
CONTINGENCIES AND COMMITMENTS	13		

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2017

	Note	**2017**	2016
		------(Rupees in '000)------	
Discount and interest earned	*14*	**31,352**	38,008
Net operating expenses	*15*	**12,495,138**	13,955,950
Reimbursable from the State Bank of Pakistan		**(7,423,955)**	(7,544,251)
Allocated to the State Bank of Pakistan		**(5,071,183)**	(6,411,699)
		-	-
Operating profit		**31,352**	38,008
Gain on disposal of property and equipment		**10,220**	1,123
Other income		-	896
Profit for the year		**41,572**	40,027

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		------(Rupees in '000)------	
Profit for the year		**41,572**	40,027
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Loss on remeasurements of defined benefit plans	*15.2.6*	**(1,667,758)**	(12,173,824)
Allocated to the State Bank of Pakistan		**1,667,758**	12,173,824
		-	-
Total comprehensive income for the year		**41,572**	40,027

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz	**Muhammad Habib Khan**
Managing Director	Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2017

	Share capital	Unappropriated profit	Total
	----------------	(Rupees in '000)	----------------
Balance as at July 1, 2015	1,000,000	-	1,000,000
Total comprehensive income for the year	-	40,027	40,027
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(40,027)	(40,027)
Balance as at June 30, 2016	1,000,000	-	1,000,000
Total comprehensive income for the year	-	41,572	41,572
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(41,572)	(41,572)
Balance as at June 30, 2017	**1,000,000**	**-**	**1,000,000**

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Note	2017	2016
		-------(Rupees in '000)-------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	16	**15,868**	30,071
Profit transferred to the State Bank of Pakistan		**(41,572)**	(40,027)
Income on Government securities received during the year		**15,201**	28,577
		(10,503)	18,621
(Increase) / decrease in assets			
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		**(1,535,308)**	575,665
Medical and stationery consumables		**(25,944)**	(6,399)
Employee loans		**1,371,538**	(275,575)
Advances, deposits and prepayments		**15,020**	(25,494)
Increase in liabilities			
Deposits and other liabilities		**793,505**	31,319
Net cash generated from operating activities		**608,308**	318,137
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		**(6,370)**	26,451
Capital expenditure		**(620,765)**	(352,231)
Proceeds from disposal of property and equipment		**18,827**	7,643
Net cash used in investing activities		**(608,308)**	(318,137)
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at the end of the year		**-**	-

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

1. STATUS AND NATURE OF OPERATIONS

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

- disbursing of loans and advances to the Governments, banks, financial institutions and local authorities and facilitating in inter-bank settlement system;
- collecting revenue and making payments for and on behalf of, and maintaining accounts of the Governments, local bodies, authorities, companies, banks and other financial institutions;
- receipt, supply and exchange of bank notes and coins;
- dealing in prize bonds and other savings instruments of the Government; and
- operational work relating to management of debt and foreign exchange.

Any assets, liabilities, income and expenditure directly relating to the above activities are accounted for in the books of SBP while the cost incurred by the Corporation in carrying out the above activities are either reimbursed from or allocated to SBP (including the portion charged to the statement of comprehensive income) and are accounted for as deduction from the expenditure while net profit / loss, if any, of the Corporation is transferred to / recovered from SBP.

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

2. STATEMENT OF COMPLIANCE

These 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 financial statements have been prepared under the historical cost convention, except that certain staff retirement benefits and provision for employees' compensated absences have been carried at present value of defined benefit obligations.

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

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs), 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, 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 International Financial Reporting Standards (IFRSs) and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

3.3.1 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and sources of estimation are disclosed in note 15.2.2 to these financial statements.

3.3.2 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. Rates of depreciation are given in note 9.1.

3.3.3 Provision against obsolete medical and stationery consumables

The Corporation exercises judgment and makes provision for obsolete items based on their future usability. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

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

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

Standards	Effective date (annual periods beginning on or after)
- IFRS 9 - Financial instruments	January 1, 2018
- IFRS 15 - Revenue from contracts with customers	January 1, 2018
- IFRS 16 - Leases	January 1, 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time.
- IFRS 17 - Insurance contracts	January 1, 2021
Amendments	
- IAS 7 - Statement of cash flows: on disclosure initiative	January 1, 2017
- IFRS 2 - Share-based Payments: clarifying how to account for certain types of share-based payment transactions	January 1, 2018
- IFRS 4 - Insurance contracts: regarding the implementation of IFRS 9, 'Financial instruments'	January 1, 2018
- IAS 40 - Investment property: relating to transfers of investment property	January 1, 2018
- IFRS 10 - Consolidated Financial Statements and IAS 28 - Investment in Associates and Joint Ventures: regarding sale or contribution of assets between an investor and its associate or joint venture	Date yet to be finalised
- IAS 12 - Income Taxes: on recognition of deferred tax assets for unrealised losses	January 1, 2017
Interpretations	
- IFRIC 22 - Foreign currency transactions and advance consideration	January 1, 2018
- IFRIC 23 - Uncertainty over income tax treatment	January 1, 2019
Improvements	
- IFRS 1 - First-time adoption of IFRS: regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10	January 1, 2018
- IFRS 12 - Disclosure of interests in other entities: regarding clarification of the scope of the standard.	January 1, 2017
- IAS 28 - Investments in associates and joint ventures: regarding measuring an associate or joint venture at fair value	January 1, 2018

The Corporation expects that the adoption of the above standards and amendments will not have any material impact on the Corporation's financial statements in the period of initial application.

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

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2016 but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are, therefore, not disclosed in these financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

The management determines the appropriate classification of its financial assets in accordance with the requirements of International Accounting Standard 39 (IAS 39) "Financial Instruments: Recognition and Measurement" at the time of purchase of financial assets and re-evaluates this classification on a regular basis. The financial assets of the Corporation are categorised as follows:

a) Financial assets 'at fair value through profit or loss'

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as financial assets 'at fair value through profit or loss' category.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise of current account with the State Bank of Pakistan, employee loans and other advances and deposits.

c) Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation has a positive intent and ability to hold till maturity.

d) Available for sale financial assets

These are the non derivative financial assets which are either designated in this category or which do not fall in any of the other categories.

4.1.1.2 Initial recognition and measurement

All financial assets are recognised at the time the Corporation becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Corporation commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value while the transaction costs associated with these financial assets are taken directly to the profit and loss account. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in note 4.1.4 to these financial statements is recognised in the profit and loss account.

4.1.1.3 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

a) Financial asset 'at fair value through profit or loss' and 'available for sale'

Financial assets 'at fair value through profit or loss' are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are taken to the profit and loss account in the period in which these arise.

'Available for sale' financial assets are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are recognised in other comprehensive income, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost.

b) Financial assets classified as 'Loans and receivables' and 'held to maturity'

Loans and receivables and held to maturity financial assets are carried at amortised cost.

4.1.1.4 Impairment

The Corporation assesses at each balance sheet date whether there is an objective evidence that a financial asset is impaired.

a) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the profit and loss account.

b) Assets classified as 'available for sale'

In case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any evidence for impairment exists, the cumulative loss is removed from other comprehensive income and recognised in the profit and loss account. For investments, other than equity instruments, the increase in fair value in a subsequent period thereby resulting in reversal of impairment is reversed through profit and loss account. Impairment losses recognised in profit and loss account on equity instruments are not reversed through profit and loss account.

4.1.2 Financial liabilities

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits and other liabilities.

4.1.3 Derecognition of financial assets and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.1.4 Fair value measurement principles

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

4.1.5 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

4.2 Employee loans

These are initially recognized at fair value and subsequently carried at amortised cost less estimates made for any doubtful receivables based on a review of all outstanding amounts at the balance sheet date.

4.3 Medical and stationery consumables

Medical and stationery consumables are valued at lower of weighted average cost and the net realisable value.

Provision for obsolete items is determined based on the management's assessment regarding their future usability.

Net realisable value represents estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any. Historical cost includes expenditure that are directly attributable to the acquisition of the items.

Depreciation on property and equipment is charged to profit and loss account by applying the straight-line method at the rates specified in note 9.1 to the financial statements, whereby the depreciable amount of an asset is written off over its estimated useful life. 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 asset is disposed off.

Estimates of useful life and residual value of property 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.

Gains and losses on disposal of property and equipment are recognised in the profit and loss account.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

4.5 Impairment of non-financial assets

The carrying amounts of the Corporation’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 fair value less cost to sell and value in use. In assessing the value in use, estimated future cash flows 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.

4.6 Compensated absences

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

4.7 Staff retirement benefits

The Corporation operates the following staff retirement benefit schemes for employees transferred from SBP (transferred employees) and other 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 EGF 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 is carried out as at June 30, 2017. 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.

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 15.2.2 to these financial statements.

4.8 Revenue recognition

- Discount, interest / mark-up and / or return on loans and investments are recorded on a time proportion basis that takes into account the effective yield on the asset.

- All other revenues are recognised on a time proportion basis.

4.9 Taxation

The income of the Corporation is exempt from tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001 and clause 66 (xx) of Part 1 of the second schedule to the Income Tax Ordinance, 2001.

4.10 Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits 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 adjusted to reflect the current best estimate.

		Note	2017	2016
			------(Rupees in '000)------	
5.	**INVESTMENTS**			
	Held to maturity			
	Market Treasury Bills	*5.1 & 5.2*	**532,178**	525,525
			532,178	525,525

5.1 Market Treasury Bills carry mark-up at the rate of 5.91% to 5.99% per annum (2016: 6.00% to 6.26% per annum) and are having maturities from August 3, 2017 to September 14, 2017 (2016: August 18, 2016 to June 8, 2017).

5.2 The fair value of these investments as at June 30, 2017 is Rs. 532.062 million (2016: Rs. 525.970 million). Market Treasury Bills have been revalued on the basis of yields published by Reuters (PKRV) for Government securities.

		Note	2017	2016
			------(Rupees in '000)------	
6.	**EMPLOYEE LOANS**			
	Considered good		**9,481,894**	10,853,432
	Considered doubtful		**7,737**	7,610
		6.1	**9,489,631**	10,861,042
	Provision against doubtful loans	*6.2*	**(7,737)**	(7,610)
			9,481,894	10,853,432

6.1 This represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 12.974 million (2016: Rs. 13.487 million) that carry mark up at 10% per annum (2016: 10% per annum). Maximum maturity of loans is upto year 2056 (2016: year 2056).

These loans have been given in respect of:-

- Housing loans - Secured against equitable mortgage of the property.
- Motor vehicle loans - Secured against hypothecation of the vehicle.
- Computer and personal loans, given on personal guarantee of two employees of the Corporation.

		Note	2017	2016
			------(Rupees in '000)------	
6.2	**Provision held against employee loans**			
	Opening balance		**7,610**	8,366
	Charge for the year		**127**	-
	Reversals during the year		**-**	(756)
	Closing balance		**7,737**	7,610
7.	**ADVANCES, DEPOSITS AND PREPAYMENTS**			
	Advances, deposits and prepayments		**40,844**	55,964
	Others		**8,737**	8,637
			49,581	64,601
8.	**MEDICAL AND STATIONERY CONSUMABLES**			
	Medical and stationery consumables	*8.1*	**165,894**	139,845
	Provision against obsolete items		**(1,072)**	(967)
			164,822	138,878

8.1 These include stocks of medicine, stationery, engineering items and printing press.

	Note	2017	2016
		------(Rupees in '000)------	

9. PROPERTY AND EQUIPMENT

	Note	2017	2016
Operating fixed assets	*9.1*	**880,477**	440,381
Capital work-in-progress		-	45,824
		880,477	486,205

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

2017

	Cost			Accumulated Depreciation			Net book value as at June 30, 2017	Annual rate of depreciation %
	As at July 01, 2016	Additions / (deletions)	As at June 30, 2017	As at July 01, 2016	Charge for the year / (deletions)	As at June 30, 2017		
	-----(Rupees in '000)-----							
Furniture and fixtures	**147,456**	**11,086 (30,866)**	**127,676**	**102,357**	**9,426 (30,655)**	**81,128**	**46,548**	**10**
Office equipment	**1,096,573**	**567,498 (31,959)**	**1,632,112**	**901,308**	**113,496 (31,587)**	**983,217**	**648,895**	**20**
EDP equipment	**550,587**	**12,328 (32,653)**	**530,262**	**419,907**	**66,031 (32,314)**	**453,624**	**76,638**	**33.33**
Motor vehicles	**168,219**	**75,677 (33,827)**	**210,069**	**98,882**	**28,933 (26,142)**	**101,673**	**108,396**	**20**
	1,962,835	**666,589 (129,305)**	**2,500,119**	**1,522,454**	**217,886 (120,698)**	**1,619,642**	**880,477**	

2016

	Cost			Accumulated Depreciation			Net book value as at June 30, 2016	Annual rate of depreciation %
	As at July 01, 2015	Additions / (deletions)	As at June 30, 2016	As at July 01, 2015	Charge for the year / (deletions)	As at June 30, 2016		
	-----(Rupees in '000)-----							
Furniture and fixtures	137,562	10,965 (1,071)	147,456	92,757	10,283 (683)	102,357	45,099	10
Office equipment	989,159	116,443 (9,029)	1,096,573	844,132	62,097 (4,921)	901,308	195,265	20
EDP equipment	420,849	137,517 (7,779)	550,587	373,466	52,196 (5,755)	419,907	130,680	33.33
Motor vehicles	127,546	41,482 (809)	168,219	80,096	19,595 (809)	98,882	69,337	20
	1,675,116	306,407 (18,688)	1,962,835	1,390,451	144,171 (12,168)	1,522,454	440,381	

	Note	**2017**	2016
		----------(Rupees in '000)----------	
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	*15.2.10*	**4,455,316**	4,923,839
Deposits		**637,791**	92,804
Others		**564,169**	315,651
		5,657,276	5,332,294

	Note	**2017**	2016
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
Gratuity		**2,815**	2,327
Pension		**38,656,505**	37,457,883
Benevolent fund scheme		**1,194,678**	1,308,845
Post retirement medical benefits		**14,491,690**	13,911,141
Six months post retirement benefits		**113,160**	100,956
	15.2.4	**54,458,848**	52,781,152
Provident fund scheme		**739,292**	765,846
		55,198,140	53,546,998

12. SHARE CAPITAL

2017	2016		**2017**	2016
(Number of shares)			**---------(Rupees in '000)---------**	
		Authorised share capital		
1,000	1,000	Ordinary shares of Rs. 1,000,000 each	**1,000,000**	1,000,000
		Issued, subscribed and paid-up capital		
		Fully paid-up ordinary shares of Rs. 1,000,000 each		
509	509	- issued for cash	**509,000**	509,000
491	491	- issued against consideration in kind	**491,000**	491,000
1,000	1,000		**1,000,000**	1,000,000

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

	Note	**2017**	2016
Claims against the Corporation not acknowledged as debts	13.1.1	**2,962**	2,962

13.1.1 These mainly represent various cases filed by ex-employees of the Corporation on account of computational differences in settlement of their retirement benefit amounts. The management believes that these cases will be decided in favour of the Corporation and hence no provision has been recognised in these financial statements.

	Note	**2017**	2016
		----------(Rupees in '000)----------	
13.2 Commitments			
Capital commitments	*13.2.1*	**68,840**	548,624

13.2.1 This represent amounts committed by the Corporation to purchase assets from successful bidders.

	2017	2016
14. DISCOUNT AND INTEREST EARNED	**---------(Rupees in '000)---------**	
Interest income on Government securities	**30,685**	37,410
Interest on employee loans	**667**	598
	31,352	38,008

15. NET OPERATING EXPENSES

	Note	2017	2016
		----------(Rupees in '000)----------	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		**5,709,601**	6,153,682
Rent and taxes		**37,604**	25,550
Insurance		**12,979**	7,309
Electricity, gas and water		**323,968**	304,736
Repair and maintenance		**218,083**	189,716
Auditors' remuneration	*15.1*	**7,000**	5,950
Legal and professional		**9,270**	11,078
Travelling		**16,864**	21,725
Daily expenses		**30,638**	26,897
Passages / rest and recreational allowance		**258,419**	198,127
Fuel		**2,810**	3,002
Conveyance		**17,456**	16,818
Postages and telephone		**11,399**	12,898
Training		**203,964**	146,112
Remittance of treasure		**132,636**	92,744
Stationery		**10,408**	9,444
Books and newspapers		**1,813**	1,626
Advertisement		**11,028**	32,011
Bank guards charges		**147,587**	117,499
Uniforms		**34,984**	28,493
Others		**225,444**	138,834
		7,423,955	7,544,251
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	*15.2 to 15.2.10*	**4,853,297**	6,267,528
Depreciation	*9.1*	**217,886**	144,171
		5,071,183	6,411,699
		12,495,138	13,955,950

15.1 Auditors' remuneration

	2017			2016		
	EY Ford Rhodes	**A.F.Ferguson & Co.**	**Total**	EY Ford Rhodes	A.F.Ferguson & Co.	Total
	---------- (Rupees in '000) ----------					
Audit fee	**2,500**	**2,500**	**5,000**	2,090	2,090	4,180
Out of pocket expenses	**1,000**	**1,000**	**2,000**	885	885	1,770
	3,500	**3,500**	**7,000**	2,975	2,975	5,950

15.2 Staff retirement benefits

15.2.1 Charge for the year in respect of defined contribution plan amounted to Rs. 42.187 million (2016: Rs. 33.403 million).

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

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

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

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

Discount rate risk

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

Salary increase / inflation risk

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

Mortality risk

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

Withdrawal risk

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

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.

15.2.4 Change in present value of defined benefit obligation

	2017					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	Rupees in '000					
Present value of defined benefit obligation as on July 1, 2016	37,457,883	2,327	13,911,141	1,308,845	100,956	**52,781,152**
Current service cost	807,936	297	244,963	2,599	6,529	**1,062,324**
Interest cost on defined benefit obligation	2,570,905	169	987,219	89,143	7,244	**3,654,680**
Benefits paid	(3,994,261)	-	(588,656)	(158,576)	(2,064)	**(4,743,557)**
Liability transferred from SBP	15,507	-	17,763	1,121	2,100	**36,491**
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	1,894,062	-	244,469	(30,690)	8,517	**2,116,358**
Experience adjustments	(95,527)	22	(325,209)	(17,764)	(10,122)	**(448,600)**
Present value of defined benefit obligation as on June 30, 2017	**38,656,505**	**2,815**	**14,491,690**	**1,194,678**	**113,160**	**54,458,848**

	2016					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	Rupees in '000					
Present value of defined benefit obligation as on July 1, 2015	30,780,494	1,580	12,628,628	1,108,267	87,976	44,606,945
Current service cost	949,876	241	285,440	53,236	5,465	1,294,258
Interest cost on defined benefit obligation	2,580,604	154	1,358,758	91,062	8,216	4,038,794
Benefits paid	(8,625,521)	-	(552,570)	(348,601)	(7,415)	(9,534,107)
Liability transferred from SBP	136,419	-	52,610	5,028	7,381	201,438
Remeasurements:						
Actuarial (gains) / losses from changes in demographic assumptions	4,592,822	-	776,061	186,113	(13,076)	5,541,920
Actuarial losses from changes in financial assumptions	886,201	82	100,134	153,061	3,660	1,143,138
Experience adjustments	6,156,988	270	(737,920)	60,679	8,749	5,488,766
Present value of defined benefit obligation as on June 30, 2016	37,457,883	2,327	13,911,141	1,308,845	100,956	52,781,152

15.2.4.1 Amount recognised in the Statement of Comprehensive Income

	2017					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	---Rupees in '000---					
- Actuarial (gains) / losses from changes in financial assumptions	1,894,062	-	244,469	(30,690)	8,517	**2,116,358**
- Experience adjustments	(95,527)	22	(325,209)	(17,764)	(10,122)	**(448,600)**
						1,667,758

	2016					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	---Rupees in '000---					
- Actuarial (gains) / losses from changes in demographic assumptions	4,592,822	-	776,061	186,113	(13,076)	5,541,920
- Actuarial losses from changes in financial assumptions	886,201	82	100,134	153,061	3,660	1,143,138
- Experience adjustments	6,156,988	270	(737,920)	60,679	8,749	5,488,766
						12,173,824

15.2.5 Amount recognised in the profit and loss account

	2017					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	---Rupees in '000---					
Current service cost	807,936	297	244,963	2,599	6,529	**1,062,324**
Interest cost on defined benefit obligation	2,570,905	169	987,219	89,143	7,244	**3,654,680**
Contribution made by employees	-	-	-	(15,748)	-	**(15,748)**
	3,378,841	**466**	**1,232,182**	**75,994**	**13,773**	**4,701,256**

	2016					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	---Rupees in '000---					
Current service cost	949,876	241	285,440	53,236	5,465	1,294,258
Interest cost on defined benefit obligation	2,580,604	154	1,358,758	91,062	8,216	4,038,794
Contribution made by employees	-	-	-	(8,471)	-	(8,471)
	3,530,480	395	1,644,198	135,827	13,681	5,324,581

15.2.6 Movement of present value of defined benefit obligation

	2017					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	---Rupees in '000---					
Net recognised liabilities at July 1, 2016	37,457,883	2,327	13,911,141	1,308,845	100,956	**52,781,152**
Amount recognised in the profit and loss account	3,378,841	466	1,232,182	75,994	13,773	**4,701,256**
Remeasurements	1,798,535	22	(80,740)	(48,454)	(1,605)	**1,667,758**
Benefits paid during the year	(3,994,261)	-	(588,656)	(158,576)	(2,064)	**(4,743,557)**
Employees contribution	-	-	-	15,748	-	**15,748**
Liability transferred from SBP	15,507	-	17,763	1,121	2,100	**36,491**
Net recognised liabilities at June 30, 2017	**38,656,505**	**2,815**	**14,491,690**	**1,194,678**	**113,160**	**54,458,848**

	2016					
	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, 2015	30,780,494	1,580	12,628,628	1,108,267	87,976	44,606,945
Amount recognised in the profit and loss account	3,530,480	395	1,644,198	135,827	13,681	5,324,581
Remeasurements	11,636,011	352	138,275	399,853	(667)	12,173,824
Benefits paid during the year	(8,625,521)	-	(552,570)	(348,601)	(7,415)	(9,534,107)
Employees contribution	-	-	-	8,471	-	8,471
Liability transferred from SBP	136,419	-	52,610	5,028	7,381	201,438
Net recognised liabilities at June 30, 2016	37,457,883	2,327	13,911,141	1,308,845	100,956	52,781,152

15.2.7 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%	(2,735,883)	3,257,576
Salary increase rate	1%	965,929	(915,824)
Pension increase rate	1%	2,244,404	(1,881,937)
Expected mortality rates	1 Year	417,095	(415,063)
Gratuity Scheme			
Discount rate	1%	(167)	177
Salary increase rate	1%	181	(167)
Post retirement medical benefits			
Discount rate	1%	(2,057,144)	2,638,715
Medical cost increase rate	1%	2,664,168	(2,100,552)
Salary increase rate	1%	51,765	(47,817)
Expected mortality rates	1 Year	267,936	(265,178)
Benevolent fund scheme			
Discount rate	1%	(56,242)	63,318
Six months post retirement facility			
Discount rate	1%	(5,500)	6,126
Salary increase rate	1%	6,379	(5,838)
Petrol Increase Rate	1%	6,379	(5,838)

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

15.2.8 Duration of defined benefit obligation

	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**
The weighted average duration of the defined benefit obligation is	8 Years	6 Years	16 Years	5 Years	5 Years

15.2.9 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2018

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2018 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	------	------	------	Rupees in '000	------	------
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,995,879	218	1,123,106	92,588	8,770	4,220,561
Amount chargeable to profit and loss account	3,737,104	553	1,454,389	95,274	16,214	5,303,534

15.2.10 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 4,455.316 million (2016: Rs. 4,923.839 million). An amount of Rs. 109.854 million (2016: Rs. 942.947 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2018 would be Rs. 566.161 million. The benefits paid during the year amounted to Rs. 589.822 million (2016: Rs. 1,464.415 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 166.057 million and Rs. 184.907 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 199.215 million and Rs. 182.852 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 4 years.

16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS

	2017	2016
	-------- (Rupees in '000)	--------
Profit for the year	**41,572**	40,027
Adjustments for:		
Interest income on Government securities	**(15,484)**	(8,833)
Gain on disposal of property and equipment	**(10,220)**	(1,123)
	(25,704)	(9,956)
	15,868	30,071

17. RELATED PARTY TRANSACTIONS

The Corporation is a wholly owned subsidiary of the State Bank of Pakistan (parent entity), therefore all subsidiaries and associated undertakings of the Parent entity are related parties of the Corporation. Other related parties comprise of key management personnel of the Corporation which include members of the Board of Directors, Managing Director and other executives of the Corporation who have responsibilities for planning, directing and controlling the activities of the Corporation.

The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance. The accounting treatment of assets, liabilities, income and expenditure relating to such activities are detailed in note 1.1 to these financial statements (also refer note 15).

Transaction and balances with related parties are as follows:

	2017	2016
Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity	-------- (Rupees in '000)	--------
Balances at the year end - transferred to State Bank of Pakistan		
Payable against training programs	**32,849**	51,760
Transactions during the year - reimbursable from State Bank of Pakistan		
Training expense charged during the year	**132,820**	114,845

18. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest / mark-up rate and credit risks. The policies and procedures for managing these risks are outlined in notes 18.1 to 18.7 to these financial statements. The Corporation has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Managing Director on the monitoring and management of these risks.

18.1 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. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. Advances to employees are made in the normal course of business for various business expenses and security deposit held with entities for ensuring future services and there is low chance of default on suspension of services. The remaining balances are recorded as recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

18.2 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 affected by changes in economic, political or other conditions. The Corporation's significant concentration arising from financial instruments at the balance sheet date without taking any collateral held or other credit enhancements is shown below:

18.2.1 Geographical analysis

All the financial instruments of the Corporation at the balance sheet date are present in Pakistan only.

18.2.2 Industrial analysis

	2017			
	Sovereign	**Banks & Financial Institutions**	**Others**	**Grand Total**
Financial assets	**------------------------- (Rupees in '000)----------------------**			
Current account with the State Bank of Pakistan	-	50,746,464	-	**50,746,464**
Investments	532,178	-	-	**532,178**
Employee loans	-	-	9,481,894	**9,481,894**
Advances and deposits	-	-	14,049	**14,049**
	532,178	50,746,464	9,495,943	**60,774,585**

	2016			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
Financial assets	------------------------- (Rupees in '000)----------------------			
Current account with the State Bank of Pakistan	-	47,810,651	-	47,810,651
Investments	525,525	-	-	525,525
Employee loans	-	-	10,853,432	10,853,432
Advances and deposits	-	-	13,049	13,049
	525,525	47,810,651	10,866,481	59,202,657

18.2.3 Credit exposure by credit rating:

Financial assets of the Corporation essentially represent amounts due from the State Bank of Pakistan (central bank of the country), sovereign investments and amounts due from Corporation's own employees as detailed below:

	2017		
	Sovereign (18.2.3.1)	**Unrated**	**Grand Total**
Financial Assets	**----------------- (Rupees in '000)---------------**		
Current account with the State Bank of Pakistan	-	50,746,464	**50,746,464**
Investments	532,178	-	**532,178**
Employee loans	-	9,481,894	**9,481,894**
Advances and deposits	-	14,049	**14,049**
	532,178	60,242,407	**60,774,585**

	2016		
	Sovereign (18.2.3.1)	Unrated	Grand Total
Financial Assets	----------------- (Rupees in '000)---------------		
Current account with the State Bank of Pakistan	-	47,810,651	47,810,651
Investments	525,525	-	525,525
Employee loans	-	10,853,432	10,853,432
Advances and deposits	-	13,049	13,049
	525,525	58,677,132	59,202,657

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

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

	Gross amount		Impairment / Provision	
	2017	2016	**2017**	2016
	(Rupees in '000)			
Employee loans	**7,737**	7,610	**7,737**	7,610

18.4 Liquidity analysis with interest rate risk

Interest rate risk is the risk that the value of a financial instrument or its cash flow will fluctuate due to changes in the market interest rates. The Corporation has adopted appropriate policies to minimize its exposure to this risk.

	2017						
	Interest / mark-up bearing			**Non interest / mark-up bearing**			
	Maturity upto one year	**Maturity after one year**	**Sub total**	**Maturity upto one year**	**Maturity after one year**	**Sub total**	**Total**
Financial assets	(Rupees in '000)						
Current account with the State Bank of Pakistan*	-	-	-	50,746,464	-	50,746,464	**50,746,464**
Investments	516,694	-	516,694	15,484	-	15,484	**532,178**
Employee loans	1,006	11,968	12,974	1,657,173	7,811,747	9,468,920	**9,481,894**
Advances and deposits	-	-	-	5,312	8,737	14,049	**14,049**
	517,700	11,968	529,668	52,424,433	7,820,484	60,244,917	**60,774,585**
Financial liabilities							
Deposits and other liabilities	-	-	-	1,201,960	-	1,201,960	**1,201,960**
On balance sheet gap	517,700	11,968	529,668	51,222,473	7,820,484	59,042,957	**59,572,625**
Capital Commitments	-	-	-	68,840	-	68,840	**68,840**
Off balance sheet gap	-	-	-	68,840	-	68,840	**68,840**
Total yield / interest risk sensitivity gap	517,700	11,968	529,668	51,153,633	7,820,484	58,974,117	**59,503,785**
Cumulative yield / interest risk sensitivity gap	517,700	529,668	1,059,336	52,212,969	60,033,453	119,007,570	**119,007,570**

	2016						
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total
Financial assets	(Rupees in '000)						
Current account with the State Bank of Pakistan*	-	-	-	47,810,651	-	47,810,651	47,810,651
Investments	516,692	-	516,692	8,833	-	8,833	525,525
Employee loans	1,036	12,451	13,487	1,739,077	9,100,868	10,839,945	10,853,432
Advances and deposits	-	-	-	4,412	8,637	13,049	13,049
	517,728	12,451	530,179	49,562,973	9,109,505	58,672,478	59,202,657
Financial liabilities							
Deposits and other liabilities	-	-	-	408,455	-	408,455	408,455
On balance sheet gap	517,728	12,451	530,179	49,154,518	9,109,505	58,264,023	58,794,202
Capital Commitments	-	-	-	548,624	-	548,624	**548,624**
Off balance sheet gap	-	-	-	548,624	-	548,624	**548,624**
Total yield / interest risk sensitivity gap	517,728	12,451	530,179	48,605,894	9,109,505	57,715,399	**58,245,578**
Cumulative yield / interest risk sensitivity gap	517,728	530,179	1,060,358	49,666,252	58,775,757	116,491,156	**116,491,156**

*All cash settlements of the Corporation are routed through the current account maintained with the State Bank of Pakistan as the Corporation functions and acts on behalf of the SBP.

18.5 The interest / mark-up for the financial assets and liabilities are mentioned in their respective notes to and forming part of the financial statements.

18.6 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. However, at balance sheet date all of the Corporation's financial instruments are denominated in local currency.

18.7 Liquidity risk management

Liquidity risk is the risk that the Corporation will encounter difficulties in raising funds to meet commitments associated with the financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk as all its settlements are routed through the State Bank of Pakistan. The maturity profile of Corporation's financial assets and financial liabilities is given in note 18.4 to these financial statements.

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying value and the fair value estimates.

Underlying the definition of fair value is the presumption that the Corporation is a going concern without any intention or requirement to curtail materiality the scale of its operations or to undertake a transaction on adverse terms.

As per the requirements of IFRS 13 (Fair Value Measurement), the Corporation shall classify fair value instruments using a fair value hierarchy that reflects the significance of inputs in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices within level 1 that are observable for the asset or liabilities, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying amount of all the financial assets and financial liabilities is considered to be reasonable approximation of fair value except for held to maturity investments whose fair value is disclosed in note 5.2 to these financial statements which have been valued under level 2. These are carried at amortised cost in accordance with the Corporation's policy.

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2017		
	Loans and receivables	**Held to maturity**	**Total**
	----------------(Rupees in '000)---------------------		
Financial assets			
Current account with the State Bank of Pakistan	50,746,464	-	**50,746,464**
Investments	-	532,178	**532,178**
Employee loans	9,481,894	-	**9,481,894**
Advances and deposits	14,049	-	**14,049**
	60,242,407	532,178	**60,774,585**

	2016		
	Loans and receivables	Held to maturity	Total
	---------------(Rupees in '000)--------------------		
Financial assets			
Current account with the State Bank of Pakistan	47,810,651	-	47,810,651
Investments	-	525,525	525,525
Employee loans	10,853,432	-	10,853,432
Advances and deposits	13,049	-	13,049
	58,677,132	525,525	59,202,657

	2017	2016
	---------(Rupees in '000)----------	
Financial liabilities - at amortised cost		
Deposits and other liabilities	**1,201,960**	408,455

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 26, 2017 by the Board of Directors of the Corporation.

22. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison. There have been no significant rearrangement or reclassification during the year.

23. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts