ANNUAL PERFORMANCE REVIEW

2018-19

STATE BANK OF PAKISTAN

Annual Performance Review

2018-19

Our Vision

To be an independent and credible central bank that achieves monetary and financial stability and inclusive financial sector development for the long-term benefit of the people of Pakistan

Our Mission

To promote monetary and financial stability and foster a sound and dynamic financial system, so as to achieve sustained and equitable economic growth and prosperity in Pakistan

STATE BANK OF PAKISTAN

The Team

Mr. Muhammad Akmal	**akmal.bhatti@sbp.org.pk**
Mr. Muhammad Imran Pasha	**imran.pasha@sbp.org.pk**
Mr. Ibaad Ahmed Khan	**ibaad.ahmed@sbp.org.pk**

State Bank of Pakistan
KARACHI

DR. REZA BAQIR
GOVERNOR

Letter of Transmittal

October 30, 2019

Honorable Advisor to Prime Minister on Finance and Revenue Dr. Abdul Hafeez Shaikh,

As required by Section 40(2) of the State Bank of Pakistan Act, 1956, I am pleased to enclose a report by the SBP Board on the working of the Bank along with the annual financial statements of the Bank and auditors' report thereon for the year ended June 30, 2019 herewith.

With warm regards,

Yours sincerely,

Dr. Abdul Hafeez Shaikh
Advisor to Prime Minister on Finance and Revenue,
Ministry of Finance,
Government of Pakistan,
Islamabad.

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Governor's Review

I am pleased to present the SBP Performance Review for FY19, during which the economy faced challenges despite recording healthy growth in FY18 and FY17. The growth was primarily consumption driven which resulted in increase in twin deficits i.e., fiscal and current account deficits. The latest estimates of National Income Accounts indicate that the real GDP grew by 3.3 percent in FY19 as compared to 5.5 percent in preceding period. Owing to high domestic demand, inflation remained above its target in FY19. The current high frequency indicators point towards a marked slowdown in domestic demand along with overall economic activity. However, a modest recovery is expected on account of improvement in agriculture sector and its impact on industry and services sectors.

SBP, being cognizant of the emerging risks to macroeconomic stability, proactively increased its policy rate by a cumulative 575 bps. In the same vein, the SBP raised the policy rate by 100 bps to 13.25 percent with effect from July 17, 2019. The monetary tightening has been supported by greater exchange rate flexibility and administrative measures to contain imports. The government supported the policy adjustments by increasing regulatory duties on consumer and luxury items and arranging external funding to contain deterioration in external buffers (foreign exchange reserves).

The policy actions have led to visible improvement in the country's external accounts and helped in containing domestic demand. Specifically, external conditions continued to improve with a 31.7 percent reduction in the current account deficit (CAD) to USD 13.6 billion in FY19 from USD 19.9 billion deficit in preceding year. The consolidation is likely to gain momentum going forward with CAD to contract further on account of import compression, anticipation of moderate growth in exports and prospects of increase in remittances. Further, the country's financial account is going to benefit from the IMF Extended Fund Facility (EFF), activation of the Saudi oil facility and other multilateral and bilateral commitments.

Both the demand and supply side factors pushed the headline inflation to 7.3 percent in FY19, above the medium term target of 6 percent. Year on year CPI inflation increased by 10.3 and 11.6 percent in July and August 2019, respectively. Accordingly, the Monetary Policy Committee expects average headline inflation (old base of 2007-08) for FY20 to remain in the range of 11-12 percent. This notable increase in FY20 inflation is largely stemming from the one-off impact of adjustment in utilities prices, rationalization of taxation structure and the unfolding impact of depreciation of the PKR in the last few months. However, the lagged impact of stabilization measures and weakening impact of one-off adjustments would significantly reduce headline inflation in FY21.

The Government of Pakistan (GoP) and the IMF have signed a 39-month EFF arrangement amounting USD 6 billion. The program would help strengthening macroeconomic stability and facilitating the implementation of much-needed structural reforms. The GoP in consultation with all stakeholders has

developed a well-thought set of economic and financial policies to contain macroeconomic imbalances to manageable levels and to pave the way for sustainable economic growth in the medium to long run.

SBP, considering the importance of financial stability, is working towards formulating and implementing a comprehensive and well-structured Macroprudential Policy Framework (MPPF) to ensure system-wide stability of the financial sector. SBP has substantially improved its macro stress-testing regime to capture the macro-financial interlinkages to enhance its assessment of pro-cyclical systemic risk capabilities. In the same vein, SBP is in the final stage of forming a National Financial Stability Council (NFSC) with the coordination of Finance Division and Securities & Exchange Commission of Pakistan (SECP) for establishing a setup for MPPF. SBP and SECP have also setup a Joint Task Force to monitor and manage the risks posed by the financial conglomerates and address the changing dynamics of the financial industry and the system.

On the supervisory front, SBP is smoothly progressing towards implementing a targeted and forward looking Risk Based Supervision (RBS) framework to strengthen its role. This would help SBP in structured risk profiling of financial institutions, allocating limited resources appropriately and determining responses/ regulatory actions suitably. Similarly, SBP aligned its inspection methodology for Exchange Companies (ECs) with RBS framework to assess risk factors particularly related to terrorist financing (TF) and to evaluate related controls.

On regulatory front, SBP issued guidelines on ‘Governance Framework’ for banks’ overseas operations. The framework is aimed at strengthening banks’ capacity to understand, identify and manage various risks posed by its foreign operations. SBP also issued guidelines on ‘Internal Audit Function’ to provide a standardized framework for establishment and implementation of robust internal audit governance structure, in line with international standards and best practices. Similarly, SBP updated its instructions to further enhance the understanding of Targeted Financial Sanctions regime for TF and Proliferation Financing under UNSC Resolutions.

SBP is pursuing financial inclusion as one of its key strategic objectives under SBP Vision 2020 to promote inclusive economic growth. It adopted National Financial Inclusion Strategy to achieve universal financial inclusion by boosting digital financial services and encouraging priority sector lending in areas including agriculture, SME, Islamic and Microfinance Banking and low cost housing sector. SBP took various initiatives under NFIS including scheme for Asaan Mobile Accounts, Extension of Digital Financial Services, Interoperability of Branchless Banking (BB) Agents and launch of financial literacy programs.

SBP has been encouraging banks to facilitate the agriculture sector, being a priority area. The financial institutions were able to achieve 94 percent of their annual indicative disbursement target of Rs 1,250 billion, assigned by Agricultural Credit Advisory Council for FY19. SBP also remained cognizant of the needs of SME sector. Accordingly, Pakistan Credit Guarantee Company has been established to provide risk-sharing facility to banks for extension of financing facilities to SMEs, which would be operational by end December 2019. Similarly, SBP is assisting Finance Division in establishing a ‘Secured Electronic Collateral Registry’ to facilitate SME sector to secure lending by using their moveable assets as collateral. Encouragingly, the financial institutions met 51.7 percent

target of SME financing of Rs 898 billion for CY19 by end June 2019. Similarly, Pakistan Mortgage Refinance Company has been established to provide long term funding to primary mortgage lenders to promote housing sector. In order to facilitate 'Low Cost Housing Scheme' SBP has allowed regulatory relaxations and provided incentives to financial institutions to promote the sector.

Islamic Banking, being an important area under SBP Vision 2020, continued its growth momentum during FY19 due to supportive measures of SBP. These include Shariah compliant alternatives of conventional financing for Renewable Energy, Modernization of SMEs, Storage of Agricultural Produce and Low Cost Housing for Special Segments based on principles of Mudarabah. Similarly, SBP supported Islamic Banking industry by arranging training sessions for government servants, Shariah scholars, businessmen/ traders and students. As a result of various measures, Islamic Banking Industry showed impressive growth. Accordingly, total assets and deposits increased by 20.6 percent and 18.8 percent to Rs 2,992 billion and Rs 2,415 billion respectively by end June 2019.

Being cognizant of the value of a robust payment system for the economy, SBP acted prudently to develop a landscape mutually beneficial for banking industry, businesses, government agencies and the masses. SBP started implementation of Micro Payment Gateway in collaboration of Bill & Melinda Gates Foundation to ensure faster retail payments. SBP expects rapid digitization of public and private sectors' collections and payments particularly of salaries and pensions with the completion of the project. Further, SBP issued instructions on 'Electronic Money Institutions' to address the needs of financially excluded masses and provide suitable environment to technology enabled entities (Fintechs) for provision of cost effective, innovative and user friendly payment services. Similarly, comprehensive instructions were issued to avoid financial losses from cyber-attacks and on-line frauds. Substantial progress has also been recorded on issuance of Euro Visa Master (EMV) chip based cards and adoption of standards like Payment Card Industry Data Security Standard and 3D Secure.

After successful implementation of the project for collection of FBR duties and taxes through Alternate Delivery Channels in FY18, SBP extended the facility for collection of Government of Punjab tax and non-tax receipts. The said facility will be extended to other provincial governments.

Considering the importance of HR, SBP is providing excellent opportunities in terms of developing skill set of its officers due to diverse nature of institutional activities in line with SBP Vision 2020. Further, as an equal opportunity employer, SBP recognizes and encourages the evolving role of women and the strategic significance of their inclusion in the workforce. Presently, 10 percent of SBP's workforce comprises females working at various levels of hierarchy.

IT remained an important area under SBP Vision 2020 to provide seamless services to all business groups of SBP and SBP-BSC. Three new data warehouse systems were implemented to support business activities during FY19. A web API Server for optimizing data integration across IT systems was also developed. The bank realizing the criticality of information security has put in place a robust, state of the art cybersecurity program to secure its IT and information assets by employing market acclaimed information security framework. Further, the Business Continuity Management function provided full support to all critical/ support services departments and offices. Business Continuity exercises were regularly conducted to test the resilience and the readiness level of the institution to

respond to disruptions if any, for continuation of critical time sensitive functions of SBP and SBP-BSC.

Enterprise Risk Management Framework has been fully implemented at SBP and SBP-BSC. It has also been introduced in two other subsidiaries i.e. Deposit Protection Corporation and Pakistan Security Printing Corporation. SBP also developed Expected Credit Loss (ECL) models for its investment portfolio in line with the requirements of IFRS 9. The bank also developed a state-of-the art software 'ECL Application' considering the complexities involved in modeling to maintain quality of data, ensure its accuracy and meet compliance requirements of IFRS 9.

SBP's four subsidiaries continued to provide their support and related services to banking industry, government agencies and masses to enable SBP to meet its responsibilities.

Lastly, I would like to express my gratitude to SBP Board for their unflinching support to enable us to meet important milestones. I also extend my appreciation to SBP staff for their continuous efforts and resolve towards enhancing the effectiveness of the institution.

Dr. Reza Baqir
Governor

October 30, 2019

Governance Structure

The State Bank of Pakistan (SBP) is governed under the *SBP Act, 1956*, which gives the Bank the authority to function as the central bank of the country. The Act mandates the Bank to regulate the monetary and credit system of Pakistan and to foster economic growth in the best national interest with a view to securing monetary stability and maximize utilization of the country's productive resources.

Board of Directors

The SBP is governed by a Board of Directors, which is responsible for the general supervision of the Bank, other than the functions assigned to Monetary Policy Committee. The ten-member Board is chaired by the Governor, comprising eight non-executive Directors and Federal Secretary Finance. Non-executive members of the Board are appointed by the Federal Government for a period of 3 years, under Section 9(2) (c) of the *SBP Act, 1956*. Four meetings of the Board were held during FY19.

Executive Management

The Governor being the Chief Executive Officer, heads the executive management. He is assisted by one or more Deputy Governors. The management hierarchy also includes Executive Directors, Chief Economist and Departmental Heads (Organogram is placed at **Annexure - B**).

The Governor

The President of Pakistan appoints the Governor for a term of three years that may be extended for another term of three years. The Governor is the Chief Executive Officer and manages the affairs of the Bank. Dr. Reza Baqir is serving as Governor, SBP since May 5, 2019. The previous Governor, Mr. Tariq Bajwa served from July 7, 2017 to May 3, 2019.

Deputy Governors

Mr. Jameel Ahmad was re-appointed as Deputy Governor by the Federal Government on October 25, 2018 for a period of three years. Earlier he served as Deputy Governor from April 11, 2017 to October 15, 2018. Mr. Shamsul Hasan served as Deputy Governor from December 22, 2017 to October 4, 2018.

Board of Directors

Dr. Reza Baqir, Governor, Chairman Board of Directors and Chairman Monetary Policy Committee.

Dr. Reza Baqir was appointed as the Governor SBP by the President of Pakistan on May 04, 2019 for a period of three years from the day he assumes the office of the Governor. He assumed his responsibilities on May 05, 2019.

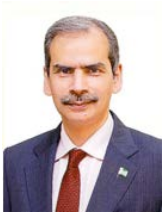
Dr. Reza Baqir has eighteen years of experience with the IMF and two years with the World Bank. He was the Head of the IMF's Office in Egypt and Senior Resident Representative since August 2017. He has also held positions as IMF Mission Chief for Romania and Bulgaria, Division Chief of the IMF's Debt Policy Division, Head of the IMF delegation to the Paris Club, Deputy Division Chief of the IMF's Emerging Markets Division, IMF Resident Representative to the Philippines and numerous other positions.

Dr. Baqir's research has been published in top journals of the economics profession, including the Journal of Political Economy and the Quarterly Journal of Economics. Dr. Baqir holds a Ph.D in Economics from the University of California at Berkeley and an A.B. (Magna cum Laude) in Economics from Harvard University.

Mr. Tariq Bajwa, (Governor, Chairman Board of Directors and Chairman Monetary Policy Committee from July 7, 2017 to May 4, 2019)

A career civil servant by profession, Mr. Bajwa joined the Civil Service of Pakistan in 1981 and assumed various Secretariat, Field and Staff assignments, including, amongst others, General Manager PIA, Head of Pakistan's Trade Mission in Los Angeles, and Advisor Finance to the United Nations Development Program (UNDP). Mr. Bajwa also served as Chairman, FBR for over 2 years till October 2015, before his appointment as Secretary, Economic Affairs Division. He retired as Secretary Finance Division on June 18, 2017.

He holds a Master's degree in Public Administration from Kennedy School of Government, Harvard University, where he was awarded the prestigious Littauer Fellowship, and holds an LLB from the University of the Punjab, Lahore.



Mr. Naveed Kamran Baloch (Member, Board since May 24, 2019)
Secretary, Finance Division, Government of Pakistan is an ex-officio member of the Board. A civil servant with 34 years of experience in Public Administration. He has served the federal and provincial governments in various positions. Mr. Baloch holds MSc in Social Policy and Planning in Development Countries from London School of Economics, UK. Prior to his present posting, he had been posted as Secretary, Cabinet Division and Chief Secretary, Khyber Pakhtunkhwa. He also remained Federal Secretary, Ministry of National Health Services, Regulation & Coordination, Government of Pakistan as well.

Mr. Mohammad Younus Dagha (Member, Board from March 22, 2019 to May 23, 2019)
Secretary, Finance Division, Government of Pakistan, Mr. Younus Dagha is a career civil servant who joined Government Service in 1985. He possesses a strong portfolio of public administration in varied fields, including energy, finance, commerce, international trade and public administration. Mr. Dagha holds postgraduate degrees in Business Administration, Economics, Law and Commerce equipping him with required academic background to adeptly manage multifaceted assignments in his career. He is also credited with conceiving and successfully executing a plan to bring back the local and international investors' interest in the development of the Thar coalfield, a joint venture between the Government of Sindh and Engro, known as Sindh Engro Coal Mining Company.

Mr. Arif Ahmed Khan (Member, Board from January 9, 2018 to March 21, 2019)
Secretary, Finance Division, Government of Pakistan a civil servant with 35 years of experience in Public Administration. He has served the federal and provincial governments in various positions. Mr. Khan holds a Masters in Public Policy from Concordia University, Canada. Before joining Finance Division, he served as Secretary Economic Affairs Division, Secretary Interior and Secretary, Climate Change. Mr. Khan has served as Additional Chief Secretary, Planning and Development Department, Government of Sindh. He was Secretary Finance for the Government of Sindh during 2012-13. Prior to that, he remained Home Secretary to the Government of Sindh for three and a half years.

Dr. Tariq Hassan (Member, Board since July 23, 2019)*
Attorney and Advocate, Supreme Court of Pakistan and Chairman, Audit Oversight Board. Dr. Hassan is a former Chairman, Securities and Exchange Commission of Pakistan and has served as advisor to the Finance Minister of Pakistan. He has also been associated as legal Counsel with the World Bank Group in Washington, DC, International Fund for Agriculture Development in Rome, and Shearman & Sterling in New York. In addition to practicing law, he has been teaching law as an adjunct professor at George Washington University and Fletcher School of Law & Diplomacy, USA and Departments of Law at LUMS and International Islamic University, Pakistan. He did his PhD in Juridical Science from Harvard University, USA.

**Earlier Dr. Tariq Hassan served as a member SBP Board from March 22, 2016 to March 21, 2019.*

Hafiz Mohammad Yousaf (Member, Board from March 22, 2016 to March 21, 2019)
A Chartered Accountant by profession with experience of over 30 years. He had served as Member SECP Board and President, Institute of Chartered Accountants of Pakistan, besides holding other important responsibilities. He is Fellow member of Institute of Chartered Accountants of Pakistan.

Mr. Zubyr Soomro (Member, Board from March 22, 2016 to March 21, 2019)
Educated at the London School of Economics and SOAS, Zubyr Soomro has been a career international banker with over 30 years at Citibank with assignments in the Middle East, Turkey, UK and Pakistan. In 1997, he was appointed as Chairman and President of United Bank and tasked with restructuring it for Privatization. He also remained country head of Citibank's Pakistan franchise. He has been Chairman/ President of Pakistan Banks Association, American Business Council, OICCI and Pakistan Microfinance Investment Company. Currently, he is on the Boards of Acumen, Grameen Foundation USA, EFG Hermes, LRBT and Aitchison College.

Khawaja Iqbal Hassan (Member, Board from March 22, 2016 to March 21, 2019)
A seasoned banker who established a commercial bank and a leading investment banking firm, with 35 years' experience in the financial sector. He is serving on the Boards of prominent public and private enterprises. He has also served on many Task Forces established by the Government of Pakistan. Mr.

Hassan was awarded the Sitara-i-Imtiaz for his meritorious contributions to the national interest.

Mr. Ardeshir Khursheed Marker (Member, Board from March 22, 2016 to March 21, 2019)
A businessman by profession, Mr. Ardeshir Khursheed Marker is partner and Director at Green Bean Coffee Company Ltd. He is also a partner in Merck Marker (Pvt.) Ltd and manages its financial and business development areas. Mr. Marker holds a Masters Degree in Economics from the London School of Economics.

Mr. Mohammad Riaz (Member, Board from March 22, 2016 to November 14, 2018)*
A public servant of long standing, Mr. Mohammad Riaz served as Secretary, National Assembly of Pakistan. He has successfully undertaken various assignments at the Federal Board of Revenue in the capacity as Member, Director General and Head of the Customs & Excise. Mr. Riaz has also served as Counsel General of Pakistan at Turkey and Commercial and Economic Counselor at Embassy of Pakistan in France. He holds a Masters Degree in Development Economics from Williams College, USA.

**Resigned from the SBP Board with effect from November 14, 2018.*

Mr. Sarmad Amin (Member, Board from March 22, 2016 to March 21, 2019)
A progressive entrepreneur and a businessman, Mr. Sarmad Amin is a member of Lahore Chamber of Commerce and Industry (LCCI) and All Pakistan Textile Mills Association (APTMA). He has remained Vice President of LCCI and member Executive Committee of APTMA. Presently, Mr. Amin is Chairman of Samin Textiles Limited besides being member of the Boards of several conglomerates. He is also honorary Consul of the Republic of Austria for Pakistan. He graduated from the University of the Punjab, Lahore.

Mr. Atif R. Bokhari (Member since November 14, 2018)
Mr. Bokhari is a seasoned banker of the country. He was President and CEO of the Untied Bank Limited from 2004 to 2014. Earlier, he has served in Habib Bank Limited, Bank of America and ICI Pakistan Limited. Mr. Bokhari was Chairman on the Board of UBL Switzerland AG and UBL Bank (Tanzania) Limited. He was member on the governing bodies of United Bank UK, Karachi School of Business & Leadership and World Economic Forum. Mr. Bokhari did

Masters in Business Administration from Central Missouri State University, USA.

Mr. Azam Faruque (Member since November 14, 2018)
Mr. Azam Faruque is CEO of the Cherat Cement Company Limited, a company he has been associated with since 1987. Mr. Faruque is also serving as Director on the Board of Directors of International Industries Limited, Indus Motor Company, and Atlas Batteries Limited. He was Chairman Board of Directors of KPOGCL and has also served on the Board of Atlas Asset Management Limited, Atlas Insurance Company Limited, the National Committee of the Aga Khan Foundation Pakistan, Oil and Gas Development Corporation and National Commission of Science and Technology. Mr. Faruque has a Masters in Business Administration from Booth School of Business – University of Chicago and a Bachelors degree in Electrical Engineering and Computer Science from Princeton University, USA.

Mr. Ali Jameel (Member since July 23, 2019)
Mr. Ali Jameel is the CEO of TPL Corp Ltd. He is also the director of TRG Pakistan Ltd. Formerly Mr. Jameel was the Chief Executive of Jahangir Siddiqui Investment Bank. He has also held several advisory positions in Board of Investment, Economic Advisory Council, Pakistan's information technology and telecommunication sectors, including appointments on the task Force on Telecom Deregulation, the Fiscal Incentive Group on the IT Commission and the Task Force on Venture Capital. Mr. Jameel received his B.Sc degree in Economics from London School of Economics. He is also an Associate Member of the Institute of Chartered Accountants in England & Wales and qualified in 1994 at KPMG Peat Marwick in London.

Mr. Muhammad Saleem Sethi (Member since July 23, 2019)
Mr. Saleem Sethi is a retired Federal Secretary of the Government of Pakistan. He belongs to the Pakistan Audit & Accounts Service. He possess a diverse experience of 36 years in the field of public finance, policy formulation and audit. During his illustrious carrier, he served as secretary Finance in Government of Baluchistan, AJK and as DG Controller General of Account's besides various other important positions. He served as Secretary Economic Affairs Division where some of his key accomplishments include negotiating and finalizing Country Assistance Strategy with IFIs including Asian Development Bank, World Bank and Asian Infrastructure Investment Bank. A critical aspect of the responsibility was mobilizing external inflows under multilateral and Government to Government arrangements.

During his career, he has served as Executive Director at the Board of Islamic

Development Bank (IDB) and remained on the Audit Committee of the board. Mr. Sethi has also been the Senior Advisor Middle Eastern Constituency at the Executive Board of the IMF, Washington DC. Mr. Sethi possesses a unique expertise and pioneered launching of the first five issues of GoP's (Euro Bond) in the International Capital Markets, which included Securitization of PTCL and Exchangeable Bonds.

He holds a Master degree in Development Administration from USA and specialized training in Financial Programming and Policy from IMF Institute, Washington, DC.

Corporate Secretary

The Corporate Secretary is the Secretary to the Board, its Committees and the Monetary Policy Committee (MPC). He acts as a focal person for communications between the Board and the management. The Corporate Secretary is responsible for recording the proceedings of the meetings of the Board, its Committees and the MPC as well as ensuring compliance with statutory and regulatory requirements for effective implementation of the Board's decisions.

The Corporate Secretary is also responsible for ensuring effective Corporate Governance standards and availability of relevant information to the Board, its Committees and MPC members to facilitate informed decision-making. Further, he interfaces with the Federal Government on matters related to the Governor, Deputy Governors, Directors of the Board and External Members of the MPC.

Monetary Policy Committee

The Monetary Policy Committee, established under the SBP Act, 1956, is an independent forum responsible for formulating Monetary Policy. The MPC consists of ten members, with the Governor as Chairman, three members of the Board nominated by the Board, three senior executives of the SBP nominated by the Governor and three external members (economists) appointed by the Federal Government on the recommendation of the Board. The external members are appointed for a term of three years.

Under Section 9(E) of the SBP Act, 1956 (as amended), the MPC is responsible for formulating monetary policy and making decisions relating to intermediate monetary objectives, key interest rate, and money supply in the Country, to support the general economic policies of the Federal Government.

The Committee was reconstituted in September 2018, March 2019 and August 2019. The present composition of the MPC includes Dr. Reza Baqir, Governor SBP as Chairman MPC, Mr. Atif R. Bokhari, Mr. Azam Faruque and Dr. Tariq Hassan as members of Board. Dr. Asad Zaman, Dr. Naved Hamid and Dr. Hanid Mukhtar are three External Members whereas Mr. Jameel Ahmad - Deputy Governor (Banking & FMRM), Dr. Inayat Hussain - Executive Director (BSG) and Dr. Saeed Ahmed - Chief Economist represent SBP. The Committee met six times during FY19. Brief profiles of the members are as follows:

Dr. Asad Zaman (Member, MPC since June 3, 2019)
[BS Math MIT (1974), Ph.D. Econ Stanford (1978)] has taught at leading universities like Columbia, U. Penn., Johns Hopkins, Cal. Tech. and Bilkent University, Ankara. Currently he is Vice Chancellor of Pakistan Institute of Development Economics. His textbook Statistical Foundations of Econometric Techniques (Academic Press, NY, 1996) is widely used as a reference in advanced graduate courses. He is managing editor of International Econometric Review and Pakistan Development Review. His publications in top ranked journals like Annals of Statistics, Journal of Econometrics, Econometric Theory, Journal of Labor Economics, etc. have over 1000 citations as per Google Scholar. Earlier Mr. Zaman served on MPC from January 25, 2016 to January 24, 2019.

Dr. Qazi Masood Ahmed (Member, MPC from January 25, 2016 to January 24, 2019)
Professor and the Director, Centre for Business and Economic Research, Institute of Business Administration (IBA). He also served the institute as Chairperson, Centre for Executive Education (CEE). Other current assignments include member Tax Advisory Council, FBR and member, Board of Governors, Sindh Education Foundation. Dr. Qazi also served Government of Sindh as its Chief Economist for two years. His research and teaching experience is spread over 25 years and he has published over 50 papers in international and national journals. Additionally, he also served the Applied Economics Research Centre, University of Karachi and Social Policy and Development Centre for more than fifteen years.

Dr. Aliya Hashmi Khan (Member, MPC from March 22, 2016 to March 21, 2019)
Former Professor of Economics and Dean Faculty of Social Sciences at Quaid e Azam University. Dr. Aliya Hashmi Khan has research interests in the areas of Macro Economics, Labor Economics and HR Development. She has been contributing as Director/ Member on Boards of several organizations and advisory bodies. She has been awarded the President's Medal in 2010 for services rendered in the economic empowerment of women.

Dr. Naved Hamid (Member, MPC since January 24, 2019)
Dr. Naved Hamid is Director, Center for Research in Economics and Business (CREB) and Professor of Economics at the Lahore School of Economics. He has contributed as Principal Economist at the Asian Development Bank, Manila, Philippines, Professor at the Lahore University of Management Sciences and Associate Professor, Economics Department at the Punjab University.

Dr. Hamid is also a member of the Prime Minister's Economic Advisory Council and Resident Country Director, Pakistan, International Growth Centre (IGC). He was a member of the Governing Council of the Pakistan Bureau of Statistics, the Punjab Chief Minister's Economic Advisory Council and the Advisory Panel of Economists and the Chair of the Working Group on "Export Competitiveness & Growth Strategy", constituted by the Planning Commission. He did his Ph. D in Economics from Stanford University, California, USA.

Dr. Hanid Mukhtar (Member, MPC since June 3, 2019)
Dr. Mukhtar is a senior economist of the country. He has worked at World Bank as Senior Economist. He was Senior Research Economist at Applied Economic Research Centre, University of Karachi from 1985-1990. He was also a Lecturer at Economics Department, Quaid-i-Azam University and was Economic Affairs Officer at United Nations Economic and Social Commission for Asia and Pacific, Bangkok, Thailand. Dr. Mukhtar has also worked visiting Associate Professor at Economic Department, Boston University, Lecturer at Management Science Department, Northeaster University and Lecturer at Management Science Department, University of Massachusetts.

Dr. Mukhtar did Ph. D in Economics from Boston University, USA.

Mr. Jameel Ahmad (Member since January 30, 2016)
Mr. Jameel Ahmad – Deputy Governor (Banking & FMRM) is serving on MPC since January 2016. Mr. Ahmad's illustrious career as an accomplished central banker spans over 28 years at senior positions at the SBP and the Saudi Arabian Monetary Agency (SAMA). His association with the SBP dates back to 1991 in various capacities including Deputy Governor and Executive Director. He has also served as Advisor to SAMA from July 2009 to April 2015.

Mr. Ahmad attained a Masters degree in Business Administration from University of Punjab, Lahore in 1988 and is a Fellow Member of the Institute of Cost and Management Accountants of Pakistan.

Dr. Inayat Hussain – Executive Director BSG (Member since May 8, 2017)

Dr. Inayat Hussain serves as Executive Director of the Banking Supervision Group at SBP. At this position, he leads Banking Supervision Group that consists of two Banking Inspection Departments (I & II), Offsite Supervision and Enforcement Department, Financial Stability Department and Banking Conduct & Consumer Protection Department. He is responsible for financial stability, supervision of financial institutions, enforcement function and banking conduct. He brings a diversified experience spanned over two decades in banking supervision, regulations, policy and operations.

Dr. Hussain is a member of the Council of Regulators (a body consisting of representatives from SBP and SECP to deal with financial sector vulnerabilities), MPC and Financial Stability Executive Committee of SBP. He also serves as a director on the board of Pakistan Institute of Corporate Governance and on the Council of Institute of Bankers in Pakistan. He holds a doctorate degree in Economics and Finance from Curtin University, Australia. He is a member of CFA Institute, a fellow member of Institute of Cost and Management Accountants in Pakistan and Institute of Bankers in Pakistan. He also holds FRM designation and an MBA degree in Finance.

Dr. Saeed Ahmed, Chief Economist (Member since March 14, 2018)

Dr. Saeed Ahmed is the Chief Economist and Executive Director of Monetary Policy Group at SBP with substantive experience in monetary policy formulation, negotiations with IMF and IFIs, applied economic analysis, financial inclusion, development finance policy, and tax policy & administration. In 2015, under his leadership, SBP devised the first-ever "National Financial Inclusion Strategy" for Pakistan, in partnership with the World Bank and other key stakeholders, with the objective to push forward a comprehensive set of financial sector reforms to enhance financial inclusion in Pakistan.

Dr. Ahmed holds PhD in Economics from the University of Cambridge, UK and MSc in Economics from the University of Warwick, UK where he was a British Chevening Scholar from Pakistan.

Committees of the Board

Committees of the Board ensure oversight function of the Board in certain specialized areas. The functioning of the Committees is summarized as under:

Committee on Audit

The Committee assists the Board in reviewing SBP's financial statements, auditing, accounting and related reporting processes, the system of internal controls, governance, business practices and standards of conduct established by the management and the Board. The Committee met six times during FY19. It was chaired by Hafiz Mohammad Yousaf, with Khawaja Iqbal Hassan, Mr. Ardeshir Khursheed Marker and Mr. Sarmad Amin as members till March 21, 2019. The Committee was reconstituted on March 14, 2019 and August 29, 2019. The current composition includes Mr. Atif R. Bokhari, Mr. Muhammad Saleem Sethi and Dr. Tariq Hassan.

Committee on Investment

The Committee assists the Board in fulfilling its oversight responsibilities relating to management of foreign exchange reserves. It reviews the strategy and policy for reserves management and approves operational guidelines for investment and appointment of asset managers, custodians and investment consultants. It also reviews the performance of the foreign exchange reserves managed in-house and externally, and the appropriateness of the approved investment policy, its benchmarks and guidelines on an annual basis or as warranted by global market conditions. The Committee met two times during FY19. It was chaired by Mr. Arif Ahmed Khan till March 2019, with Khawaja Iqbal Hassan and Mr. Sarmad Amin as members. The Committee was reconstituted on August 29, 2019. The current composition includes Mr. Naveed Kamran Baloch, Mr. Atif R. Bokhari and Mr. Ali Jameel.

Committee on Human Resources

The Committee assists the Board in reviewing and approving HR policies prepared by the management. It reviews all the proposals requiring approval of the Board on formulation, revision, modification or interpretation of HR policies and submits its recommendations to the Board. The Committee also reviews the terms and conditions of employment of senior level Bank officers including those reporting directly to the Governor. The Committee met four times during FY19. It was chaired by Mr. Zubyr Soomro with Mr. Mohammad Riaz as member. The Committee was reconstituted on March 14, 2019 and August 29, 2019. The current Composition includes Mr. Azam Faruque, Dr. Tariq Hassan and Mr. Ali Jameel.

Publications Review Committee

Publications Review Committee of the Board assists the Board in the review and approval of the Annual and Quarterly Reports on the State of the Pakistan Economy, Annual Performance Review of SBP and the Financial Stability Review. The Committee deliberates on the draft reports and reviews them for the consideration and final approval of the Board. The Committee met four times during FY19. It was chaired by Mr. Ardeshir Khursheed Marker with Mr. Zubyr Soomro as member till March 21, 2019. The Committee was reconstituted in August 2018, on March 14, 2019 and August 29, 2019. The current composition includes Mr. Azam Faruque and Mr. Muhammad Saleem Sethi.

Enterprise Risk Management Committee

The Committee assists the Board in fulfilling the oversight responsibilities with respect to risk management in the Bank. The Committee overseas that the management identifies and assesses all the risks that the Bank faces, supported by a risk management infrastructure capable of addressing those risks. The Committee reviews and approves Bank's risk management policy and plan. The Committee also coordinates, when required, with the ERM Committee of the management and with other Committees of the Board. The Committee met three times during FY19. It was chaired by Khawaja Iqbal Hassan with Mr. Zubyr Soomro and Dr. Tariq Hassan as members till March 21, 2019. The Committee was reconstituted on August 29, 2019. The current composition includes Mr. Azam Faruque, Mr. Muhammad Saleem Sethi and Mr. Ali Jameel.

Financial Law Reform Committee

The Committee assists the Board in proposing a cohesive and comprehensive legal framework, reflecting the principles of financial regulatory authorities as practiced globally and applicable in the domestic environment. Besides, formulating its recommendations regarding amendments in the legal framework, the Committee also takes into account comments and observations of the various departments on inconsistencies and anomalies in the legal framework. The Committee met six times during FY19. It was chaired by Dr. Tariq Hassan, with Hafiz Mohammad Yousaf as member till March 21, 2019. The Committee was reconstituted on March 14, 2019 and August 29, 2019. The current composition includes Mr. Atif R. Bokhari and Dr. Tariq Hassan.

Management Committees

In order to discuss critical and operational issues and take policy decisions, various management committees have been formed.

Corporate Management Team (CMT) and CMT-HoD Forum

The Corporate Management Team (CMT) serves as the principal forum for discussion and consultation on critical management and operational issues. It facilitates decision making and their implementation, especially in matters where several departments are involved. The CMT is headed by the Governor and comprising Deputy Governors and Executive Directors, as well as Managing Directors of the SBP subsidiaries i.e., SBP-BSC, NIBAF, PSPC and DPC. In addition to the CMT, combined meetings of the CMT and the Heads of Departments (HoDs) provide a broader platform to deliberate issues of wider implications. The Corporate Secretary is also secretary to both, the CMT and the CMT-HOD. Depending on the agenda, Executive Directors and HoDs of SBP-BSC are also invited to attend the meetings. CMT met fourteen times during the year.

The following are the major management committees, which assist the Governor in decision-making and formulation of various policies:

- Banking Policy Committee
- Monetary Operations Committee
- Budget Committee of Management
- Business Continuity Planning Committee
- Data Warehouse Committee
- Derivatives Approval & Review Team

- Strategic Plan Steering Committee
- Enterprise Risk Management Committee
- Investment Committee of Management
- Library Committee
- Management Committee on Information Technology
- Management Committee on Properties and Equipment
- Payment Systems Policy Committee
- Publications Review Committee
- Refund Committee (Export Refund Committee)
- Financial Stability Executive Committee
- Sports Committee

Corporate Management Team (CMT)

Dr. Reza Baqir
Governor

Mr. Jameel Ahmad
Deputy Governor (Banking & FMRM)

Mr. Qasim Nawaz
Executive Director (HR)

Dr. Inayat Hussain
Executive Director (FS&BSG)

Mr. Muhammad Ashraf Khan
Managing Director (SBP-BSC)

Mr. Muhammad Haroon Rasheed
Managing Director (PSPC)

Syed Samar Husnain
Executive Director (DFG)

Syed Irfan Ali
Executive Director (BPRG)

Mr. Muhammad Ali Malik
Executive Director (FMRM)

Dr. Saeed Ahmed
Executive Director (MPRG)/
Chief Economist

Mr. Riaz Nazarali Chunara
Managing Director (NIBAF)

Mr. Saleemullah
Executive Director (FRM)

Ms. Lubna Farooq Malik
Managing Director (DPC)

Dr. Muhammad Ali Choudhary
Research Advisor

Mr. Muhammad Amin
Chief Information Officer

Mr. Mohammad Mansoor Ali
Director OCS/ Corporate Secretary

SBP Subsidiaries

The *SBP Act, 1956* (as amended) provides for the establishment of subsidiaries for managing functions such as receipt, supply and exchange of currency notes and related operational functions to protect small depositors in case a bank ceases to be a going concern and for training and development needs of its employees. In line with these provisions, SBP has four subsidiaries, including the State Bank of Pakistan-Banking Services Corporation (SBP-BSC), National Institute of Banking and Finance (NIBAF), Pakistan Security Printing Corporation (PSPC) and Deposit Protection Corporation (DPC). Brief description of these subsidiaries is as under:

SBP-BSC

Established under the *SBP-BSC Ordinance 2001*, SBP-BSC is a fully owned subsidiary of SBP with the mandate to perform tasks such as currency management, facilitating the inter-bank settlement system, and sale/purchase of savings instruments of the Government on behalf of Central Directorate of National Savings. Additionally, SBP-BSC collects revenue and makes payment for and on behalf of the Government as well as carries out operational work relating to development finance, management of public debt, foreign exchange operations and export refinance. The Board of Directors of SBP-BSC, chaired by the Governor SBP, comprises all members of the SBP Board and the Managing Director of SBP-BSC. The Managing Director, appointed by SBP, is the chief executive officer of SBP-BSC.

NIBAF

National Institute of Banking and Finance (NIBAF) is the training arm of SBP with the mandate to develop, design and conduct training and capacity building programs for the employees of SBP and SBP-BSC. The subsidiary also conducts international courses on central and commercial banking in collaboration with the Federal Government. Similarly, NIBAF conducts training programs for banks and financial institutions. It not only conducts pre-induction trainings for the SBP and SBP- BSC employees, but also develops and implements programs pertaining to various functions of central banking operations.

Pakistan Security Printing Corporation

The PSPC was acquired by SBP in FY17 from the Federal Government to have full control over the spectrum of the banknote printing function. The core mandate and function of PSPC is to print banknotes and prize bonds as per the indent raised by SBP. PSPC holds 40.03 percent and 47 percent equity stakes in Security Papers Limited and SICPA Inks Pakistan (Pvt) Limited respectively. These entities are the sole suppliers of banknote paper and security ink to PSPC. The Board of Directors of PSPC consists of Governor as the Chairman and Deputy Governor as the Vice Chairman. Other members include Senior Joint Secretary, Finance Division, Managing Director SBP-BSC, Executive Director FRM, Managing Director PSPC and three independent directors.

Deposit Protection Corporation

The DPC has been established under the Deposit Protection Corporation Act, 2016 (DPCA) as a wholly owned subsidiary of SBP. The Board of DPC consists of seven directors including a Deputy Governor of SBP (as Chairman), four members from the private sector, an official from the Finance Division and the Managing Director of DPC. The primary objective of DPC is to provide security to

the small depositors in the likely event of failure of a member bank. All the banks operating in the country are mandatory members of deposit protection mechanism, and are liable to pay premiums prescribed by DPC.

1 Enhancing Effectiveness of Monetary Policy

1.1 Monetary Policy Stance in FY19

Pakistan's economy witnessed low inflation and healthy GDP growth in FY18 and FY17. However, this growth, primarily consumption led, resulted in a sharp increase in twin deficits i.e. fiscal and current account deficits. Owing to high domestic demand, inflation remained above its target in FY19. Cognizant of the evolving macroeconomic trends, SBP proactively increased its policy rate by a cumulative 575 bps in six bi-monthly meetings for monetary policy decisions. The SBP raised the policy rate by 100 bps to 13.25 percent with effect from July 17, 2019. This was the ninth increase in the policy rate during the current cycle of monetary tightening initiated in January 2018. In aggregate, the policy rate has recorded a cumulative increase of 750 bps during the current cycle of monetary tightening.

The monetary tightening has been supported by greater exchange rate flexibility and administrative measures to contain imports. The government also supported these policy adjustments by increasing regulatory duties on unnecessary consumer and luxury items and arranging external funding to contain deterioration in external buffers (Foreign exchange reserves).

The policy actions have led to a visible improvement in the country's external accounts and helped in containing domestic demand. Specifically, external conditions continue to improve with a 31.7 percent reduction in the current account deficit (CAD) to USD 13.6 billion in FY19 as compared to a deficit of USD 19.9 billion previous year. The consolidation is likely to gain momentum going forward with CAD to contract further on account of import compression, anticipation of moderate growth in exports and prospects of increase in remittances. In addition, the country's financial account is going to benefit from the IMF Extended Fund Facility, activation of the Saudi oil facility and other commitments from multilateral and bilateral partners.

The current high frequency indicators point towards a marked slowdown in domestic demand along with overall economic activity. The latest estimates of National Income Accounts indicate that the real GDP grew by 3.3 percent in FY19 as compared to 5.5 percent in FY18. A modest recovery is expected on account of improvement in agriculture sector and its knock-on impact on industry and services sectors and the gradual impact of government incentives for export-oriented industries. Therefore, SBP expects real GDP growth of around 3.5 percent in FY20.

Both the demand and supply side factors pushed the headline inflation to 7.3 percent in FY19, above the medium term target of 6 percent. Year on year CPI inflation increased by 10.3 and 11.6 percent in July and August 2019, respectively. The Monetary Policy Committee expects average headline inflation (old base of 2007-08) for FY20 to remain in the range of 11-12 percent. This notable increase in FY20 inflation is largely stemming from the one-off impact of adjustment in utilities prices, rationalization of taxation structure and the unfolding impact of depreciation of PKR in the last few months. However, the lagged impact of stabilization measures and weakening impact of one-off adjustments would significantly reduce headline inflation in FY21.

1.1.1 IMF Program

The Government of Pakistan (GoP) and the IMF have signed a 39-month Extended Fund Facility arrangement amounting USD 6 billion. The program would help strengthening macroeconomic stability and facilitating the implementation of deep-rooted structural reforms. The GoP in consultation with all stakeholders has developed a well-thought set of economic and financial policies to contain macroeconomic imbalances to manageable levels and to pave the way for sustainable economic growth in the medium to long run.

1.1.2 Strengthening Monetary Policy Formulation

In order to produce high quality analyses for MPC, the relevant departments of SBP continuously seek to improve its macroeconomic forecasting models/ techniques to provide a better/ clearer picture of economy going forward. Improved coordination between Research Department and Monetary Policy Department (MPD) on forecasting front have helped in providing quality reports to MPC.

A number of exercises focused on exploring and strengthening of sectoral interlinkages to facilitate in-depth analyses were undertaken, where multiple findings were converted into research papers and the rest were transformed into Development Projects. MPD completed 16 projects in FY19. Some of the major Development Projects are listed below:

- Roadmap for inflation targeting and prototype inflation report
- Impact of Monetary Policy related communication on money markets
- Estimation of output gap at disaggregate level
- Development of sustainable economic growth path with structural changes
- Interest rate corridor and liquidity management
- Exchange rate undervaluation and economic growth: the Trade-versus-The financial risk channel.

Similarly, sector specific developments are regularly analyzed to keep the MPC updated with latest developments that may affect policy decisions. These are typically covered as box items and made part of the flagship Trends and Development document and final presentation produced by MPD for MPC.

During the year under review, 22 specific developments were covered as box items for the MPC. Some of them are listed below:

- Role of overvalued exchange rate in keeping inflation at lower level
- Sensitivity of SBP inflation forecast to the floods in the country
- Comparison of Pakistan’s exports potential with its existing level (some observations)
- Textile exports to EU: A case of decreasing unit value for textile exporters
- US-China Trade Tensions: Who will benefit
- Impact of Brexit on UK and the EU economies
- A possible shift of government borrowing from SBP to scheduled banks in FY20 and its implications for monetary management
- IMF program and monetary expansion
- Credit uptake and non-financial corporate sector analysis

1.1.3 Progress towards Adoption of Flexible Inflation Targeting

SBP with its commitment towards adoption of Flexible Inflation targeting (FIT) framework by 2020, prepared a draft roadmap document along with key recommendations. In this regard, a seminar was organized in April 2019, to seek comments and suggestions for improvement. The GoP took a significant step towards inflation targeting by announcing its first medium term inflation target at 5-7 percent in the Federal Budget FY20.

1.2 Money and Debt Market

Following initiatives were undertaken during FY19:

1.2.1 Exemption of 'Borrowings from Pakistan Mortgage Refinance Company Limited' from Maintenance of CRR and SLR for Banks / Microfinance Banks

Keeping in view the role of Pakistan Mortgage Refinance Company (PMRC) and to facilitate mobilization of low cost housing finance, SBP revised its instructions on Cash Reserve Requirement (CRR) and Statutory Liquidity Requirement (SLR) in March, 2019. Accordingly, borrowings from PMRC have been exempted from maintenance of CRR and SLR. These measures will encourage Banks/ MFBs to finance low cost housing.

1.2.2 Declaration of Pakistan Energy Sukuk as Approved Security for Maintenance of SLR

Considering the scheduled maturities of GoP Ijara Sukuk and limited issuance of sovereign Shariah compliant securities vis-à-vis increasing demand for investment opportunities by Islamic Banking Institutions, SBP supported the eligibility of Pakistan Energy Sukuk issued by Power Holding Private Limited (PHPL) as approved security for maintenance of SLR.

1.2.3 Declaration of Obligations of SBP arising from Bai-Muajjal transactions as Approved Security for Maintenance of SLR

To enhance the available pool of Shariah compliant instruments for Islamic Banking Institutions and to meet the required SLR and help them sustain their growth momentum, SBP supported the declaration of obligations of SBP arising from Bai-Muajjal transactions as approved security for maintenance of SLR.

1.3 Foreign Exchange Reserve Management

The synchronized upswing in global growth and trade that has been the hallmark of recent years gave way to a more uneven growth environment in FY19. While global growth remained positive, most of the major economies seem to be in the intermediary stages of the business cycle. Though the labor market has strengthened in US, the services and manufacturing activity and consumer spending remained muted. Amidst concerns regarding trade tensions and efficacy of fiscal spending, debates regarding Fed policy action have changed from rate hikes to rate cuts. In China, economic growth is also stagnating amidst trade tensions with the US as well as government action against shadow banking practices that have left private debt at worrisome levels. Chinese policymakers are stuck in a balancing act as they face a weaker economy but do not want to risk overstimulation after a decade-long credit boom. Nevertheless, the depreciating Renminbi has partially offset the impact of higher US tariffs. Further monetary and fiscal accommodation may be warranted going forward to prevent any material economic growth slowdown.

European markets also faced slower growth given stalling imports from China as well as uncertainties surrounding 'Brexit'. While central banks of developed economies are prepared to provide stimulus in case of further slowdown in economic activity, markets still need to figure out the ramifications of a slowing global economy.

In line with the SBP guiding principles of safety, liquidity and returns, the SBP reserve management function was proactively aligned with the changing market conditions to earn optimal returns.

In the wake of globally heightened concerns about cyber security, mandatory software upgrade of SWIFT Alliance Access was successfully applied and upgraded in compliance with SWIFT's Customer Security Control Framework. Further, SWIFT Alliance Lifeline was acquired to ensure uninterrupted business continuity in situations where SWIFT infrastructure disrupts or become totally unavailable. In order to strengthen the robustness of the system, Payment Control Service was acquired for maintaining track of legitimate payments and mitigating the threat of cyber frauds.

In pursuance of SBP Vision 2020, a number of policy measures have been initiated during FY19 to improve the efficiency and effectiveness of Foreign Exchange regime of Pakistan (**Box 1.1**).

Box 1.1: Initiatives taken to improve effectiveness of foreign exchange regime during FY19:

- SBP updated Foreign Exchange Manual by incorporating the related Notifications, FE Circulars and Circular Letters issued up to March 14, 2019. Further, Exchange Companies Manual-2018 has also been updated with all FE Circulars and Circular Letters issued till December 31, 2018. Both the manuals have been placed on SBP's website to facilitate access to all stakeholders.

- Keeping in view of the changing dynamics of the foreign exchange market, seven chapters of Foreign Exchange Manual have been revised in consultation with key stakeholders. The revision includes chapters relating to Authorized Dealers, Foreign Currency Loans, Overdrafts and Guarantees, Forward Exchange Facilities, etc.

- SBP restricted advance payment against imports at the beginning of the FY18 to support balance of payment of the country. However, this restriction was removed for certain sectors mentioned as under:

  – Advance payment up to USD 10,000 per invoice has been allowed for essential medicines, aircraft spares, educational lab equipment, books, periodicals, etc. The above limit was further relaxed to USD 50,000 for import of life saving medicines and devices.
  – Advance payment up to USD 10,000 per invoice has been allowed to importers cum exporters for import of raw materials, accessories and spares.

- Similarly, the import on open account basis was confined to manufacturing and industrial users for import of spare parts/ raw materials only. Subsequently, this facility was also extended for import of essential medicines, aircraft spares, educational lab equipment, books, periodicals etc. up to USD 10,000. This limit was further relaxed to USD 50,000 for the import of life saving medicines and devices to improve the health care facilities in the country.

- In order to further strengthen the compliance of AML/ CFT laws and regulations by Exchange Companies, SBP instructed to document all such transactions that require physical movement

(transportation) of any currency between their authorized network or with other Exchange Companies and Banks. Besides, it was also advised to use bank accounts for intercity movements of PKR cash.

- SBP issued a detailed guidelines for all types of Exchange Companies on Targeted Financial Sanctions for the prevention of Terrorism and Proliferation Financing, to ensure meticulous compliance of Statutory Regulatory Orders and Notifications of GoP in terms of United Nations (Security Council) Act, 1948 and The Anti-Terrorism Act (ATA), 1997. These instructions, inter alia, require non-provision of services to proscribed persons, development of transaction screening mechanism, strengthening of internal controls and AML/CFT related training of the dealing staff.

- To further improve the operational risk management of all types of Exchange Companies, SBP implemented a standardized policy for the surveillance of every branch by respective Head Office through close circuit television camera arrangement.

1.4 Home Remittances

Notwithstanding the challenges of Gulf Cooperation Council region amidst broad-based fiscal and labor reforms, home remittances rose to USD 21.8 billion during FY19 as compared with USD 19.9 billion in FY18, thereby witnessing a strong growth of 9.7 percent. The rise is mainly attributed to the support extended by the GoP and the efforts made by all stakeholders including SBP, Pakistan Remittance Initiative (PRI) and financial institutions to implement following measures:

1.4.1 Incentive Scheme for Financial Institutions

In order to encourage banks, microfinance banks and exchange companies providing home remittance disbursement services, a performance based incentive scheme has been introduced to enhance their marketing /promotional /awareness efforts for home remittance products and services. The GoP reimburse these expenses to participating institutions through SBP.

1.4.2 Second Pakistan Remittance Summit

The Second “Pakistan Remittance Summit 2019” was held on April 03, 2019 in Dubai, UAE. This Summit was organized by the top five remittance receiving banks in Pakistan under the patronage of SBP and PRI. The summit shed light on the importance of workers remittances for the development and support of Pakistan’s economy and the measures being taken by SBP/ PRI and the banks in Pakistan to increase flow of home remittances through official channels.

1.4.3 Introduction of Technology Based Products

- **Rationalization of M-Wallet Scheme**

In order to further facilitate the banks to promote home remittances through Branchless Banking Operators (BBOs), the incentive of airtime has been increased from Re 1 to Rs 2 against each USD received under home remittances through M-Wallet. Further, the entire amount of incentive to home remittance account holders (HRA) shall be borne by the GoP as against 50 percent sharing of incentive payment by GoP and 50 percent by BBOs earlier.

- **Blockchain Based Remittance Sending Model (From Malaysia To Pakistan)**

Technology has always been a crucial feature to connect overseas Pakistanis with their dependent beneficiaries in remote areas of the country. The banks are continuously guided to introduce better and efficient technology based products. It is with the help of blockchain technology that wallet-to-wallet remittances reach Pakistan from Malaysia instantaneously in the most secured manner. Valyou-Malaysia and Easypaisa - Pakistan brought a cross-border remittance service solution through e-wallet platforms, based on blockchain technology developed by Alipay, a subsidiary of ANT Financial. Pakistan is the first South Asian country that introduced blockchain enabled technology for remittances.

1.4.4 Media/Awareness Campaign to Promote Remittances through Formal Channels

SBP / PRI launched a massive public marketing campaign for the promotion of regulated channels with the following objectives:

- To increase awareness of the general public in rural and urban areas about existing facilities of sending remittances to Pakistan
- To position regulated channels as the industry frontrunner in enabling a reliable and efficient home remittance transactions system through a network of banks, exchange companies and Pakistan Post
- To build public's trust in regulated channels so that more and more people use these channels to remit money from abroad**.**

1.4.5 Increase in Overseas Outreach

As part of continuous efforts, SBP/ PRI have been successful to further increase the overseas outreach of domestic financial institutions by allowing their over 130 agency arrangements with overseas tie-ups during FY19. It includes 10 percent new tie-ups thereby surpassing the total number of agency agreement by 1,000 mark.

1.4.6 Withholding Tax Exemption on Withdrawal of Remittances

On the proposal of SBP/ PRI and other key stakeholders, the GoP through Finance Bill 2019 announced removal of advance tax on cash withdrawal from PKR accounts where deposit in the account is made solely from foreign remittances.

1.5 Research

Research Department has further extended Dynamic Stochastic General Equilibrium (DSGE) and Forecasting and Policy Analysis System (FPAS) models during FY19 by incorporating the dynamics of financial and agriculture sectors, as identified by the MPC. The FPAS-version 3 model has been developed which is being operationalized to provide regular inputs to Monetary Operation Committee (MOC) and MPC for policy formulation.

Like many other central banks, SBP continued to weigh up both the households and firms' perceptions about prevailing and expected economic conditions for monetary policy formulation by conducting Consumer Confidence Survey and Business Confidence Survey after every two months. SBP also continued to conduct quarterly online bank lending survey. Similarly, Banking Services Quality Survey, which assessed the banking services quality through pan Pakistan survey of 4000

bank account holders was conducted. Further, SBP conducted Systemic Risk Survey in collaboration with Financial Stability Department.

The 23rd Zahid Husain Memorial Lecture was organized on April 19, 2019 at SBP Karachi. Former Governor, Peoples Bank of China, Mr. Zhou Xiaochuan delivered the lecture titled, "Lessons from the Role of Peoples Bank of China in their Economic Rise". In his lecture, Mr. Zhou described the reforms in Peoples Bank of China under his tenure, which reflects China's gradualist approach towards globalization for sustainable economic development. He emphasized to raise domestic savings in order to address most of the macroeconomic imbalances. He also suggested using regional currencies to facilitate trade in the region. Government officials, financial sector specialists, researchers, heads of commercial banks, diplomats, eminent businesspersons and representatives of academia and the media attended the lecture.

SBP also organized several seminars under Pakistan and World Economy Series during FY19. The most prominent lecture was delivered by Professor Asim Ijaz Khwaja from Harvard Kennedy School. He presented his research paper titled, "Ingredients for growth: Enabling Evidence for Transformation in Pakistan". Another lecture under the series was delivered by Mr. Hans Timmer, Chief Economist, South Asia region, World Bank. In his lecture, he discussed the role of disruptive technologies and implications on markets.

SBP published five working papers during FY19. These working papers contributed a lot in enhancing the understanding about the working of Pakistan's economy.

1.6 Economic Analyses / Publications

The SBP's quarterly and annual reports on The State of the Economy provide insights into economic trends, issues and challenges. In FY19, these reports addressed several economic issues and highlighted their importance.

On the industrial front, the impact of global commodity markets on industrial production was analyzed. Additionally, the effect of delayed adjustment of prices on the performance of the pharmaceutical sector was also brought to light. Agriculture sector issues such as crop insurance program, climate smart agriculture, sugarcane pricing and the developing water situation were discussed and analyzed in detail. A section on, "Exploiting Direct Tax Potential in Pakistan" was published in Annual Report 2018. Moreover, SBP provided analytical and data support for relevant sections of the Economic Survey of Pakistan FY19, published by Finance Division.

Regarding the External sector, various topics were covered, both in the main text of the chapter as well as in the form of box items. These included box items on an assessment of FX reserves adequacy based on IMF guidelines and the opportunities and challenges for Pakistan amidst the ongoing Sino – US trade dispute. Further, recent efforts to channelize remittances through official channels were highlighted. The shift in the composition of Pakistan's energy mix from furnace oil towards LNG and coal was also regularly highlighted.

The Annual Report FY18 featured a special chapter dedicated to the digitization of services in Pakistan. The chapter documented the notable developments taking place across three key domains: e-commerce, Fintech and e-government. It made a compelling case for stakeholders to further facilitate the advancement of digitization, given its potential to trigger investment, financial inclusion, productivity gains and entrepreneurship, all of which could in turn, be a boon for economic growth.

1.7 Data Management System

Pursuing SBP Vision 2020, all major statistics compiled by SBP are in accordance with the international standards. The balance of payments statistics, monetary statistics, flow of funds accounts and debt statistics follow the guidelines provided in the relevant manuals prepared by the international agencies like, IMF, UN, and the World Bank Group. Various stakeholders use the statistics produced by SBP for analysis, research and policy formation within and outside SBP.

During the year, a number of initiatives were taken in the data compilation and dissemination as follows:

- Compilation of Repatriation of Profit and Dividend on Foreign Investment as per International Standard of Industrial Classification of All Economic Activities (ISIC 4).

- Compilation of half-yearly scheduled banks statistics on ISIC 4 together with inclusion of branch-wise data of MFBs and DFIs as a separate chapter in the publication of Statistics on Scheduled Banks in Pakistan.

- Contribution towards implementation of the IMF's Enhanced General Data Dissemination System (e-GDDS) besides providing data on financial and external sectors for National Summary Data Page of Pakistan, being hosted by Pakistan Bureau of Statistics.

- Survey of importers to update coefficient of CIF margin as 2.7 percent on imports from July, 2018 onward.

- Revision of Foreign Exchange Returns (FERs)-Code Guide for banks to enhance coverage of all banks' transactions as per recommendations contained in the IMF manual (BPM6).

- Enhancement in the data coverage of weekly Monetary Survey by including data relating to DFIs and MFBs as well as its classification in line with monthly Monetary Survey as per MFSM. SBP will start disseminating weekly Monetary Survey series upon completion of internal and external review process.

- Compilation of quarterly publication of top 100 non-financial companies listed at Pakistan Stock Exchange from the quarter ending September 2018.

- Coordination for the development of a FX dashboard called FX Data Universe. The dashboard aims to provide a consolidated view of foreign exchange data from across various databases used by SBP.

- Coordination for the development of data acquisition and processing modules for monthly reporting of Foreign Currency Deposits & Borrowings (for S&DWD), Turnaround Time Monitoring Portal for SME borrowers (for IH&SMEFD) and data acquisition and compilation module for microfinance banks' Capital Adequacy Ratio (for BPRD).

- Completion of developmental project "Feasibility and Methodology to calculate Divisia Monetary Aggregate Index for Pakistan" meant to introduce a new data series on Divisia Monetary Aggregates to facilitate analysts, researchers and decision makers.

2 Payment System

During the past few years, SBP took a number of development initiatives to promote digitization of the payments landscape in the country. These initiatives are primarily aimed at development of digital payment platforms, provision of a conducive regulatory environment for the industry and promotion of innovative and convenient digital payment instruments in the economy. As a result, the payments industry in Pakistan continued to show a healthy growth, both in terms of volume and value of transactions conducted during FY19.

A detailed analysis of the key digital payment indicators and initiatives of SBP to promote payment systems and digital financial services in the country is mentioned as under:

2.1 Performance of Payment Systems during FY19

During FY19, Pakistan's core payment systems infrastructure remained operationally resilient and processed 1,337.6 million transactions (valued at Rs 602.8 trillion) through various payment channels that include e-banking (65 percent), paper-based instruments (34.8 percent) and PRISM (0.2 percent). The e-Banking channels, comprising of Real time online branches (RTOB), ATMs, e-Commerce, Internet, Mobile Phone and Call Centers/ IVR Banking, collectively processed 869.8 million transactions valuing Rs 58.8 trillion. These transactions showed significant growth of 15 percent and 24.1 percent in both volume and value of transactions over the year. Banks have expanded their network to 16,864 branches during FY19 and 15,481 of such branches provided real time online banking services to their customers, by processing 187.4 million transactions valuing Rs 49.4 trillion. In total e-Banking transactions, RTOBs have the highest share of 84 percent in value whereas ATM transactions have the highest share (60.2 percent) in volume.

As at June 30, 2019, 14,722 ATMs and 56,911 POS machines processed 523.3 million and 72.4 million transactions valuing Rs 6,399.6 billion and Rs 366.2 billion respectively during FY19. Total number of payment cards issued in Pakistan reached 42.2 million which include Debit Cards (58.8 percent), proprietary ATMs Cards (20.1 percent), Credit Cards (3.8 percent), Pre-Paid cards (0.5 percent) and Social Welfare Cards (16.8 percent). During FY19, 607.8 million transactions valuing Rs 6,767 billion were processed involving these payment Cards, of which Debit Cards have the highest share of 81.2 percent in volume and 85.5 percent in value. Further, ratio of on-us versus off-us ATM cash withdrawal was 62:38 by volume and 68:32 by value showed that customers generally prefer to withdraw cash from their own bank's ATMs.

Internet Banking services have been offered by 27 banks to 3.3 million Internet Banking users registered with banks. During FY19, 39.7 million transactions amounting Rs 1,722.2 billion were processed through Internet Banking. Moreover, 26 banks are providing Mobile Phone Banking facility with 5.6 million registered users. These users processed 41.1 million transactions involving Rs 866.8 billion using Mobile Phone Banking Apps.

PRISM system has 45 direct participants, which include 32 Banks, 2 Specialized Banks, 2 MFBs, 8 DFIs and 1 non-bank i.e. Central Depository Company. During FY19, PRISM processed 2.5 million

transactions amounting Rs 398.2 trillion. Both the volume and value of its transactions showed a significant growth of 47.2 percent and 10.3 percent respectively. Highest share in PRISM's transactions was contributed by third party customers transfers (84.1 percent), of which 38.1 percent was related to home remittances. As per value of transactions, Government securities' settlement has the highest share of 69 percent followed by interbank fund transfers (19.2 percent), 3rd Party fund transfers (7.9 percent) and settlement ancillary payments (3.9 percent).

2.2 Regulatory Developments in Payment Systems during FY19

In line with SBP's strategic objective of building robust payment system, SBP has been undertaking various initiatives aimed at transforming the infrastructure and regulatory environment in the country. To achieve the said objective, SBP adopted a multi-pronged strategy and initiated projects in four key broad areas which include:

1) Developing modern payments infrastructure
2) Providing an enabling regulatory environment for banks and non-banks,
3) Ensuring security of digital payments channels and consumer protection
4) Promoting new technologies

Key achievements to strengthen and promote Payment Systems regulatory regime are listed below:

2.2.1 Developing Modern Payments Infrastructure

With the emergence of new enabling technologies, retail payment systems are being transformed to enable the public to pay and receive money in real time. SBP initiated implementation of the Micro Payment Gateway with the support from Bill & Melinda Gates Foundation/ Karandaaz. This Gateway will offer swift retail payments with advanced Application Programming Interfaces (APIs) and directory services, which will simplify the payment mechanism in the country. With the implementation of this critical retail payment infrastructure, SBP expects rapid digitization of public/ private collections and payments.

2.2.2 Providing an Enabling Regulatory Environment for Banks and Non-banks

During the past few years, payments industry has witnessed a shift from traditional bank led model to non-bank model. Banks especially larger banks have been struggling in extending their outreach to retail customers due to which non-banking institutions have rapidly innovated with the help of technology to provide low cost, convenient to access and innovative payment instruments to retail customers.

SBP while realizing that current banking sector is inadequate for serving digital payment needs of the customers have issued regulations for Electronic Money Institutions (EMIs). The objective of issuing these regulations is to provide a conducive regulatory framework to technology enabled non-banking entities (Fintechs) to provide innovative, user-friendly and cost-effective payment services to consumers using prepaid instruments like digital wallets, prepaid cards, contactless payment instruments including wearables etc. It is expected that these EMIs will be instrumental in offering innovative payment instruments that will digitize cashless payments like merchant checkouts, e-commerce, government receipts, bill payments, cross border remittances, etc.

2.2.3 Ensuring Security of Digital Payments Channels and Consumer Protection

Advancement of technology has enhanced convenience to consumers but has also posed new threats and targeted attacks on systems across jurisdictions. These attacks compromise the security and privacy of customers' data and cause massive disruption to the continuity of businesses. SBP during the last few years, has issued a number of instructions and strengthened its oversight regulatory framework to ensure safety and security of digital payment systems. As a result, significant progress was made by the payments industry in Pakistan on the adoption of Euro Visa Master (EMV) chip based cards and other standards like PCI DSS and 3D Secure etc. SBP advised banks to carryout extensive compromise assessment and penetration testing to identify potential weaknesses in their Alternate Delivery Channels and payment systems, deploy real-time fraud monitoring tools and alert mechanisms and monitor usage/ activity on 24/7 basis. SBP mandated banks to activate/ reactivate online banking services after biometric verification and offer free of cost transaction alerts to their customers through both SMS and email for all international and domestic digital transactions.

Banks have been advised to limit their cross border exposure by setting reasonable limits with international payment schemes. SBP is also encouraging banks to issue domestic payment scheme card (PayPak) to their customers, who do not wish to use them abroad. Approximately, 2 million PayPak cards have been issued to date.

2.2.4 Other Initiatives for Promoting New Technologies

SBP has taken a number of initiatives to facilitate digitization of payments at retail level. Major milestones include collection of taxes and duties by FBR, Customs and Punjab Revenue Authority using ADCs. Further, SBP facilitated SECP in implementing its mandate that requires payments of its fee and dividends to customers electronically.

SBP also facilitated operationalization of online collection of donations in Supreme Court of Pakistan and Prime Minister of Pakistan Diamer Bhasha and Mohmand Dam Fund account through payment cards. Moreover, banks were advised not to charge any transaction fee (Interchange, Merchant Discount Rate etc.) on payments made to Federal and Provincial Governments.

2.3 Developments in Government Payments

The government payments are an important component of public finance management in terms of its impact on different sectors of the economy. An efficient and transparent government payments system has direct bearing on the public service delivery, public sector procurement, social security net and good governance. The SBP is providing all the necessary support and facilitation to the federal and provincial governments for development of efficient, reliable, simple and transparent IT based payment system solutions. The objective is to bring the much-needed efficiency and transparency in the government payments. The key initiatives undertaken by the SBP include online collection of government taxes and duties through ADCs and implementation of e-cheque reconciliation.

2.3.1 Collection of Government Taxes and Fees through ADCs

After successful implementation of the ADCs for collection of FBR duties and taxes in FY18, SBP extended the facility for collection of Government of Punjab (GoPb) tax and non-tax receipts. A tripartite agreement was signed on December 16, 2018, by SBP, GoPb and 1-Link to develop the

facility for collection of GoPb receipts through Punjab Information Technology Board. Under the scheme, the GoPb has been added as biller in the Bill Payment System of 1Link. The taxpayers can now pay around 13 different taxes and duties of GoPb through e-Pay Punjab application or website by generating a unique Payment System Identity (PSID) number. The taxpayers then access the biller module of his/her bank through internet banking, ATMs or banks' mobile applications, fetch relevant details by entering the PSID number to pay off his/ her tax liability.

Subsequently, the 1-Link system generates a message for the relevant tax department confirming tax receipt against the particular PSID. The online tax collection system provides end-to-end solution for generating PSID, payment of tax, its settlement with SBP and subsequent recording and reconciliation with the relevant tax administration. The SBP also intends to extend this facility to other provincial governments.

2.4 Ensuring Quality of Banknotes and Efficiency of Currency Management System

SBP Vision 2020 envisions availability of clean and good quality banknotes with state of the art security features and automation of currency management system. In this context, the Bank initiatives included implementation of Currency Management Strategy, introduction of latest security features in banknotes and exploring innovative techniques to improve the quality and durability of banknotes.

2.4.1 Implementation of Currency Management Strategy

SBP introduced currency management strategy in 2015 to automate related operations. With the successful implementation of the strategy, all commercial bank branches and ATMs throughout the country are disbursing machine authenticated banknotes of Rs 100 and above denominations. The scope of the strategy would be enhanced to include processing of Rs 50 banknotes by January 2020. It is worth mentioning that banks have established 797 Cash Processing Centers, equipped 5,971 Standalone Branches with authentication machines and made arrangements for 586 linked branches at end June 2019.

2.5 The Way Forward

To accelerate digitization of payments landscape in the country, SBP would focus on two major use cases; Government-Citizen payments and collections and digitization of merchants and invoice based payments. These two use cases would ensure provision of quick and efficient government services to customers and bring efficiency in the business sector. In pursuance, SBP will provide interoperable retail payments infrastructure and issue regulations aimed at on-boarding merchants, especially small and informal ones into formal payments landscape to enable them to use low cost and innovative payments instruments like digital wallets and QR codes for accepting payments.

3 Strengthening Financial System Stability and Effectiveness

Financial stability is essential for smooth and continued provision of financial services which is also one of the key strategic goals under SBP Vision 2020. Ensuring soundness of the financial system requires SBP to remain abreast of emerging challenges and take effective and proactive policy measures to mitigate risks. Further, SBP aims to create a uniform and formal financial stability framework to institutionalize a systematic approach towards risk assessment and mitigation for the financial sector.

With this perspective, SBP introduced further improvements in various processes and regulations to strengthen the financial stability regime during FY19. The areas include Macro prudential Policy Framework (MPPF), Risk Based Supervision (RBS), Consolidated Supervision, AML/CFT regime, inspection processes of the banking sector, risk assessment framework of Exchange Companies (ECs) and recovery plans under D-SIBs framework. Meanwhile, SBP is also striving to align the regulatory and supervisory framework with the international standards and best practices.

3.1 Institutionalization of Financial Stability Framework

3.1.1 Macroprudential Policy Framework (MPPF)

SBP is working towards formulating and implementing a comprehensive and well-structured Macroprudential Policy Framework (MPPF) to ensure system-wide stability of the financial sector. To this end, SBP has strengthened the process of assessment and communication of systemic risk. To enhance its assessment of pro-cyclical systemic risk capabilities, SBP has substantially improved its macro stress-testing regime to capture the macro-financial interlinkages. Further, a number of variables have been identified as Early Warning Indicators (EWIs) of systemic risk. For the establishment of a well-structured institutional setup for MPPF, SBP is in the final stage of forming a National Financial Stability Council (NFSC) with the coordination of Securities & Exchange Commission of Pakistan (SECP) and Finance Division.

3.1.2 Framework for Identification of Domestic Systematically Important Banks (D-SIBs)

SBP, in line with the BCBS Guidelines, issued a framework for regulation and supervision of D-SIBs in Pakistan in April 2018 and carries out its annual assessment for designation of the D-SIBs each year by end June. During FY19, three designated banks were subjected to enhanced regulatory and supervisory requirements including additional CET-1 capital requirement of 2 percent for HBL and NBP and 1 percent for UBL, which is to be complied by March 31, 2020.

To implement the enhanced supervisory framework for D-SIBs, SBP has developed a Recovery Plan framework and engaged with large banks in preparing their respective recovery plans. This framework prescribes the essential elements that banks' recovery plans should cover and provides SBP's internal criterion to assess their efficacy. Consequently, banks can timely identify potential vulnerabilities under stressed conditions and take mitigation measures for addressing the issues.

3.1.3 Strengthening of Consolidated Supervision Framework

SBP has been regularly monitoring the banking sector based on consolidated supervision. For this purpose, SBP and SECP have setup a dedicated Joint Task Force to monitor and manage the risks posed by the financial conglomerates. During the year under review, both the regulators reviewed and updated the Terms of Reference of the task force to better achieve the underlying objectives and address the changes in the dynamics of the financial system.

3.1.4 Assessment of Banks' Resilience through Stress Testing

SBP uses various stress testing approaches to assess resilience of banks against hypothetical but plausible extreme conditions which include single-factor sensitivity analysis and multi-factor dynamic macro stress tests. During FY19, the sensitivity analysis toolkit has been strengthened by inclusion of a multi-factor sensitivity analysis tool, called Stress Testing Work Box. Based on the results of these stress-testing exercises, supervisory departments of SBP engage with banks exhibiting capital shortfall. Stress testing exercise is also an integral part of SBP's annual publication, *Financial Stability Review* where resilience of banks is assessed against domestic and foreign risk factors. Stress testing framework is being regularly upgraded in line with the latest developments in the area.

3.1.5 Financial Stability Review, Half-Yearly Performance Review and Quarterly Compendium

SBP has published its premier annual report, "Financial Stability Review (FSR)" for CY18. The report covers the entire financial sector, including the banking and non-banking sectors, through in depth analysis of the latest developments. The report highlighted emerging risks and vulnerabilities and the policy actions taken to address the same. Some of the key risks include macroeconomic imbalances, weaker economic activity, tightening monetary conditions, Anti Money Laundering (AML), Combating the Financing of Terrorism (CFT) and cyber security.

In addition, SBP has published the first issue of its Half-yearly Performance Review (HPR), replacing the Quarterly Performance Review (QPR), which addressed the performance and risk analysis of the banking sector for the period, January-June 2018. Alongside, SBP has continued to disseminate financial sector's data through regular publication of *Quarterly Compendium (QC) Statistics of the Banking System.* The Compendium includes data of commercial banks, Islamic banks, MFBs and DFIs.

3.2 Progress towards RBS Framework

To further strengthen banking supervision, SBP has initiated a cross departmental project for 'Developing Risk Based Supervisory Framework' to establish a targeted and forward looking supervision of institutions falling within its supervisory ambit. In the design phase, assistance for capacity building was envisioned through an institutional agreement with the Toronto Centre (TC) under the Long Term Country Engagement (LTCE) program for development and implementation of RBS Framework. The capacity building engagement with TC is spread over two and a half years (July 2018 – Dec 2020) consisting of seven capacity building sessions. Two capacity building sessions have been held in July 2018 and February 2019. The pilot testing of RBS framework is scheduled in the first quarter of FY20.

3.3 Strengthening Regulatory Framework

3.3.1 Issuance of Governance Framework for Banks' Overseas Operations

SBP has issued a comprehensive Governance Framework for Bank's Overseas operations in 2018 for strengthening their capacity to understand, identify and manage various risks posed by its foreign operations.

3.3.2 Issuance of Guidelines on Internal Audit Function

The detailed guidelines on internal audit function were issued by SBP for strengthening bank's internal audit functions and establishment of a robust internal audit governance structure in line with international standards and best practices.

3.3.3 Revision of Financial Statements Format for Banks/ DFIs

SBP revised the financial statement format/ disclosures of banks/ DFIs to align them with the regulatory changes and international best practices. The objective of prescribing the format of financial statements is to bring consistency in financial reporting while enhancing the transparency and quality of their disclosures.

3.3.4 IFRS 9 Readiness Assessment Exercise

IFRS 9, the new accounting standard has presented a major overhaul of financial instrument accounting by introducing an expected credit loss approach. In order to implement the standard on banks/ DFIs smoothly, SBP advised the banking industry in 2018 to carry out a 'quantitative impact assessment' of IFRS 9 implementation on their balance sheets. The purpose of this exercise was to determine the banking sector's readiness and identification of the challenges that will be faced by them during its implementation.

3.3.5 The Financial Institutions (Recovery of Finances) Rules 2018

SBP in consultation with the banking sector and legal experts drafted the Financial Institutions (Recovery of Finances) Rules, 2018. The Rules were notified by the Federal Government on August 27, 2018 under section 25 of the Financial Institutions (Recovery of Finances) Ordinance, 2001. The Rules would make the process of sale of mortgaged property by a financial institution more transparent and expedite recovery of non-performing loans.

3.3.6 Self-Assessment of BCBS Corporate Governance Principles

In order to align SBP's regulatory regime on Corporate Governance with international best standards, BPRD conducted self-assessment of BCBS Principles on corporate governance under SBP Vision 2020. The main objective was to assess the quality of SBP's regulatory framework on Corporate Governance for banks/ DFIs, identify the gaps and make recommendations for bridging the gaps. As a result of this assessment, it was found out that out of 13 BCBS Principles, SBP is complaint with 3 Principles, largely compliant with 6 Principles, materially non-compliant with 3 Principles and non-compliant with 1 Principle. BPRD is currently working to incorporate the identified gaps in existing regulatory regime of Corporate Governance where necessary.

3.3.7 Strengthening AML/CFT Regime

- To further align AML/ CFT Regulations with the Financial Action Task Force (FATF) recommendations, SBP amended various provisions of the Regulations on October 18, 2018. The introduction of these amendments were intended to provide further clarity on implementation of AML/ CFT requirements by banks/ DFIs, including customer due diligence, beneficial ownership structure, correspondent banking, wire transfers/ funds transfers and minimum documents required for opening accounts by customers.

- In accordance with the Guidelines issued by the Ministry of Foreign Affairs and National Counter Terrorism Authority under relevant UNSC Resolutions, SBP updated its Guidelines for banks/ MFBs/ DFIs.

- SBP enhanced the scope of Know Your Customer (KYC) standards and documentation requirements for Exchange Companies.

- With the view to further strengthen the measures already in place and mitigate the ML and TF risks, SBP ensured that bank accounts throughout Pakistan are verified through biometric technology. Instructions were issued for biometric verification on October 19, 2018 for banks/ DFIs. Biometric verification shall also be conducted for Branchless Banking transactions (Account to Person and Person to Account). Resultantly, 86 percent of the banking industry's customers (active) accounts have been validated by June 30, 2019 .

- SBP advised banks to accept Proof of Registration (PoR) Card held by Afghan Refugees as a valid identity document for opening of bank accounts.

3.3.8 Measures to Enhance Financial Inclusion

- **Lowering of Risk Weight on Low Cost Housing Finance:** In order to facilitate availability of long-term affordable funding to low income segments (such as widows, children of Shaheed, transgender, special persons and persons in the areas severely affected by war against terrorism) in Pakistan, SBP launched a "Financing Facility for Low Cost Housing for Special Segments". To further encourage and facilitate the banks/ DFIs to pursue low-cost housing finance in Pakistan, capital requirements on banks/ DFIs' exposure to "Low Cost Housing" has been reduced.

- **Increase in Domestic and Global Outreach of Banks / MFBs:** To enhance the outreach and provision of financial services to the general public, SBP issued new branch licenses to banks/ MFBs during FY19, which has increased the total number of branches to 16,864 from 16,066.

  Similarly, Pakistani banks were allowed to further expand their overseas operations in China during FY19. Presently, nine Pakistani banks are operating in 36 countries of the world under different modes (branches, representative offices and banking subsidiaries).

- **Implementation of KPK & Balochistan Action Points:** In line with NFIS, SBP is actively engaged with banks/ MFBs to enhance their banking operations and extension of credit in rural and underserved areas of the country especially in KPK and Baluchistan provinces. Accordingly, banks/ MFBs have devised/ implementing financial inclusion plans (2018-2020).

- **Enable and Promote ADCs Of Financial Services:**

  – **Branchless Banking Regulations for Promotion of Home Remittances**
  In order to facilitate banks to promote Home Remittances through Branchless Banking Channel, it was decided that the incentive of airtime be increased to Rs 2 against each USD received through M-Wallet and the entire amount of incentive to Home Remittance Account (HRA) customers would be borne by the GoP. Further, Authorized Financial Institutions were allowed to use single account for both Home Remittances and inland transactions subject to implementation of controls related to privileges/ transactions limits as per regulatory requirements.

  – **Regulations for Mobile Banking Interoperability** In order to achieve National Financial Inclusion Strategy objectives and targets, connectivity with any one Third Party Payment Services Provider for Authorized Financial Institutions and Telecom Operators was made mandatory.

3.4 Supervisory Initiatives

In line with SBP Vision 2020, SBP took following development initiatives to enhance effectiveness and operational efficiency of the inspection processes:

- **Improvement in the Inspection Process:** The project aims at bringing efficiency in the inspection process of asset quality of banks and DFIs. In this regard, SBP has developed a utility called "Red Flag System", which will analyze banks' advances portfolio to identify potential regulatory violations and the exposures warranting detail examination. Once implemented, the system will help the inspection teams to focus on potential risk areas thereby improving the operational efficiency.

- **Inspection Management System – Fit and Proper Test (FPT) Module:** Inspection Management System **(**IMS) was implemented to bring efficiency in the management, monitoring, and allocation of human resources in the inspection process. In order to bring more efficiency while reviewing cases of Fitness & Propriety of Directors and Key Executives of FIs, a new module, named FPT, was added in IMS. The process of reviewing FPT cases will become easier to manage.

- **Risk Assessment and Control Evaluation Regime for Exchange Companies:** In order to align inspection framework of Exchange Companies (ECs) with RBS framework, SBP developed an inspection framework for ECs known as "Risk Assessment and Control Evaluation Regime" (RACER) in 2016. During FY19, the framework was revised by incorporating certain risk factors especially relating to TF and made evaluation process of related controls more effective for

overall risk rating of the company. Under the revised methodology, the on-site inspection process will address all the related risks of ECs in a more structured/ detailed manner especially to address ML/ TF risk.

- **Revision of AML/CFT Penalty Scale:** The revised scale has significantly increased the penalties to dissuade and deter banks from violating AML/CFT regulations.

  – **Assessing Effectiveness of Regulatory Regime**
  To assess the effectiveness of SBP's instructions with respect to AML/CFT, a standardized format has been communicated to the banks to regularly report data on existence of policies and procedures on AML/CFT, oversight of senior management/ Board, name screening systems, transaction monitoring, HR strength and training imparted.

- **Supervisory Framework for Credit Bureaus:** SBP is empowered under Credit Bureaus Act, 2015 to monitor the affairs of credit bureaus through both on-site and off-site supervision. A supervisory framework highlighting the areas of supervision and monitoring has been developed. The purpose is to ensure that Credit Bureaus have best governance structure, policies and procedures in place, apply best practices in data receipt, data processing, data submission including appropriate procedures to protect consumer rights and to ensure security and confidentiality of data.

3.4.1 On-site Inspections

The on-site inspections of Banks, DFIs, MFBs and ECs were conducted as per approved inspection plan for FY19. Areas of supervisory concerns, which, inter alia, included assessment of corporate governance, weaknesses in systems and controls, IT security, compliance with AML /CFT regime and business conduct etc. were taken up with the banks for corrective actions. Further, statutory reports on written-off loans and advances were prepared as per the requirement of section 25AA of the BCO, 1962. BIDs also carried out limited scope inspection to investigate issues or business activities requiring immediate action. Similarly, to assess safety and soundness of the overseas operations of locally incorporated banks, selected number of such branches were also inspected.

3.4.2 Thematic Inspections

Thematic inspection is a supervisory tool, which focuses on assessment of risk in a particular business activity across banking industry. On-site thematic inspections are conducted to identify inherent risks due to non-compliance with regulatory regime or adverse practices in a specific area across the industry and to facilitate issuance of direction to industry besides enforcement action against non-compliance. During FY19, following thematic inspections were carried out:

- **Assessment of Implementation of UNSC Sanctions Regime in Financial Institutions:** The objective of this exercise was to assess overall governance and robustness of systems and controls established in financial institutions to ensure compliance with the UNSC sanctions regime. The account holders' database maintained by the banks was also examined to identify accounts of proscribed entities/ individuals, which were not frozen in compliance with UNSC sanctions regime.

- **Review of High Turnover Accounts in Banks:** The inspection was carried out to review the accounts having turnover beyond a certain threshold. Similarly, selected accounts of directors, owners and key employees of exchange companies were reviewed from the perspective of ML/TF risk.

- **Assessment of Cyber Frauds in Banks:** The objective was to examine cyber frauds in alternate distribution channels i.e. Internet bank, Mobile banking and ATM card related transactions and to assess controls put in place by banks to mitigate such frauds.

3.4.3 Limited Scope Special Inspections

- **Special Inspection of Accounts in Tax Exempted Areas:** A special inspection of accounts in tax exempted areas was conducted to assess ML/TF risks.

- **Special Inspection of Suspicious Accounts:** BIDs conducted a review of a number of accounts, suspected to be fake. The accounts were mainly selected based on information received from electronic and print media, high turnover and their possible linkages with certain individuals/ entities.

- **Focused Review of ML Risk of Selected Exchange Companies (ECs):** ECs are exposed to possible ML/TF risks. Consequently, a focused review was carried out pertaining to ML/TF risks inherent in money remittance/ currency exchange business and internal controls instituted by the ECs.

3.4.4 Capacity Building of Staff

To enhance the capacity of human resource, special focus was given to training. In this regard, trainings relating to technical areas such as risk management, AML/CFT, banking supervision etc. as well as soft skills were arranged. Officers were also given exposure to foreign trainings organized by multilateral agencies and central banks of foreign jurisdictions.

3.5 Enhancements in SBP's Conduct Regulation and Supervisory Regime

Enhancing SBP's conduct supervision framework and strengthening Fair Treatment of Consumers (FTC) regime are key tactical objectives under SBP Vision 2020. Some of the key conduct milestones achieved in FY19 are mentioned as under:

3.5.1 Prohibited Conduct

Issues like banks' irresponsible conduct or misconduct of banks destabilizes the industry as the same compromises FTC regime. Given the potentially large costs and possible consequences for financial stability, SBP issued guidelines on 'Prohibited Banking Conduct' in July 2019. Guidelines on prohibited conduct have been developed in line with the best international practices, which will help in bringing more clarity on regulatory expectations on business conduct besides complementing the existing SBP instructions issued from time to time.

3.5.2 Self-Assessment of the World Bank's Good Practices

The World Bank launched Good Practices for Financial Consumer Protection in 2017. Since such practices serve as a benchmark for consumer protection, SBP conducted a self-assessment of the revised good practices. The findings and recommendations of the assessment will be presented to relevant stakeholders to formulate future strategy on conduct regulation and supervision.

3.5.3 Capacity Building on Conduct Supervision and Regulation

In view of the globally growing focus on Financial Consumer Protection and Conduct Supervision, the related role of regulators has been largely revitalized. Resonating with the enhanced role to promote FTC and responsible banking conduct, SBP hosted workshops on Market Conduct Supervision in collaboration with the World Bank and Toronto Center. Two iterations were held, first in February 2019 and second in April 2019. Officers from banking cluster of SBP, SECP and Pakistan Microfinance Network attended the workshops.

3.5.4 Industry Engagements

SBP organized a knowledge sharing session on Conduct Risk Management in coordination with Standard Chartered Bank (Pakistan) Limited at SBP in March 2019. It was emphasized during the session that ring-fencing consumer protection or responsible banking conduct within the compliance function could not render real/ fair outcomes. Instead, the entire bank, right from the Board to the frontline managers, need to be responsive to this objective.

3.5.5 Regulatory Enhancements in Private Credit Bureaus

- **Issuance of License- Credit Bureaus:** Under Credit Bureaus Act, 2015, SBP issued licenses to two credit bureaus i.e. M/s Aequitas Information Services Limited and M/s Data Check Limited.

- **Initiative on reporting of non-traditional data:** Efforts were made by SBP to allow the institutions other than financial institutions to become part of the Credit Reporting System. In this regard, a number of meetings were held with the respective utility companies to discuss their membership and issues of data sharing with the Credit Bureaus. At the initial stage, telecom companies have to share their data. Necessary notification in this regard, has been issued by the Federal Government.

3.6 International Cooperation in Banking Supervision

3.6.1 Financial Stability Board Regional Consultative Group for Asia (FSB RCG Asia)

SBP is a member of Financial Stability Board (FSB) - Regional Consultative Group of Asia (RCG Asia) since its inception in 2011. During the year, two RCG Asia meetings were held which were attended by SBP's senior management. The meetings covered areas including banking sector stress testing, cyber security in the financial sector, role of FinTechs for financial inclusion, crisis preparedness, non-bank financial intermediation, climate-related financial risk, amongst others.

3.6.2 FSB Correspondent Banking Coordination Group (CBCG)

The FSB established CBCG to assess and address the decline in correspondent banking in light of the four-point action plan outlined in a FSB Report (on correspondent banking) to the G20. Since the

action plan is more or less in place, the members have streamlined the four technical work streams of CBCG. The Deputy Governor (Banking & FMRM) represents SBP on the CBCG forum.

3.6.3 Surveys on Macroprudential Policies & Tools, Regulations and Supervision

IMF started Macroprudential Policy Survey since 2017 to form a global database of Macroprudential policy measures taken by the member countries after the global financial crisis of 2008. The survey covers questions related to (a) Institutional aspects of Macroprudential Framework, (b) Broad-based tools applied to the Banking Sector, (c) Household & Corporate Sector tools, (d) Liquidity tools applied to the Banking Sector, (e) Tools to address systemic Liquidity Risk and Fire Sale Risk in Non-bank Sector, (f) Tools to address risks from SIFIs and Interconnectedness within Financial System and (g) Tools to address other sources of Systemic Risks. Pakistan's consolidated response was shared with the IMF in 2017 and 2018 after coordination with the relevant stakeholders.

Additionally, SBP completed the World Bank's "Bank Regulation and Supervision Survey (BRSS) 2017" and addressed subsequent queries for the period 2011 to 2016. This survey covered questions related to (a) banking, (b) capital and liquidity requirements, (c) governance, (d) accounting standards/ disclosures, (e) supervision, (f) deposit insurance and (g) Islamic banking. The survey was intended to provide comparable data on how banks are regulated and supervised around the globe.

3.7 Other Initiatives

3.7.1 Ease of Doing Business (EODB) Index of World Bank

Since 2017, SBP is leading the reform efforts for improving Pakistan's ranking in the "Getting Credit" indicator of Ease of Doing Business Index. SBP has been actively collaborating with federal agencies, he World Bank and private stakeholders including commercial banks, private law firms, accountancy firms and corporate sector for implementation of the reforms. Further, SBP has continued to focus on awareness and dissemination of relevant information amongst the stakeholders. In collaboration with World Bank and Board of Investment, SBP conducted two awareness sessions with participation from commercial and MFBs, government agencies, law firms, accountancy firms and private companies etc. The awareness sessions were aimed at informing the participants and survey contributors of the recent reforms that are being undertaken and encouraged potential contributors to submit the Getting Credit Survey to the World Bank.

4 Broadening Access to Financial Services

4.1 National Financial Inclusion Strategy (NFIS)

SBP is pursuing financial inclusion as one of its strategic objectives to promote inclusive economic growth in the country. The stated vision for financial inclusion in Pakistan is to improve the access and usage of quality financial services amongst individuals and firms, with dignity and fairness. In this regard, SBP adopted a comprehensive NFIS, in 2015. Under the NFIS, Pakistan is pursuing a target of ensuring 50 percent adult population to be financially included by 2020 from the level of 23 percent determined under Access to finance Survey 2015. Further, the broader objective is to achieve universal financial inclusion by promoting digital financial services and increasing priority sector lending like agriculture, SME, Islamic banking and low cost housing finance.

Table 4.1: Financial Inclusion Indicators

Indicators	Jun 19	Jun 15	Growth (Percentage)
In terms of outreach			
No. of Deposit Accounts (million)	54.7	41.7	31.2
No. of Branchless Banking Accounts (million)	35.7	10.8	230.6
Bank Deposits (Rs in billions)	13,961	9,153	52.5
In terms of payment Infrastructure			
No. of ATMs	14,722	9,597	53.4
No. of Bank Branches*	16,864	11,937	41.3
No. of POS Machines	56,911	41,183	38.2

*including Microfinance Bank Branches
Source: Agricultural Credit & Microfinance Department, SBP.

NFIS has made significant developments in terms of creating enabling legal and regulatory environment; financial markets and infrastructure developments; innovative products & services, new ADCs and capacity building and awareness initiatives. As a result, the account ownership in Pakistan has increased to 21 percent from 13 percent since 2014 (WBG Global Findex Report 2017). Regarding progress in priority sector lending, all the sectors have showed positive growth in terms of credit disbursement and outreach (**Table 4.2**).

Table 4.2: Sectoral Progress

Sector	Item	FY19	Baseline FY 15	Change (Percentage)
Agriculture Finance	Credit disbursement (Rupees in billion)	1,174	515.9	127.5
	No. of outstanding borrowers (million)	4	2.2	81.8
Microfinance (MFBs)	Gross Loan Portfolio (Rupees in billion)	207.5	45.5	356
	No. of outstanding borrowers (million)	3.49	1.3	168.4
SME Finance	Outstanding Portfolio (Rupees in billion)	464.8	266	74.7
	No. of outstanding borrowers	183,606	152,534	20.3

Major initiatives taken by SBP under NFIS are mentioned in **Box 4.1**.

Box 4.1: Initiatives under NFIS

- **Asaan (Easy) Mobile Account (AMA) Scheme**: Under the NFIS platform, SBP developed the AMA Scheme, which provides an integrated platform allowing any person with a basic mobile phone to open a digital transaction account swiftly through a Unified Unstructured Supplementary Service Data (USSD) code from anywhere, at any time. The objective of the scheme is to improve accessibility of new customers for account opening, drive usage of digital financial services through increased number of account-to-account transactions across various networks and provide digital access to a range of quality financial services. The scheme is currently in developmental phase and it

is expected that it would be launched on pilot basis with selected institutions to validate the solution in live environment.

- **Rationalization of NADRA's verification Cost for Micro Insurers:** In order to facilitate mass enrollment of micro insurers, NADRA has reduced the verification cost to Rs 10/- in line with the facilitation provided to Branchless Banking (BB) providers to meet KYC requirements on opening of BB accounts.

- **Interoperability of BB Agents:** For making BB services accessible for customers in a simple and convenient manner, a solution named 1ID has been developed by 1-Link. Under the solution, the BB customers through biometric verification can deposit and receive cash at any BB retail outlet or any ATM irrespective of its brand. The solution has formally been launched on September 26, 2018 and around 17 banks have joined the scheme.

- **Digital Financial Services (DFS) – Innovation Challenge Facility (ICF):** In order to develop client centric digital financial services, a DFS challenge facility has been set-up to encourage BB players, Fintechs and other related institutions to develop/ test new or expand existing financial products, services and delivery platforms in the sphere of DFS. The facility was launched in May 2018 to accept and pilot test the unique proposals on innovative DFS solutions. In terms of progress on implementation, currently, three proposal, duly approved by the Evaluation Committee are in implementation process.

- **Study on Identification of Issues/Challenges in Digitization of G2P & P2G Payments:** To understand the issues/ challenges and highlight the opportunities to digitize G2P and P2G payment process flows in key Government Departments, a study is being carried out through a third party consultant. The study will provide a roadmap to automate systems/ processes of Government Departments to facilitate digital payments.

- **Women's Financial Inclusion:** Women's financial inclusion is a key priority and a cross cutting theme in NFIS. To bring more focus towards this area, the NFIS Secretariat developed a draft Gender Mainstreaming Policy Framework in consultation with Banking Policy and Banking Supervision Groups to prioritize gender-specific focus in the financial sector. The framework aims to introduce a gender lens within the financial sector through various pillars to enable a shift towards women friendly business practices.

4.2 NFIS 2023 Action Plan

Though substantial progress has been made in terms of account ownership, usage in such accounts remained low. Likewise, the availability of credit to agriculture sector has improved but credit to SMEs and housing remained stagnant. Regional and gender based disparities in financial inclusion have started to show improvements. However, efforts are needed to bridge the gaps on national level.

GoP has prioritized NFIS as part of its 100-days agenda to address these gaps going forward and set following headline targets to be achieved by 2023:

- Enhance usage of Digital Payments (65 million active digital transaction accounts, with gender segregation of 20 million accounts by women)
- Enhance Deposit Base (Deposit to GDP ratio to 55 percent)
- Promote SME Finance (extend finance to 700,000 SMEs and 17 percent of the private sector credit)
- Increase Agricultural Finance (serve 6 million farmers through digitalized solutions and enhance annual disbursement to Rs 1.8 trillion)
- Enhance share of Islamic Banking (25 percent of the banking industry and increase branches of Islamic Banks to 30 percent of the banking industry)

In order to achieve the targets, a comprehensive action plan has been developed after detailed industry wide consultation/ analysis whereby specific timelines and responsibilities have been allocated against each target. The action plan, duly endorsed by Economic Advisory Committee's (EAC) Sub-Committee, was approved by the honorable Prime Minister of Pakistan on November 29, 2019 for implementation.

Further, in order to ensure smooth and timely implementation of the NFIS action plan, a revised governance structure has been devised which is more focused towards implementation and assigns responsibilities to leading agencies. NFIS Council has been transformed into NFIS Policy & Implementation Council as an independent body, reporting directly to the Prime Minister. Further, a NFIS Coordination & Transformation Office will be set up at Prime Minister office to facilitate digitalization of Government departments and act as a trouble shooter for NFIS implementation, while SBP will continue to serve as the Secretariat.

4.3 Agriculture Finance

Agriculture financing continued to demonstrate growth momentum as disbursements crossed Rs 1 trillion mark for the first time to reach Rs 1,174 billion in FY19; 21 percent higher than the disbursement of Rs 973 billion of FY18. The financial institutions were thus able to achieve 94 percent of their annual indicative agriculture disbursement target of Rs 1,250 billion, set by Agricultural Credit Advisory Committee for FY19. In terms of credit demand, financial institutions were able to meet 77 percent of Rs 1,519 billion demand, which is an all-time high. Outstanding financing portfolio also increased during the year to reach Rs 562.4 billion at end June 2019 compared to Rs 469.4 billion of corresponding period. Further, the outreach in terms of number of agricultural borrowers increased to 4.01 million with growth of 8 percent during FY19 compared with 3.72 million borrowers during FY18. The group wise performance is shown in **Table 4.3**.

Table 4.3: Agricultural Credit Targets and Disbursement

(Billion Rupees)

Banks	FY19			FY18			Percentage
	Target	Disbursed	Percentage Achieved	Target	Disbursed	Percentage Achieved	YoY
5 Big CBs	651	653.5	100.4	516	523.9	101.5	25
ZTBL	100	71.5	71.5	125	83.2	66.5	(14)
PPCBL	13	9.7	74.4	15	10.7	71.5	(10)
DPBs (14)	245	211.9	86.5	200	184.9	92.4	15
IBs (5)	50	39.4	78.8	20	16.4	82.0	140
MFBs (11)	156	154.0	98.7	100	124.8	124.8	23
MFIs/RSPs	35	34.0	97.1	25	28.8	115.0	18
Total	**1,250**	**1,174.0**	**93.9**	**1,001**	**972.6**	**97.2**	21

Source: Agricultural Credit & Microfinance Department, SBP.

The above-mentioned growth can be attributed to various initiatives taken by SBP for promotion of agriculture finance in the country. Detail of some of the initiatives is mentioned in **Box 4.2**:

Box 4.2: Initiatives for promotion of Agriculture Financing

- **Implementation of Credit Guarantee Scheme for Small and Marginalized Farmers (CGSSMF):** CGSMF was implemented in line with the Government's budgetary announcement. The scheme aims to encourage financial institutions to lend to small farmers across Pakistan who do not have adequate collateral (acceptable to banks) in order to meet their working capital requirements. Since its inception in 2016, more than 85,000 borrowers have benefitted from the scheme.

- **Government of Punjab E-Credit Scheme:** SBP facilitated the Government of Punjab (GoPB) in designing and implementation of the GoPB E-Credit scheme wherein E-Passbook and other automated land revenue records,

accessible through an online portal, are being used by participating financial institutions (ZTBL, NBP, Telenor Microfinance Bank, Akhuwat and NRSP) to provide interest free loans to small farmers. Since its inception in Rabi season FY17, total loan amount of around Rs 36 billion has been disbursed to 559,512 farmers.

- **Workshops/ Trainings/ Capacity & Awareness Building:** SBP regularly organizes various training programs and awareness sessions in order to meet demand and supply side capacity building requirements of agriculture finance stakeholders including banks and farmers. These training programs including Farmers Financial Literacy Programs and awareness sessions on areas like Agricultural Value Chain Financing, Warehouse Receipt Financing, Shariah based agricultural financing etc.

4.4 Microfinance

During FY19, Microfinance Banks (MFBs) witnessed a growth of 27.6 percent in microcredit portfolio to reach Rs 207.5 billion as against Rs 162.6 billion at the end of same period last year. Similarly, the number of MFB's microcredit borrowers recorded an increase of 20.5 percent and exceeded to around 3.5 million by the end of FY19.

Table 4.4: Microfinance Banking Indicators **(Rupees in billions)**

Indicators	FY19	FY18	Annual Growth (Percentage)
No. of Borrowers	3,485,757	2,893,994	20.4
Gross Loan Portfolio	207.500	162.590	27.6
Deposits	248.809	207.760	19.7
No. of Depositors	34,327,968	22,669,333	51.4
Equity	47.176	37.137	27
Assets	350.139	276.102	26.8
Borrowings	27.329	13.839	97.4

Source: Agricultural Credit & Microfinance Department, SBP.

During the period under review, MFBs collectively injected fresh equity exceeding Rs 10 billion, which resulted in 27 percent increase in overall equity base that reached Rs 47.2 billion at the end of FY19 from Rs 37.1 billion in FY18. Concurrent growth was also witnessed in MFBs' deposits that reached Rs 248.8 billion, after registering a growth of 19.8 percent (or Rs 41 billion). The number of depositors exceeded 34 million over the year from 22.7 million registering an impressive 51.4 percent growth in outreach of deposit services (**Table 4.4**).

As the FY19 concluded, a panoramic view of Pakistan's microfinance industry reveals that microfinance providers included eleven microfinance banks and MCB-Islamic Bank besides Non-Bank Microfinance Companies (NB-MFCs). The industry registered 22.7 percent growth in aggregate microcredit portfolio, which grew by Rs 54.3 billion to reach Rs 293.6 billion at end June 2019 from Rs 239.4 billion of preceding period. Similarly, the number of borrowers also grew by 10.6 percent (7.1 million) at end June 2019.

Table 4.5: Microfinance Industry Indicators **(Rupees in billions)**

Indicators	FY19	FY18	Annual Growth (Percentage)
No. of Borrowers	7,142,247	6,460,015	10.6
Gross loan portfolio	293.695	239.364	22.7
Average Loan Balance (in Rs)	41,121	37,053	11

Source: PMN MicroWatch, Issue 48 & 51

The NB-MFCs continued to serve a larger number of borrowers (51.2 percent), while MFBs took lead in terms of the aggregate value of loans (70.7 percent). The industry-wide average outstanding loan balance increased to Rs 41,121, however, average outstanding loan offered by MFBs (Rs 59,528) continued to be on a higher side when compared with their non-banking counterparts (**Table 4.5)**.

Box 4.3: Initiatives for Promotion of Microfinance

- **Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regime for MFBs** was further strengthened to comprehensively mitigate various risks arising from money laundering and financing of terrorism. The revised regulations provide guidance in a number of new areas besides further aligning the framework with Financial Action Task Force (FATF) Recommendations in view of the emerging trends and risks. The intervention enhanced MFBs' capacity to deter against threats of ML and TF.

- **Relief in Taxation Regime** was provided by the Federal Government in line with SBP's proposal, vide Second Supplementary Finance Bill FY19. As per the announcement, with effect from July 01 2019, a reduced rate of taxation at 20 percent (instead of 35 percent) will be applied on interest income of Banking Companies from additional advances to micro, small and medium enterprises; low cost housing finance and farm credits for four years (from Tax Year 2020 to 2023) subject to fulfillment of certain conditions. This would further encourage MFBs to extend credit to priority sectors.[1]

- **Enhancement of lending limits under 'Housing Finance' for MFBs** was made by increasing the maximum loan size from Rs 0.5 million to Rs 1 million. Moreover, the restriction to maintain 60 percent of housing portfolio within the loan limit of Rs 0.25 million has also being removed. MFBs have been advised to develop related institutional capacity and appropriate mechanisms for monitoring the housing finance exposure.

- **Relief to adversely affected borrowers in eight calamity affected Districts of Sindh** namely Tharparkar, Umer Kot, Sanghar, Thatta, Jamshoro, Dadu, Badin and Kamber Shahdad Kot was provided by encouraging Microfinance Banks to undertake all possible measures in line with Prudential Regulation R – 9 'Rescheduling/ Restructuring of Loans.

4.5 Branchless Banking

SBP issued regulatory framework for BB in 2008 in order to promote ADCs for fast-paced financial inclusion. The BB landscape in Pakistan includes 13 players that offer basic banking services such as cash in/out, utility bills payment, fund transfers, inward remittances, mobile top-ups besides facilitating social welfare payments and micro insurance.

Table 4.6: Branchless Banking Indicators

Indicators	FY19	FY18
Number of Agents	421,053	405,571
Number of Accounts	35,730,704*	39,246,468
Active Accounts	22,044,942	21,815,840
Deposits as of date (Rs in millions)	25,664	15,345
Number of transactions (No. in '000')	1,116,266	748,640
Value of transactions (Rs in millions)	4,128,868	3,183,571
Average size of transaction (in Rs)	3,699	4,252
Average number of transactions per day	3,058,262	2,051,068

**decline witnessed in total accounts due to closure of inactive accounts*

During FY19, all key BB indicators exhibited promising growth, which shows that the digital channel is gradually making inroads in the previously excluded segments of society to provide an easier access to basic financial services. During the period under review, the number of active accounts increased to 22.04 million from 21.8 million. BB deposits grew to Rs 25.6 billion from Rs 15.3 billion; whereas 1,116 million transactions involving 4.12 trillion were conducted through the BB channel during this period.

4.5.1 Capacity Building of Branchless Banking Agents

SBP initiated capacity building of BB agents on nationwide scale. In Phase-1 of the project, 73 bank officials were trained as trainers. SBP has now launched Phase-2 of this project, under which the

[1] TIIE Gazette of Pakistan, Extra,, March I I, 20I9 Part-I

trained bank officials will further impart training to 10,000 unique BB agents during FY20. This project is expected to enhance the capacity of BB agents through classroom training.

4.6 Small and Medium Enterprise Finance

Small and Medium Enterprises (SME) sector is playing an important role in the economic development of Pakistan. More than 90 percent of total enterprises in Pakistan are SMEs, which are employing more than 80 percent of non-agricultural workforce and generating 25 percent of export earnings. SME sector has huge potential for employment generation and poverty alleviation. However, banks are reluctant to lend to SME sector due to perceived riskiness of the sector, high transaction cost, lack of bank products matching business needs of SMEs and low level of financial literacy. SBP has taken following initiatives in order to promote SME financing:

4.6.1 SME Finance Targets

Banks/ DFIs were assigned outstanding SME finance target of Rs 898 billion for CY 2019. Banks/ DFIs have achieved outstanding SME finance of Rs 464.85 billion at end June 30, 2019, showing YoY growth of 12.8 percent in total SME finance outstanding portfolio.

4.6.2 Strengthening Secured Transactions Framework in Pakistan

SBP is assisting Finance Division, GoP in establishing a Secured Transactions Electronic Collateral Registry (STCR). The establishment of STCR is aimed at helping SMEs to secure loans from financial institutions by using their movable assets as collateral since this registry will allow banks to create charge on movable assets of non-incorporated entities.

4.6.3 Establishment of Pakistan Credit Guarantee Company

In order to provide risk sharing facility to banks on their lending to SMEs and thus facilitating SMEs access to finance, a dedicated Pakistan Credit Guarantee Company has been established. The company has been incorporated with SECP and will be operational by December 31, 2019.

4.7 SBP Refinance Schemes for SMEs

4.7.1 Refinancing Facility for Modernization of SMEs

Medium to long term financing facility for modernization of existing SME units and setting up of new SME units to produce quality products is in place. Keeping in view the increasing demand of Islamic banking, Shariah compliant alternative of this scheme has also been launched.

4.7.2 Refinance and Credit Guarantee Scheme for Women Entrepreneurs

In order to enable women entrepreneurs to avail affordable financing of up to Rs 1.5 million at 5 percent, SBP in April, 2019 expanded scope of the scheme by covering all the districts of the country. Moreover, 60 percent risk coverage is also available to the participating institutions.

4.7.3 Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons

In order to improve the socio-economic life of the special persons in the country, SBP launched a “Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons”. SBP’s refinance rate has been kept at zero percent and financing will be extended at 5 percent by financial

institutions with a 60 percent risk coverage.

4.7.4 Awareness Creation and Capacity Building

Training and capacity building is one of the key pillars of SBP policy for promotion of SME finance. Since 2018, NIBAF the training arm of SBP, has conducted over 100 training programs for SME bankers. Besides, SBP and SBP-BSC have also conducted around 200 awareness sessions for SMEs across Pakistan from January 2018 to June 2019. Similarly, bank's are also conducting awareness sessions for the SMEs.

4.8 SBP Refinance Facilities

SBP is continuously making efforts for priority sector financing and development of the economy. It provides short and long-term refinance facilities to export oriented industries and SMEs sector through banks/ DFIs to promote exports as well as to facilitate development of priority sectors. SBP provides following financing facilities to the exporters through financial institutions.

4.8.1 Export Finance Scheme (EFS)

EFS is a short-term working capital financing facility to incentivize exporters. Financing under EFS is available at concessional rate of 3 percent. The outstanding export finance at end June 30, 2019 was Rs 379 billion, which is 35 percent higher than the previous year.

4.8.2 Long Term Financing Facility (LTFF/ Islamic LTFF)

LTFF/ Islamic LTFF is a long-term facility to promote export oriented industrial development. The per project limit under LTFF/ Islamic LTFF has been increased from Rs 1.5 billion to Rs 2.5 billion in April 2019. At end June 2019, outstanding finance under LTFF/ ILTFF increased by 38 percent on YoY basis from Rs 114 billion to Rs 157 billion.

4.8.3 Islamic Financing Facility for Storage of Agriculture Produce (IFFSAP)

To provide Shariah compliant scheme, SBP introduced Islamic Financing Facility for Storage of Agricultural Produce in February 2019. IFFSAP will allow the customers to avail long term facility from the Islamic Banking Institutions (IBIs), for the establishment, expansion and BMR of Steel/ Metal/ Concrete Silos, Warehouses and Cold Storage facilities for storing agricultural produce.

4.9 Housing Finance

The combined volume of outstanding housing finance from banks and House Building Finance Company Limited stands at Rs 101.3 billion at end June 2019 as compared to Rs 88.2 billion of preceding period showing a growth of 17.6 percent. Despite noticeable growth in size of portfolio, the mortgage to total private sector advances ratio, in Pakistan, is still around 1.7 percent.

The major initiatives taken by SBP during the period to increase penetration of banks and FIs in housing finance are mentioned as under:

4.9.1 SBP's Low Cost Housing Finance Policy

On March 11, 2019, SBP announced low cost housing finance policy that covers regulatory relaxations to banks/DFIs, introduction of housing finance targets to banks and subsidized fixed rate

financial facility for low cost housing for special segments.

4.9.2 Financing Facility for Low Cost Housing for Special Segments

This scheme facilitates availability of long-term affordable funding for housing to special segments of the society i.e. widows, transgender and special persons. Under this scheme, banks/ DFIs are allowed to finance up to Rs 2.7 million for a housing unit costing up to Rs 3 million. The loan tenor would be 12.5 years and mark-up rate would be 5 percent for end borrowers, while SBP will provide refinance to banks / HBFCL at 1 percent.

4.9.3 Regulatory Incentives for Low Cost Housing for Banks/DFIs

Relaxations in existing Housing Finance Prudential Regulations and other regulatory requirements have been offered to banks/ DFIs to promote low cost housing finance:

- The existing 0.5 – 1.5 percent general reserve requirement against housing finance portfolio will not be applicable on low cost housing finance.
- The Loan to Value (LTV) ratio of 85:15 has been relaxed to 90:10 for low cost housing finance.
- Bank/DFI's exposure in low cost housing shall not be included for calculating the real estate exposure limit (i.e. 10 percent of the advances and investments portfolio).
- For the purpose of financing low cost housing units, banks/ DFIs shall be allowed to apply the valuation of single unit on all the units of the same society/ colony instead of conducting separate valuation for each unit constructed on the same layout and size.
- Low cost housing finance exposure will attract a risk weight of 25 percent for the purpose of calculation of capital adequacy ratio (Current risk weight 35 percent).
- Banks/ DFIs' borrowings from Pakistan Mortgage Refinance Company will be exempted from maintenance of CRR and SLR.
- Upscaling Housing Finance Limits for Microfinance Banks:
  - Maximum size of a housing loan allowed to MFBs has been increased from Rs 0.5 million to Rs 1 million.
  - Regulatory cap of 40 percent, on exposure above Rs 0.25 million, on housing loans has been removed.

4.9.4 Housing Finance Targets for Banks

SBP has assigned targets for overall housing finance portfolio to banks and targets for low cost housing for special segments to banks and HBFCL. Refinance limits have also been provided to banks, which could be availed against low cost housing finance extended to special segments.

4.9.5 Pakistan Mortgage Refinance Company (PMRC)

PMRC was incorporated in May 2015 to provide long term funding to Primary Mortgage Lenders (PMLs). PMRC has commenced its operations and has an outstanding refinance portfolio of over Rs 7 billion at end June 30, 2019.

4.9.6 Infrastructure Project Finance

The outstanding portfolio against infrastructure financing reached Rs 728 billion at end June 2019 compared to Rs 698.3 billion of corresponding period whereas non-performing loans as a percentage

of gross outstanding portfolios decreased to 1.86 percent during the period under review from 2.1 percent.

The Revised SBP Financing Scheme for Renewable Energy has seen promising uptake. Under this scheme, SBP extended financing for 37 projects with total capacity of 102 Megawatts. At end June 2019, the outstanding amount of refinance extended under the scheme is Rs 9.1 billion. Keeping in view the demand, the validity period of the scheme has been extended by another 3 years along with expansion in scope and alignment of features.

5 Islamic Banking

5.1 Overview

During FY19, Islamic banking industry (IBI) continued its growth momentum, recording improvement in all the key performance indicators. The industry's asset base, while recording a 20.6 percent YoY growth, reached Rs 2,992 billion, equivalent to 14.4 percent of the country's overall banking system assets at end June 2019. Similarly, deposits of the IBI grew by 18.8 percent YoY and were recorded at Rs 2,415 billion, constituting 15.9 percent of the overall banking industry's deposits at end June 2019 (**Table 5.1**).

Table 5.1: Industry Progress and Market Share

Rs in billions

	Islamic Banking Industry Progress		Percentage Growth (YoY)		Share in Overall Banking Industry (Percentage)	
	Jun-19	**Jun-18**	**Jun-19**	**Jun -18**	**Jun-19**	**Jun-18**
Total Assets	2,992	2,482	20.6	21.9	14.4	12.9
Deposits	2,415	2,033	18.8	18.2	15.9	14.8
Total IBIs	22	21	_	_	_	_
Total Branches*	2,913	2,685	8.5	15.7	_	_

Source: Data/information submitted by banks under quarterly Reporting Charts of Accounts (RCOA)
*Number includes sub-branches

Net Financing, a key component of IBI assets, recorded 16.7 percent YoY growth and reached Rs 1,544 billion at end June 2019 from Rs 1,323 billion recorded in the same period last year. Similarly, net investments, growing by 9.3 percent YoY, reached Rs 606 billion at end June, 2019 from Rs 555 billion recorded in the corresponding period. The IBI financing to deposit ratio (FDR) was recorded at 63.9 percent during the period under review compared to the conventional banking industry's advances to deposits ratio of 53.2 percent.

During FY19, the IBI further expanded its branch network across the country. At end June 2019, 22 Islamic Banking Institutions (5 full-fledged Islamic banks, 16 conventional and one specialized bank i.e. Zarai Taraqiati Bank Limited having Islamic banking branches) were providing various Shariah compliant products and services through their network of 2,913 branches across 113 districts of the country. The IBI added 228 branches to its branch network during the period under review for providing better access to its clients. In addition to branches, 1,348 Islamic banking windows are being operated by conventional banks having standalone Islamic banking branches were also serving faith sensitive clients.

5.2 Initiatives for Promotion of Islamic Banking during FY19

SBP has taken following measures/key steps during FY19 for the promotion of Islamic banking in the country:

5.2.1 Adoption of AAOIFI Shariah Standards

SBP notified adoption of six Shariah Standards of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), i.e., No. 2 (Debit Card, Charge Card and Credit Card), No. 5 (Guarantees), No.14 (Documentary Credit), No.18 (Possession), No.24 (Syndicated Financing) and No. 38 (Online Financial Dealings) along with certain clarifications/amendments vide IBD Circular No. 01 dated March 01, 2019. Previously, SBP had adopted six AAOIFI Shariah Standards. Adoption

of these Shariah standards marks a major milestone towards the standardization of Shariah products and practices in Islamic banking industry of Pakistan with internationally recognized standards.

5.2.2 Islamic Financing Facilities

In order to provide Shariah compliant alternatives of conventional financing facilities to meet demand of faith sensitive clients, SBP, during FY19, issued 'Islamic Financing Facility for Renewable Energy (IFRE)', 'Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP)', 'Islamic Refinance Facility for Modernization of SMEs (IRFMS)'. Further, in order to facilitate availability of long-term affordable funding to some of the selective low income segments, SBP launched 'Islamic Financing Facility for Low Cost Housing for Special Segments' on the basis of Mudarabah.

These financing facilities were issued in line with similar facilities issued earlier like 'Islamic Long Term Financing Facility (ILTFF)' on the basis of Mudarabah.

5.2.3 Pakistan Energy Sukuk

The Government of Pakistan issued first the Pakistan Energy Sukuk of Rs 200 billion through Power Holding Private Limited, a Government owned company. The sukuk has been declared SLR eligible and is based on Ijarah mode, having a 10-years maturity with semi-annual rental payments.

5.2.4 Revision in Format of Interim Financial Statements for Islamic Banking Institutions

SBP amended format of interim financial statements (quarterly & half-yearly) for banks/ DFIs in view of the increasing size of the industry and developments taking place at international level to enhance disclosure requirements. Some additional disclosure requirements have been introduced for Islamic banking institutions, especially for Islamic banking branches (IBBs) of conventional banks. As per revised format, IBBs are now required to provide breakup of investments, interbank transactions, deposits, profit earned/ expensed and contingencies and commitments in the form of notes in their quarterly/ half yearly financial statements.

The above-mentioned amendments aim to provide more detailed and meaningful insight to relevant stakeholders about a business module/ financial health of an Islamic banking institution.

5.2.5 Awareness and Capacity Building Programs for Islamic Banking Industry

SBP is actively engaged in promoting awareness amongst masses and building capacity of the industry through arranging various local and international programs/ events. During FY19, awareness creation and capacity building remained part of vital components of SBP's strategy to spearhead the growth momentum of IBI. The following initiatives were taken in the matter:

- SBP collaborated with various reputed national and international institutions for organizing targeted seminars, training programs and workshops on Islamic banking. SBP, in collaboration with NIBAF, offered ten iterations of a training program titled 'Fundamentals of Islamic Banking Operations (FIBO)'. The customized training program, designed to target branch managers, operation managers, relationship managers of banks, academia and Shariah scholars, was offered at various geographical locations of the country i.e. Quetta, Mardan, Mirpur Azad Kashmir, Abbottabad, Bahawalpur, Hyderabad, Faisalabad, Lahore, Gilgit and Multan.

- In order to strengthen linkages on matters related to Islamic finance, SBP collaborated with Finance Division and established a 'Focus Group on Islamic Finance at Finance Division', which is serving as a center point to deal with all matters relating to Islamic banking and finance. A series of capacity building programs for the Focus Group were planned to be held in collaboration with NIBAF. During FY19, two iterations of two-day program were organized for the focal persons at Finance Division and other government departments/ ministries. The officials of FBR, SECP, Ministry of Religious Affairs and Finance Division attended these programs. The program series will continue as further iterations are planned to reinforce the discussions held in the earlier iterations.

- In pursuit of up-scaling capacity levels of Shariah scholars serving IBI, Islamic Banking Department (IBD), in collaboration with NIBAF, has launched a comprehensive training program exclusively for Shariah scholars. The certification program has ten modules of two-days each, covering various topics of significant nature. The first iteration of the certification programs has been successfully held during FY19.

- IBD, in collaboration with NIBAF, organized six awareness sessions on Islamic banking at leading educational institutions in Hyderabad, Lahore, Multan, Faisalabad and Quetta during FY19. The sessions were organized to raise awareness about Islamic banking amongst students and academia. The sessions were facilitated by reputable Shariah scholars who responded to queries and clarified misconceptions of participants about Islamic banking.

- IBD, in collaboration with NIBAF, organized four awareness sessions for traders and businessmen. The sessions were organized at local Chambers of Commerce in Hyderabad, Faisalabad, Lahore and Multan. The sessions remained successful in enhancing awareness levels of the business community about Islamic banking and to take those businessmen on board who remain out of financial ambit due to faith sensitivities.

- SBP, in collaboration with Dar ul Iqtisadi al Islami, Lahore organized two iterations of three-day awareness cum capacity building program for Shariah scholars at Idara Misbah-ul-Quran-Bahawalpur and Jamia Anwar-ul-Uloom -Multan during FY19. Further, a comprehensive four-month Islamic Banking Certification program exclusively for Shariah scholars was also held at Jamia Naeemia, which concluded during the year under review. The programs primarily targeted the final year students of Daura-e-Hadith & Thakhasus and faculty members (Mudarriseen and Muftiyaan-e-Karaam) to orient them with the application of Islamic principles on contemporary banking and financial solutions. The program envisaged to further develop Shariah scholars to serve as the ambassadors and key opinion leaders on Islamic finance.

- SBP provided patronage to COMSATS Institute of Information Technology in arranging a series of awareness-cum-capacity building programs for Shariah scholars at five cities of second tier category. In this regard, during FY19, two out of five programs were held, one each at Sahiwal and Vehari. The programs, which were held exclusively for Shariah scholars of various schools of thought, were well-received by the participants.

- SBP, in collaboration with Islamic Banking Industry, and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), facilitated the project of translating AAOIFI Shariah Standards into Urdu language. The Urdu version of AAOIFI Shariah Standards, developed through a rigorous process, was launched on December 12, 2018 through a launch ceremony organized by IBI at Karachi. Urdu version of the Shariah Standards will serve a long way in improving awareness about Islamic finance especially amongst Shariah scholars, academia and practitioners of Islamic finance. Furthermore, the translation of the Standards will broaden the scope of readership and promote a better understanding.

- SBP has been providing patronage to the IBI for the Islamic Finance Media Campaign. The campaign was launched by the Steering Committee on Media Campaign – an industry led Committee constituted by SBP. The media campaign was rolled out through television, newspapers, radio. Avenues of digital media i.e. Facebook, YouTube and website development are also being tapped.

5.2.6 Global Participation

SBP is recognized as an important global partner due to its representation and active participation in various fora of international institutions dealing with Islamic finance. SBP has been actively represented in various working groups, tasks forces, technical committee and Council of Islamic Financial Services Board (IFSB) and has also actively contributed in the development of prudential standards for global Islamic finance industry. Further, SBP participated in various senior level programs arranged by international institutions like IFSB, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Research and Training Institute (IRTI), and Islamic Development Bank (IDB), etc.

5.2.7 Global Recognition-SBP declared Best Central Bank for Promoting Islamic Finance

In recognition of its efforts, SBP has been voted as the Best Central Bank for 2018 in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia.

6 Institutional Strengthening

6.1 Strategic Planning at SBP

SBP launched its third 5-year strategic plan "SBP Vision 2020" in August 2015 to effectively pursue an explicit plan to achieve its underlying objectives and to formulate a strategy to counter the emerging economic challenges. In pursuance of the same, noteworthy achievements have been made in the past four years of the strategic plan to achieve the objectives set in SBP Vision 2020. Further, effective collaboration and coordination at organizational level has also ensured that operational activities are aligned with the strategic objectives of SBP Vision 2020. To achieve these goals and objectives, Business Planning tool has been used. A comprehensive implementation and monitoring mechanism has also been put in place to ensure effective implementation of the objectives of the strategic plan. Further, over 1000 development projects linked with the SBP Vision 2020 have been initiated/completed during the last four years.

During FY19, Strategic Planning Department (SPD) undertook a development project titled as 'Comparative Analysis of Central Banks' Strategic Plans and develop a road map for SBP'. The purpose was to compare the strategic plans of certain central banks to analyze the areas and trends on which the central banks are focusing for considering the same in the next Strategic Plan of SBP. The report revealed that the existing Strategic Plan of SBP and related tactical objectives are in line with the strategic plans of other countries.

6.2 HR Developments

Requisite institutional capacity in the form of optimal professional talent is critical for SBP in undertaking its unique and critical role in the economic development of the country. Human Resources Department (HRD) of SBP fosters a robust HR management framework that strives to promote a performance-oriented culture and creates an enabling environment for employees to contribute towards achievement of organizational objectives.

The year FY19 witnessed major initiatives in the areas of workforce rationalization, talent resourcing, career growth, capacity building and automation. Significant progress was made on upgradation of employees' competencies and skills to support professionalism and ensure delivery of effective and efficient outcomes at every level.

6.2.1 HR Profile

Human resource strength varied across grades as reflected in **Table 6.1.** The employee turnover against a total population of 1,199 was 2.83 percent. During the year, 18 employees retired whereas 11 employees proceeded for early retirement. The gap was successfully managed to cater to human resource requirements by induction of new employees, particularly through batch hiring. A number of other recruitment

Table 6.1: HR Profile of SBP

Position/Grade	FY19	FY18
Governor/Deputy Governor	2	3
OG-8	17	14
OG-7	30	37
OG-6	52	51
OG-5	120	122
OG-4	262	232
OG-3	279	297
OG-2	319	335
OG-1	13	22
Support Staff	74	75
Contractual Employees	10	11
Total	**1178**	**1199**

drives are also under process, which will further meet the HR needs of the various departments of SBP.

As an equal opportunity employer, SBP recognizes and encourages the evolving role of women and the strategic significance of their inclusion in the workforce for achieving organizational objectives. At present, 10 percent of SBP's workforce consists of female staff at various levels of hierarchy, ranging from entry level to senior management.

6.2.2 Restructuring and Consolidation of Functions

In line with the SBP Vision 2020 goals to strengthen the function of Islamic Banking and research capabilities of the institution, following changes were made in organizational structure:

- Islamic Banking Group was created within the existing "Islamic Banking, Development Finance and IT" Cluster, to be headed by an Executive Director.

- The position of Research Advisor, reporting to the Chief Economist, was created within the existing "Policy Cluster" for overseeing the Research and Statistics functions.

Apart from the above revisions, a number of other functions were also re-aligned keeping in view organizational needs as summarized below:

- With a view to expanding the coverage of economy beyond the real, monetary, external and fiscal sectors in SBP's flagship publications, the 'Thematic Analysis Division' in the Economic Policy Review Department was created.

- In order to align the nomenclature of the Crisis Management Division in the Financial Stability Department (FSD) with international standards, it was renamed as 'Crisis Preparedness Division' with the mandate to focus on systemic issues of Crisis Management function.

- For the development of the archival collection of institutional records which have been determined to have continuing historical value and/or require preservation, a new division i.e. the 'Archives Division' was created in the Museum, Art Gallery and Archives Department (MAGD).

Organization Development (OD) Interventions

Key developments in this area are:

- During FY19, an external consultant completed a holistic review of SBP Performance Management System (PMS) by thoroughly reviewing vis-à-vis market practices of both local and international organizations. Accordingly, improvements were made, inter alia, focused at employee skill enhancement / development and at providing reasonable flexibility to line departments for effective implementation of PMS System.

- As part of future OD initiatives, Workload Analysis will be conducted wherein job evaluation/ analysis of benchmark positions will be carried out to determine organization's existing/ future skills requirements.

- Two research projects were completed in collaboration with the Research Department. These projects included a survey-based study to assess the effectiveness of Pre-Induction Training programs offered by NIBAF. The survey results have been shared with NIBAF for desirable future interventions. Further, relevant recommendations have been incorporated in the revised curriculum designed by HRD in collaboration with the line departments. Secondly, a statistical analysis was carried out to identify relationships/ linkages, if any, on variety of factors starting from officers' profiles, training and eventually leading to their career growth/ performance.

Talent Resourcing

Induction of new blood in the organization is an important aspect of a dynamic and forward-looking institution that forms the basis for its development. SBP adopts a competitive and transparent recruitment process based on merit. During FY19 a number of graduates from different universities (local and international) in various disciplines like Business Administration, Economics, Finance etc. were hired. **(Table 6.2)**.

Table 6.2: Recruitments during FY19

Grade/ Designation	Number
OG-6	
Additional Director	1
OG-2	
Assistant Director	46
Translator	2
Total	**49**

Employer Branding

The Bank has taken several initiatives to promote SBP as an 'employer of choice' for young graduates as well as for other professionals. The annual internship program is organized every summer and regular visits of Business Schools and Public Sector Organizations are arranged at SBP. During FY19, 105 interns (47 male and 58 female) from 39 domestic as well as 2 foreign educational institutions participated in SBP Summer Internship Program. The interns belonged to various academic disciplines such as Banking and Finance, Economics, Business Administration, Commerce, Information Technology, Management Sciences, Mathematics and Statistics.

As an initiative to create awareness among the recent and upcoming graduates, SBP participated in career fairs organized at LUMS and IBA and received a great response and interest from the students.

Career Development

SBP believes that enhancement of organizational efficiency and effectiveness is directly linked with the overall morale and motivation of employees. Providing career development opportunities plays a pivotal role for this purpose. Accordingly, keeping in view the organizational requirements, 87 officers were promoted in various grades during FY19 **(Table 6.3).**

Table 6.3: Promotions during FY19

Promotion	No. of Officers
Senior Management Level (OG-7 & 8)	3
Middle Management Level (OG-5 & 6)	47
Junior Level (OG-1 to OG- 4)	37
Total	**87**

Capacity Building

SBP being a knowledge-based organization has extensive focus on training and development to ensure that the skills mix of HR remains compatible and responsive to organizational needs. SBP also strives to ensure leadership development and effective grooming of line managers to facilitate capacity building. Thus, training has been an important aspect of the strategy adopted by the Bank to enhance the quality of its human resource base. By providing employees with opportunities for

acquisition and enhancement of skills, linking the learning process with results and making learning an inherent part of the PMS, SBP has transformed training into a requirement of preference, rather than compulsion.

In-House Trainings

During FY19, multiple iterations of in-house training programs on topics pertaining to soft skills including interpersonal skills, team building, diversity & inclusion, emotional intelligence and other related topics were conducted in collaboration with NIBAF based on Training Need Assessment.

Soft skills and functional trainings were offered for OG-1 to OG-4 **(Table 6.4)**. Similarly, training programs focusing on leadership development, change management and strategic thinking were offered for mid-to-senior level officers, facilitated by market renowned trainers. **(Table 6.5)**

The in-house and domestic training programs were supplemented with foreign training. As a central bank, SBP has access to international training programs offered by multilateral agencies and other central banks. SBP officers are regularly sent on such training programs and seminars to reputed supervisory agencies and central banks around the world to enhance their knowledge base on global developments. Most of the foreign trainings were fully/partially funded by the host institutions **(Table 6.6).**

In FY19, the organization achieved 78 percent completion of mandatory training hours as per policy wherein 51 percent officers have completed 100 percent of the mandatory training hours requirement.

HR Automation Initiatives

Technological upgradation is of paramount importance to SBP to remain cognizant of the rapid developments taking place in information management and

Table 6.4: In-House Trainings (OG-1 to OG-4)

Title	No. of Officers
Thinking and Decision Making Skills	191
Personal Excellence	185
Corporate Communication	111
Emotional Intelligence.	72
Workplace Harassment	133
Cyber Security	195
Pivot Tables in Excel 2016	74
Advanced Central Banking Course	128
Risk Based Supervision	148
Anti-Money Laundering Laws	131

Table 6.5: In-House Trainings (OG-5 & above)

Title	No. of Officers
Leadership Impact	47
Peak Performance Toolkit	28
Trait Based Assessment	28
Art of Giving Feedback	27
Interviewing Skills	21
Emotional Intelligence.	19
Leader as a Coach	18
Enterprise Risk Management	158
Risk Based Supervision	21

Table 6.6: Foreign Trainings/ Seminars

Organization	No. of Officers
International Monetary Fund	41
Deutsche Bundesbank	8
Federal Reserve Bank of New York	2
SEACEN Centre	5
Bank of England - CCBS	3
Financial Stability Institute - Bank of International Settlements	1
Study Centre of Gerzensee	2
Asian Development Bank	3
World Bank Group	2
Bank of Thailand	4
Banque de France	7
Central Bank of Turkey	15
Reserve Bank of Australia	5
Others	60
Total	**158**

communication. Technology has been used as a means to improve service delivery standards and enhance efficiency by automating various functions of HR modules including recruitment, advances, retirement benefits, discipline, audit with HRMS interface and transport management record.

Acknowledging the importance of technology-based interventions, SBP launched 'SBP Tech Club' in July 2018 with the intention to provide a platform to all technophile employees of the Bank, to explore out of the box and technology based solutions. SBP Tech Club is being managed by SPD. During the year under review, six formal Tech talk sessions were organized on different technology related topics besides usual activities.

6.2.3 Future HR Strategy

SBP firmly believes that the principal source of its strength is the human resource. Accordingly, the Bank remains focused on the need to continuously invest in its people, provide them right incentives to enhance performance standards and to make merit and performance the criteria for professional and career development. HRD at SBP would continue to strive to sustain a work environment where every employee is empowered/ provided with opportunities for professional growth and is recognized and rewarded for the contribution made towards achievement of organizational objectives.

6.3 Strengthening IT Systems

The IT Strategy aligned with the SBP Vision 2020 is being implemented by the IT Group (ITG) which is providing key services to SBP and its subsidiaries in the areas of national level initiatives, IT Strategy, business process automation and IT infrastructure and service continuity.

6.3.1 National Level Initiatives

Pakistan Banao Certificates (PBC) is the first initiative of its kind for Overseas Pakistanis to safely invest their savings with higher profits rates. The PBC website was developed in collaboration with National Bank of Pakistan and SBP is providing hosting services for website, ensuring round the clock availability along with state-of-the-art security and confidentiality of investor's data.

Similarly, ITG developed a system for collection of funds for "The Supreme Court of Pakistan and the Prime Minister of Pakistan Diamer-Bhasha and Mohmand Dams". The funds collected are transferred to Dam fund account maintained at SBP in real time for onward reporting to Supreme Court of Pakistan.

6.3.2 SBP Knowledge Management Program

As per SBP Vision 2020, SBP needs to "implement a modern framework for the retention and sharing of information and knowledge" (SG6-TO5). The framework includes the development of a knowledge management (KM) program and implementation of a technology solution for identification, creation, storage, sharing, archiving and use of knowledge and information of the Bank.

IT Strategy & Project Management Department (ITS&PMD) of ITG led this project and following milestones have been achieved in FY19:

- Technology Acquisition & Implementation of tools and software for building an external portal of SBP, Process automation and optimization software and Enterprise content management system.

- Development of enterprise wide taxonomy for content classification and search. The same taxonomy has also been implemented in enterprise content management system for the specific business units.

- Development of the enterprise wide process inventory and identification of the knowledge assets of the organization. Framework for the enablement, sharing and searching of knowledge assets has also been developed.

In addition, following 4 business use-cases are mentioned as under:

- External Case Processing-FEOD
- Foreign Training Automation-HRD
- Publication and Distribution Automation- ERD
- Audit Management Process-IACD

6.3.3 Enterprise IT Governance Framework

As per the Enterprise IT Governance Framework project plan, consultancy services were acquired by ITG to assess the current work practices and to identify gaps with regards to internationally acclaimed best practices. A formal Gap Assessment and Gap Closure report was presented to ITG's Management, followed by six internationally acclaimed ITIL trainings, which were imparted to ITG by the consultant.

Further, Phase II of the project, i.e., the Enterprise IT Governance and Policy Framework of the SBP IT environment and a roadmap for its implementation in accordance with internationally acclaimed best practices and standards, was successfully completed. The designing of Strategic Level Policies and relevant procedures for setting formal directions was also part of this phase.

6.3.4 Banking and Currency Systems Initiatives

SBP's IT Systems have continued to contribute in sustainable IT enabled business operations. Multiple business development projects were also implemented in Banking and Currency systems to cater to business requirements. Some of the projects undertaken for this purpose are as follows:

- Initiatives undertaken by the Government such as sale of Premium Prize Bonds of Rs 100,000/- were successfully incorporated in the central Bank's core Banking System.

- Federal Government discontinued the sale of 40,000 denomination Prize Bonds. Multiple options including credit in bank accounts against encashment of bonds were provided to investors. System for encashment of bonds and onward transfer of proceeds to investor's banks accounts through RTGS was completed within a very short span of time.

- Core Banking was also integrated with Bank Processing and Authentication System (BPAS) where data processed in BPAS is transferred to core banking system in semi-automated way for generation of General Ledger and various MIS reports.

- Another achievement was elimination of manual feeding of cheque transactions related to Accountant General Pakistan Revenues and Accountant Generals. The cheques presented over the counters at various SBP-BSC field offices are marked for payment in Financial Accounting and Budgeting System (FABS) and then transactional data of these cheques is exported from FABS and uploaded in core banking system. This process has increased efficiency and eliminated human intervention during input of transactions.

- The checking of Filer and Non-Filer status for calculation of tax liability is critical at the time of various payments. A new process was added in system where Active Tax Payers List is updated on weekly basis in the system. The tax at the time of payment is calculated by the system significantly reducing the risk of miscalculation.

6.3.5 New Projects in Data Warehouse

Implementation on three new Data Warehouse systems took place during FY19. These systems contribute directly towards SBP's strategic goal 6:

- Monthly Reporting of Foreign Currency Deposits & Borrowings (SDWD)
- Data Acquisition and Compilation System for MFBs Capital Adequacy Ratio (BPRD)
- Turn-around time portal for SME borrowers (DFSD)

ISD also developed a Web API Server for optimizing the data integration effort across IT systems.

6.3.6 Automation Efforts in Oracle Custom Applications

A plethora of projects was undertaken in Oracle in FY19 to cater to the growing business requirements of SBP. Some of the projects undertaken and successfully completed are mentioned as under:

- **Money Market Reporting for DMMD**: This system will replace the manual upload processes performed by DMMD. Now all banks can submit / upload MMCRS daily deals (conventional and Islamic data) through DAP portal.

- **Enforcement Support System (ESS) for OSED:** This project includes up-gradation of forms, reports and uploading process for penalties and bank response via DAP. Now ESS application is more user friendly for business and provides MIS reports for decision making.

- **Inspection Management System – Fitness & Propriety Testing (FPT) for BID:** This application will replace manual excel file input process performed by BID. Now the data for FPT will be submitted using DAP and various MIS reports will be generated by business users.

- **Line of Credit (LOC) Scheme for DFSD:** LOC is an initiative under FIP that aims to improve the access to financial services to masses by providing a line of credit to MFBs, MFIs and NBFCs for lending to micro borrowers / enterprises.

6.3.7 Information and Cyber Security Improvements

During the last two decades, IT continuously played a key supporting role in not only the functions of various core and operational wings of the Bank but also to underpin transformation of SBP into its current modern shape. Critical business and support operations of the Bank rely on interconnected IT infrastructure and its components. As all facets of Bank's operations have become more dependent on IT infrastructure, operational risk of the Bank has increased due to new vulnerabilities and threats that continue to emerge. SBP being cognizant of these threats has been investing generously to strengthen its infrastructure and governance. During the year, the Bank continued its efforts for development of a robust, state of the art cybersecurity program to ensure confidentiality, integrity and availability of its IT and information assets.

The year witnessed major improvements in the area of information and cybersecurity governance within the Bank. The Bank secured its IT Infrastructure through standardized information security controls based on industry best practices and employed well-known market acclaimed information security frameworks to manage information security risks. SBP has strong realization that new threats and a new era of strategic competition demand a well-defined Information Security roadmap that responds to emerging challenges, fixes vulnerabilities, deters adversaries and safeguards opportunities for the Bank to thrive in this era of digitization. The information security function of the Bank has laid down IT Security Strategy to plan coming years' key initiatives for overall improvement of information security posture of the Bank. IT Security Policy and Cyber Risk Management Framework have been developed and the implementation is underway by the relevant stakeholders. An effective implementation of this policy and framework will help in securing IT infrastructure and achievement of required technical advancements, administrative efficiency and effective coordination across all stakeholders within and outside the Bank. To move away from the trap of protecting everything from everything and to reduce IT security expenses by cost effective implementation of controls, a risk-based approach has been adopted by initiating classification of information assets based on criticality of information and its security requirements.

SBP also arranged user-level IT Security awareness sessions, executed simulated phishing campaigns and engaged other awareness channels for its workforce as per Cybersecurity Training and Awareness Program. To empower individuals with necessary and relevant knowledge, specialized training sessions were arranged for IT, Information System Audit and Information Security experts, which helped in enhancing IT security understanding of the users. It also enhanced the capacity to perform in-house security assessments in IT Infrastructure to identify security vulnerabilities and get them fixed with the help of relevant IT departments in a timely manner.

6.4 Business Continuity Management

Business Continuity Management is a holistic management process that enables an organization to build resilience against enterprise-wide disruption to people, processes, facilities, and technology. SBP has improved its level of preparedness and readiness to an unprecedented level by establishing a

state of art Data Recovery Site and fully equipped Backup Site(s) for critical time sensitive functions of SBP and SBP-BSC.

6.4.1 BCP Committee Meetings

Three Business Continuity Planning (BCP) Committee meetings were held during FY19. The meetings were chaired by the Acting Chairman BCP Committee/ ED (HR) and were attended by members representing critical areas of the bank. The Committee took various decisions to improve the effectiveness and implementation of BCP. The BCP Committee was also reconstituted and new members mainly MD PSPC, MD DPC and CISO were included.

6.4.2 BCP Exercises

In order to stress test the networks, equipment/ systems, services and other allied facilities, more than 200 BCP exercises were carried out. Similarly, mock exercises were successfully conducted from backup sites during the year.

6.5 Enterprise Risk Management

Strategic risk assessment through top-down approach is one of the important components of Enterprise Risk Management. A comprehensive document on strategic risk assessment has been prepared. Further, an indigenously developed monitoring template is being used effectively to oversee the progress of each strategic risk.

The Bank conducted an exercise to develop key risk indicators (KRIs) for individual risks in RCSAs identified through bottom up approach. This will facilitate in monitoring the trend of identified risks on regular basis. Growing complexity and evolving risk profiles of Groups / Departments require to keep track of all the changes in RCSAs. SBP developed an in-house Oracle based software on interim basis before procuring a full-fledged ERM application and the same is in UAT phase.

The applicability of Enterprise Risk Management Framework extends to SBP as well as its subsidiaries. ERM framework has also been introduced in PSPC and DPC. In order to strengthen ERM components and to speed up its implementation in SBP and its subsidiaries, ERM team conducted capacity-building sessions for DPC and PSPC in collaboration with NIBAF.

6.5.1 Investment Risk Management

Due to a shift in the global dynamics and changes in regulatory requirements related to adoption of more conservative approach for modeling of credit risk under IFRS 9, Expected Credit Loss (ECL) models for investment portfolios were developed. These models use advance approaches for modelling of ECL parameters that include Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). In order to transform Through-the-Cycle (TTC) PD into forward looking Point-in-Time (PIT) PD, the Bank used advanced analytical approaches for designing internal models for forecasting economic scenarios and generating conditional forward looking PIT PDs.

Keeping in view the complexities in the modeling of parameters and inherent risks involved in the execution of models, the Bank designed a state of the art software, “SBP ECL Application” that has streamlined data capturing, modelling of ECL parameters, and economic scenario generating process.

This software is aimed to help in maintaining data quality, accuracy and relevance for meeting IFRS 9 compliance requirements.

Liquidity is the second important dimension of SBP's reserve management strategic objectives. A framework is developed for monitoring liquidity risk in fixed income investment portfolio. This will help the Bank in timely identification of liquidity risk through market driven indicators in fixed income securities and escalation to the higher management for timely action.

An equity valuation model has also been developed using Price to Book Ratio (PBR) that reflects market concerns about banks' health and profitability. This equity valuation modeling proposes an empirical valuation methodology based on intangible value attached to bank's assets and liabilities.

6.6 Risk Based Audit Function

Internal Audit & Compliance Department (IACD) deriving its mandate from Internal Audit Charter duly approved by the SBP Board, is providing an independent and objective assurance on the effectiveness of the Bank's governance, risk management and control processes by conducting financial, operational and IT audits. In order to perform this role independently, the Director IACD reports functionally to the Board Audit Committee (BAC) and administratively to the Governor.

IACD has taken various initiatives which are in line with the SBP Vision 2020. In this regard, the audits undertaken throughout the year are subject to various auditing techniques like thematic, end-to-end and criteria driven, etc. Moreover, ongoing quality assessment of audit activities is ensured through an independent Quality Assurance Unit. It ensures the audit approach, methodology and activities are in conformance with the Institute of Internal Auditors' international auditing standards and other best practices. Similarly, a dedicated Follow-up Unit is in place to carry out follow up of audit findings with respective departments and report the outstanding issues to concerned stakeholders on periodic basis. The Compliance Unit monitors the compliance of various laws and pronouncements by the Government and other local and global entities, applicable to the Bank.

In order to bring further improvement in the corporate governance and internal control processes, IACD developed an Assurance and Follow-Up Rating Framework. The Assurance ratings are based on the results of the audit assessment whereas Follow-up ratings are based on the department's compliance with outstanding audit recommendations. Both of these ratings will be communicated to the Board Audit Committee for effective supervision and oversight. In line with the standards and approach given by the consultant, IACD successfully implemented its Taxonomy in the Enterprise Content Management module of KM project. Further, a KM based Audit Workflow system is under implementation in IACD to further improve departmental processes including coordination with other departments.

In accordance with a carefully chalked out Training Need Assessment Plan for IACD officers, auditors underwent various local as well as foreign trainings and attachment programs during the year. This has enhanced their functional/ technical, soft and managerial skills to achieve performance excellence. In order to further strengthen the capacity of its auditors, IACD implemented two

frameworks i.e. 1) short-term placement of auditors at other departments and 2) acquiring subject-specific services of guest resources from other departments during an audit engagement.

IACD and Research Department jointly organized a three-day seminar on internal audit under the aegis of SAARCFINANCE in March 2019 to promote the culture of exchange of regional experiences amongst SAARC countries particularly for creating better understanding of effective role of internal audit function in central banks of the region. Further, with an objective to become a center of excellence, IACD imparted a five-day training program under SAARCFINANCE Staff Exchange Program on Internal Audit for capacity building of the delegates from Internal Audit Department of Royal Monetary Authority of Bhutan.

6.7 Legal Services Department

The Legal Services Department (LSD) has vetted the proposed amendments in the existing laws to streamline the role of Bank as a regulator. LSD also facilitated Deposit Protection Corporation for implementation of the Deposit Protection Corporation Act, 2016.

Chief Legal Advisor and Director LSD are co-opted members on the Financial Law Review Committee of the SBP Board tasked to review existing laws to meet emerging needs. Director LSD is also a member on the Legal and Regulatory Framework Committee, which is a sub-committee of the Implementation Committee of the Government and has been tasked to review existing laws for the promotion of Islamic Banking in Pakistan. Similarly, Director LSD is a designated official for the purposes of the Right of Access to Information Act, 2017.

During FY19, LSD provided legal advice on 4071 references forwarded by various departments of the Bank and its subsidiaries to ensure that legal risks associated with business decisions are addressed appropriately. The department is handling 498 pending litigation cases against the Bank and its subsidiaries.

6.8 SBP Library

During FY19, Library continued its supportive role in promoting financial and economic literacy amongst the stakeholders, ranging from SBP staff to banking, business and academic communities of Pakistan, through provision of high quality information resources and services. Glimpses of major functional achievements of the Library during the review period are summarized below:

6.8.1 Collection Development

In order to support the developmental and operational initiatives at SBP, a number of new resources were added to the library collection in both print and electronic formats. For instance, the print holdings were enriched by 2,425 new books and 1,687 periodical issues. Similarly, latest updates of federal/ provincial budgets/ gazettes and annual reports of numerous companies listed on the Pakistan Stock Exchange were acquired.

Further, the electronic subscriptions were augmented with *Sage Management & Organizational Studies eJournals Collection* comprising of 105 ejournals with its complete archives dating back to 1996.

6.8.2 Bibliographic Management and Reference Services

For promoting effective usage of library resources, posting of monthly bulletins of *Fresh Arrivals* and *Content Alerts* on SBP website and electronic board as well as their bank-wide broadcast through email remained a regular feature of Library. All items acquired were properly catalogued/ indexed and made available for browsing through library portal in real time.

Officials at the reference desk responded to a number of reference queries and proactively provided personal assistance in literature search and library usage. Orientation tours for the new inductees, internees and occasional visitors were arranged throughout the year. Around 2,599 requisitions for articles were entertained through library's *Online Document Delivery Service*.

6.8.3 Visitation, Membership & Lending

During the period under review, around 21,493 users visited the library, 167 new members were registered, and 24,384 books were lent to registered members. The members were also kept posted with the renewal reminders/ overdue notices on a daily basis. Book reservation/ hold services also remained available for members throughout the year. Further, efforts were made to meet members' demand through inter-library borrowing from local libraries.

6.8.4 Revamping of Library's Physical Infrastructure

The project is aimed at developing a modern decor, pleasant ambiance and conducive learning environment in the Library by refurbishing its physical infrastructure. Divided into two phases, the first phase comprising renovation of the ground floor has been completed whereas revamping of the first floor in the second phase is near completion.

Under the project, the oldest 100 books available in the Library, published during 1695-1900, were digitized for preservation and make them accessible bank-wide through Library's online catalogue. The digitization program shall continue in future as an operational routine to preserve resources of historical importance.

FY19 ended successfully for the library in terms of its goals attainment. A comparative summary of library progress during the last two years is presented in **Table 6.7**.

Table 6.7: SBP Library Services at a Glance (FY19) (numbers)

Operational Areas			*FY19*	*FY18*
Procurement	Books:	Purchased	2,329	1,749
		Complimentarily acquired	96	177
	Periodical issues		1,687	1,907
Technical processing	Books catalogued		2,425	2,107
	Articles indexed		2,655	3,161
Circulation (Books loaned)	The SBP employees (active and retired)		23,459	20,500
	General public		925	1,152
Membership	The SBP employees (active and retired)		83	147
	General public		84	124
Visitation	The SBP employees (active and retired)		15,654	16,560
	General public		5,839	5,245
Documents Downloads	Downloaded documents delivery through email		2,599	3,442
	Bank-wide article downloads through subscribed resources		17,215	16,919

6.9 Effective External Relations

SBP always remain in forefront to celebrate days of national importance. On special occasions such as Pakistan Day (March 23), Independence Day (August 14), Quaid-e-Azam Day (December 25) and other occasions like unveiling of commemorative coins, ERD strived to get full media coverage. The 70 years' anniversary celebration in July 2018 was aimed at portraying SBP's achievements during the course of time. PTV extended special coverage and broadcast an exclusive program on special session of former Governors and the then Governor.

ERD and ITG jointly developed online donation facility via debit and credit card through SBP website for the Supreme Court of Pakistan and the Prime Minister of Pakistan Diamer-Bhasha and Mohmand Dams Fund. The application was designed and activated on a short notice of 48 hours by the Supreme Court of Pakistan. Through this application, donation of Rs 150.9 million and USD 0.9 million has been collected as at June 30, 2019.

ERD for the first time, engaged with DFG-SBP in SME awareness sessions in three cities i.e. Sialkot, Gujranwala and Gujrat. The local as well as mainstream media was engaged for coverage of the events, which turned out to be a success.

Communication Policy 2005 contained elements of both policy and strategy, which needed to be separated. Accordingly, a comprehensive Communication Policy, containing the objectives, principles and communication channels was issued during FY19.

In an attempt to improve standard of economic reporting, ERD carried out an exclusive workshop series for economic journalists. The topics included Economic Data – Focus case: Inflation, Monetary Policy, the Currency Markets, Financial Inclusion, Balance of Payments, Banking and Payment Systems.

ERD is committed to implement and enhance usage of Urdu. Circulars and circular letters issued by various departments are now regularly translated in Urdu and posted at SBP website. Last year, a training course for using Urdu in MS Office had been developed. The training program is an ongoing process and has now been extended to SBP-BSC. All web pages of SBP-BSC site have been translated in the national language. Further, Annual Performance Review, State of Pakistan's Economy (quarterly and annual reports), Financial Stability Review, Monetary Policy Statements and miscellaneous other documents were translated in Urdu.

In the wake of strategic objective of business process reengineering, ERD actively participated in KM Project aimed to "implement a modern framework for the retention and sharing of information and knowledge" under SBP Vision 2020. ERD successfully automated its publication workflow. The project is contributing to turn the process into more efficient and paperless environment. ERD also designed and executed several media campaigns. M-Wallet campaign was one of the extensive media campaign to increase usage of formal banking channel as a part of National Financial Literacy Program (NFLP). In addition, ERD distributed worldwide around 32000 copies of publications.

6.10 Museum, Art Gallery & Archives

The State Bank Museum is the only money museum in Pakistan. It has the largest collection of coins and banknotes as well as other objects that have served as money in different eras and places.

To define the significance of money and banking State Bank Museum constitutes eight galleries, Coin Galleries I & II, Stamp Gallery, Currency Gallery, History of State Bank Gallery, Governors' Gallery, Sadequain's Gallery and the Contemporary Art Gallery. The Art Gallery is one of the most attractive part of the Museum, displaying Sadequain's four huge paintings and collages of metal and wood.

The Technical Section has a Conservation Lab, which is responsible for conservation of coins, archival material, etc. The Replica/Modeling Section is unique as it is responsible for preparing replicas/models as souvenirs for the visitors. The objective of this section is to replicate the antiquities for education and to discourage smuggling of the originals. The shop has replicas of artifacts as well as special museum publications and interactive videos/ demos. The literature available thus serves its educational purpose.

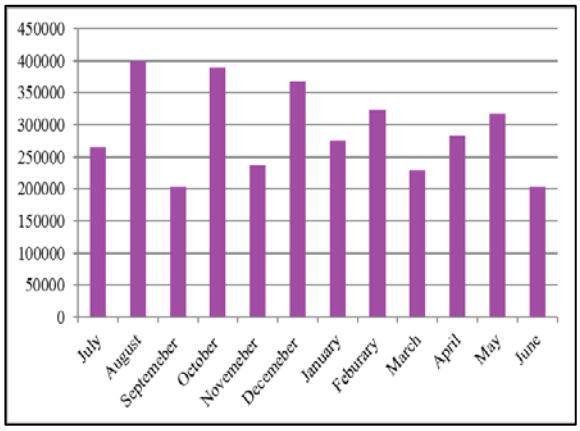
6.10.1 Visitors' Flow

During FY19, 11383 visitors (3270 male, 2588 female and 5525 children) visited the museum on normal days. Besides a large number of public visited Museum on Special occasions including i) 70th Anniversary of SBP, ii) Independence Day Celebrations, iii) Pakistan Day.

6.10.2 Souvenir Shop

The souvenir shop is an integral part of the travel experience and most tourists return home with souvenirs to preserve and commemorate such experiences. The State Bank Museum Souvenir Shop, has become one of the best Souvenir Shops in Pakistan. A total sale of Rs 3,495,277 was recorded on non-profit basis in FY19 (see **Graph 6.1**).

Graph – 6.1



6.10.3 Other Activities

To support Museum's mission of enhancing knowledge of general public especially the youth, different workshops/activities were arranged by SBP Museum which include the following.

Preserving Legacy

One of the main objective of SBP Museum & Art Gallery is to play its role in preserving and promoting Pakistan's Contemporary Art and Artists. On the special occasion of 143rd Birth anniversary of Quaid-e-Azam, Muhammad Ali Jinnah, 25th December 2018, State Bank Museum planned an exhibition "Preserving Legacy" by the Launching ceremony of Quaid's portrait painted by one of the most celebrated painter of Pakistan, Prof. Saeed Akhter. This exhibition was the first ever exhibition of portraits of Quaid-e-Azam borrowed from different organizations all across Pakistan.

Global Money Week 2019

During Global Money Week 2019, Museum, Art Gallery and Archives Department arranged a session on National Financial Literacy program. The children and youth participated in this session and learnt how to manage money wisely. Different activities for children and youth were also arranged to spark excitement as well as learning about the topic 'Learn to save' through:

- Visit to bank and Money Museum.
- Financial workshop and session with the concerned departments of SBP & SBP-BSC.
- Financial education games (Inflation Control etc.), Short Quiz and drawing competition.

International Museum Day & Museum Week - Summer Camp

SBP Museum celebrated the International Museum Day and Museum Week during Summer Camp 2019. The objective of celebrating International Museum Day is to raise awareness about the Museums entitled, "Museums are an important means of cultural exchange, enrichment of cultures and development of mutual understanding, cooperation and peace amongst people."

Different cultural activities were arranged for children with the theme "The future of Tradition, old crafts come to life".

Children Literature Festival (Lahore)

The SBP Museum staff actively participated with an informative work plan in the Children Literature Festival at Lahore in January 2019. During Children Literature Festival, the Museum staff focused on the following:

- Teach Children model making/replicas of coins.
- Education through posters, story of Pakistani Coins, Currency and Stamps.
- How to shine coins.
- Enlarged models of coins and currency.
- Talk/presentation about history of State Bank and Coins & Currency etc.
- Digital photography of coins and currency.

Publications

In order to preserve the collection of SBP Museum, the collection is digitized and published. During FY19, four different publications were printed, after thorough research/ designing which include i) Coins of Ghaznavids, Sultans of Dehli & Suri Dynasty in the State Bank Museum, ii) Accessibility in the State Bank Museum – Photography Techniques for Visually Impaired, iii) Rare Objects in the collection of State Bank Museum & Art gallery and iv) Way Forward for State Bank of Pakistan.

7 SBP Subsidiaries

7.1 SBP Banking Services Corporation (SBP-BSC)

SBP Banking Services Corporation is a fully-owned subsidiary and operational arm of SBP. The Corporation is primarily mandated with provision of banking services to Federal/ Provincial Governments and Banks, management of currency, facilitation in expanding outreach through development finance schemes devised by SBP, besides carrying out operations and adjudication relating to foreign exchange, through its 16 field offices across Pakistan. SBP-BSC also plays an important role in seamless delivery of services in the areas of procurement, engineering, medical services and internal bank security. During FY19, various initiatives taken by SBP-BSC continued to bring improvement in its operational areas. These initiatives include online collection of taxes and duties through ADCs, continuation of implementation of Currency Management Strategy and SBP policies in areas of financial inclusion, agriculture, SME finance etc. and automated verification of foreign trade-related reporting statements.

7.1.1 Banker to the Government

During FY19, SBP-BSC processed about 9.4 million Government transactions (receipts and payments), as compared to 8.1 million in FY18 showing an increase of 16 percent. Further, its field offices and network of NBP branches, collected around Rs 3,868 billion for FBR.

Besides carrying out the operational activities, SBP-BSC made dedicated efforts to familiarize the taxpayers with the newly introduced mechanism for tax payment through ADCs.

Similarly, automation is being carried out in the processing of AGPR and AGs payments by developing online connectivity. Similar dedicated efforts were made for reduction of cash payments at all fronts. Moreover, efforts were made to shift manual pension payments to Direct Credit System. SBP-BSC Accounts Department is also coordinating with FBR for shifting Income Tax Refunds from manual bills to cheques to improve the security of these payments.

7.1.2 Payment Systems Support

Considering the importance of efficient and secure payment system in the country, SBP-BSC is focusing on automation of business through consultative approach between various stakeholders and development of inter-departmental IT connectivity. It now plans to do away with manual processes, using IT and Business Process Re-engineering (BPR), for the benefit of SBP/ SBP-BSC as well as our primary stakeholders i.e. Governments, banks and general public.

7.1.3 Currency Management

During the year under review, SBP-BSC in coordination with Finance Department-SBP operationalized comprehensive policy guidelines/framework for monitoring CMS at commercial banks through establishment of Currency Management Hubs at Regional Level. These Hubs have carried out examination of 226 Cash Processing Centers (CPC), 196 Cash Feeding Branches (CFB), 116 linked branches and 406 standalone branches across the country in FY19 to ensure that good quality/ machine-authenticated currency notes are issued by banks.

During the rollout of Phase – II of Currency Automation Strategy (CAS), the contract for procurement of four Banknote Destruction Systems (BDS) was awarded in January 2019 and these systems are expected to be fully operational by June 2020. Phase - III of the automation strategy was formally initiated in February 2019, whereby nine Banknote Processing and Authentication System (BPAS) and three BDS shall be procured/ installed till December 2021.

Traditionally, the demand for the fresh currency notes across Pakistan is high generally and particularly on the eves of Eid-ul-Fitr and Eid-ul-Azha. Like previous years, SBP-BSC continued the SMS-based service (8877) for the general public to acquire fresh banknotes during Eid festivals. This facility was broadcasted through press releases and print media. During Ramadan 2019, this facility was offered in 142 cities of Pakistan through more than 1,700 branches of commercial banks, and 16 field offices of SBP-BSC. This endeavor enabled SBP-BSC in expanding the outreach and availability of fresh banknotes to more than 3 million citizens across Pakistan and this facility was availed by over 2.6 million customers, reflecting an increase of 18 percent as compared to FY18.

In order to facilitate the customers, a new procedure for claiming prize money through commercial banks was introduced, whereby the prize money claimants can now submit their claims at designated commercial bank branches. Further, after successful implementation of the Electronic Queue Management System (EQMS) pilot project at SBP-BSC North Nazimabad, SBP-BSC initiated the process for installation of EQMS at all SBP-BSC field offices. This development is expected to improve customer service and delivery standards significantly across all offices.

7.1.4 Financial Inclusion

SBP-BSC facilitates in expanding the outreach of development finance schemes of SBP by providing operational support and arranging awareness sessions across Pakistan. Development Finance Support Department (DFSD) of SBP-BSC facilitated AC&MFD of SBP in monitoring agriculture credit disbursement target of Rs 1,250 billion allocated to 52 Participating Financial Institutions (PFIs) for FY19. DFSD has also coordinated with Agriculture Finance Units (AFUs) at SBP-BSC field offices and monitored 451 activities for the period July 2018 to May 2019, which include, 214 awareness programs, 66 capacity-building sessions, 76 Focus Group meetings, 35 review meetings and Training of Trainers sessions of NFLP and 19 seminars/ workshops and other activities in areas of agriculture finance, microfinance, housing & infrastructure, SME and Islamic banking.

During FY19, DFSD rolled-out NFLP Street Theatres as a key SBP initiative to increase financial inclusion. The program was implemented countrywide in FY19 through 16 SBP-BSC field offices, 31 banks, and several partner institutions, wherein a total of 89 programs were conducted. Further, DFSD, in coordination with Statistics & Data Warehouse Department and Information Systems Department of SBP initiated a project to establish NFLP Data Acquisition Portal for obtaining data directly from banks thereby increasing reporting process efficiency.

Moreover, DFSD conducted a research study on the role of Financial Technology (Fintech) in promotion of development finance, including interviews with internal and external stakeholders and formulation of recommendations for these entities. The Department also designed and conducted a survey, with input from Research Department SBP, for assessment and course correction of NFLP, and targeted the actual participants of the program.

During FY19, 6,058 loans amounting Rs 7,054 million were processed for guarantee issuance to 20 PFIs under Credit Guarantee Scheme for Small & Rural Enterprises. Moreover, 66,387 transactions of 12 executing agencies (banks) related to Prime Minister Youth Business Loans (PMYBL) were processed for disbursement of subsidy amounting Rs 890 million. Further, funds of Rs 10.7 billion (approximately) were managed under various credit guarantee and mark-up subsidy schemes.

7.1.5 Foreign Exchange Operations

FEOD took various developmental initiatives during FY19 to bring efficiency and improvements in its existing operational processes keeping in view the organizational objective to bring automation / paperless environment through use of latest technology. FEOD was the first department at SBP-BSC to successfully implement the Automated Case Management System under the umbrella of KM project. The verification and scrutiny process of EE-1/ EF-1 Statements was also automated during the period resulting in reduction in average turnaround time from 19 days to under 8 days besides increasing efficiency and accuracy. The project for establishment of Electronic Data Interchange with Pakistan Customs is also being pursued which will facilitate the department in monitoring the trade transactions in a robust manner. Moreover, the project of 'Data Universe' was actively pursued, which involved integration of data from Web-Based One Customs (WeBOC), International Transaction Reporting System, Export Overdue Reporting System (EORS) and T-24 in a single platform to attain a holistic view of all stakeholders/ effective monitoring. The first phase of the project was completed during the period wherein data from ITRS and T-24 was successfully integrated.

FEOD lodged 11,261 complaints in Foreign Exchange Adjudication Courts against delinquent exporters who failed to repatriate export proceeds within stipulated time. A total of 7,456 cases were decided in FY19 through effective pleading & prosecution at FEA Courts. FEOD also defended and pleaded 29 appeals in Foreign Exchange Regulation Appellate Board.

The inward and outward FX transactions were scrutinized with wide-ranging perspective of ML and TF. During FY19, more than 14,056 cases of commercial, private and trade related remittances were processed by the FEOD. Additionally, various capacity-building programs for officers of FEOD and relevant staff of commercial banks were arranged to enhance their skills set.

7.1.6 Resolution of Foreign Exchange Overdue Cases

During FY19, Adjudicating Courts decided 7,682 cases referred by Foreign Exchange Operations Department against the delinquent exporters and importers under relevant provisions of FERA as compared to 5,857 cases in FY18 which resulted in realization of USD 175 million and USD 133.7 million respectively.

7.1.7 Human Resource Management

In order to optimally fill the gaps due to attrition of employees opting for early retirement, resignations etc., young graduates having requisite qualifications and experienced personnel were hired from the market (totaling 182) at various hierarchical levels both in regular and contractual cadres through structured external recruitments as per approved Manpower Plan.

7.1.8 Strategic and Corporate Affairs

Strategic and Corporate Affairs Department (SCAD) is primarily mandated to act as a Secretariat to the SBP-BSC Board of Directors and its Committees. During the year, SCAD adopted paperless environment for conduct of meetings of the Board and its Committees. The Department also prepared the Annual Performance Review (APR) of SBP-BSC, duly approved by the Board consisting of key achievements and future outlook of SBP-BSC. The Department spearheaded the Annual Business Planning exercise for all departments and field offices of SBP-BSC where more than 400 developmental and operational projects were reviewed, rationalized and approved by the Management. SCAD provided first level helpdesk support for effective utilization of T24 Banking and Currency system across the organization, resolving close to 15,000 incidents during the year. SCAD also provided secretarial services to various Management Committees of the SBP-BSC including Head of Department and Chief Manager Forums.

7.1.9 Internal Audit

SBP-BSC's Internal Audit Department (IAD) strives to assure independent and objective-based audit, in order to add value to the operations of organization. During FY19, IAD conducted twenty-five full-scope annual audits. These included sixteen field offices across the country and nine departments at Head Office Karachi.

During FY19, the main focus of IAD remained on bringing continuous improvement in its operations and adding value to the organization's dynamic environment. IAD embarked upon four development projects, namely, (1) Technology Audit Universe for SBP-BSC, (2) Concept paper on Potential of Data Analytics in IAD, (3) Alignment of Control and Risk Rating System with ERM Framework and (4) Revision of Internal Audit Charter. All these projects were completed successfully in a timely manner. Technology Audit Universe project has set the path for a medium-term technology audit plan with the consent of all stakeholders. The concept paper on Data Analytics has highlighted the roadmap for adopting "Continuous Auditing", initially in selected areas. Further, the alignment of IAD's Control & Risk Rating System (CRRS) with ERM Framework is a major milestone achieved by IAD. It is expected that this alignment will assist to identify, assess and rank risks on a common risk ranking framework. The results of these activities led to improvements in overall internal control environment.

7.1.10 General Services

During FY19, General Services Department (GSD) carried out 126 procurement projects worth more than Rs 1,560 million, primarily related to IT equipment, Cash Handling Machines, Security-related equipment, consultancies and services.

GSD strived to enhance efficiency in the procurement process. In this regard, roles and responsibilities' matrices have been defined for segregation amongst various indenting departments and GSD. Management Information System formats have been introduced by defining benchmark timelines against each stage of procurement. The consolidated procurement plan of GSD and field offices was uploaded on the websites of PPRA and SBP. During FY19, Medical Services Division catered to 30,427 individuals. Moreover, GSD, through its printing press facilitated in printing of 281,300 copies of booklet on NFLP as well as 70,000 books on NFLP-Youth program.

Engineering Department has been entrusted with the responsibility of providing continuous support, maintenance and renovation at SBP and its related subsidiaries. During FY19, the most noteworthy achievements include, (a) Completion of Residential Block (Bachelor/ Family) at SBP-BSC Quetta, (b) Digitization of Engineering drawing records and (c) Preparation of contract management manual having International Federation of Consulting Engineers as general condition of contracts for mega building projects likely to be carried out in near future.

IBSD continued its efforts for strengthening security measures at SBP and SBP-BSC at NIBAF. During FY19, a 2-day in-house leadership development program for Security Officers of HOK and Southern Region was conducted. In addition, regular Physical Efficiency Tests of security personnel were carried out besides firing practice. The Department focused on capacity-building through on-the-job training, in-house firefighting practices and periodic mock/ tabletop exercises. Further, the Department is planning to improve coordination with Police/ Rangers/ Civil Defense and Fire Brigade in order to enhance its operational readiness to cope with potential safety and security challenges.

7.2 National Institute of Banking & Finance (NIBAF)

NIBAF continued to expand its learning activities in FY19 by taking new initiatives in the area of central banking and commercial bank operations. In order to extend outreach of training functions and fulfill needs of the financial industry, NIBAF opened three new campuses at provincial capitals, i.e., Lahore, Peshawar and Quetta during FY19. In line with SBP's Vision 2020, NIBAF increased trainings for the priority sectors (Microfinance, SME, Agriculture, Islamic Banking and Housing) across Pakistan. Similarly, NIBAF launched NFLP that aims to impart training on financial literacy to 1.6 million children and youth over a period of five years. NIBAF also signed MoU with Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and SECP during FY19 to work as a training partner. In terms of training volume, NIBAF conducted over 424 programs during FY19, resulting into 32,448 man-days training.

7.2.1 Trainings Programs for SBP

NIBAF conducted training programs for SBP equivalent to 14,238 man-days of learning during FY19. These included a focused training of over 23 weeks for 22nd batch of State Bank Officers Training Scheme during FY19. In addition, NIBAF arranged over 196 on-the-job training programs (translating into 6,884 man-days) in FY19 for SBP officials to equip them with latest developments and improve their knowledge base and competencies. These training programs covered diverse areas such as communications & interpersonal skills, risk management, cyber security, AML/CFT, risk-based supervisions, etc. In particular, NIBAF offered three training programs, of 6-days each, on leadership development through experiential learning for senior officers of SBP.

7.2.2 Training Programs for SBP-BSC

During FY19, NIBAF conducted over 53 training programs which account for 4,235 man-days. These include 5-weeks program for new inductees of Officer Training Program of SBP-BSC that covers almost all the operational aspects of SBP-BSC as well as trainings on productivity improvement such as teamwork, work management, communications and presentation skills. Similarly, short-duration programs on skill development offered by NIBAF for SBP-BSC included areas such as currency management, risk management, conflict resolutions, project management, cyber security, budget planning & management, procurement under PPRA rules, communication &

soft skills, etc. These programs yielded 1,994 man-days of training. NIBAF also arranged Management & Leadership Development Program (MLDP) of 11-days duration for senior officers of SBP-BSC. This program covered topics on team building, communication, integrity, people management, decision-making and conflict management etc.

7.2.3 International Training Programs

NIBAF organized two international training programs and a seminar on SAARC finance during FY19. Specifically, two international training programs were held under Pakistan Technical Assistance Program with the support of SBP and Economic Affairs Division (EAD), GoP, while SAARCFINANCE seminar was arranged in collaboration with SBP.

The 49th International Central Banking Course was attended by 25 mid to senior level foreign delegates from central banks of Côte d'Ivoire, Ethiopia, Jordan, Gambia, Kyrgyz Republic, Sri Lanka, Zimbabwe, Afghanistan, Nepal, Maldives, and Cambodia. The 46th International Commercial Banking Course was attended by 18 senior officials representing nine countries including Côte d'Ivoire, The Gambia, Cambodia, Algeria, Egypt, Zimbabwe, Mauritius, Afghanistan and participants from SBP and domestic commercial banks. The participants of these programs also visited export oriented industries of Pakistan and met business community of Faisalabad Chamber of Commerce & Industry.

SAARCFINANCE seminar on "Internal Audit: Emerging Challenges and Effective Practices in Central Banks" was attended by 36 senior level officials from the central banks of SAARC member countries including Afghanistan, Bangladesh, Bhutan, Nepal, Sri Lanka and Pakistan. In addition, officials from Finance Division, SECP and AGP represented their institutions.

7.2.4 Training Programs for Commercial banks

NIBAF also implemented comprehensive training programs for commercial bankers in Islamic banking and development finance.

7.2.5 Training Programs on Islamic Banking

During FY19, NIBAF conducted 4 iterations of Islamic Banking and Certification Course, which attracted enrollment of around 88 participants from the banking industry and two foreign participants from Kyrgyzstan. It also arranged 10 training programs of 5-days each on Fundamentals of Islamic Banking Operation during FY19. These programs attracted 297 officials from banks, academia and Chamber of Commerce.

7.2.6 Training Programs on Micro Finance

Keeping in view the importance of microfinance sector for economic growth and poverty alleviation, NIBAF jointly with SBP arranged 12 iterations of 5-days Middle Management Development programs in seven cities across Pakistan. These programs were attended by 339 officials from MFBs including FINCA, UMFB, Khushhali Bank, NRSP Bank and other MFBs.

7.2.7 Training Programs on Housing Finance & Small and Medium Enterprises

With a support from SBP, NIBAF conducted 56 training programs during FY19 on financing to small and medium enterprises and these included 48 regular training programs covering different aspects of

SMEs, and 8 awareness programs on SME banking covering 628 participants held in 8 different cities.

7.2.8 Training Programs on Agriculture Financing

NIBAF conducted 26 training programs on agriculture financing during FY19 that were attended by 1,027 officials (equivalent to 2,737 man-days) from commercial banks, specialized banks and MFBs. These programs also included 3 awareness programs for agriculture stakeholders in Peshawar, Multan and Quetta covering 165 participants.

7.2.9 Training Programs for Other Stakeholders

NIBAF arranged two iterations of "Foreign Trade Certificate Course" during FY19 which were attended by 53 officials. These programs covered important aspects of foreign trade, SBP regulations and Foreign Exchange Manual, international conventions, various forms and procedures of exports and imports, SBP refinance schemes etc.

7.3 Deposit Protection Corporation (DPC)

7.3.1 Major Contributions and Achievements during FY19

Since its establishment, DPC has taken various steps within its mandate to protect small depositors and strengthening the financial system stability regime. DPC launched the deposit protection mechanism effective July 01, 2018. All scheduled banks were declared as compulsory member institutions of deposit protection mechanism and banks started to pay the prescribed premium accordingly. DPC has started investing the premium received from banks in secured investments (government securities/ sukuks) and will build-up a pool of funds for any eventuality.

As required under Section 7(3) of the DPC Act, 2016, Shariah Compliant Deposit Protection Mechanism for Islamic Banking Institutions has been provided through DPC Circular No. 05 dated November 05, 2018.

In February 2019, DPC has been admitted as member of International Association of Deposit Insurers, the global body of deposit insurers, that aims to contribute towards enhancement of deposit protection effectiveness and safety by promoting guidance and international cooperation.

In order to develop depositors' awareness, DPC has publicized its formation and limit of protected deposit up to Rs 0.25 million per depositor per bank through national newspapers. Further, DPC has also emphasized all the member banks to formulate a communication strategy to educate their depositors about the deposit protection mechanism.

7.4 Pakistan Security Printing Corporation (PSPC)

The management remains committed to reform PSPC to ensure that best market practices are followed and the Corporation upholds the high standards set by SBP. Accordingly, the vision of PSPC has been redesigned to meet the goals of SBP. During FY19, the management focused on process improvement for which a team of consultants was hired to review workload and identify redundancies. In the next year, PSPC plans to take corrective actions and restructure the organization in light of the consultants' report. Further, some new machinery has also been procured to enhance the production capacity to meet the increasing indent.

PSPC managed to achieve the remarkable feat of producing more than 3700 million pieces in FY19, i.e. 7.4 percent more than the previous year. PSPC has consistently met higher indents every year which enables SBP to implement its Clean Note Policy and replace soiled banknotes from circulation. It also plans to move to machine based inspection system, initially for higher denominations, to keep itself ahead of global trends for quality checks of final products. The Corporation has also started implementing principles of lean production and conducts timely preventive maintenance to ensure quality standards.

PSPC is making efforts by adopting following Strategic goals under SBP Vision 2020:

7.4.1 Maintaining Quality, Security, and Quantity of Banknotes

In a cash-oriented economy like Pakistan, it is essential to educate public and cash handlers regarding security features of banknotes to detect counterfeits. Therefore, PSPC has made quality a vital part of its organizational mission. It has taken up several projects to widen the scope of quality control, increase quality checks and enhance the inspection time at each point of the production line to eliminate printing errors. During FY19, PSPC doubled the frequency of quality checks in CUTPAK Department which is responsible for cutting and packing of the products.

PSPC works in close coordination with SBP to ensure no counterfeit banknote and prize bond is circulated in the economy. It ensures embedding of security features into all its products before State Bank releases them into the market. PSPC has a fully equipped lab that forensically analyses any suspected counterfeit products in the market as reported by SBP and law enforcement agencies. The lab is capable of running advance tests and follows international standards. PSPC plans to expand its forensic analysis capacities across Pakistan to reduce lead time in verification of genuineness of products.

7.4.2 Aligning HR policy with SBP Benchmarks

In order to align the policies of PSPC, existing HR policies are being revised and brought at par with SBP's policies, where applicable. In the first phase, policies pertaining to recruitment, promotion, whistle blowing, corporate social responsibility and code of conduct are being revised.

Further, to meet the ISO standards and eliminate safety hazards, PSPC is investing in running safety campaigns, conducting awareness sessions and first-aid trainings to all the employees. PSPC has also taken steps to ensure that each department plays an important role towards a sustainable environment.

7.4.3 Re-engineering Business Processes to support Automation

PSPC installed new machines to increase efficiency, eliminate ink wastage, reduce the risk of human error and automate the facility to make the process seamless. The recently installed machines include a new Intaglio machine, and a Finishing and Packing machine. In addition, the management undertook a campaign to re-commission old machines to enhance production capacity.

7.4.4 Implementing a Modern Information Management System

To strategically align the IT goals and implement a modern information management system, PSPC developed multiple ERP modules to automate, streamline, and support business processes such as, Cash Purchase System, Purchase Bid Documentation and Document Management System. Several dashboards have also been developed by the PSPC to ease and systemize the business processes.

The PSPC website has also been launched which displays necessary data to maintain transparency and public record. The website will also help to reduce the cost of procurements by avoiding costly advertisements in newspapers for procurements under Rs 2 million.

7.4.5 Improving Corporate Governance and Internal Control Framework

PSPC functions under a Board consisting of experienced members. After acquisition by SBP, Procurement Committee, Risk and Investment Committee, Audit Committee, Human Resource Committee and Nominations Committee were formed to guide PSPC management through the crucial transitionary phase.

Continuous risk management lowers the risk of disruption and assesses the potential impacts of disruptions. Through this capability, the organization builds an effective program that provides a planned response, recovery and restoration mechanism to safeguard the interests of key stakeholders, their reputation and value-enhancing activities. PSPC has developed an Enterprise Risk Management system and constituted an ERM Committee for managing uncertainties of the business. Further, to ensure business continuity in case of any unforeseen event or disaster, a BCP Manual has been developed and shared with the BCP Committee. To improve corporate governance, Audit Charter of PSPC has also been developed. Accordingly, amendments have also been made in the article of association to improve the practice of Corporate Law.

8 Financial Performance

8.1 Overview

SBP incurred net loss of Rs 1,043 million (consolidated) in the FY 19 as compared to a profit of Rs 175,673 million in the FY 18. The decline is primarily attributed to exchange loss of Rs 506,131 million during the current year as compared to exchange loss of Rs 72,280 million in previous year. The decrease was, however, partly offset by increase of Rs 254,351 million in the net interest income. The lending to the Federal Government remained the major source of SBP's profit followed by earnings on the OMO injections. These major income streams are offset by the increase in interest expense on liquidity mop-up from domestic financial market and increase in interest expense on international deposits. The expenses also witnessed a growth of 5 percent during the year. The note printing charges and General administrative and other expenses are the major expense heads that witnessed growth while agency commission paid to agent commercial banks for undertaking government banking business on behalf of the Bank witnessed slight decrease during the year.

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY19 and FY18.

Table 8.1: Summary Statement of Profit and Loss (Rupees in million)

Description	FY19	FY18
Income		
Discount / interest /markup and/or return earned	656,953	323,679
Less: Interest/mark-up expense	110,764	31,840
Net discount / interest /markup and/or return income	**546,190**	**291,839**
Commission income	4,136	4,083
Exchange loss – net	(506,131)	(72,280)
Dividend Income	390	415
Share of profit from associates	702	691
Other operating income/(loss) – net	4,347	(775)
Other income – net	318	797
Total income net of interest expenses	**49,953**	**224,771**
Expenditure		
Bank notes and Prize Bonds printing charges	11,419	9,362
Agency commission	10,643	10,945
General administrative and other expenses	27,909	27,706
(Reversal of Provisions) / Provisions - net	496	37
Less: Total expenditure- net of reversal of provisions	**50,467**	**48,050**
(Loss) / Profit for the year	**(514)**	**176,721**
Taxation	529	1,048
Net (loss)/ Profit for the year after tax	**(1,043)**	**175,673**

8.2 Income

8.2.1 Net Discount / Interest / Markup

The interest / markup income increased by Rs 331,471 million to Rs 646,009 million, registering an increase of over 105 percent. The borrowings by the Government from SBP during FY19 remained the major sources of income of the Bank during the year. The discount/interest income earned on lending to the Federal Government increased by 171 percent due to increase in volume of borrowing as well as increase in interest rate. The interest earned on lending to commercial banks through OMO injections decreased by 41 percent due to smaller volumes of liquidity injections during the year. (**Table 8.2 and 8.3).**

Table 8.2: Interest/Discount/Return Income on Foreign and Domestic Assets (Rupees in million)

Description	FY19	FY18
Discount, interest / mark-up on:		
- Government Securities	568,489	209,210
-Securities purchased under agreement to resell	43,833	74,135
Income from export loans	11,945	10,232
Foreign assets	16,815	15,872
Others	4,927	5,089
Total	**646,009**	**314,538**

Table 8.3: Lending to Government, Banks and Financial Institutions (Rupees in million)

Description	FY19	FY18
Government securities	7,762,812	3,671,013
Overdraft /loans to Governments	28,200	33,104
Securities purchased under agreement to resell	782,918	1,562,310
Banks and financial institutions	577,872	435,555
Total	**9,151,802**	**5,701,982**
Yield on Government Securities	**10.96% to 13.88%**	**5.91% to 6.49%**
Mark-up on Loans to Banks and FIs	**0% to 12%**	**0% to 9.75%**

The income on FCY assets registered 6 percent increase during the year. Although, foreign exchange reserves reduced significantly during the year; however, the return on the reserves increased due to hike in the international interest rates.

The interest earned on refinance facilities to priority sectors increased to Rs 11,945 million in FY19 from Rs 10,232 million in FY18 primarily due to increase in lending to banks under various refinance schemes.

Table 8.4: Interest/mark-up expense (Rupees in million)

Description	FY19	FY18
Deposits	37,264	14,123
Interest on special drawing rights of IMF	18,813	14,215
Securities sold under agreement to repurchase	47,978	1,148
Expense on sukuks purchased under Bai-muajjal agreement	4,636	1,168
Charges on allocation of special drawing rights of IMF	2,070	1,185
Others	3	3
Total	**110,764**	**31,842**

The Bank incurred interest/ markup expense on FCY and domestic liabilities. FCY liabilities include deposits of international organizations and central banks, International Monetary Fund and currency swap arrangements. The domestic interest/markup bearing liabilities include repurchase transactions and sukuks purchased under Bai-muajjal agreement. The interest/ markup expense witnessed a rise of Rs 78,922 million primarily due to increase in expense on repurchase transactions by Rs 46,830 million. Further, FCY deposits increased during the year which resulted in additional expense of Rs 23,141 million. **(Table 8.4).**

8.2.2 Commission Income

The Bank earns commission income on management of public debt, market treasury bills, prize bonds, national saving schemes and government securities as well as issuing drafts and payment orders. The commission income increased by 1 percent largely due to increase in commission on market treasury bills.

8.2.3 Exchange Gain – Net

The exchange gains/ (losses) arise on FCY assets and liabilities of the Bank. Major part of the foreign currency assets of the Bank are USD denominated whereas the foreign currency liability exposure is mainly SDR and USD denominated. Accordingly, the movement in the PKR/ SDR and PKR/ USD exchange rates directly affects the exchange account.

The bank incurred a net exchange loss of Rs 506,131 million during FY19 as against exchange loss of Rs 72,280 million during FY18 (see **Table 8.5**). The PKR depreciated against USD by Rs 38.56 and SDR by Rs 80.82; accordingly, the net exchange loss increased significantly during the year.

Table 8.5 Breakup of the Exchange Account

(Rupees in million)

Description	FY19	FY18
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	(233,101)	51,992
Forward covers under Exchange Risk Coverage	(4)	(3)
IMF Fund facilities	(232,360)	(109,359)
Special Drawing Rights of the IMF	(40,486)	(14,946)
Exchange risk fee income	40	37
Others	(220)	(2)
Total	**(506,131)**	**(72,280)**

8.2.4 Dividend Income

The SBP holds equity investment in banks and financial institutions under section 17 6(A) of SBP Act 1956 and dividends earned on these investments is also one of the sources of its income. The detail of dividend income on equity investments held by SBP is given in **Table 8.6.**

Table 8.6 Breakup of the Dividend Income (Rupees in million)

Description	2019	2018
Unlisted	390	415
Total	**390**	**415**

8.2.5 Other Operating Income – net

Other operating income include penalties levied on banks/financial institutions, licenses and e-CIB fee, gains/(losses) on sale and re-measurement of investments and other income. The other operating income increased to Rs 4,347 million in FY19 from loss of Rs 775 million in last year. The increase is primarily attributed to increase in income on penalties levied on banks and financial institutions and gain on re-measurement of securities classified as “fair value through profit or loss”.

8.3 Expenditure

The total expenditure during the year was Rs 50,467 million as against Rs 48,050 million in FY18, registering an increase of 5 percent over the previous year’s expenditure. The increase was due to 22 percent increase in banknote printing charges whereas agency commission expenses decreased by 3 percent. An analysis of major components of Bank’s expenditure is given as under:

8.3.1 Bank Notes Printing Charges

The bank note printing charges increased to Rs 11,419 million in FY19 from Rs 9,362 million in FY18, thereby registering an increase of 22 percent mainly due to larger volumes of printing.

8.3.2 Agency Commission

The Agency commission paid to National Bank of Pakistan and Bank of Punjab decreased by 3 percent during the year to Rs 10,643 million from Rs 10,945 million in FY18. The decrease is attributable to automation of tax collection through alternative delivery channels during the year.

8.3.3 General Administrative and Other Expenses

The general administrative expenses include employees' salaries and benefits, retirement benefits and other operating expenses i.e. fund managers and custodians' expenses, training expenses, postage and telephone charges, legal and professional expenses, depreciation, repair and maintenance, etc. The overall general and administrative expenses increased to Rs 27,909 million in FY19 from Rs 27,706 million in FY18, thus registering an increase of Rs 203 million. A summary of the general, administrative and other expenses is given in **Table 8.7**.

Table 8.7: General, Administrative and other expenses

(Rupees in million)

Description	2019	2018
Salaries & other benefits	10,996	10,970
Retirement benefits	9,796	9,743
Repair and maintenance	867	747
Fund managers' and custodian expenses	346	554
Training	101	121
Deprecation	2,482	2,422
Legal & professional	93	46
Others	3,228	3,101
Total	**27,909**	**27,706**

8.4 Balance Sheet Summary

The total assets stood at Rs 11,467 billion as at June 30, 2019 as compared to Rs 7,733 billion on June 30, 2018, registering an increase of Rs 3,734 billion primarily due to increase in government borrowings from the central Bank. The increase in total assets is also contributed by the increase in value of gold and increase in loans and advances to banks and financial institutions to promote the economic activities in the priority sectors.

The total liabilities of the bank stood at Rs 10,761 billion as at June 30, 2019 as compared to Rs 7,198 billion as at June 30, 2018, registering an increase of Rs 3,563 billion. This rise was led by increase in currency in circulation, bank deposits, payable under bilateral currency swap agreement and payable to IMF. A comparative analysis of SBP assets and liabilities for FY19 and FY18 are given in the **Figure 8.1 to 8.4.**

Figure 8.1: SBP Assets 2019

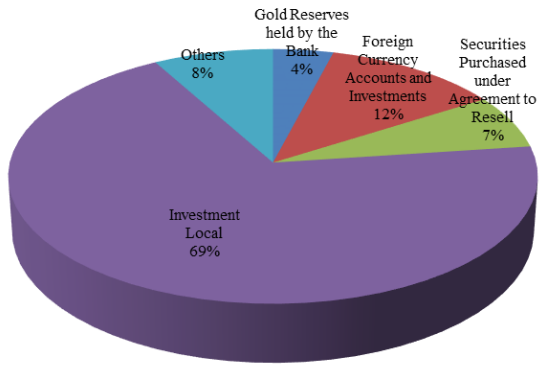


Figure 8.2: SBP Assets 2018

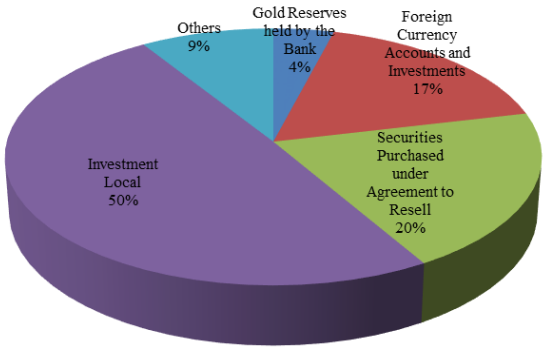


Figure 8.3: SBP Liabilities 2019

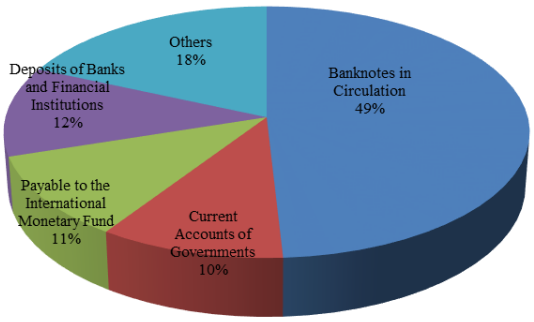
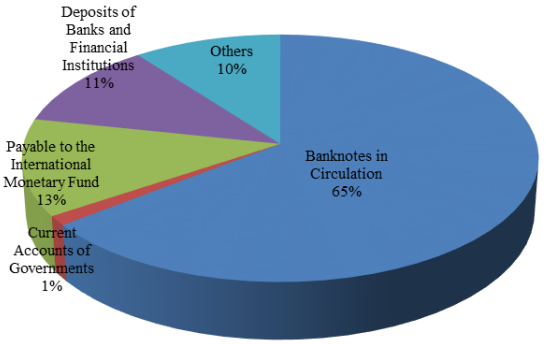


Figure 8.4: SBP Liabilities 2018



9 Consolidated Financial Statements of SBP and its Subsidiaries

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Independent Auditor's Report

To the Board of Directors of State Bank of Pakistan

Opinion

We have audited the consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at June 30, 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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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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"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

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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.

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 **Governor**	**Jameel Ahmad** **Deputy Governor**	**Saleemullah** **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 **Governor**	**Jameel Ahmad** **Deputy Governor**	**Saleemullah** **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 **Governor**	**Jameel Ahmad** **Deputy Governor**	**Saleemullah** **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

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

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		SICPA Inks Pakistan (Private) Limited	
	(audited)		(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
			----------(Rupees in '000)----------	
19.	**BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH**			
	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

		Note	2019	2018
22.	**DEFERRED TAXATION**		---------(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**			
	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**			
	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.

		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**			
	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
31.	**OTHER LIABILITIES**		----------(Rupees in '000)----------	
	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
31.3	**Other accruals and provisions**		----------(Rupees in '000)----------	
	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**			
	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.

	Note	2019	2018
35. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK		----------(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:

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.

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

		Note	**2019**	**2018**
38.	**INTEREST / MARK-UP EXPENSE**		**----------(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**			
	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**		
	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			
	(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.

		Note	2019	2018
46.	**GENERAL ADMINISTRATIVE AND OTHER EXPENSES**		----------(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

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

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**

	Note	2019	2018
49. TAXATION		----------(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			
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			
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:

Transactions during the year	2019	2018
	----------(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			Grand total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-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			Grand total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-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**

10 Unconsolidated Financial Statements of SBP and its Subsidiaries

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Independent Auditor's Report

To the Board of Directors of State Bank of Pakistan

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

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

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Key Audit Matter	How the matter was addressed in our audit
	risk description, as well as of the effect of IFRS 9 adoption by the Bank.
IT systems and controls over financial reporting	
We identified IT systems and IT general controls over financial reporting as a key audit matter because of the pervasive nature and complexity of the IT environment, the extensive volume of transactions processed daily and the reliance of the Bank's financial accounting and reporting process on IT systems and controls.	Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems and changes to such systems. Given the specialized nature of this area of audit, we involved our specialist IT team to assist with our audit procedures. We: • Obtained an understanding of the IT governance over the Bank's IT organization; • Identified the key IT Systems and application controls which were integral to the Bank's financial reporting; • Evaluated the design, implementation and operating effectiveness of IT general controls covering change management, access management and IT operations over in-scope systems and significant accounts-related IT automated controls which were critical to financial reporting; and • We tested the accuracy and completeness of key computer generated reports used in our audit.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner
Dated: October 24, 2019

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

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

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

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

b) National Institute of Banking and Finance (Guarantee) Limited - wholly owned subsidiary:
National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated in Pakistan under the Companies Act, 2017 as a company limited by guarantee having share capital. It is engaged in providing education and training in the field of banking, finance and allied areas.

The head office of the Institute is situated at NIBAF Building, Street 4, Pitras Bukhari Road, H-8/1, Islamabad, Pakistan.

c) Pakistan Security Printing Corporation (Private) Limited - wholly owned subsidiary
Pakistan Security Printing Corporation (Private) Limited (“the PSPC”) was incorporated in Pakistan under the Companies Act, 2017 and is a wholly owned subsidiary of State Bank of Pakistan. The PSPC is principally engaged in the printing of currency notes and national prize bonds on behalf of the Bank.

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

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

4.1 IFRS 9 Financial Instruments

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

4.1.1 Changes to classification and measurement

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

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

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

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

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

4.1.2 Changes to the impairment calculation

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

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

4.1.3 Classification and measurement of financial instruments

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

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

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

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

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

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

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

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

Designation of equity instruments at FVOCI

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

Reclassification from retired categories with no change in measurement

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

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

4.2 IFRS 7R

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

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

4.3 IFRS 15 Revenue from Contracts with Customers

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

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

5.1 Banknotes in circulation and local currency - coins

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

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

5.2 Financial assets and financial liabilities

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

5.2.1 Financial instruments – initial recognition

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

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

5.2.2 Classification and subsequent measurement of financial assets and liabilities

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

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

a) Business model assessment

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

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

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

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

b) The SPPI test

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

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

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

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

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

5.2.3 *Financial assets at amortised cost*

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

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

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

Before 1 July 2018, loans and receivables included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Subsequent to initial recognition, these assets are carried at amortised cost less impairment losses, if any, and premiums and / or discounts are accounted for using the effective interest method. All loans and receivables were recognized when cash is advanced to borrowers. When a loan became uncollectible, it was written off against the related provision for impairment. Subsequent recoveries were credited in the profit and loss account.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.2.7 ***Financial liabilities at amortised cost***

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

5.2.8 ***Derivative financial instruments***

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

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

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

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

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

5.2.11 Reclassification of financial assets and liabilities

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

5.2.12 Derecognition of financial asset and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

5.2.13 Impairment of financial assets

5.2.13.1 Overview of the ECL principles

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

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

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

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

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

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

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

5.2.13.2 The calculation of ECLs

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

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

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

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

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

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

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 47.1.3), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

5.2.13.3 Forward looking information

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

5.2.13.4 Credit Enhancements: Collateral valuation and financial guarantees

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

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

a) Financial assets carried at amortised cost

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

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

b) Available-for-sale financial assets

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

5.2.15 Offsetting of financial assets and financial liabilities

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

5.3 Collateralised borrowings / lending

5.3.1 Reverse repurchase and repurchase agreements

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

5.3.2 Payable under bilateral currency swap agreement

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

5.3.3 Payable to Islamic Banking Institutions against Bai Muajjal transactions

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

5.4 Gold reserves held by the Bank

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

5.5 Property, Plant and equipment

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

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

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

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

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

5.6 Intangibles

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

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

5.7 Impairment of non-financial assets

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

5.8 Compensated absences

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

5.9 Staff retirement benefits

The Bank operates:

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

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

c) following are other staff retirement benefit schemes:

- an unfunded gratuity scheme (old scheme) for those employees who joined the Bank between 1st July 2005 to 31st May 2007 and opted to remain under the old scheme.
- a funded Employees Gratuity Fund (EGF) was introduced by the Bank effective from June 1, 2007 for all its employees other than those who opted to remain in pension scheme or unfunded gratuity scheme (old scheme).
- an unfunded pension scheme for those employees who joined the Bank between 1st May 1977 to 30th June 2005 and opted to remain under this scheme after introduction of the new scheme (NCBS);
- an unfunded benevolent fund scheme;
- an unfunded post retirement medical benefit scheme; and
- six months post retirement benefit facility.

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

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

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

5.10 Deferred income

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

5.11 Revenue recognition

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

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

5.12 Finances under profit and loss sharing arrangements

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

5.13 Taxation

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

5.14 Foreign currency translation

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

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

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

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

5.15 Transactions and balances with the International Monetary Fund

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

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

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

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

5.16 Provisions

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

5.17 Cash and Cash Equivalents

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

5.18 Fair value measurement principles

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

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

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

	Effective date (annual periods beginning on or after)
Standards	
- IFRS 16 - 'Leases'	01 January 2019
- IFRS 17 - 'Insurance contracts'	01 January 2021
Amendments	
Amendments to IFRS 9 - Prepayment Features with Negative Compensation	01 January 2019
Amendments to IAS 28 - Long term interest in Associates and Joint Ventures	01 January 2019
Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement	01 January 2019
Amendments to IFRS 10 – *'Consolidated Financial Statements'* and IAS 28 – *'Investments in Associates and Joint Ventures'* regarding sale or contribution of assets between an investor and its associate or joint venture	Date yet to be finalized
Amendments to IFRS 3 - Definition of Business	01 January 2020
Amendments to IAS 1 and IAS 8 - Definition of Material	01 January 2020
Interpretations	
IFRIC 23, 'Uncertainty over Income Tax'	01 January 2019
Improvements	
IFRS 3, '*Business Combination'* regarding previously held interest in a joint operation.	01 January 2019
IFRS 11, '*Joint Arrangements'* regarding previously held interest in a joint operation.	01 January 2019
IAS 12, *'Income Taxes'* regarding income tax consequences of payments on financial instruments classified as equity.	01 January 2019
IAS 23, '*Borrowing Cost'* regarding borrowing cost eligible for capitalisation.	01 January 2019

6 USE OF ESTIMATES AND JUDGMENTS

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

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

6.1 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates may include items like considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 5.18 to these unconsolidated financial statements.

6.2 Effective Interest Rate (EIR) method

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

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

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

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

a) Loans and advances

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

b) Available-for-sale investments

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

6.5 Retirement benefits

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

6.6 Useful life and residual value of property and equipment

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

7 GOLD RESERVES HELD BY THE BANK

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

8 LOCAL CURRENCY - COINS

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

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

9 FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

	Note	2019	2018*
		-------- (Rupees in '000) --------	
These essentially represent foreign currency reserves held by the Bank, the details of which are as follows:			
At fair value through profit or loss:			
- Investments	9.3	**202,587,281**	568,776,731
- Unrealised gain on derivative financial instruments - net	9.4	**2,763,285**	2,085,749
At amortized cost			
- Sovereign Bonds	9.5	**-**	341,082,293
- Deposit accounts	9.3	**24,252,334**	29,509,408
- Current accounts		**362,836,378**	35,107,134
- Securities purchased under agreement to resell	9.6	**336,209,469**	349,903,518
- Money market placements	9.7	**447,218,637**	7,355,454
Credit Loss Allowance	9.2	**(12,996)**	-
		1,375,854,388	1,333,820,287
The above foreign currency accounts and investments are held as follows:			
Issue Department	21.1	**447,218,637**	723,362,840
Banking Department		**928,635,751**	610,457,447
		1,375,854,388	1,333,820,287

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

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

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

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

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

9.3 These represent investments made (by the Bank) in foreign sukuks, sovereign securities of foreign countries, investments made in international markets and balances maintained (on behalf of the Bank) through reputable Fund Managers. The activities of the Fund Managers are being monitored through a custodian. Furthermore, the foreign sukuks purchased by the Bank are also held with the custodian. The market value of the investments and carrying amount of deposit accounts as on June 30, 2019 cumulatively amounts to USD 1,005.5 million (2018: USD 4,723.5 million). These investments carry interest of 0.12% per annum in USD (2018: 0.43% to 1.01% per annum), having maturity of July 16, 2019 (2018: 12 July, 2018 to 1 November 2018) and 2.23% to 2.28% per annum in CNY (2018: nil per annum) having maturities ranging from July 8, 2019 to September 14, 2019 (2018: nil).

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

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

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

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

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

10 EARMARKED FOREIGN CURRENCY BALANCES

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

11 SPECIAL DRAWING RIGHTS OF THE INTERNATIONAL MONETARY FUND

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

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

12 RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

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

13 SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

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

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

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

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

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

14 INVESTMENTS - LOCAL

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

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

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

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

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

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

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

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

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

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

14.4 Investments in shares of banks and other financial institutions

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

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

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

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

14.5 Credit loss allowance

	Note	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

14.6 Unrealised (diminution) / appreciation on remeasurement of investments

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

15 LOANS, ADVANCES AND BILLS OF EXCHANGE

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

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

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

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

15.2

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

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

15.3 Loans and advances to Government owned / controlled financial institutions

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

15.3.1 This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) credit line amounting to Rs. 1,054 million (2018: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2018: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. The Cabinet Committee on Privatisation, in its meeting held on May 07, 2016 approved the inclusion of IDBL in the 'Privatisation Program For Early Implementation'. Further, the Cabinet Committee on Privatization in its meeting held on October 31, 2018 approved to delist IDBL from privatization programme. The Federal Cabinate also ratified the decision of the Cabinet Committee on Privatization. Accordingly, the process of winding up of IDBL is under process

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

15.4 Loans and advances to private sector financial institutions

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

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

15.4.2 In the year 2015, the Bank in continuation of a scheme of amalgamation of two commercial banks duly sanctioned by the Federal Government under Section 47 of the Banking Companies Ordinance 1962 and under Section 17 of the State Bank of Pakistan Act 1956, extended a 10-year financing facility of Rs.5,000 million with a bullet payment of markup and principal at maturity to an Islamic Commercial Bank (ICB) which is secured against Government of Pakistan Ijara Sukuk. The 10-year facility was provided on the basis of Mudaraba to be remunerated at profit sharing ratio declared by the ICB on its remunerative current accounts on monthly basis (the last declared rate in this respect is 0.01% per annum). In accordance with the requirements of accounting framework of the Bank the 10-year financing facility had been recognized at fair value on initial recognition. The amortized cost as of June 30, 2019 is Rs. 2,946 million (2018: Rs. 2,695 million). The principal amount (Rs. 5,000 million) of the facility along with the profit will be recovered at its maturity.

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

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

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

15.6 Credit loss allowance

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

16 ASSETS HELD WITH THE RESERVE BANK OF INDIA

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

16.1 These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Bank is subject to final settlement between the Governments of Pakistan and India (also refer note 28.3.1).

16.2 These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 28.3.1).

17 BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH

	Note	2019	2018
		---------- (Rupees in '000) ----------	
India			
Advance against printing of notes		**39,616**	39,616
Receivable from the Reserve Bank of India		**837**	837
		40,453	40,453
Bangladesh			
Inter office balances		**819,924**	819,924
Loans, advances and commercial papers	17.1	**11,406,171**	9,813,926
		12,226,095	10,633,850
	17.2	**12,266,548**	10,674,303

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

17.2 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Government of Bangladesh and India (also refer notes 28.1 and 28.3.1).

18 PROPERTY, PLANT AND EQUIPMENT

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

18.1 Operating fixed assets

2019

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

2018

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

* These represents revalued assets
**Adjustments include reclassification within different categories of assets

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

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

18.3 Capital work-in-progress

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

19 INTANGIBLE ASSETS

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

19.1 Intangible assets

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

		Note	2019	2018
20	**OTHER ASSETS**		--------- (Rupees in '000) ----------	
	Commission receivable and others		**3,563,949**	3,260,605
	Other advances, deposits and prepayments		**6,456,559**	790,145
			10,020,508	4,050,750
21	**BANKNOTES IN CIRCULATION**			
	Total bank notes issued	21.1	**5,285,185,252**	4,635,338,252
	Bank notes held with the Banking Department		**(159,748)**	(191,541)
	Notes in circulation		**5,285,025,504**	4,635,146,711

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

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

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

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

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

23 PAYABLE TO ISLAMIC BANKING INSTITUTIONS AGAINST BAI MUAJJAL TRANSACTIONS

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

24 PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

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

A bilateral currency swap agreement was entered between the Bank and the PBoC on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was renewed on December 23, 2014 for a period of three years with overall limit of CNY 10,000 million and equivalent PKR. The bilateral CSA has been further extended on May 23, 2018 for a period of three years, with amount increased from CNY 10,000 million to CNY 20,000 million and equivalent PKR. The Bank has purchased and utilized CNY 20,000 million against PKR during the year with the maturity buckets of three months to 1 year (2018: CNY 20,000 million with maturity bucket of three months to 1 year). These purchases have been fully utilized as on June 30, 2019 and the same amounts are outstanding as on June 30, 2019. Interest is charged on outstanding balance at agreed rates.

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

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

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

26.1 This includes FCY deposits equivalent to Rs.480,156 million (based on exchange rate as of June 30, 2019), carrying interest at twelve month LIBOR plus 175 bps, payable semi-annually. These deposits have been set off against the Rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantee whereby the MoF has agreed to assume all liabilities and risks arising from these deposits.

		2019	2018
26.2	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
	Others	**1.98 to 2.51**	1.15 to 1.92
	Foreign government	**3.00**	-

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

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

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

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

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

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

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

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

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

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

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

		Note	**2019**	2018
28.3	**Other accruals and provisions**		**-------- (Rupees in '000) ---------**	
	Agency commission		**14,538,592**	14,041,953
	Provision for employees' compensated absences	42.6.9	**3,019,130**	2,934,430
	Provision for other doubtful assets	28.3.1	**10,384,165**	7,456,736
	Other provisions	28.3.2	**2,850,288**	2,848,701
	Others		**2,086,321**	2,672,265
			32,878,496	29,954,085
28.3.1	**Provision for other doubtful assets**			
	Provision against assets held with / receivable from Government of India and the Reserve Bank of India			
	- Issue Department		**9,580,107**	6,652,678
	- Banking Department		**40,483**	40,483
			9,620,590	6,693,161
	Provision against assets receivable from Government of Bangladesh			
	- Issue Department		**-**	-
	- Banking Department		**763,575**	763,575
			763,575	763,575
		28.3.1.1	**10,384,165**	7,456,736
28.3.1.1	**Movement of provisions for other doubtful assets**			
	Opening balance		**7,456,736**	6,652,772
	Charge during the year		**456,042**	76,145
	Appreciation relating to gold reserves held by the Reserve Bank of India		**2,471,387**	727,819
	Closing balance		**10,384,165**	7,456,736

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

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

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

30 SHARE CAPITAL

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

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

31 RESERVES

31.1 Reserve fund

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

31.2 The reserves for acquisition of PSPC

This represents reserves against Bank's exposure in PSPC.

31.3 Other funds

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

32	UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK	Note	**2019**	2018
			--------- (Rupees in '000) ----------	
	Opening balance		**311,313,769**	266,327,601
	Appreciation for the year due to revaluation	7	**152,866,872**	44,986,168
			464,180,641	311,313,769

33 CONTINGENCIES AND COMMITMENTS

33.1 Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

		2019	2018
37	**EXCHANGE LOSS - NET**	------(Rupees in '000)------	
	(Loss) / gain on:		
	- Foreign currency placements, deposits, securities and other accounts - net	**(233,100,619)**	51,992,338
	- Forward covers under Exchange Risk Coverage Scheme	**(4,101)**	(2,690)
	- IMF Fund Facilities	**(232,359,891)**	(109,358,935)
	- Special Drawing Rights of the IMF	**(40,486,086)**	(14,945,566)
		(505,950,697)	(72,314,853)
	Exchange risk fee income	**39,672**	36,947
		(505,911,025)	(72,277,906)
38	**OTHER OPERATING INCOME / (EXPENSE) - NET**		
	Penalties levied on banks and financial institutions	**2,033,174**	1,341,013
	License / Credit Information Bureau fee recovered	**951,784**	967,216
	Gain / (loss) on disposal of investment:		
	Local - 'at fair value through profit or loss'	**186,113**	-
	Foreign - 'at fair value through profit or loss'	**(2,552,143)**	237,415
		(2,366,030)	237,415
	Gain / (loss) on remeasurement of securities classified as 'fair value through profit or loss'	**3,748,571**	(3,850,029)
	Others	**24,341**	188,806
		4,391,840	(1,115,579)
39	**OTHER INCOME - NET**		
	(Loss) / gain on disposal of property and equipment	**(145,109)**	6,262
	Liabilities and provisions written back - net	**7,493**	11,351
	Grant income under foreign assistance program	**61,971**	3,312
	Income from subsidiary	39.1 **54,379**	35,819
	Others	39.2 **134,662**	675,063
		113,396	731,807

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

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

40 BANK NOTES PRINTING CHARGES

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

41 AGENCY COMMISSION

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

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

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

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

42.3 Expenses reimbursed to SBP Banking Services Corporation

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

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

42.5 Auditors' remuneration

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

42.6 Staff retirement benefits

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

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

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

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

Discount rate risk

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

Salary increase / inflation risk

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

Pension Increase

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

Mortality risk

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

Withdrawal risk

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

42.6.3 Change in present value of defined benefit obligation

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

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

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

Remeasurements recognised in statement of comprehensive income

	2019					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement benefits**	**Total**
	(Rupees in '000)					
- Actuarial gains / (losses) from changes in financial assumptions	**4,806,367**	**2,274**	**(243,971)**	**97,204**	**10,514**	**4,672,388**
- Experience adjustments	**(1,172,256)**	**(1,862)**	**(850,574)**	**1,938**	**533**	**(2,022,221)**
	3,634,111	**412**	**(1,094,545)**	**99,142**	**11,047**	**2,650,167**
Allocated by SBP Banking Services Corporation - a subsidiary*	**6,555,808**	**21**	**(701,087)**	**174,670**	**9,498**	**6,038,910**

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

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

42.6.4 Amount recognised in the profit and loss account

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

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

42.6.5 Movement of present value of defined benefit obligation

	2019					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
Net recognised liabilities at July 1, 2018	**22,486,289**	**52,919**	**7,548,086**	**384,472**	**493,134**	**30,964,900**
Amount recognised in the profit and loss account	**2,230,174**	**10,316**	**815,731**	**32,828**	**78,320**	**3,167,369**
Remeasurements	**(3,634,111)**	**(412)**	**1,094,545**	**(99,142)**	**(11,047)**	**(2,650,167)**
Benefits paid during the year	**(1,846,585)**	**(1,856)**	**(398,869)**	**(35,586)**	**(15,970)**	**(2,298,866)**
Liability Transferred to BSC	**-**	**-**	**(6,919)**	**(178)**	**(1,447)**	**(8,544)**
Employees contribution / amount transferred	**-**	**-**	**-**	**(3,521)**	**-**	**(3,521)**
Net recognised liabilities at June 30, 2019	**19,235,767**	**60,967**	**9,052,574**	**278,873**	**542,990**	**29,171,171**

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

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

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

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

42.6.7 Duration of defined benefit obligation

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

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

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

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

42.6.9 Employees' compensated absences

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

43 MOVEMENT IN EXPECTED CREDIT LOSSES

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

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

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

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

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

46 RELATED PARTY TRANSACTIONS

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

46.1 National Institute of Banking & Finance (Guarantee) Limited

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

46.2 Pakistan Security Printing Corporation (Private) Limited

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

46.3 Governments and related entities

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

Transactions during the year

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

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

46.4 Remuneration to key management personnel

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

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

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

46.5 Subsidiaries of the Bank

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

46.6 Associated undertakings of the Bank

46.6.1 SICPA Inks Pakistan (Private) Limited - associated undertaking

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

46.6.2 Security Papers Limited - associated undertaking

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

47 RISK MANAGEMENT POLICIES

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

47.1 Credit risk management

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

47.1.1 Derivative financial instruments

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

47.1.2 Impairment assessment (Policy applicable from 1 July 2018)

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

47.1.3 Definition of default

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

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

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

47.1.4 Credit rating and PD estimation process

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

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

47.1.5 Exposure at default

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

47.1.6 Loss given default

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

47.1.7 Significant increase in credit risk

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

- credit rating falls below investment grade in case of investments made in financial assets, or

- the contractual payments are 30 days past due.

47.1.8 Collateral and other credit enhancements

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

47.2 Concentrations of risk

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

47.2.1 Geographical analysis

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

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

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

47.2.2 Industrial analysis

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

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

47.3 CREDIT EXPOSURE BY CREDIT RATING

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

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

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

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

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

47.4 LIQUIDITY ANALYSIS WITH INTEREST / MARK-UP RATE RISK

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

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

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

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

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

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

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

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

47.5 Interest rate risk

47.5.1 Cash flow interest rate risk

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

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

47.5.2 Fair value interest rate risk

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

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

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

47.6 Currency risk management

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

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

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

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

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

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

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

47.7 Price Risk

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

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

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

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

47.8 Liquidity risk management

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

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

47.9 Portfolio risk management

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

48 Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

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

(a) Financial instruments in level 1

Financial instruments included in level 1 comprise of financial assets in Note 9.1 related to foreign currency accounts and investment in listed shares in Note 14.2 classified as FVOCI.

(b) Financial instruments in level 2

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

(c) Financial instruments in level 3

Currently, no financial instruments are classified through level 3.

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

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

49 Classification of financial instruments

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

	2018*				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	----------(Rupees in '000)----------				
Financial assets					
Local currency - coins	989,497	-	-	-	989,497
Foreign currency accounts and investments	421,875,514	570,862,480	341,082,293	-	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	12,277,462
Special Drawing Rights of the International Monetary Fund	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	20,362	-	-	-	20,362
Securities purchased under agreement to resell	1,562,309,789	-	-	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	33,104,114
Investments - local	3,670,358,454	-	54,274,670	91,365,889	3,815,999,013
Loans, advances and bills of exchange	444,266,238	-	-	-	444,266,238
Assets held with the Reserve Bank of India	1,550,321	-	-	-	1,550,321
Balances due from the Governments of India and Bangladesh (former East Pakistan)	10,674,303	-	-	-	10,674,303
Other assets	2,793,165	1,157	-	-	2,794,322

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

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

	2018		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	----------(Rupees in '000)----------		
Financial liabilities			
Bank notes in circulation	4,635,146,711	-	4,635,146,711
Bills payable	644,452	-	644,452
Current accounts of Governments	89,828,633	-	89,828,633
Current account with SBP Banking Services Corporation - a subsidiary	50,042,724		50,042,724
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	125,087	-	125,087
Payable under bilateral currency swap agreement	370,409,071	-	370,409,071
Deposits of banks and financial institutions	813,948,915	-	813,948,915
Other deposits and accounts	200,157,457	-	200,157,457
Payable to the International Monetary Fund	912,585,032	-	912,585,032
Other liabilities	23,753,428	27,277,082	51,030,510

50 NON-ADJUSTING EVENT

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

51 DATE OF AUTHORISATION

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

52 CORRESPONDING FIGURES

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

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

53 GENERAL

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

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

11 Financial Statements of SBP-BSC (Bank)

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 and State Bank of Pakistan

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.

Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2019, 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, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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 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.

EY FORD RHODES
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

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.

EY FORD RHODES
Chartered Accountants

KPMG TASEER HADI & CO.
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.

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner
Dated: October 24, 2019

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2019

	Note	2019	2018
		------(Rupees in '000)------	
ASSETS			
Current account with the State Bank of Pakistan		**44,969,274**	50,042,724
Investments	5	**517,552**	521,419
Employee loans	6	**9,605,805**	9,152,123
Advances, deposits and prepayments	7	**60,410**	100,983
Medical and stationery consumables	8	**247,357**	190,334
Property and equipment	9	**833,556**	895,356
Total assets		**56,233,954**	60,902,939
LIABILITIES			
Deposits and other liabilities	10	**4,939,574**	5,074,430
Deferred liabilities - unfunded staff retirement benefits	11	**50,294,380**	54,828,509
Total liabilities		**55,233,954**	59,902,939
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.

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2019

	Note	**2019**	2018
		------(Rupees in '000)------	
Discount and interest earned	14	**45,295**	31,315
Net operating expenses	15	**14,548,477**	14,917,727
Reimbursable from the State Bank of Pakistan	15	**(8,060,641)**	(8,544,648)
Allocated to the State Bank of Pakistan:			
- Credit loss on employee loans	15 & 6.2	**(121)**	-
- Others	15	**(6,487,715)**	(6,373,079)
		-	-
Operating profit		**45,295**	31,315
Gain on disposal of property and equipment		**9,084**	4,504
Profit for the year		**54,379**	35,819

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	Note	**2019**	2018
		------(Rupees in '000)------	
Profit for the year		**54,379**	35,819
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Gain / (loss) on remeasurements of defined benefit plans	15.2.4.1	**6,038,910**	(2,961,549)
Allocated to the State Bank of Pakistan		**(6,038,910)**	2,961,549
		-	**-**
Total comprehensive income for the year		**54,379**	35,819

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2019

	Note	Share capital	Unappropriated profit	Total
		----------	(Rupees in '000)	----------
Balance as at July 1, 2017		1,000,000	-	1,000,000
Total comprehensive income for the year		-	35,819	35,819
Transaction with the owner				
Profit transferred to the State Bank of Pakistan		-	(35,819)	(35,819)
Balance as at June 30, 2018		1,000,000	-	1,000,000
Adjustment on initial application of IFRS 9	6.2	-	(248)	-
Impact on initial application of IFRS 9 transferred to State Bank of Pakistan		-	248	-
Restated balance as at July 1, 2018		1,000,000	-	1,000,000
Total comprehensive income for the year		-	54,379	54,379
Transaction with the owner				
Profit transferred to the State Bank of Pakistan		-	(54,379)	(54,379)
Balance as at June 30, 2019		**1,000,000**	**-**	**1,000,000**

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	**2019**	2018
		-------(Rupees in '000)-------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	16	**41,740**	26,588
Profit transferred to the State Bank of Pakistan		**(54,379)**	(35,819)
Income on Government securities received during the year		**40,689**	26,186
		28,050	16,955
Decrease / (Increase) in assets			
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		**724,092**	217,371
Medical and stationery consumables		**(57,023)**	(25,512)
Employee loans		**(454,051)**	329,771
Advances, deposits and prepayments		**39,955**	(51,402)
(Decrease) / Increase in liabilities			
Deposits and other liabilities		**(5,895)**	(183,116)
Net cash generated from operating activities		**275,128**	304,067
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		**(33,267)**	(10,700)
Capital expenditure		**(257,554)**	(303,013)
Proceeds from disposal of property and equipment		**15,693**	9,646
Net cash used in investing activities		**(275,128)**	(304,067)
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.

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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 of IFRSs would be effective from the dates mentioned below against the respective standard or interpretation:

Standards	**Effective date (annual periods beginning on or after)**
- IFRS 17 - 'Insurance contracts'	01 January 2021
- IFRS 16 - 'Leases'	01 January 2019

Amendments	**Effective date (annual periods beginning on or after)**
Amendments to IAS 28 - Long term interest in associates and joint ventures	01 January 2019
Amendments to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation	01 January 2019
Amendments to IFRS 3 - Definition of Business	01 January 2020
Amendments to IAS 19 - 'Employee Benefits'	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 IAS 1 and IAS 18 - 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

The Corporation expects that the adoption of the above standards, amendments, interpretations and improvements 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 1 July 2018, 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 except for IFRS 9 and IFRS 7R.

3.5.1 IFRS 9 Financial Instruments

The Corporation has initially adopted IFRS 9 from 01 July 2018. Due to the transition method chosen by the Corporation in applying IFRS 9, comparative information throughout these financial statement have not generally been restated to reflect its requirements.

3.5.1.1 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 amortised cost) have been replaced by:

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

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

3.5.1.2 Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Corporation'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 Corporation 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.

3.5.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures were updated and the Corporation has adopted it, together with IFRS 9, for the year beginning 1 July 2018. Changes include transition disclosures as shown in Note 3.5.3, 3.5.4 and 3.5.5.

Reconciliations from opening to closing ECL allowances are presented in Note 6.2

3.5.3 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)----------			
Current account with the State Bank of Pakistan	Loans and receivable	50,042,724	Amortised cost	50,042,724
Investments				
Market treasury bills	Held to maturity	521,419	Amortised cost	521,419
Employee Loans	Loans and receivable	9,152,123	Amortised cost	9,151,875
Advances and deposits	Loans and receivable	26,562	Amortised cost	26,562

	IAS 39		IFRS 9	
Financial liabilities	**Measurement category**	**Carrying Amount**	**Measurement category**	**Carrying Amount**
Other deposits and accounts	Amortised cost	1,018,844	Amortised cost	1,018,844

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

The Corporation performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 4 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		IFRS 9	
Financial Assets	**IFRS 9 carrying amount as at June 30, 2018**	**Reclassification**	**Remeasurements**	**IFRS 9 carrying amount as at July 1 , 2018**
	----------(Rupees in '000)----------			
Amortised Cost				
Current account with the State Bank of Pakistan				
Transfer from loan and receivables under IAS 39	-	50,042,724	-	50,042,724
Closing balance under IFRS 9	-	-	-	**50,042,724**
Investment - local				
Transfer from held to maturity under IAS 39	-	521,419	-	521,419
Closing balance under IFRS 9	-	-	-	**521,419**
Employee Loans				
Transfer from loan and receivables under IAS 39	-	9,152,123	-	9,152,123
Remeasurement: ECL allowance	-	-	248	248
Closing balance under IFRS 9	-	-	-	**9,151,875**
Advances and deposits				
Transfer from loan and receivables under IAS 39	-	26,562	-	26,562
Closing balance under IFRS 9	-	-	-	**26,562**

3.5.5 Reconciliation of impairment allowance balances from IAS 39 to IFRS 9

The Corporation performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 4 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the prior period closing impairment allowance measured in accordance with IAS 39 incurred losses model to the new impairment allowance measured in accordance with IFRS 9 expected credit loss model applied from 01 July 2018.

The Corporation have adopted IFRS 9 stage 1 level for impairment allowance calculation against which remeasured impairment allowance is as follows:

Measurement Category	Loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurements	Loss allowance under IFRS 9
Amortised Cost				
Employee loans	7,715	-	248	7,963

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Financial assets and Financial Liabilities

4.1.1 Classification

All financial assets and liabilities are measured initially at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition or issue.

Financial instruments carried on the balance sheet include investments, employee loans, advances and deposit current account with State Bank of Pakistan, current accounts of Governments, deposits and other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

All financial assets are initially recognised on the trade date, i.e. the date at which the Corporation 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.

The financial assets are categorised as: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and financial assets held at amortized cost. The Corporation classifies its financial assets based on both a) the Corporation's business model for managing those financial assets and; b) the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless the Corporation were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

4.1.2 Financial assets at amortised cost

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

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

• The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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

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 were carried at amortised cost less impairment losses, if any, and premiums and / or discounts were 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.

4.1.3 Impairment of financial instruments

4.1.3.1 Overview of the ECL principles

As described in Note 3.5.1.2, the adoption of IFRS 9 has fundamentally changed the Corporation's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 July 2018, the Corporation 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 4.1.3.2). The Corporation's policies for determining if there has been a significant increase in credit risk is set out in 18.1.5.
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.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Corporation 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.

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

- Stage 1: When loans are first recognised, the Corporation 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 Corporation 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 18.1.2). The Corporation records an allowance for the LTECLs.

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

4.1.3.2 The calculation of ECLs

The Corporation 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.

- 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 18.1.3.

- 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 18.1.4.

When estimating the ECLs, the Corporation considers three scenarios (a base case, a best case, and a worse case). Each of these is associated with different PDs, EADs and LGDs as set out in note 4.1.3.1. 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 from selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Corporation 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 Corporation 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 Corporation 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, the Corporation 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 Corporation'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 Corporation 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.

4.1.3.3 Forward looking information

The Corporation 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.

4.1.4 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 Corporation 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 Corporation 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 decreased 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 Corporation 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.

4.1.5 Derecognition of financial assets and financial liabilities

a) Financial assets

The Corporation 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. 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 Corporation 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 Corporation 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.

4.1.6 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 Corporation establishes fair value using valuation techniques. These include the use of recent arms length transactions, 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.

4.1.7 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 impairment loss 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 benefits 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's 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. 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

- 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, 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 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.

4.11 Grants

Grants received on account of capital expenditure are recorded as deferred income and are amortized over the useful life of the relevant asset. The grants received on account of revenue expenditures are recorded as and when the expenditure is incurred.

	Note	**2019**	2018
		------(Rupees in '000)------	
5. INVESTMENTS			
Amortized cost			
Market Treasury Bills	*5.1 & 5.2*	**517,552**	521,419
		517,552	521,419

5.1 Market Treasury Bills carry mark-up at ranging between 11.00% to 12.68% per annum (2018: 5.90% to 6.26% per annum) and maturity dates ranging between August 1, 2019 to August 15, 2019 (2018: July 5, 2018 to August 16, 2018).

5.2 The fair value of these investments as at June 30, 2019 is Rs. 525.42 million (2018: Rs. 523.971 million). Market Treasury Bills have been revalued on the basis of yields published by Reuters (PKRV) for Government securities.

	Note	**2019**	2018
		------(Rupees in '000)------	
6. EMPLOYEE LOANS			
Considered good		**9,605,805**	9,152,123
Considered doubtful		**7,131**	7,715
	6.1	**9,612,936**	9,159,838
Impairment loss allowance	*6.2*	**(7,131)**	(7,715)
		9,605,805	9,152,123

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. 24.608 million (2018: Rs. 28.905 million) that carry mark up at 10% per annum (2018: 10% per annum). Maximum maturity of loans is upto year 2058 (2018: 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	**2019**	2018
		------(Rupees in '000)------	
6.2 Impairment loss allowance against employee loans			
Opening balance		**7,715**	7,737
Adjustment of initial application of IFRS 9		**248**	-
		7,963	7,737
Charge for the year		**121**	-
Reversals during the year		**(953)**	(22)
Closing balance		**7,131**	7,715

	Note	2019	2018
		------(Rupees in '000)------	
7. ADVANCES, DEPOSITS AND PREPAYMENTS			
Prepayments		**42,116**	74,421
Advances and deposits		**8,994**	17,818
Others		**9,300**	8,744
		60,410	100,983
8. MEDICAL AND STATIONERY CONSUMABLES			
Medicines		**128,531**	125,207
Stationery		**17,925**	15,548
Engineering		**38,386**	26,975
Others		**63,789**	31,108
		248,631	198,838
Provision against obsolete items		**(1,274)**	(8,504)
		247,357	190,334
9. PROPERTY AND EQUIPMENT			
Operating fixed assets	9.1	**833,556**	894,993
Capital work-in-progress		**-**	363
		833,556	895,356

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2019									
	Cost				**Accumulated Depreciation**					
	As at July 01, 2018	**Additions / (deletions)**	**Transferred from SBP**	**As at June 30, 2019**	**As at July 01, 2018**	**Charge for the year / (deletions)**	**Transferred from SBP**	**As at June 30, 2019**	**Net book value as at June 30, 2019**	**Annual rate of depreciation %**
	----------(Rupees in '000)----------									
Furniture & Fixtures	**93,370**	**15,201** **(1,234)**	**-**	**107,337**	**48,655**	**8,291** **(1,234)**	**-**	**55,712**	**51,625**	**10**
Office equipment	**1,740,549**	**151,929** **(5,265)**	**-**	**1,887,213**	**1,080,743**	**210,742** **(5,265)**	**-**	**1,286,220**	**600,993**	**20**
EDP equipment	**568,739**	**1,020** **(3,881)**	**-**	**565,878**	**461,829**	**54,356** **(3,721)**	**-**	**512,464**	**53,414**	**33.33**
Motor vehicles	**214,523**	**87,749** **(18,830)**	**3,255**	**286,697**	**130,961**	**39,356** **(12,744)**	**1,600**	**159,173**	**127,524**	**20**
	2,617,181	**255,899** **(29,210)**	**3,255**	**2,847,125**	**1,722,188**	**312,745** **(22,964)**	**1,600**	**2,013,569**	**833,556**	

	2018									
	Cost				Accumulated Depreciation					
	As at July 01, 2017	Additions / (deletions)	Transferred from SBP	As at June 30, 2018	As at July 01, 2017	Charge for the year / (deletions)	Transferred from SBP	As at June 30, 2018	Net book value as at June 30, 2018	Annual rate of depreciation %
	----------(Rupees in '000)----------									
Furniture & Fixtures	127,676	6,365 (40,671)	-	93,370	81,128	7,735 (40,208)	-	48,655	44,715	10
Office equipment	1,632,112	193,271 (84,834)	-	1,740,549	983,217	180,422 (82,896)	-	1,080,743	659,806	20
EDP equipment	530,262	90,794 (55,778)	3,461	568,739	453,624	62,761 (55,764)	1,208	461,829	106,910	33.33
Motor vehicles	210,069	9,967 (5,513)	-	214,523	101,673	32,074 (2,786)	-	130,961	83,562	20
	2,500,119	300,397 (186,796)	3,461	2,617,181	1,619,642	282,992 (181,654)	1,208	1,722,188	894,993	

	Note	2019	2018
		----------(Rupees in '000)--------	
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	15.2.10	**3,927,242**	4,055,586
Deposits		**290,716**	270,743
Others		**721,616**	748,101
		4,939,574	5,074,430
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
Gratuity		**4,733**	3,966
Pension		**30,688,317**	37,044,817
Benevolent fund scheme		**745,023**	941,469
Post retirement medical benefits		**18,100,363**	16,056,121
Six months post retirement benefits		**135,210**	123,475
	15.2.4	**49,673,646**	54,169,848
Provident fund scheme		**620,734**	658,661
		50,294,380	54,828,509

12. SHARE CAPITAL

2019	2018		2019	2018
(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

Claims against the Corporation not acknowledged as debts	13.1.1	**2,864**	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	2019	2018
		----------(Rupees in '000)--------	
13.2 Commitments			
Capital commitments	13.2.1	**235,684**	142,102

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

	2019	2018
14. DISCOUNT AND INTEREST EARNED	---------(Rupees in '000)---------	
Interest income on Government securities	**44,244**	30,913
Interest on employee loans	**1,051**	402
	45,295	31,315

15.	NET OPERATING EXPENSES	Note	2019	2018
			----------(Rupees in '000)--------	
	Reimbursable from the State Bank of Pakistan			
	Salaries, wages and other benefits		**5,931,240**	6,513,590
	Rent and taxes		**42,714**	39,591
	Insurance		**17,905**	17,402
	Electricity, gas and water		**391,813**	357,749
	Repair and maintenance		**336,502**	268,492
	Auditors' remuneration	15.1	**8,160**	7,700
	Legal and professional		**15,188**	15,357
	Travelling		**29,966**	24,146
	Daily expenses		**50,058**	38,246
	Passages / rest and recreational allowance		**293,380**	312,066
	Fuel		**4,523**	3,688
	Conveyance		**21,127**	19,368
	Postages and telephone		**17,521**	14,643
	Training		**100,411**	204,817
	Remittance of treasure		**174,077**	147,329
	Stationery		**33,462**	15,677
	Books and newspapers		**2,565**	2,151
	Advertisement		**19,391**	19,600
	Bank guards charges		**198,601**	174,231
	Uniforms		**34,436**	32,626
	Others		**337,601**	316,179
			8,060,641	8,544,648
	Allocated to the State Bank of Pakistan			
	Credit loss on employee loans		**121**	-
	Others			
	Retirement benefits and employees' compensated absences	15.2	**6,174,970**	6,090,087
	Depreciation	9.1	**312,745**	282,992
			6,487,715	6,373,079
			14,548,477	14,917,727

15.1 Auditors' remuneration

	2019			2018		
	EY Ford Rhodes	**KPMG Taseer Hadi & Co.**	**Total**	EY Ford Rhodes	KPMG Taseer Hadi & Co.	Total
	---------- (Rupees in '000) ----------					
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

15.2 Staff retirement benefits

15.2.1 Charge for the year in respect of defined contribution plan amounted to Rs. 96.336 million (2018: Rs. 108.907 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:

		2019	2018
-	Discount rate for year end obligation	**14.25% p.a.**	9.00% p.a.
-	Salary increase rate (where applicable)	**15% p.a.**	10% p.a.
-	Pension increase rate (where applicable)	**8.5% p.a.**	7.5% p.a.
-	Medical cost increase rate (where applicable)	**14.25% p.a.**	9% p.a.
-	Petrol price increase rate (where applicable)	**15% p.a.**	10% p.a.
-	Personnel turnover	**6.7% p.a.**	18% 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 is higher than 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

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	Rupees in '000					
Present value of defined benefit obligation as on July 1, 2018	37,044,817	3,966	16,056,121	941,469	123,475	**54,169,848**
Current service cost	633,407	431	389,380	2,738	8,673	**1,034,629**
Interest cost on defined benefit obligation	3,171,769	357	1,423,598	80,020	11,113	**4,686,857**
Benefits paid	(3,605,868)	-	(476,742)	(104,712)	-	**(4,187,322)**
Liability transferred from SBP	-	-	6,919	178	1,447	**8,544**
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	(6,448,140)	(59)	522,780	(181,860)	(191)	**(6,107,470)**
Experience adjustments	(107,668)	38	178,307	7,190	(9,307)	**68,560**
Present value of defined benefit obligation as on June 30, 2019	**30,688,317**	**4,733**	**18,100,363**	**745,023**	**135,210**	**49,673,646**

	2018					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	Rupees in '000					
Present value of defined benefit obligation as on July 1, 2017	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Benefits paid	(7,858,601)	-	(486,205)	(36,737)	(934)	(8,382,477)
Liability transferred from SBP	116,667	-	29,442	2,391	4,715	153,215
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(62,092)	-	(62,092)
Experience adjustments	2,697,663	598	585,645	(250,621)	(9,644)	3,023,641
Present value of defined benefit obligation as on June 30, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848

15.2.4.1 Amount recognised in the Statement of Comprehensive Income

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	----Rupees in '000----					
- Actuarial (gain) from changes in financial assumptions	(6,448,140)	(59)	522,780	(181,860)	(191)	**(6,107,470)**
- Experience adjustments	(107,668)	38	178,307	7,190	(9,307)	**68,560**
						(6,038,910)

	2018					
	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	-	-	-	(62,092)	-	(62,092)
- Experience adjustments	2,697,663	598	585,645	(250,621)	(9,644)	3,023,641
						2,961,549

15.2.5 Amount recognised in the Profit and Loss Account

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	----Rupees in '000----					
Current service cost	633,407	431	389,380	2,738	8,673	**1,034,629**
Interest cost on defined benefit obligation	3,171,769	357	1,423,598	80,020	11,113	**4,686,857**
Contribution made by employees	-	-	-	(9,701)	-	**(9,701)**
	3,805,176	**788**	**1,812,978**	**73,057**	**19,786**	**5,711,785**

	2018					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	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	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Contribution made by employees	-	-	-	(7,913)	-	(7,913)
	3,432,583	553	1,435,549	85,937	16,178	4,970,800

15.2.6 Movement of present value of defined benefit obligation

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	----Rupees in '000----					
Net recognised liabilities at July 1, 2018	37,044,817	3,966	16,056,121	941,469	123,475	**54,169,848**
Amount recognised in the profit and loss account	3,805,176	788	1,812,978	73,057	19,786	**5,711,785**
Remeasurements	(6,555,808)	(21)	701,087	(174,670)	(9,498)	**(6,038,910)**
Benefits paid during the year	(3,605,868)	-	(476,742)	(104,712)	-	**(4,187,322)**
Employees contribution	-	-	-	9,701	-	**9,701**
Liability transferred from SBP	-	-	6,919	178	1,447	**8,544**
Net recognised liabilities at June 30, 2019	**30,688,317**	**4,733**	**18,100,363**	**745,023**	**135,210**	**49,673,646**

	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	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848
Amount recognised in the profit and loss account	3,432,583	553	1,435,549	85,937	16,178	4,970,800
Remeasurements	2,697,663	598	585,645	(312,713)	(9,644)	2,961,549
Benefits paid during the year	(7,858,601)	-	(486,205)	(36,737)	(934)	(8,382,477)
Employees contribution	-	-	-	7,913	-	7,913
Liability transferred from SBP	116,667	-	29,442	2,391	4,715	153,215
Net recognised liabilities at June 30, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848

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%	(1,585,123)	1,801,452
Salary increase rate	1%	693,189	(660,658)
Pension increase rate	1%	1,201,241	(1,045,254)
Expected mortality rates	1 Year	386,397	(384,033)
Gratuity Scheme			
Discount rate	1%	4,539	4,937
Salary increase rate	1%	4,933	4,539
Post retirement medical benefits			
Discount rate	1%	(2,504,307)	3,179,370
Medical cost increase rate	1%	30,220	(27,346)
Salary increase rate	1%	3,241,165	(2,585,333)
Expected mortality rates	1 Year	357,772	(353,565)
Benevolent fund scheme			
Discount rate	1%	(25,646)	27,940
Six months post retirement facility			
Discount rate	1%	(6,678)	7,464
Salary / petrol increase rate	1%	7,740	(7,055)

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**
Weighted average duration of the defined benefit obligation	6 Years	4 Years	16 Years	4 Years	5 Years

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

Based on the actuarial advice, the management estimates that charge / (reversal) 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	568,887	492	444,676	1,248	9,811	1,025,114
Interest cost on defined benefit obligation	4,373,085	674	2,579,302	106,166	19,267	7,078,494
Amount chargeable to profit and loss account	4,941,972	1,166	3,023,978	107,414	29,078	8,103,608

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. 3,927.242 million (2018: Rs. 4,055.586 million). An amount of Rs. 366.919 million (2018: Rs. 1,010.38 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2020 would be Rs. 791.849 million. The benefits paid during the year amounted to Rs.502.214 million (2018: Rs. 1,453.36 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 163.845 million and Rs. 186.826 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. 197.961 million and Rs. 177.475 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.

		2019	2018
16.	**PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS**	**----- (Rupees in '000) -----**	
	Profit for the year	**54,379**	35,819
	Adjustments for:		
	Accrued interest income on Government securities	**(3,555)**	(4,727)
	Gain on disposal of property and equipment	**(9,084)**	(4,504)
		(12,639)	(9,231)
		41,740	26,588

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 the 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).

Transactions and balances with related parties are as follows:

	2019	**2018**
Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity	**----- (Rupees in '000) -----**	
Balances at the year end - transferred to the State Bank of Pakistan		
Payable against training programs	**9,503**	39,042
Transactions during the year - reimbursable from State Bank of Pakistan		
Training expense charged during the year	**72,176**	174,823

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 a 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.

18.1.1 Impairment assessment (Policy applicable from 1 July 2018)

The references below show where the Corporation's impairment assessment and measurement approach is set out in these financial statements. It should be read in conjunction with the summary of significant accounting policies.

18.1.2 Definition of default

The Corporation 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 Corporation.

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.

18.1.3 Exposure at default

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

18.1.4 Loss given default

Loss given default represents the Corporation'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.

18.1.5 Significant increase in credit risk

The Corporation 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.

18.2 Concentration 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

	2019		
	Sovereign	**Others**	**Grand Total**
Financial assets	---------- **(Rupees in '000)** ----------		
Current account with the State Bank of Pakistan	44,969,274	-	**44,969,274**
Investments	517,552	-	**517,552**
Employee loans	-	9,605,805	**9,605,805**
Advances and deposits	-	18,294	**18,294**
	45,486,826	9,624,099	**55,110,925**

	2018		
	Sovereign	Others	Grand Total
Financial assets	---------- (Rupees in '000) ----------		
Current account with the State Bank of Pakistan	50,042,724	-	50,042,724
Investments	521,419	-	521,419
Employee loans	-	9,152,123	9,152,123
Advances and deposits	-	26,562	26,562
	50,564,143	9,178,685	59,742,828

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:

	2019		
	Sovereign (18.2.3.1)	**Unrated**	**Grand Total**
Financial Assets	---------- **(Rupees in '000)**----------		
Current account with the State Bank of Pakistan	44,969,274	-	**44,969,274**
Investments	517,552	-	**517,552**
Employee loans	-	9,605,805	**9,605,805**
Advances and deposits	-	18,294	**18,294**
	45,486,826	9,624,099	**55,110,925**

	2018		
	Sovereign (18.2.3.1)	Unrated	Grand Total
Financial Assets	---------- (Rupees in '000)----------		
Current account with the State Bank of Pakistan	50,042,724	-	50,042,724
Investments	521,419	-	521,419
Employee loans	-	9,152,123	9,152,123
Advances and deposits	-	26,562	26,562
	50,564,143	9,178,685	59,742,828

18.2.3.1 Government securities and balances are rated as sovereign. The international credit rating of Pakistan is B3 (as per Moody's).

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

	Gross amount		**Impairment / Provision**	
	2019	2018	**2019**	2018
	---------- **(Rupees in '000)**----------			
Employee loans	**7,131**	7,715	**7,131**	7,715

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.

	2019						
	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
Financial assets	(Rupees in '000)						
Current account with the State Bank of Pakistan*	-	-	-	44,969,274	-	44,969,274	**44,969,274**
Investments	513,997	-	513,997	3,555	-	3,555	**517,552**
Employee loans	794	23,275	24,069	185,120	9,396,616	9,581,736	**9,605,805**
Advances and deposits	-	-	-	9,300	8,994	18,294	**18,294**
	514,791	23,275	538,066	45,167,249	9,405,610	54,572,859	**55,110,925**
Financial liabilities							
Deposits and other liabilities	-	-	-	1,012,332	-	1,012,332	**1,012,332**
On balance sheet gap	514,791	23,275	538,066	44,154,917	9,405,610	53,560,527	**54,098,593**
Capital Commitments	-	-	-	235,684	-	235,684	**235,684**
Off balance sheet gap	-	-	-	235,684	-	235,684	**235,684**
Total yield / interest risk sensitivity gap	514,791	23,275	538,066	43,919,233	9,405,610	53,324,843	**53,862,909**
Cumulative yield / interest risk sensitivity gap	514,791	538,066	1,076,132	44,995,365	54,400,975	107,725,818	**107,725,818**

	2018						
	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
Financial assets	(Rupees in '000)						
Current account with the State Bank of Pakistan*	-	-	-	50,042,724	-	50,042,724	50,042,724
Investments	516,692	-	516,692	4,727	-	4,727	521,419
Employee loans	2,249	26,656	28,905	1,366,307	7,756,911	9,123,218	9,152,123
Advances and deposits	-	-	-	17,818	8,744	26,562	26,562
	518,941	26,656	545,597	51,431,576	7,765,655	59,197,231	59,742,828
Financial liabilities							
Deposits and other liabilities	-	-	-	1,018,844	-	1,018,844	1,018,844
On balance sheet gap	518,941	26,656	545,597	50,412,732	7,765,655	58,178,387	58,723,984
Capital Commitments	-	-	-	142,102	-	142,102	142,102
Off balance sheet gap	-	-	-	142,102	-	142,102	142,102
Total yield / interest risk sensitivity gap	518,941	26,656	545,597	50,270,630	7,765,655	58,036,285	58,581,882
Cumulative yield / interest risk sensitivity gap	518,941	545,597	1,091,194	51,361,824	59,127,479	117,163,764	117,163,764

*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 materially 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 amounts of all the financial assets and financial liabilities are considered to be reasonable approximation of fair value except for amortised 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

	2019	
	Amortised Cost	**Total**
	---------(Rupees in '000)-----	
Financial assets		
Current account with the State Bank of Pakistan	44,969,274	**44,969,274**
Investments	517,552	**517,552**
Employee loans	9,605,805	**9,605,805**
Advances and deposits	18,294	**18,294**
	55,110,925	**55,110,925**

	2018	
	Amortised Cost	Total
	---------(Rupees in '000)----------	
Financial assets		
Current account with the State Bank of Pakistan	50,042,724	50,042,724
Investments	521,419	521,419
Employee loans	9,152,123	9,152,123
Advances and deposits	26,562	26,562
	59,742,828	59,742,828

	2019	2018
	---------(Rupees in '000)----------	
Financial liabilities - at amortised cost		
Deposits and other liabilities	**1,012,332**	1,018,844

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on **October 12, 2019** 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 has 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.

Muhammad Ashraf Khan	**Shaukat Zaman**
Managing Director	Group Head

12 Financial Statements of NIBAF

KPMG TASEER HADI & CO.
Chartered Accountants
Sixth Floor, State Life Building Blue Area,
Islamabad, Pakistan

INDEPENDENT AUDITORS' REPORT

To the members of National Institute of Banking and Finance (Guarantee) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of National Institute of Banking and Finance (Guarantee) Limited (the Institute), which comprise the statement of financial position as at 30 June 2019, and the income and expenditure statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the income and expenditure statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Institute's affairs as at 30 June 2019 and of the deficit, the comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Institute 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 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 Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements

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of Companies Act, 2017 (XIX of 2017) 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Institute's financial reporting process.

Auditors' 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 auditors' 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 as applicable in Pakistan 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 as applicable in Pakistan, we exercise professional judgement 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 Institute'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 Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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

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auditors' report. However, future events or conditions may cause the Institute to cease to continue as a going concern.

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

We communicate with the board of directors 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.

Report on Other Legal and Regulatory Requirements
Based on our audit, we further report that in our opinion:

a) proper books of account have been kept by the Institute as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the income and expenditure statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Institute's business; and

d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditors' report is Riaz Pesnani.

KPMG Taseer Hadi & Co.
Chartered Accountants
Islamabad
16 October 2019

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019	2018
		Rupees in '000	
ASSETS			
Non-current assets			
Property and equipment	5	**77,957**	72,549
Long-term deposits		**1,645**	1,645
Current assets			
Stock of stationery and consumables		**1,545**	2,392
Receivable against training programs	6	**70,309**	105,094
Advances and prepayments	7	**4,030**	6,374
Due from State Bank of Pakistan, Parent entity	8	**105,235**	125,087
Short-term investments	9	**36,296**	31,155
Assets relating to endowment fund	10	**109,600**	102,793
Tax refunds due from government	11	**7,210**	5,888
Receivable from donor	12	**37,646**	-
Cash and bank balances	13	**672**	8,327
		372,543	387,110
TOTAL ASSETS		**452,145**	461,304
LIABILITIES			
Non-current liabilities			
Restricted grant	14	**663**	13,029
Deferred capital grant	15	**12,507**	13,223
Endowment fund - deferred grant	16	**109,600**	102,793
		122,770	129,045
Current liabilities			
Accrued expenses and other payables	17	**48,266**	24,568
TOTAL LIABILITIES		**171,036**	153,613
NET ASSETS		**281,109**	307,691
SHARE CAPITAL AND RESERVES			
Share capital	18	**29,261**	29,261
Accumulated surplus - revenue reserve		**251,848**	278,430
Total equity		**281,109**	307,691
CONTINGENCIES AND COMMITMENTS	19		

The annexed notes from 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR **DIRECTOR**

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
		Rupees in '000	
INCOME			
Grant income	20	**121,300**	10,278
Training and education fee	21	**365,439**	419,539
Hostel and training halls services	22	**50,153**	25,410
Income transferred from endowment fund	16	**2,269**	1,458
Other income	23	**13,927**	9,886
		553,088	466,571
EXPENDITURE			
Programme expenses	24	**(121,300)**	(10,278)
Operating, admin and general expenses	25	**(458,370)**	(394,788)
		(579,670)	(405,066)
(Deficit) / surplus for the year		**(26,582)**	61,505

The annexed notes from 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR **DIRECTOR**

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	Rupees in '000	
(Deficit) / surplus for the year	**(26,582)**	61,505
Other comprehensive income	**-**	-
Total comprehensive income for the year	**(26,582)**	61,505

The annexed notes from 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR **DIRECTOR**

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
		Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficit) / surplus for the year		**(26,582)**	61,505
Adjustments for non cash items			
Income from investments	23	**(2,817)**	(1,791)
Income transferred from endowment fund		**(2,269)**	-
Restricted grant recognised as income	20	**(80,116)**	(8,766)
Amortisation of deferred capital grant	15	**(3,538)**	(1,512)
Reversal of provision against doubtful receivables		**-**	(86)
Write off against receivables		**28**	-
Provision against doubtful receivables		**3,214**	-
Depreciation	5	**23,469**	17,248
Gain on disposal of property and equipment	23	**(3,886)**	(408)
		(65,915)	4,685
Operating income before working capital changes		**(92,497)**	66,190
Changes in working capital			
Increase / (decrease) in current assets			
Stock of stationery and consumables		**847**	(1,201)
Receivable against training programs		**31,543**	(60,616)
Receivable from donor		**(37,646)**	-
Advances, prepayments and other receivables		**2,344**	(4,510)
Due from State Bank of Pakistan, Parent entity		**19,852**	10,525
		16,940	(55,802)
Increase in current liabilities			
Accrued expenses and other payables		**23,691**	10,651
Net changes in working capital		**40,631**	(45,151)
Tax refunds due from government		**(1,322)**	(1,080)
Interest income received during the year		**2,432**	1,677
Interest income received during the year - asset related to Endowment Fund		**2,174**	-
Endowment Fund - deferred grant		**6,807**	-
Restricted grant received during the year - net		**70,572**	36,530
Net cash generated from operating activities		**28,797**	58,166
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		**(28,877)**	(47,672)
Sale proceeds from disposal of property and equipment		**3,886**	408
Investments made during the year		**(134,081)**	(120,382)
Investments redeemed during the year		**129,326**	117,742
Endowment fund investments made during the year		**(425,694)**	(304,981)
Endowment fund investments redeemed during the year		**418,988**	304,981
Net cash used in investing activities		**(36,452)**	(49,904)
Net increase in cash and cash equivalents during the year		**(7,655)**	8,262
Cash and cash equivalents at the beginning of the year		**8,327**	65
Cash and cash equivalents at the end of the year	13	**672**	8,327

The annexed notes from 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR **DIRECTOR**

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019

		Revenue reserve	
	Share Capital	**Accumulated Surplus**	**Total**
	----------Rupees in '000 ----------		
Balance at 01 July 2017	29,261	216,925	246,186
Total comprehensive income for the year	-	61,505	61,505
Balance at 30 June 2018	29,261	278,430	307,691
Balance at 01 July 2018	**29,261**	**278,430**	**307,691**
Total comprehensive income for the year	**-**	**(26,582)**	**(26,582)**
Balance at 30 June 2019	**29,261**	**251,848**	**281,109**

The annexed notes from 1 to 33 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR **DIRECTOR**

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

1 CORPORATE AND GENERAL INFORMATION

1.1 The Institute and its operations

National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated under the repealed Companies Ordinance, 1984 on 21 March 1993 in Pakistan, as a private company limited by guarantee having share capital. The Institute is engaged in providing education and training in the field of banking, finance and allied areas. State Bank of Pakistan is the Parent entity of the Institute ("the Parent entity").

Business Units	**Geographical location**
Registered office	NIBAF Building, Street 4, Pitras Bukhari Road, H-8/1, Islamabad.
Regional campuses	
Karachi	Banking Services Corporation Building, 2nd Floor, North Nazimabad, Block A, Shahrah-e-Noor Jehan, Karachi.
Lahore	Banking Services Corporation Building, 12th Floor, Mall Road, Lahore.
Peshawar	Banking Services Corporation Building, 6th Floor, Saddar Road, Peshawar.
Quetta	Banking Services Corporation Building, Shahrah-e-Gulistan, Quetta Cantt., Quetta.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017 have been followed.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except as stated otherwise.

2.3 Functional and presentation currency

These financial statement are presented in Pak Rupees (PKR or Rupee) which is the Institute's functional currency. All the amounts have been rounded off to the nearest thousand, unless otherwise stated.

2.4 Significant accounting estimates

The preparation of financial statements in conformity with the accounting and reporting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of accounting and reporting standards as applicable in Pakistan that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

(a) Property and equipment

The Institute reviews the residual values and useful lives of property and equipment on each reporting date. Any change in the estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on depreciation charge and impairment.

(b) Impairment of assets

The carrying amounts of the Institute's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. Any change in estimates in future years might affect the carrying amounts of the respective assets with a corresponding effect on the impairment.

(c) Provision against doubtful receivables in respect of:

- **Receivable against training programs**

The Institute's exposure to probability of default is influenced mainly by the individual characteristics of each customer. Since the majority of the customers are either commercial banks or government owned entities besides the Parent entity and its subsidiaries, the Institute is less likely to be exposed to probability of default. The Institute also provides trainings to other central banks which are conducted in coordination with Government of Pakistan and has no history of significant default risk. Management believes that changes in outcome of estimates will not have a material effect on the financial statements. For receivables from parties other than related parties, the Institute recognizes loss allowances of amounts equal to lifetime expected credit losses.

- **Tax refunds due from government**

The Institute assesses the recoverability of tax refunds due from government based on compliance with section 170 of Income Tax Ordinance, 2001. Since, the Institute has filed tax refund applications with tax authorities under section 170 of the Income Tax Ordinance, 2001, therefore, no provision or allowance against this receivable is recognized at year-end.

- **Receivable from donor**

The Institute assesses the recoverability of amount receivable from donor based on underlying conditions of project agreement 'National Financial Literacy Program for Youth' (NFLP-Y) signed between the Institute and donor. The Institute recognizes restricted grant as income over the period necessary to match them with the related costs, for which they are intended to be incurred under the project agreement, on a systematic basis. Any programme expenses incurred for the purpose of NFLP-Y over and above the funds received from donor are recognized as receivable from donor.

(d) Provisions and contingencies

A provision is recognized as a result of past event when the Institute has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the liability. The un-winding of discount is recognized as finance cost, if any.

Where it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation can not be measured with sufficient reliability, it is disclosed as contingent liability.

(e) Measurement of fair values

A number of the Institute's accounting policies and disclosures require the measurement of fair values, for both financial and nonfinancial assets and liabilities. Management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the management assesses the evidence obtained from the third parties to support its conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring fair value of an asset or a liability, the Institute uses observable and available market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1:	quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	inputs other than quoted prices included in Level 1, which are observable and available for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3:	inputs for the asset or liability that are not based on observable and available market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level of input that is significant to the entire measurement. The Institute recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO THE APPROVED ACCOUNTING STANDARDS

The following International Financial Reporting Standards (IFRS) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2019:

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The application of interpretation is not likely to have an impact on Institute's financial statements.

- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The application of new standard is not likely to have an impact on Institute's financial statements.

- Amendment to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019). For a debt instrument to be eligible for measurement at amortised cost or FVTOCI, IFRS 9 requires its contractual cash flows to meet the SPPI criterion – i.e. the cash flows are 'solely payments of principal and interest'. Some prepayment options could result in the party that triggers the early termination receiving compensation from the other party (negative compensation). The amendment allows that financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income (FVTOCI) if they meet the other relevant requirements of IFRS 9. The application of amendment is not likely to have an impact on Institute's financial statements.

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Institute's financial statements.

- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a Institute now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Institute's financial statements.

- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS.

- On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallise. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

- Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangement - the amendment aims to clarify the accounting treatment when a Institute increases its interest in a joint operation that meets the definition of a business. A Institute remeasures its previously held interest in a joint operation when it obtains control of the business. A Institute does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

  - IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

  - IAS 23 Borrowing Costs - the amendment clarifies that a Institute treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

  The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Institute's financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes as indicated below:

- **IFRS 9 'Financial Instruments'**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments ("IFRS 9") that replaces IAS 39 Financial Instruments: recognition and measurement ("IAS 39") and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification & measurement, impairment and hedge accounting. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The three principal classification categories under the new standard for financial instruments are: measured at amortized cost, fair value through other comprehensive income (“FVTOCI”) and fair value through profit and loss (“FVTPL”). The classification of financial instruments under IFRS 9 is generally based on the business model in which a financial instrument is managed and its contractual cash flow characteristics. The previous categories under IAS 39 of held to maturity, loans and receivables and available for sale have been removed. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity’s own credit risk is recorded in other comprehensive income.

The following table explains the original measurement categories under IAS 39 and new measurement categories under IFRS 9 for each class of the Institute's financial assets and financial liabilities as at 1 July 2018:

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Long-term deposits	Loans and receivables	FVTPL
Receivable against training programs	Amortized Cost	Amortized Cost
Due from State Bank of Pakistan, Parent entity	Amortized Cost	Amortized Cost
Short-term investments	Amortized Cost	Amortized Cost
Assets relating to endowment fund	Amortized Cost	Amortized Cost
Receivable from donor	Amortized Cost	Amortized Cost
Cash and bank balances	Loans and receivables	Amortized Cost
Financial liabilities		
Payable to Parent entity	Other financial liabilities	Amortized Cost
Trade payables	Other financial liabilities	Amortized Cost

There is no change in the carrying amounts of financial assets and financial liabilities at the initial application date of IFRS-9, except for a change in accounting classification under IFRS - 9 from category under IAS - 39 as disclosed in the above table.

None of the Institute's financial instruments have been classified as FVTOCI and FVTPL except for long-term deposits which do not meet the "solely payments of principal and interests (SPPI)" test criteria.

There was no material expected credit loss recognized at initial application date and expected credit losses recognized as at 30 June 2019 are presented in note 25.

The Institute does not have any financial instruments eligible for hedge accounting, accordingly there was no impact to the Institute as a result of adopting IFRS 9.

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected loss” model. The new impairment model applies to financial instruments measured at amortized cost, and contract assets and debt investments measured at FVTOCI. Under IFRS 9, credit losses will be recognized earlier than under IAS 39. The standard also provides a simplified approach to measure expected credit losses using a lifetime expected loss allowance. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate loss allowance.

- **IFRS 15 'Revenue from Contracts with Customers'**

The IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") in May 2014. This IFRS replaces IAS 18 Revenue, IAS 11 Construction Contracts and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The Institute has reviewed its revenue stream i.e. delivery of training services and underlying contracts with the customers and, as a result of this review, the adoption of IFRS did not have a material impact on the Institute's income and expenditure statement and statement of financial position. However, the Institute has expanded the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Institute's disaggregated revenue streams in notes 21 and 22.

4.1 Property and equipment

Property and equipment are stated at 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.

Depreciation is charged to income and expenditure statement applying the straight line method, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal. The rates of depreciation are stated in note 5 to these financial statements.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each reporting date.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Institute and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to income and expenditure statement.

Gains and losses on sale or retirement of property and equipment are included in the income and expenditure statement.

4.2 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.

4.3 Receivable against training programs and other receivables

Receivable against training programs are recognised and carried at original invoice amount less allowance for doubtful receivable, if any. Subsequent to initial recognition these are carried at their amortized cost as reduced by appropriate charge for expected credit losses, if any. Impairment of receivable against training programs and other receivables is described in note 4.11.

4.4 Taxation

The Institute had claimed exemption from income tax under clause (92) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 for the tax year 2013 and under clauses (59) and (60) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 for the tax year 2014.

Pursuant to enactment of section 100C with effect from 01 July 2014; the Institute is claiming 100% tax credit under the said section against its tax liability on income for the tax year 2015 onwards.

4.5 Cash and cash equivalents

Cash and cash equivalents comprise cash with banks in current account.

4.6 Revenue and income recognition

(a) Revenue recognition

The Institute earns revenue by primarily providing training services; its revenue streams are as follows:

(i) Training and education fee; and

(ii) Hostel and training hall services

Revenue from contracts with customers is recognized when training services are delivered to customers at an amount that reflects the consideration to which the Institute expects to be entitled in exchange for the services delivered. The consideration is pre-agreed with customers under signed agreement or pre-approved rates.

Revenue comprises the invoiced value for the delivery of training and related services, which is recognized over period of time since the customers simultaneously receive and consume the benefits provided by the Institute's performance of training and related services. The Institute uses 'output method', which looks at the measure of progress of the asset/benefit being transferred to the customer. The 'output method' uses direct measurement of value to the customer of the goods or services transferred to date. This includes using the appraisal of results achieved, milestones reached or units produced or delivered. Management applied this method to measure progress of service delivery to customers by identifying the number of days in which trainings have been delivered against total of duration of training in days, thus measuring the amount of revenue to be recognized against services delivered to date.

(b) Grants

(i) **Restricted grants**

Grants, of a non-capital nature, received for specific purposes, and any bank interest earned on them, are classified as restricted grants. Such grants are transferred to income to the extent of actual expenditure incurred against them. Expenditure incurred against grants committed but not received, is accrued and recognized in income and is reflected as a grant receivable. Unspent portions of such grants are reflected as restricted grants in the statement of the financial position.

(ii) **Unrestricted grants**

Grants received from donors without any conditions are recognized as unrestricted grants in income, during the period of receipt.

(iii) **Capital grants**

Grants received for fixed assets are initially recorded as capital grants in the statement of the financial position. Subsequently, these are recognized as income on a systematic basis over periods necessary to match them with the carrying value of the related assets.

(c) Income transferred from endowment fund

Income from endowment fund is recognized on an accrual basis and determined in accordance with the NIBAF Endowment Fund Rules.

(d) Income on short-term investments

Income on short-term investments is accounted for on a time proportion basis using the applicable rates.

4.7 Endowment fund - Deferred Grant

The Institute has established an Endowment fund effective from 01 July 2011 for utilisation of the amount received as detailed in note 16.1. The terms of references / rules and regulations of the Endowment fund have been formulated. The aims and objective of NIBAF Endowment Fund are as under:

a) Capacity building of SBP and its subsidiaries (including SBP-BSC, NIBAF and others, if any) as well as other banking professionals in realms of Rural Finance, Microfinance, Agriculture and SMEs etc.

b) To encourage, promote, support and undertake academic and scientific investigations, innovative research, inventions and developments in various Banking and Finance related areas.

c) To provide assistance in such activities as field surveys, experiments, collection and dissemination of information, seminars, conferences and trainings etc. aimed at increasing awareness, introducing improvements and enhancing efficiency in areas related to Banking and Finance in general and Rural Finance in particular.

d) To conduct research and trainings to increase awareness of commercial banks regarding possibilities, prospects and risks, to develop demand driven products and services, instituting enhanced portfolio management capability and installing systems and procedures for reducing costs etc.

e) To promote gathering of information on rural finance by collecting and analysing data, conducting survey thereby working as a main training hub.

f) To create linkages with national and international organisations for the strengthening of Rural finance related activities.

g) For any other purpose which the Institute's Board of Directors may consider fit for the overall benefit of the Institute and its stakeholders.

4.8 Accrued expenses and other payables

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

4.9 Provisions

Provisions are recognised in the statement of the financial position when the Institute 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 can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.10 Financial Instruments

The Institute initially recognizes financial assets on the date when they are originated. Financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

4.10.1 Financial Assets

Classification

On initial recognition, a financial asset is measured at:

- amortized cost
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL)

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

a) Amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

c) Fair value through profit or loss (FVTPL)

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

Subsequent measurement

a) Financial assets at amoritzed cost

Measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in income and expenditure statement. Any gain or loss on de-recognition is recognized in income and expenditure statement.

b) Financial assets at fair value through profit or loss (FVTPL)

Measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in income and expenditure statement.

c) Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in income and expenditure statement. Other net gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to income and expenditure statement.

d) Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognized as income in income and expenditure statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to income and expenditure statement.

De-recognition

The Institute derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Institute is recognized as a separate asset or liability.

4.10.2 Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in income and expenditure statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in income and expenditure statement. Any gain or loss on de-recognition is also included in income and expenditure statement.

The Institute derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. Any gain / (loss) on the recognition and de-recognition of the financial assets and liabilities is included in income and expenditure statement for the period in which it arises.

4.10.3 Off-setting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Institute currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

4.10.4 Financial instruments – accounting policy applied before 01 July 2018

The Institute classified financial assets into the following categories:

(a) financial assets at fair value through profit or loss (FVTPL); and
(b) loans and receivables

Subsequent to initial recognition, financial assets at FVTPL were measured at fair value and changes therein including interest or dividend income were recognized in profit or loss. Loans and receivables were subsequently measured at amortised cost using the effective interest method.

All financial liabilities were initially recognized at fair value plus directly attributable cost, if any, and subsequently measured at amortised cost and are classified into other financial liabilities category.

4.11 Impairment

Financial assets

The Institute recognizes loss allowance for Expected Credit Losses (ECLs) on financial assets measured at amortized cost and contract assets. For trade receivables, the Institute applies a simplified approach in calculating ECLs. Therefore, the Institute does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Institute has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Lifetime ECLs are those that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Institute is exposed to credit risk.

At each reporting date, the Institute assesses whether the financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of the financial assets have occurred.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. The gross carrying amount of a financial asset is written off when the Institute has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Impairment of financial assets – accounting policy applied before 01 July 2018

A financial asset other than held for trading and carried at fair value was assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Institute on terms that the Institute would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. All impairment losses are recognized in income and expenditure statement. An impairment loss is reversed in income and expenditure statement if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

Non-financial assets

The carrying amount of the Institute's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the absence of any information about the fair value of a cash-generating unit, the recoverable amount is deemed to be the value in use. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in income and expenditure statement. Impairment losses in respect of cash-generating units are allocated to the carrying amounts of assets in the cash-generating unit group on pro-rata basis. An impairment loss is reversed only to the extent that the asset carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4.12 Fair value measurement

‘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 in the principal or, in its absence, the most advantageous market to which the Institute has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Institute’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Institute measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Institute uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Institute determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in income and expenditure statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

4.13 Retirement benefits

The permanent employees of the Institute represent employees who are either deputed by the State Bank of Pakistan, the Parent entity, or Banking Service Corporation, a related entity. Such employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and are not charged to the Institute. Further, employees of the Institute hired for NFLP-Y project are not entitled to retirement benefits.

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5 PROPERTY AND EQUIPMENT

	Furniture and fixtures	Electronic data processing equipment	Office equipment	Vehicles	Capital Work in Progress	Total
	----------Rupees in '000----------					
Cost						
Balance at 01 July 2017	16,922	26,902	63,197	43,555	-	150,576
Additions during the year	7,972	11,501	12,484	12,600	5,139	49,696
Transfer in during the year	-	3,647	-	-	-	3,647
Disposals during the year	(622)	(7,666)	(2,345)	-	-	(10,633)
Balance at 30 June 2018	24,272	34,384	73,336	56,155	5,139	193,286
Balance at 01 July 2018	**24,272**	**34,384**	**73,336**	**56,155**	**5,139**	**193,286**
Additions during the year (Note 5.2)	**9,628**	**4,003**	**10,795**	**3,801**	**-**	**28,227**
Transfer in / (out) during the year	**-**	**3,644**	**2,615**	**-**	**(5,139)**	**1,120**
Disposals during the year	**(1,721)**	**(5,955)**	**(1,477)**	**(5,173)**	**-**	**(14,326)**
Balance at 30 June 2019	**32,179**	**36,076**	**85,269**	**54,783**	**-**	**208,307**
Accumulated depreciation						
Balance at 01 July 2017	9,912	22,972	50,282	30,424	-	113,590
Depreciation charge for the year	1,360	4,852	5,312	5,724	-	17,248
Transfer in during the year	-	532	-	-	-	532
Disposals during the year	(622)	(7,666)	(2,345)	-	-	(10,633)
Balance at 30 June 2018	10,650	20,690	53,249	36,148	-	120,737
Balance at 01 July 2018	**10,650**	**20,690**	**53,249**	**36,148**	**-**	**120,737**
Depreciation charge for the year	**2,011**	**8,020**	**6,580**	**6,858**	**-**	**23,469**
Transfer in during the year	**-**	**470**	**-**	**-**	**-**	**470**
Disposals during the year	**(1,721)**	**(5,955)**	**(1,477)**	**(5,173)**	**-**	**(14,326)**
Balance at 30 June 2019	**10,940**	**23,225**	**58,352**	**37,833**	**-**	**130,350**
Carrying amounts - 2018	13,622	13,694	20,087	20,007	5,139	72,549
Carrying amounts - 2019	**21,239**	**12,851**	**26,917**	**16,950**	**-**	**77,957**
Rate of depreciation	**10%**	**33%**	**20%**	**20%**		

5.1 Land and buildings in use of the Institute are owned by State Bank of Pakistan, the Parent entity. No rent for its use has been charged to the Institute by the Parent entity.

5.2 Additions include following assets purchased for National Financial Literacy Programme for Youth (NFLP-Y):

	Rupees in '000
Electronic data processing equipment	2,623
Office equipment	199
	2,822

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	Note	2019	2018
		Rupees in '000	

5.3 The depreciation charge for the year has been allocated as follows:

Programme expenses	24	**3,538**	1,512
Operating, admin and general expenses	25	**19,931**	15,736
		23,469	17,248

6 RECEIVABLE AGAINST TRAINING PROGRAMS

Associated undertakings			
Considered good			
State Bank of Pakistan, Parent entity (SBP)	6.1 & 6.2	**33,049**	54,886
Banking Services Corporation, a related party (BSC)	6.1 & 6.2	**9,635**	39,076
Pakistan Security Printing Corporation (Private) Limited, a related party (PSPC)	6.1 & 6.2	**336**	12
		43,020	93,974
Others			
Considered good		**27,289**	11,120
Considered doubtful		**3,214**	1,358
		30,503	12,478
Provision for doubtful receivables	6.3	**(3,214)**	(1,358)
		27,289	11,120
		70,309	105,094

6.1 The maximum aggregate amount outstanding at any time during the year calculated by reference to month-end balances were as follows:

	2019	2018
	Rupees in '000	
State Bank of Pakistan, Parent entity (SBP)	**78,957**	54,886
Banking Services Corporation, a related party (BSC)	**54,580**	39,076
Pakistan Security Printing Corporation (Private) Limited, a related party (PSPC)	**456**	12

6.2 At reporting date, the ageing of receivables from associated undertakings were as follows:

	Gross amount			Gross amount		
	2019			2018		
	(Rupees '000)			(Rupees '000)		
	SBP	**BSC**	**PSPC**	SBP	BSC	PSPC
Past due 1-30 days	**24,613**	**6,996**	**336**	49,676	37,515	12
Past due 31-90 days	**5,876**	**-**	**-**	4,340	1,527	-
Past due 91-180 days	**444**	**2,612**	**-**	542	-	-
Past due 181-365 days	**973**	**21**	**-**	62	-	-
More than one year	**1,143**	**6**	**-**	266	34	-
	33,049	**9,635**	**336**	54,886	39,076	12

		Note	2019	2018
			Rupees in '000	
6.3	**Provision for doubtful receivables**			
	Balance at 01 July		**1,358**	1,444
	Provision booked during the year		**3,214**	-
	Bad debts recovered during the year	6.3.1	**(45)**	(86)
	Write off during the year	6.3.2	**(1,313)**	-
			3,214	1,358

6.3.1 This represents reversal of provision during the year on account of recovery from customers.

6.3.2 This represents reversal of provision during the year on account of write off of long outstanding receivables.

		2019	2018
7	**ADVANCES AND PREPAYMENTS**	Rupees in '000	
	Advances to staff - unsecured, considered good	**1,505**	493
	Advance to suppliers - unsecured, considered good	**475**	5,500
	Prepayments	**2,050**	381
		4,030	6,374

8 DUE FROM STATE BANK OF PAKISTAN, PARENT ENTITY

This represents the current account of the Institute with State Bank of Pakistan, Parent entity, to manage the financial affairs of the Institute. The settlement of trainings provided to SBP and BSC are also settled through current account. Further, all the investments in Market Treasury Bills (MTBs) are made through Domestic Market Monetary and Management Department of the Parent entity.

9 SHORT-TERM INVESTMENTS

	Note	2019	2018
		Rupees in '000	
Held to maturity - amortized cost			
Market Treasury Bills	9.1	**36,296**	31,155
		36,296	31,155

9.1 These carry return at the average rate of 11.07% per annum and having maturity dates of 04 July 2019 and 01 August 2019 respectively (2018: 6.49% per annum having maturity date of 16 August 2018 and 30 August 2018 respectively).

10 ASSETS RELATING TO ENDOWMENT FUND

	Note	2019	2018
		Rupees in '000	
Held to maturity - amortized cost			
Market Treasury Bills	10.1	**109,600**	102,793
		109,600	102,793

10.1 These carry return at the rate of 12.74% per annum and maturity date of 12 September 2019 (2018: 6.76% per annum and maturity date of 13 September 2018).

11 TAX REFUNDS DUE FROM GOVERNMENT

This represents advance taxes receivable by the Institute from tax authorities. These taxes were deducted and deposited on behalf on the Institute by customers out of payments against training services rendered by the Institute. Management is of the view that these amounts are recoverable from tax authorities and tax refund applications up to tax year 2018 have been filed as per section 170 of Income Tax Ordinancem 2001, accordingly.

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12 RECEIVABLE FROM DONOR

This represents amount booked as receivable from donor under project, National Financial Literacy Program for Youth (NFLP-Y), funded by Asian Development Bank through State Bank of Pakistan, Parent entity.

13 CASH AND BANK BALANCES

	2019	2018
	Rupees in '000	
Cash in hand	-	60
Cash at bank - current accounts		
Banking Services Corporation, a related party	672	8,267
	672	8,327

14 RESTRICTED GRANT

	Note		
Balance at 01 July		13,029	-
Restricted grant received during the year		70,546	36,530
Miscellaneous income		26	-
Transferred to deferred capital grant	15	(2,822)	(14,735)
Transferred to income and expenditure statement		(80,116)	(8,766)
Balance at 30 June		663	13,029

14.1 This represents restricted grant received from Asian Development Bank through State Bank of Pakistan, Parent entity, pursuant to grant agreement dated 21 September 2017 for launching National Financial Literacy Program for Youth (NFLP-Y). Period of implementation of the program is five years from the date of the agreement.

15 DEFERRED CAPITAL GRANT

	Note	2019	2018
		Rupees in '000	
Balance at 01 July		13,223	-
Cost of assets purchased during the year	14	2,822	14,735
Amortization for the year representing the depreciation of related assets	20	(3,538)	(1,512)
Balance at 30 June		12,507	13,223

16 ENDOWMENT FUND - DEFERRED GRANT

Balance at 01 July	102,793	98,421
Interest income on investments	9,076	5,830
Less: income allocated to the Institute	(2,269)	(1,458)
Balance at 30 June	109,600	102,793

16.1 This represented capital grant amounting to US dollar one million received by the Institute in January 2005 from State Bank of Pakistan, Parent entity, for establishment of Rural Finance Resource Centre. The grant was disbursed by the Parent entity out of the proceeds of loan received by the Government of Pakistan (GoP) from Asian Development Bank vide loan agreement No. 1987-PAK dated 23 December 2002. The Institute established an endowment fund effective from 01 July 2011 for utilization of the amount received through the Parent entity. Further, the Institute formulated NIBAF Endowment Fund Rules, approved by its Board of Directors on 12 August 2015, which laid down mechanism for investment and application of the unutilized grant. As per clause 4(g) of NIBAF Endowment Fund Rules, twenty five percent of income on investments made out of these funds in each year shall be allocated to the Institute.

17 ACCRUED EXPENSES AND OTHER PAYABLES

	Note	2019	2018
		Rupees in '000	
Payable to Parent entity		**2,459**	5,139
Trade payables	17.1	**29,557**	7,130
Accrued expenses	17.2	**12,862**	10,505
Security deposits	17.3	**2,912**	1,430
Retention money		**476**	364
		48,266	24,568

17.1 This includes Rs. 754,000 payable to Banking Services Corporation, a related party, on account of expenses incurred on behalf of the Institute.

17.2 This includes Rs. 409,830 payable to Banking Services Corporation, a related party, on account of expenses incurred on behalf of the Institute.

17.3 These represent amounts received as security deposits from suppliers of the Institute, which are utilisable for the purpose of the Institute's business in accordance with service agreements.

18 SHARE CAPITAL

	Note	2019	2018
		Rupees in '000	
Authorized share capital			
(20,000,000 ordinary shares of Rs.10 each)		**200,000**	200,000
Issued, subscribed and paid-up capital			
2,926,084 ordinary shares of Rs.10 each issued for cash	18.1	**29,261**	29,261

18.1 State Bank of Pakistan, Parent entity, holds 2,926,083 (2018: 2,926,083) ordinary shares and the Deputy Governor of State Bank of Pakistan holds 1 (2018: 1) share of the Institute as at the date of statement of financial position.

19 CONTINGENCIES AND COMMITMENTS

19.1 Contingencies

19.1.1 Tax related contingencies

19.1.1.1 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 20 January 2016 claiming that the services provided by Institute fall within the purview of serial numbers 13, 19 and 38 of schedule to the ICTO and accordingly the Institute should get itself registered for sales tax, obtain Sales Tax Registration number (STRN), file returns for six months from July 2015 to December 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 the Institute 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 19 February 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.

During the year 2017, the Institute filed an appeal before the Commissioner Inland Revenue Appeals II (CIRA) challenging the compulsory registration of the Institute done by the department vide its order dated 19 February 2016. This appeal was disposed of by the CIRA on 9 February 2017 because it was not maintainable under the law (as it was outside its jurisdiction) and the case could now be taken to the Honorable Islamabad High Court. Consequently, the Institute filed writ petition against the above orders before the Honorable Islamabad High Court (IHC).

IHC passed an order dated 29 January 2018 and directed CIRA to decide the representation of the Institute expeditiously (preferably within 7 days) after affording an opportunity of being heard. The Institute filed applications to CIRA for compliance with IHC order. On 12 March 2018, representatives of the Institute attended a hearing before the tax department and made oral and written submission. On 02 April 2018, Deputy commissioner Inland Revenue passed an order rejecting Institute's application for de-registration and passed an order for compulsory registration of the Institute. The Institute is in contact with tax authorities on this matter through State Bank of Pakistan, the Parent entity, and no further notices have been received in this regard from tax authorities. Therefore, no provision has been recognized in these financial statements.

19.1.1.2 In the previous year, the Institute received a show cause notice for Rs. 8 million from the tax authorities against alleged non-deduction of tax on various payments relating to tax year 2017. The Institute has submitted the necessary information and thereafter, tax authorities have not proceeded to pass any order. The management of the Institute is confident of favorable outcome and accordingly no provision has been recognised in these financial statements.

19.1.2 Litigations

The mentioned cases have been filed by the employees of the Parent company. Some of the employees were attached previously with the Institute as third party contractors staff, and so the Institute has also been added as defendant party. Management is confident that the resolution of these matters will not result in any financial outlay to the Institute.

19.1.2.1 In June 2016, In National Industrial Relations Commission case No. CMA 7A(70)/2016, the ex-employees claimed promotions as back benefit. The case is under legal process in single bench NIRC along with another case of same party.

19.1.2.2 In May 2009, writ petition filed in High Court Islamabad by Democratic Workers union vs. Federation of Pakistan and others vide. W.P.1008/2019 for industry wise collective bargaining unit for labor practices. Democratic workers union appealed for one union for all subsidiaries of State Bank of Pakistan on the plea that the Top management is same in all cases as per industrial relations act 2012. Case is pending with High Court for further proceedings. Resolution of this matter would not result in financial outlay.

19.1.2.3 In August 2017, In National Industrial Relations Commission case No.4 12A(161)/2017, Ex-contractual employees filed case in the line with a previous settled case, for permanent service in SBP. The initial petition was dismissed by single bench NIRC on technical grounds, resulting in filing appeal by the employees in full bench NIRC. Hearing is in initial stage. Management is confident of favourable outcome of this matter.

19.2 Commitments

There were no commitments outstanding at 30 June 2019 (30 June 2018 : Nil).

20 GRANT INCOME

	Note	2019	2018
		Rupees in '000	
Transfers from:			
Restricted grant	14	**117,762**	8,766
Deferred capital grant	15	**3,538**	1,512
		121,300	10,278

21 TRAINING AND EDUCATION FEE

Domestic courses	**330,239**	397,256
International courses	**12,056**	7,753
Islamic banking courses	**23,144**	14,530
	365,439	419,539

			2019	2018
			Rupees in '000	
22	**HOSTEL AND TRAINING HALLS SERVICES**			
	Rental income		**28,285**	14,255
	Service charges		**1,306**	1,152
	Food and beverages		**20,562**	10,003
			50,153	25,410
23	**OTHER INCOME**	**Note**		
	Income from financial assets			
	Interest on investments		**2,817**	1,791
	Income from non-financial assets			
	Reversal of provision against doubtful receivables	6.3	**45**	86
	Gain on disposal of property and equipment		**3,886**	408
	Recovery of overheads under NFLP-Y		**6,000**	4,500
	Others - net		**1,179**	3,101
			11,110	8,095
			13,927	9,886
24	**PROGRAMME EXPENSES**			
	Salaries, wages and other benefits		**17,764**	2,250
	Consultancy fees		**54,918**	-
	Printing charges		**24,997**	-
	Training cost		**4,957**	-
	Insurance expenses		**590**	-
	Advertisement		**684**	-
	Postage and courier		**2,913**	-
	Travelling and conveyance		**667**	-
	Repair and maintenance		**184**	-
	Professional fees		**95**	-
	Depreciation	5.3	**3,538**	1,512
	Overheads		**6,000**	4,500
	Miscellaneous expenses		**3,993**	2,016
			121,300	10,278

25	OPERATING, ADMIN AND GENERAL EXPENSES	Note	2019	2018
			Rupees in '000	
	Salaries, wages and other benefits		**232,224**	182,355
	Training cost		**53,256**	60,545
	Lodging and catering		**41,079**	44,281
	Repair and maintenance		**38,949**	28,335
	Utilities		**26,321**	26,110
	Depreciation	5.3	**19,931**	15,736
	Travelling and conveyance		**21,449**	17,453
	Printing and stationery		**5,855**	4,998
	Security charges		**3,719**	3,959
	Insurance		**1,807**	2,086
	Postage and courier		**1,454**	309
	Telecommunication charges		**1,384**	1,112
	Vehicle running charges		**1,253**	1,100
	Newspapers, books and periodicals		**216**	139
	Legal and professional fees		**644**	148
	General consumables		**943**	990
	Auditors' remuneration	25.1	**343**	320
	Directors' fee		**376**	94
	Write off against receivables	25.2	**28**	-
	Provision against doubtful receivables	6.3	**3,214**	-
	Entertainment		**1,125**	1,124
	Others		**2,800**	3,594
			458,370	394,788

25.1 Auditors' remuneration

Statutory audit	**300**	275
Out of pocket expenses	**43**	45
	343	320

25.2 This represents write off against receivables from Banking Services Corporation, a related party.

26 RELATED PARTY TRANSACTIONS

The Institute is a wholly owned subsidiary of State Bank of Pakistan, Parent entity and therefore all subsidiaries and associated undertakings of the Parent entity are the related parties of the Institute. Other related parties comprise directors and key management personnel and entities over which the directors and key management personnel are able to exercise significant influence. Since the Institute is subsidary of State Bank of Pakistan, it is ultimately owned by the Government of Pakistan, thus rendering State Controlled Entities as its related parties. Being the primary provider of banking training services in Pakistan, the Institute routinely provides training services to State Controlled Entities, however, since such transactions are not material and therefore, are not disclosed in the financial statements.

Following are the related parties with whom the Institute had entered into transactions during the year:

Related Party	Basis of relationship	Number of shares held in the Institute	Aggregate %age shareholding in the Institute
State Bank of Pakistan	Parent entity	2,926,083	100%
Banking Services Corporation	Associated undertaking	-	Nil
Pakistan Security Printing Corporation (Private) Limited	Associated undertaking	-	Nil
Mr. Riaz Nazarali Chunara	MD / Chief Exective Officer	-	Nil
Dr. Asad Zaman	Director	-	Nil
Dr. Eatzaz Ahmad	Director	-	Nil

26.1 Balances with related parties have been disclosed in note 6, 8, 12, 13 and 17 and remuneration to Chief Executive Officer, Directors and Executives has been disclosed in note 27. Transactions with related parties are as follows:

	2019	2018
Parent entity	**Rupees in '000**	
Revenue income booked during the year	**271,257**	232,534
Receipts during the year	**293,094**	179,871
Payments during the year	**214,021**	178,858
Grant received under NFLP-Y	**70,546**	36,530
Associated undertakings		
Revenue income booked during the year	**52,546**	161,608
Receipts during the year	**81,636**	155,369

27 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

	MD / Chief Executive Officer	Non-Executive Directors	Executives	Total
2019	---------- (Rupees in '000) ----------			
Fees	**-**	**376**	**-**	**376**
Managerial remuneration	**25,915**	**-**	**164,489**	**190,404**
Fuel allowance	**701**	**-**	**3,217**	**3,918**
Telephone allowance	**25**	**-**	**448**	**473**
Contribution to Provident fund	**1,555**	**-**	**5,462**	**7,017**
Others	**733**	**-**	**4,260**	**4,993**
	28,929	**376**	**177,876**	**207,181**
Number of persons	**1**	**2**	**44**	

	MD / Chief Executive Officer	Non-Executive Directors	Executives	Total
2018	---------- (Rupees in '000) ----------			
Fees	-	94	-	94
Managerial remuneration	21,849	-	126,037	147,886
Fuel allowance	577	-	3,545	4,122
Telephone allowance	111	-	1,085	1,196
Contribution to provident fund	1,311	-	3,387	4,698
House rent allowance	-	-	84	84
Others	569	-	2,091	2,660
	24,417	94	136,229	160,740
Number of persons	1	2	35	

27.1 MD / Chief Executive Officer has been provided with the Institute's maintained car.

27.2 Employees of the Institute deputed from the Parent entity are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and are not charged to the Institute as the employees are on deputation. Further, NFLP-Y employees are not entitled to any such benefits.

28 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Fair value is the amount that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying values and fair value estimates. Underlying the definition of fair value is the presumption that the entity is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the institute is current bid price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13 'Fair Value Measurements' requires the Institute to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used 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 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 asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

28.1 Fair value of financial assets and liabilities

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value

	Carrying amount			Fair value			
Financial assets and liabilities	**Amortized Cost**	**FVTPL**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2019	**Rupees**			**Rupees**			
Financial assets measured at fair value							
Long-term deposits	-	1,645	1,645	-	-	1,645	1,645
Financial assets not measured at fair value							
Receivable against training programs	70,309	-	70,309	-	-	-	-
Due from State Bank of Pakistan, Parent entity	105,235	-	105,235	-	-	-	-
Short-term investments	36,296	-	36,296	-	-	-	-
Assets relating to Endowment fund	109,600	-	109,600	-	-	-	-
Cash and bank balances	672	-	672	-	-	-	-
Total financial assets	322,112	1,645	323,757	-	-	1,645	1,645
Financial liabilities not measured at fair value							
Accrued expenses and other payables	(48,266)	-	(48,266)	-	-	-	-
Total financial liabilities	(48,266)	-	(48,266)	-	-	-	-

28.1 Fair value of financial assets and liabilities (continued)

	Carrying amount			Fair value			
Financial assets and liabilities	**Amortized Cost**	**FVTPL**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2018	Rupees			Rupees			
Financial assets not measured at fair value							
Long term deposits	1,645	-	1,645	-	-	-	-
Receivable against training programs	105,094	-	105,094	-	-	-	-
Due from State Bank of Pakistan, Parent entity	125,087	-	125,087	-	-	-	-
Short-term investments	31,155	-	31,155	-	-	-	-
Assets relating to Endowment fund	102,793	-	102,793	-	-	-	-
Cash and bank balances	8,327	-	8,327	-	-	-	-
Total financial assets	374,101	-	374,101	-	-	-	-
Financial liabilities not measured at fair value							
Accrued expenses and other payables	(24,568)	-	(24,568)	-	-	-	-
Total financial liabilities	(24,568)	-	(24,568)	-	-	-	-

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

29 FINANCIAL RISK MANAGEMENT

The Institute has exposure to the following risks arising from financial instruments:

1) Credit risk
2) Liquidity risk
3) Market risk

29.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Institute's risk management framework. The Board has delegated the responsibility for developing and monitoring the Institute's risk management policies to its management. The management reports regularly to the Board of Directors on its activities. The Institute's risk management policies are established to identify and analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The management monitors compliance with the Institute's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

29.1.1 Credit risk

(i) Receivable against training programs

The Institute's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Since the majority of the customers are either commercial banks and government owned entities including the Parent entity and its subsidiary, the Institute is less likely to be exposed to credit risk. The Institute also provides trainings to other central banks which are conducted in coordination with Government of Pakistan and has no history of significant default risk. The Institute maintains provision for doubtful debts that represents its estimate of probable losses in respect of receivable against training programs.

Geographically there is no concentration of credit risk.

At reporting date, the maximum credit exposure in trade debts by type of customer was as follows:

	2019	2018
	(Rupees '000)	
Government owned entities	**43,020**	93,974
Others	**30,503**	12,478
	73,523	106,452

At reporting date, the ageing of trade debts and provision for doubtful debts were as follows:

	Gross amount		Provision for doubtful debts	
	2019	2018	**2019**	2018
	(Rupees '000)		(Rupees '000)	
Past due 1-30 days	**38,488**	92,465	**6**	-
Past due 31-90 days	**22,048**	8,644	**23**	-
Past due 91-180 days	**6,203**	2,035	**32**	-
Past due 181-365 days	**2,888**	473	**71**	-
More than one year	**3,896**	2,835	**3,082**	1,358
	73,523	106,452	**3,214**	1,358

The management believes that all unimpaired amounts are collectable in full, based on historical payment behavior and extensive analysis of customer credit risk. The movement in provision for doubtful debts during the year is disclosed in note 6.3

29.1.2 Liquidity risk

Liquidity risk is the risk that the Institute will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation. The Institute believes that it is not exposed to any significant level of liquidity risk.

29.1.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Institute’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

The Institute is not exposed to currency risk.

(ii) Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Institute is not exposed to Interest rate risk as it has fixed rate securities.

(iii) Other market price risk

The primary goal of the Institute’s investment strategy is to maximize investment returns on surplus funds. The Institute adopts a policy of minimizing its price risk by investing in fixed rate investments like Market Treasury Bills. Currently, the Institute is not exposed to price risks as the investments are currently being carried at amortized cost.

30 CAPITAL MANAGEMENT

The Institute's objective when managing capital, is to safeguard the Institute's ability to continue as a going concern and maintain a strong capital base to support the sustained development of its business activities. The Institute is not subject to externally imposed capital requirements. Further, the Parent entity's support is available to continue its operations.

31 NUMBER OF EMPLOYEES

	2019	2018
	Number	
Number of employees	**68**	36
Average number of employees	**52**	33

32 GENERAL

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

33 DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorized for issue on **October 16, 2019** by the Board of Directors of the Institute.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

DIRECTOR

13 Financial Statements of PSPC

A.F Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C, I.I. Chundrigar Road,
PO Box. 4716, Karachi.

INDEPENDENT AUDITOR'S REPORT

To the members of Pakistan Security Printing Corporation (Private) Limited

Report on the Audit of the Financial Statements

Opinion
We have audited the annexed financial statements of Pakistan Security Printing Corporation (Private) Limited (the Corporation), which comprise the statement of financial position as at June 30, 2019, and the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the International Financial Reporting Standards and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2019 and of the profit and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. 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 the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the information included in the directors' report, but does not include the financial statements and our auditor's report thereon.

A.F Ferguson & Co.
Chartered Accountants

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and the requirements of Companies Act, 2017 (XIX of 2017) 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 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.

Board of directors 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 as applicable in Pakistan 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 as applicable in Pakistan, 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.

A.F Ferguson & Co.
Chartered Accountants

- 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.

We communicate with the board of directors 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.

Report on Other Legal and Regulatory Requirements
Based on our audit, we further report that in our opinion:

(a) proper books of account have been kept by the Corporation as required by the Companies Act, 2017 (XIX of 2017);

(b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

(c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Corporation's business; and

(d) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Khurshid Hasan.

A. F. Ferguson & Co
Chartered Accountants
Karachi
Date: **October 24, 2019**

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	4	57,104,611	52,144,366
Investment property	5	-	-
Intangibles	6	4	6
		57,104,615	52,144,372
Long term investments in associates	7	2,487,053	2,345,584
Other long term investments	8	19,092	23,904
Long term loans	9	228,659	82,087
Long term deposits	10	28,066	18,172
Deferred taxation	11	367,566	243,999
		60,235,051	54,858,118
CURRENT ASSETS			
Stores and spares - net	12	622,715	293,041
Stock-in-trade - net	13	2,951,232	2,321,705
Trade debts - net	14	1,292,416	1,357,094
Loans and advances	15	64,849	29,040
Trade deposits and prepayments	16	64,363	9,821
Accrued mark-up		15,706	4,702
Other receivables	17	134,487	45,097
Short term investments	18	3,140,626	7,450,263
Taxation - net		1,048,075	505,899
Cash and bank balances	19	304,285	578,324
		9,638,754	12,594,986
TOTAL ASSETS		69,873,805	67,453,104
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Share capital			
Authorised capital 1,000,000 (June 30, 2018: 1,000,000) ordinary shares of Rs 1,000 each		1,000,000	1,000,000
Issued, subscribed and paid up capital	20	1,000,000	1,000,000
Reserves			
Surplus on revaluation of property, plant and equipment - net	21	54,301,206	51,503,347
Other reserves	21	7,881,188	7,858,598
		62,182,394	59,361,945
TOTAL EQUITY		63,182,394	60,361,945
NON CURRENT LIABILITIES			
Liabilities against assets subject to finance leases	22	20,426	28,145
Deferred liabilities	23	4,311,844	4,098,377
		4,332,270	4,126,522
CURRENT LIABILITIES			
Trade and other payables	24	2,110,691	2,049,141
Payable to NSPC		240,306	905,862
Accrued mark-up		401	248
Current portion of liabilities against assets subject to finance leases	22	7,743	9,386
		2,359,141	2,964,637
		6,691,411	7,091,159
TOTAL EQUITY AND LIABILITIES		69,873,805	67,453,104
CONTINGENCIES AND COMMITMENTS	25		

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Financial Officer **Chief Executive Officer**

Chief Executive Officer **Director**

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
Net sales		13,947,169	12,214,281
Cost of sales	26	(11,419,149)	(9,362,218)
GROSS PROFIT		2,528,020	2,852,063
Administrative expenses	27	(797,988)	(591,418)
Other expenses	28	(533,977)	(218,442)
Other income	29	464,351	376,982
		(867,614)	(432,878)
Operating profit		1,660,406	2,419,185
Finance cost	30	(4,057)	(3,273)
Share of profit from associates	31	702,297	691,417
PROFIT BEFORE TAXATION		2,358,646	3,107,329
Taxation	32	(529,222)	(1,048,115)
PROFIT AFTER TAXATION		1,829,424	2,059,214
		----------Rupees----------	
EARNINGS PER SHARE	33	1,829	2,059

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Financial Officer **Chief Executive Officer**

Chief Executive Officer **Director**

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	June 30, 2019	June 30, 2018
	----------Rupees '000----------	
Profit for the year	1,829,424	2,059,214
Other comprehensive income / (loss) for the year:		
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive loss of associates	-	(64,227)
Impact of deferred tax	-	9,634
	-	(54,593)
Unrealised depreciation during the year on available-for-sale investments of the Corporation	-	(3,260)
Total items that may be reclassified subsequently to profit or loss	-	(57,853)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of post retirement benefits obligation of associates (notes 7.1 and 7.2)	(3,590)	1,990
Remeasurement of post retirement benefits obligation of the Corporation	274,495	(683,174)
Impact of deferred tax	(79,604)	170,794
	194,891	(512,380)
Gain on revaluation of property, plant and equipment	2,614,218	-
Impact of deferred tax on reversal of revaluation	185,506	-
	2,799,724	-
Total items that will not be reclassified subsequently to profit or loss	2,991,025	(510,390)
Total other comprehensive income / (loss) for the year	2,991,025	(568,243)
Total comprehensive income for the year	4,820,449	1,490,971

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Financial Officer **Chief Executive Officer**

Chief Executive Officer **Director**

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from / (utilised in) from operations	36	445,617	(673,782)
Taxes paid		(1,089,063)	(1,025,898)
Pension paid		(75,658)	(76,844)
Long term loans		(141,271)	17,094
Long term deposits - net		(9,894)	(5,336)
Net cash utilised in operating activities		(870,269)	(1,764,766)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(2,445,028)	(33,197)
Proceeds from sale of long term investments		-	99,955
Purchase of short term investments		(5,817,859)	(22,014)
Proceeds from sale of property, plant and equipment		-	3,026
Proceeds from sale of short term investments		5,294,822	6,278,834
Mark-up received		391,578	432,658
Dividends received		584,342	418,186
Net cash (utilised in) / generated from investing activities		(1,992,145)	7,177,448
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease rentals paid		(12,066)	(10,269)
Dividend paid		(2,000,000)	-
Net cash utilised in financing activities		(2,012,066)	(10,269)
Net (decrease) / increase in cash and cash equivalents during the year		(4,874,480)	5,402,413
Cash and cash equivalents at the beginning of the year		6,678,324	1,275,911
Cash and cash equivalents at the end of the year	37	1,803,844	6,678,324

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Financial Officer **Chief Executive Officer**

Chief Executive Officer **Director**

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2019

	Issued, subscribed and paid-up capital	Capital reserves				Revenue reserves			Total reserves	Grand total
		Surplus on revaluation of investments	Asset acquisition reserve	Surplus on revaluation of property, plant and equipment - net	Sub-total capital reserves	General reserve	Accumulated (loss)/ profit	Sub-total revenue reserves		
	Rupees '000									
Balance as at July 1, 2017	1,000,000	(24,609)	5,500,000	51,505,483	56,980,874	888,082	2,018	890,100	57,870,974	58,870,974
Transfer to general reserve	-	-	-	-	-	742,868	(742,868)	-	-	-
Transfer to asset acquisition reserve	-	-	2,000,000	-	2,000,000	-	(2,000,000)	(2,000,000)	-	-
Surplus on revaluation of property, plant and equipment - incremental depreciation for the year - net of deferred tax	-	-	-	(2,136)	(2,136)	-	2,136	2,136	-	-
Total comprehensive income for the year ended June 30, 2018										
Profit for the year	-	-	-	-	-	-	2,059,214	2,059,214	2,059,214	2,059,214
Other comprehensive loss	-	(57,853)	-	-	(57,853)	-	(510,390)	(510,390)	(568,243)	(568,243)
	-	(57,853)	-	-	(57,853)	-	1,548,824	1,548,824	1,490,971	1,490,971
Balance as at June 30, 2018	1,000,000	(82,462)	7,500,000	51,503,347	58,920,885	1,630,950	(1,189,890)	441,060	59,361,945	60,361,945
Restatement due to change in accounting policy on application of IFRS 9 (note 2.2)	-	82,462	-	-	82,462	-	(82,462)	(82,462)	-	-
	1,000,000	-	7,500,000	51,503,347	59,003,347	1,630,950	(1,272,352)	358,598	59,361,945	60,361,945
Transactions with owners										
Cash dividend for the year ended June 30, 2018 at 200% (i.e. Rs 2,000 per share)	-	-	-	-	-	-	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)
Transfer to general reserve	-	-	-	-	-	59,214	(59,214)	-	-	-
Surplus on revaluation of property, plant and equipment - incremental depreciation for the year - net of deferred tax	-	-	-	(1,865)	(1,865)	-	1,865	1,865	-	-
Total comprehensive income for the year ended June 30, 2019										
Profit for the year	-	-	-	-	-	-	1,829,424	1,829,424	1,829,424	1,829,424
Other comprehensive income	-	-	-	2,799,724	2,799,724	-	191,301	191,301	2,991,025	2,991,025
	-	-	-	2,799,724	2,799,724	-	2,020,725	2,020,725	4,820,449	4,820,449
Balance as at June 30, 2019	1,000,000	-	7,500,000	54,301,206	61,801,206	1,690,164	(1,308,976)	381,188	62,182,394	63,182,394

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Financial Officer **Chief Executive Officer**

Chief Executive Officer **Director**

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. THE CORPORATION AND ITS OPERATIONS

1.1 Pakistan Security Printing Corporation (Private) Limited (the Corporation) was incorporated in Pakistan under the Companies Act, 1913 (now the Companies Act, 2017) and is wholly owned by the State Bank of Pakistan (SBP). The registered office and the factory of the Corporation are located at Jinnah Avenue, Malir Halt, Karachi, in the province of Sindh. The Corporation is principally engaged in the printing of bank notes and prize bonds on behalf of the SBP.

2. SIGNIFICANT ACCOUNTING INFORMATION AND POLICIES

2.1 Basis of preparation

2.1.1 Basis of measurement

These financial statements have been prepared under the historical cost convention unless otherwise specifically stated.

2.1.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the functional and presentation currency of the Corporation.

2.1.3 Section 225 of the Companies Act, 2017 inter alia states that notwithstanding anything in the Companies Act, 2017 any company that intends to make unreserved compliance of the International Financial Reporting Standards (IFRSs) issued by the IASB shall be permitted to do so. Accordingly, the Corporation had opted to make unreserved compliance of the IFRSs.

2.1.4 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). In addition the disclosure requirements of the fifth schedule to the Companies Act, 2017 have also been complied with. Where disclosure requirements of the fifth schedule to the Companies Act, 2017 differ from the IFRSs issued by IASB, the requirements of the IFRSs issued by IASB have been followed.

2.2 Change in accounting standards, interpretations and amendments to applicable financial reporting framework

a) New standards, amendments and interpretation to applicable financial reporting framework which are effective during the year:

There are certain new standards, amendments to the standards and interpretations that became mandatory for the Corporation during the year ended June 30, 2019. The amendments and interpretations did not have any significant impact on the financial reporting of the Corporation and, therefore, have not been detailed in these financial statements.

In addition to the above, the following two new standards have become applicable to the Corporation effective July 1, 2018:

- IFRS 9 'Financial instruments' – This standard replaced the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. It also included an Expected Credit Loss (ECL) model that replaced IAS 39 incurred loss impairment model. On July 1, 2018 (the date of initial application of IFRS 9), the Corporation's management has assessed which business models apply to the financial assets held by the Corporation and has classified its financial instruments into the appropriate IFRS 9 categories. In accordance with the transititional provisions of IFRS 9, comparative figures and their related gains and losses have been reclassified in the opening statement of financial position as at July 1, 2018 using the modified restatement approach. Further, the financial assets previously classified as 'loans and receivables' and 'held to maturity' have now been classified as 'amortised cost'. As per the requirements of IFRS 9, the Corporation is also required to determine ECL impact on financial assets which are exposed to credit risk. However, majority of the financial assets of the Corporation pertain to counter parties which have high credit rating and no significant delays in realisation of financial assets has been experienced so far. Therefore, the management believes that the impact of ECL would be very minimal and hence the same has not been accounted for in these financial statements . The effects of adoption of IFRS 9 are set out as follows:

	As at June 30, 2018	Effects of adoption of IFRS 9	As at July 1, 2018
	----------Rupees in '000----------		
Impacts on:			
Assets			
Investments - 'available for sale'	23,904	(23,904)	-
Investments - 'at fair value through profit or loss'	1,328,263	23,904	1,352,167
Statement of changes in equity			
Unrealized depreciation on available for sale' investments	(82,462)	82,462	-
Accumulated loss	(1,189,890)	(82,462)	(1,272,352)

- IFRS 15 'Revenue from contracts with customers' – This standard introduces a single five-step model for revenue recognition with a comprehensive framework based on core principle that an entity should recognise revenue representing the transfer of promised goods or services under separate performance obligations under the contract to customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 replaces the previous revenue standards: IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on revenue recognition.

The changes laid down by IFRS 15 did not have any significant impact on these financial statements. However, related changes to the accounting policies have been made in these financial statements.

b) New standards and amendments to applicable financial reporting framework that are not yet effective

- IFRS 16 'Leases' will be effective for the Corporation's annual accounting period beginning July 1, 2019. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases has been removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. At present, the Corporation is in the process of determining the impacts of application of IFRS 16 on future financial statements of the Corporation.

- Additionally there is another new standard (i.e. IFRS 17 'Insurance Contracts'), certain amendments and an interpretation to the approved accounting and reporting standards that will be mandatory for the Corporation's annual accounting periods beginning on or after July 1, 2019. However, these will not have any significant impact on the financial reporting of the Corporation and, therefore, have not been disclosed in these financial statements.

2.3 Property, plant and equipment

2.3.1 Owned

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment, if any, except for land and buildings which are carried at revalued amounts less any accumulated depreciation and subsequent accumulated impairment, if any. Increase in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in the equity. To the extent that the increase reverses a decrease previously recognised in the profit or loss, the increase is first recognised in the profit or loss. Decrease that reverses previous increase of the same asset is first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset while all other decreases are charged to the profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the 'revaluation surplus on property, plant and equipment' (PPE) to 'accumulated profit / (loss)'. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the assets. Upon disposal, any revaluation reserve relating to the particular assets being sold is transferred to accumulated profit / (loss).

Depreciation is charged to profit or loss applying the straight line method whereby the depreciable amount of an asset is depreciated over its estimated useful life at the rates specified in note 4.1.1 to these financial statements.

Depreciation on additions is charged from the month in which the asset is available for use and continued to be depreciated until it is derecognised, that is, upto the month preceding the month of disposal. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use.

No depreciation is charged if the asset's residual value exceeds its carrying amount.

Residual values, useful lives and methods of depreciation are reviewed at each reporting date and adjusted if expectations differ significantly from previous estimates.

Useful lives are determined by the management based on expected usage of the asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of the assets and other similar factors.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the recoverable amount.

Major renewals, replacements and improvements that meet the recognition criteria in IAS 16 'Property, Plant and Equipment' are capitalised and the assets so replaced, if any, are retired. Normal repairs and maintenance are charged to profit or loss as and when incurred. Gains and losses on disposals of the assets are included in profit or loss in the year in which disposal is

2.3.2 Capital work in progress

These are stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

2.3.3 Leased

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.

2.4 **Investment properties**

Investment properties, principally leasehold building, are held for long term rental yields and are not occupied by the Corporation. Investment properties are measured initially at cost, including related transaction costs. These properties are carried at cost.

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

2.5 **Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are recognised when it is probable that the expected future economic benefits will flow to the Corporation and the cost of the asset can be measured reliably. Cost of the intangible asset includes purchase cost and directly attributable expenses incidental to bring the asset for its intended use.

Costs associated with maintaining computer software are recognised as an expense as and when incurred.

Amortisation is charged to profit or loss on a straight line basis over the estimated useful life at the rates specified in note 6.1 to these financial statements unless such lives are indefinite. All intangible assets with indefinite useful lives are systematically tested for impairment at each reporting date. Amortisation on additions to intangible assets is charged from the date on which an item is acquired or capitalised and upto the date preceding the disposal.

Useful lives of intangible assets are reviewed, at each reporting date and adjusted if the impact of amortisation is significant.

2.6 **Impairment of property, plant and equipment and intangible assets**

The Corporation assesses at each reporting date whether there is any indication that property, plant and equipment and intangible assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed recoverable amounts, assets are written down to their recoverable amounts and the differences are recognised in profit or loss.

2.7 **Stores and spares**

Stores and spares 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 Corporation 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.

2.8 **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.

2.9 **Trade debts and other receivables**

Trade debts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. Effective July 1, 2018, due to adoption of IFRS 9, impairment is recognised using Expected Credit Loss method. Upto June 30, 2018, provision for doubtful trade debts and other receivables was established when there was objective evidence that the Corporation would not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade

2.10 **Taxation**

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in profit or loss or other comprehensive income to which it relates.

Current tax

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into account tax credits and tax rebates available, if any, and tax paid on final tax basis or minimum tax on turnover or seventeen percent of accounting profit, whichever is higher. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from the assessments made / finalised during the year.

Deferred tax

Deferred tax is recognised using the liability method on all temporary differences between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all major taxable temporary differences.

Deferred tax assets are recognised for all major deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profits will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is utilised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the reporting date.

2.11 **Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of the statement of cash flows, cash and cash equivalents comprise of cash in hand, deposits held with banks and other short term highly liquid investments with maturities of three months or less from the date of acquisition.

2.12 **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.

2.13 **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 can be made of the amount of the obligation. Provisions are reviewed periodically and adjusted to reflect the current best estimates.

2.14 **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 whether billed or not.

2.15 **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.

2.16 **Staff retirement benefits**

Defined benefit plan

The Corporation operates an approved defined benefit funded pension scheme for all its permanent employees under the Pakistan Security Printing Corporation (Private) Limited - Employees (Pension and Gratuity) Regulations, 1993 (the Regulations). During the year ended June 30, 2017, as a result of business reorganisation, employees relating to National Security Printing Company (Private) Limited (NSPC) were transferred to NSPC and as per the business transfer agreement dated May 19, 2017, the costs of gratuity or pension are to be borne by transferee company i.e. NSPC, accordingly, the pension fund has become a multi-employer fund. Contribution to the pension fund is made based on the actuarial valuation carried out on annual basis using Projected Unit Credit method. All actuarial gains and losses are recognised in other comprehensive income as they occur. 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. Provision for gratuity has been calculated on the basis of Projected Unit Credit method.

2.17 **Employees' compensated absences**

The Corporation accounts for the liability in respect of employees' compensated absences in the year in which these are earned. Annual provisions to cover the obligations under the scheme are based on estimates and are charged to profit or loss currently. As the component of the liability involved is not material, the Corporation does not carry out actuarial valuation for the said liability.

2.18 **Revenue recognition**

(a) 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.

(b) Rental income from property is accrued on time proportion basis at agreed rates.

(c) Interest income on investments at amortized cost are recognised using effective interest rate method.

(d) Return on bank deposits is recognised on accrual basis taking into account the effective yield.

(e) Dividend income is recognised when the Corporation's right to receive the dividend is established.

(f) Gains and losses arising on sale of investments are included in profit or loss in the period in which they arise.

(g) Scrap sales and miscellaneous income are recognised on receipt basis.

(h) Unrealised gains and losses arising on revaluation of securities designated at fair value through profit or loss are included in profit or loss in the period in which they arise.

(i) Unrealised gains and losses arising on revaluation of securities classified as fair value through other comprehensive income are included in other comprehensive income in the period in which they arise.

2.19 **Foreign currency transactions**

Transactions in foreign currencies are recorded in Pakistan Rupee at the exchange rates approximating those prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are reported in Pakistan Rupee at the exchange rates approximating those prevalent at the reporting date. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences are recognised in profit or loss.

2.20 **Dividend and other appropriations**

Dividend is recognised as a liability in the period in which it is declared. Appropriation of profit is reflected in the statement of changes in equity in the period in which such appropriation is approved.

2.21 **Financial instruments**

2.21.1 Financial assets

Effective July 1, 2018, the Corporation classifies its financial assets at amortised cost, fair value through other comprehensive income and fair value through profit or loss on the basis of the Corporation's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

(i) Financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flow represents solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets, impairment losses, foreign exchange gains and losses, and gain or loss arising on derecognition are recognised directly in profit or loss.

(ii) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(iii) Financial assets at fair value through profit or loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income or assets that are designated at fair value through profit or loss using fair value option, are measured at fair value through profit or loss. A gain or loss on debt investment that is subsequently measured at fair value through profit or loss is recognised in profit or loss in the period in which it arises.

Equity instrument financial assets are measured at fair value and subsequent to initial recognition, changes in fair value of these financial assets are normally recognised in profit or loss. Dividends from such investments continue to be recognised in profit or loss when the Corporation's right to receive payment is established. Where an election is made to present fair value gains and losses on equity instruments in other comprehensive income there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets are derecognized when the Corporation loses control of the contractual rights that comprise the financial asset. Assets or liabilities that are not contractual in nature and that are created as a result of statutory requirements imposed by the Government are not the financial instruments of the Corporation.

2.21.2 Financial liabilities

Financial liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instrument. Financial liabilities at amortised cost are initially measured at fair value less transaction costs. Financial liabilities at fair value through profit or loss are initially recognised at fair value and transaction costs are recognised in profit or loss.

Financial liabilities, other than those at fair value through profit or loss, are subsequently measured at amortised cost using the effective yield method.

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

2.21.3 Off-setting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the financial statements if the Corporation has a legally enforceable right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.21.4 Impairment

(a) Financial assets

The Corporation assesses on a forward looking basis the expected credit losses associated with its financial assets. The Corporation applies the simplified approach to recognise lifetime expected credit losses for trade debts, and other contract assets.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The Corporation recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date.

(b) Non-financial assets

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated to determine the extent of impairment loss, if any. An impairment loss is recognized as an expense in the profit or loss. The recoverable amount is the higher of an asset's fair value less cost of disposal and value-in-use. Value-in-use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

2.22 **Contingent liabilities**

A contingent liability is disclosed when:

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Corporation; or

- there is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.23 **Investment in associates**

Entities in which the Corporation 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 Corporation's share of profit or loss of associates. Share of post acquisition profit or loss of associates is accounted for in the Corporation's profit or loss. Distribution received from investee reduces the carrying amount of investment. The Corporation's share of associate's other comprehensive income is recognised in other comprehensive income of the Corporation.

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 profit or loss.

Unrealised gains / losses arising from transactions with associated companies are eliminated against the investment in the associates to the extent of Corporation'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 Corporation accounts for its share of comprehensive income from associates as at year end on the basis of latest available financial statements of associates but not older than three months.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with the applicable financial reporting framework requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In the process of applying the Corporation's accounting policies, the management has made the following estimates and judgments which are significant to these financial statements:

a) Assumptions and estimates used in determining the recoverable amount, residual values and useful lives of property, plant and equipment (note 4);

b) assumptions and estimates used in determining the fair value of land and buildings (note 4);

c) assumptions and estimates used in determining the useful lives and residual values of intangibles (note 6);

d) assumptions and estimates used in the recognition of current and deferred tax (notes 11 and 32);

e) assumptions and estimates used in determining the provision for slow moving stores and spares (note 12);

f) assumptions and estimates used in writing down items of stock-in-trade to their net realisable value (note 13);

g) assumptions and estimates used in calculating the provision for impairment for trade debts (note 14);

h) assumptions and estimates used in measurement of fair value of investments (notes 8 and 18);

i) assumptions and estimates used in accounting for defined benefit plan (note 23); and

j) assumptions and estimates used in disclosure and assessment of provision for contingencies (note 25).

	Note	June 30, 2019	June 30, 2018
4. PROPERTY, PLANT AND EQUIPMENT		----------Rupees '000----------	
Operating fixed assets	4.1	55,513,594	52,133,906
Capital work in progress	4.3	1,591,017	10,460
		57,104,611	52,144,366

4.1 Operating fixed assets

4.1.1 The following is a statement of operating fixed assets:

	Owned							Leased	Total
	Freehold land and building thereon	Plant and machinery	Power and other installation	Furniture and fixtures	Office equipment and machinery	Vehicles	Sub total	Vehicles	
	----Rupees '000----								
As at July 1, 2017									
Cost	51,807,132	6,398,025	280,176	44,044	193,651	17,515	58,740,543	42,357	58,782,900
Accumulated depreciation	(3,312)	(6,150,202)	(216,841)	(34,733)	(158,232)	(17,332)	(6,580,652)	(27,475)	(6,608,127)
Net book value	51,803,820	247,823	63,335	9,311	35,419	183	52,159,891	14,882	52,174,773
Year ended June 30, 2018									
Additions	4,139	1,530	1,625	1,232	12,358	6,341	27,225	30,317	57,542
Transfers from capital work in progress during the year (note 4.3.1)	4,374	-	-	-	-	-	4,374	-	4,374
Transfers									
Cost	-	-	-	-	-	10,654	10,654	(10,654)	-
Accumulated depreciation	-	-	-	-	-	(10,283)	(10,283)	10,283	-
Net book value	-	-	-	-	-	371	371	(371)	-
Disposals									
Cost	-	-	-	-	-	(11,481)	(11,481)	(5,251)	(16,732)
Accumulated depreciation	-	-	-	-	-	11,110	11,110	4,055	15,165
Net book value	-	-	-	-	-	(371)	(371)	(1,196)	(1,567)
Depreciation charge for the year	(13,029)	(42,271)	(22,561)	(2,690)	(10,820)	(900)	(92,271)	(8,945)	(101,216)
Net book value as at June 30, 2018	51,799,304	207,082	42,399	7,853	36,957	5,624	52,099,219	34,687	52,133,906
Year ended June 30, 2019									
Additions	91	4,273	-	7,600	5,950	6,059	23,973	-	23,973
Transfers from capital work in progress during the year (note 4.3.1)	-	840,498	-	-	-	-	840,498	-	840,498
Depreciation charge for the year	(12,132)	(38,422)	(21,841)	(3,146)	(11,713)	(2,557)	(89,811)	(9,190)	(99,001)
Revaluation adjustment (note 4.1.2)									
Cost	2,585,745	-	-	-	-	-	2,585,745	-	2,585,745
Accumulated depreciation	28,473	-	-	-	-	-	28,473	-	28,473
	2,614,218	-	-	-	-	-	2,614,218	-	2,614,218
Net book value as at June 30, 2019	54,401,481	1,013,431	20,558	12,307	31,194	9,126	55,488,097	25,497	55,513,594
As at June 30, 2018									
Cost	51,815,645	6,399,555	281,801	45,276	206,009	23,029	58,771,315	56,769	58,828,084
Accumulated depreciation	(16,341)	(6,192,473)	(239,402)	(37,423)	(169,052)	(17,405)	(6,672,096)	(22,082)	(6,694,178)
Net book value	51,799,304	207,082	42,399	7,853	36,957	5,624	52,099,219	34,687	52,133,906
As at June 30, 2019									
Cost	54,401,481	7,244,326	281,801	52,876	211,959	29,088	62,221,531	56,769	62,278,300
Accumulated depreciation	-	(6,230,895)	(261,243)	(40,569)	(180,765)	(19,962)	(6,733,434)	(31,272)	(6,764,706)
Net book value	54,401,481	1,013,431	20,558	12,307	31,194	9,126	55,488,097	25,497	55,513,594
Annual rates of depreciation	**0% - 5%**	**6.67%-10%**	**10% - 20%**	**10% - 20%**	**10% - 33%**	**20%**		**20%**	

4.1.2 A revaluation exercise to determine the fair value of the land was conducted as at June 30, 2019 by engaging an external expert. 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.

The land has been valued on the basis of fair market value while buildings' revaluation represents current cost of construction for relevant type of civil works. Land and buildings are carried at revalued amounts (level 3) determined by professional valuer based on their assessment of the market values. The unobservable inputs used in the valuations cannot be determined with certainity, accordingly, a qualitative disclosure of sensitivity has not been presented in these financial statements.

For better presentation and in view of the valuation methodology of 'highest and best use' being followed for the Corporation's land, freehold land and building thereon have been shown as a single class of operating fixed assets.

4.1.3 Had there been no revaluation, the written down value of specific classes of operating fixed assets based on cost model would have been as follows:

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
Freehold land		3,241	3,241
Building on freehold land		97,034	106,464
		100,275	109,705

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

Cost of sales	26	64,857	72,378
Administrative expenses	27	31,761	28,838
Charged to NSPC		2,383	-
		99,001	101,216

4.3 Capital work in progress

Civil works		38,448	-
Plant and machinery		1,552,569	10,460
		1,591,017	10,460

4.3.1 The movement in capital work in progress is as follows:

Balance as at beginning of the year		10,460	8,862
Additions during the year			
- Plant and machinery		2,382,607	5,972
- Civil works		38,448	-
		2,421,055	5,972
Transfers to operating fixed assets			
- Plant and machinery	4.1.1	(840,498)	-
- Building on freehold land		-	(4,374)
		(840,498)	(4,374)
Balance at end of the year		1,591,017	10,460

4.4 Forced sales value of freehold land is Rs 44,986.584 million.

	June 30, 2019	June 30, 2018
	----------Rupees '000----------	
5. INVESTMENT PROPERTY		
Cost	2,732	2,732
Accumulated depreciation	(2,732)	(2,732)
Balance as at June 30	-	-

5.1 As a result of revaluation exercise by an independent valuer, the fair value of the investment property was assessed to be Rs 32.315 million as at March 31, 2017 and which in view of the management has not changed significantly as at June 30, 2019.

	Note	June 30, 2019	June 30, 2018
6. INTANGIBLES		----------Rupees '000----------	
Computer software			
As at July 1			
Cost		20,533	20,533
Accumulated amortisation		(20,527)	(20,437)
Net book value		6	96
Year ended June 30			
Amortisation for the year	6.1 & 6.2	(2)	(90)
Net book value as at June 30		4	6
As at June 30			
Cost		20,533	20,533
Accumulated amortisation		(20,529)	(20,527)
Net book value		4	6

6.1 Computer software are being amortised over a useful life of 5 years.

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

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
Cost of sales	26	-	88
Administrative expenses	27	2	2
		2	90

7. LONG TERM INVESTMENTS IN ASSOCIATES

Investments in the following associates are accounted for using equity method of accounting:

	Note	June 30, 2019	June 30, 2018
Security Papers Limited	7.1	1,790,164	1,741,299
SICPA Inks Pakistan (Private) Limited	7.2	696,889	604,285
		2,487,053	2,345,584

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
7.1 **Security Papers Limited (SPL)**			
Ownership interest		40.03%	40.03%
Cost		5,032	5,032
Share of post acquisition after tax profits	7.1.1	3,243,524	2,978,687
Effect of first time application of IFRS 9 on after tax profits		(100,561)	-
Share in after tax other comprehensive income	7.1.2	(130,274)	(127,798)
Effect of restatement on other comprehensive income		7,970	7,970
Effect of first time application of IFRS 9 on other comprehensive income	2.2	100,561	-
Dividend received		(1,336,088)	(1,122,592)
		1,790,164	1,741,299

7.1.1 The movement in share of post acquisition after tax profit for SPL is as follows:

	Note	June 30,	June 30,
		----------Rupees '000----------	
Opening balance		2,978,687	2,608,621
Share of after tax profit from associate for the year ended June 30	7.1.2	309,045	295,587
Unrealised (gain) / loss on transactions	7.1.3	(44,208)	74,479
		264,837	370,066
Closing balance		3,243,524	2,978,687

7.1.2 These amounts are based on audited annual financial statements of SPL as at and for the year ended June 30, 2019.

7.1.3 This represents the effect of elimination of unrealised gain / loss on transactions between the associate i.e. SPL and the Corporation to the extent of its interest in the associate (40.03%).

	Note	June 30,	June 30,
		----------Rupees '000----------	
7.2 SICPA Inks Pakistan (Private) Limited (SICPA)			
Ownership interest		47.00%	47.00%
Cost		26,790	26,790
Share of post acquisition after tax profits	7.2.1	2,181,756	1,744,296
Effect of restatement on after tax profits		375	375
Effect of first time application of IFRS 9 on after tax profits		3,554	-
Share in after tax other comprehensive income	7.2.2	(2,261)	(1,147)
other comprehensive income		(3,554)	-
Dividend received	7.2.3	(1,509,243)	(1,165,501)
		696,889	604,285

7.2.1 The movement in share of post acquisition after tax profit for SICPA is as follows:

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
Opening balance		1,744,296	1,422,945
Share of after tax profit from associate			
Closing balance		2,181,756	1,744,296

7.2.2 These amounts are based on annual audited financial statements of SICPA as at and for the year ended December 31, 2018 which have been adjusted using the unaudited interim financial information for the three months periods ended March 31, 2018 and March 31, 2019.

7.2.3 During the year ended June 30, 2019, the Corporation received dividend from SICPA subsequent to March 31, 2019 (being the date of the associate's financial information used for recording share of profit from associate) amounting to Rs 56.473 million (2018: Rs 43.534 million) which has been adjusted in the carrying value of investment in associate as at June 30, 2019.

7.3 Summarised financial statements / financial information of the associates are as follows:

	SPL		SICPA	
	(audited)		(unaudited)	
	June 30,		March 31,	
	2019	2018	2019	2018
	Rupees '000			
Assets	6,084,434	5,891,505	2,539,949	2,152,650
Liabilities	1,146,338	1,185,954	937,043	774,307
Revenue	4,001,591	3,466,918	5,345,618	3,469,552
Profit after tax	772,034	738,412	930,505	683,726
Other comprehensive	(6,185)	(159,270)	(2,106)	3,231

7.4 The market value of SPL as at June 30, 2019 is Rs 92.79 per share (2018: Rs 121.02 per share) i.e. an aggregate amount of Rs 2,201.140 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 753.362 million (March 31, 2018: Rs 647.821 million).

8. OTHER LONG TERM INVESTMENTS

Designated at fair value through profit or loss:

June 30,	June 30,	Name of investee	June 30,	June 30,
Number of units			Rupees '000	
2,217,429	2,217,429	Al Hamra Islamic Stock Fund	19,092	23,904

This represents investment with Al Hamra Islamic Stock Fund having cost of Rs 10 million (2018: Rs 10 million).

			June 30, 2019	June 30, 2018
9.	**LONG TERM LOANS**		----------Rupees '000----------	
	Long term loans to employees		254,729	92,626
	Less: Current maturity	15	(26,070)	(10,539)
			228,659	82,087

9.1 The amount represents a housing loan scheme for all of the Corporation's permanent employees who have completed a minimum service period of eight years. The loan is granted to selected employees on the basis of the years of service with the Corporation with equal opportunity for the employees in all categories. The loan is granted at a service cost of 3% per annum on the outstanding loan amount. The loan is repayable in 10 years in equal monthly installments.

9.2 The fair value adjustment in accordance with the requirements of IFRS 9 arising in respect of these loans is not considered material in the overall context of these financial statements and hence not recognised.

		Note	June 30, 2019	June 30, 2018
10.	**LONG TERM DEPOSITS**		----------Rupees '000----------	
	Considered good			
	Security deposits	10.1	21,202	11,041
	Lease deposits		5,491	5,758
	Others		1,373	1,373
			28,066	18,172

These include deposits provided to K-Electric Limited, Sui Southern Gas Company Limited and Karachi Water & Sewerage Board in respect of utilities availed by the Corporation from respective suppliers.

		June 30, 2019	June 30, 2018
11.	**DEFERRED TAXATION**	----------Rupees '000----------	
	Deductible temporary differences		
	Property, plant and equipment	-	12,823
	Stores and spares	10,710	7,911
	Stock-in-trade	14,856	12,969
	Trade debts	150	39
	Loans and advances	1,611	1,389
	Short term investments	36,311	1,476
	Other receivables	8,552	7,372
	Liabilities under finance lease	8,169	9,383
	Deferred liabilities - pension payable	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)
	Other long term investment		
	Long term loan		
	Accrued markup - asset		
	Short term investments	-	-
	Accrued markup - liability	-	-
	Surplus on revaluation of property, plant and equipment - net	-	(155,210)
		(436,966)	(502,274)
	Deferred taxation asset	367,566	243,999

11.1 The movement in temporary differences is as follows:

	Balance as at July 1, 2018	Recognised in profit or loss	Recognised in Other Comprehesive Income	Balance as at June 30, 2019
	----------Rupees '000----------			
Property, plant and equipment	12,823	(81,504)	-	(68,681)
Stores and spares	7,911	2,799		10,710
Stock-in-trade	12,969	1,887	-	14,856
Trade debts	39	111	-	150
Loans and advances	1,389	222	-	1,611
Short term investments	1,476	34,835	-	36,311
Other receivables	7,372	1,180	-	8,552
Liabilties under finance lease	9,383	(1,214)	-	8,169
Deferred liabilities - pension payable	692,911	110,866	(79,604)	724,173
Surplus on revaluation of property, plant and equipment	(155,210)	(30,296)	185,506	-
Long term investment in associates	(347,064)	(21,221)	-	(368,285)
	243,999	17,665	105,902	367,566

	Note	June 30,	June 30,
12. STORES AND SPARES		----------Rupees '000----------	
Engineering spares			
- in hand		369,903	188,752
- in transit		82,374	28,494
General stores			
- in hand		158,342	83,608
- in transit		49,026	23,831
		207,368	107,439
		659,645	324,685
Provision for slow moving stores and spares	12.1	(36,930)	(31,644)
		622,715	293,041

12.1 Provision for slow moving stores and spares

Opening balance	31,644	27,251
Provision made during the year	9,339	7,491
Provision no longer required written back	(4,053)	(3,419)
Provision written off		
Provision transferred from NSPC	-	321
	5,286	4,393
Closing balance	36,930	31,644

		Note	June 30,	June 30,
13.	**STOCK-IN-TRADE**		----------Rupees	'000----------
	Raw materials			
	- in hand		653,088	1,009,187
	- in transit		6,922	15,893
		26	660,010	1,025,080
	Work-in-process	26	2,328,955	1,344,144
	Finished goods	26	13,494	4,359
			3,002,459	2,373,583
	Provision for slow moving and obsolete stock-in-trade	13.1	(51,227)	(51,878)
			2,951,232	2,321,705

13.1 Provision for slow moving and obsolete stock-in-trade

Opening balance		51,878	51,069
Provision made during the year	26	-	809
Provision no longer required written back	29	(651)	-
		(651)	809
Closing balance		51,227	51,878

14. TRADE DEBTS

Unsecured			
Considered good			
- Due from related party - SBP		1,292,416	1,357,094
- Due from others	14.2		
		1,292,416	1,357,094
- Due from others		-	-
		1,292,416	1,357,094
Considered doubtful			
- Due from related party - SBP		517	157
- Due from others			
		517	157
- Due from others		-	-
		517	157
		1,292,933	1,357,251
Less: Provision for doubtful debts	14.1	(517)	(157)
	14.2	1,292,416	1,357,094

14.1 Provision for doubtful debts

Opening balance		157	-
Provision made during the year		1,292	157
Provision no longer required written back		(932)	-
	27	360	157
Closing balance		517	157

14.2 Ageing analysis of the amounts due from the related party is as follows:

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
State Bank of Pakistan			
- Upto 1 month	14.2.1	1,287,673	1,354,769
- 1 to 6 months		-	2,325
- More than 6 months		4,743	-
		1,292,416	1,357,094

14.2.1 The Corporation does not consider balance aged upto one month as 'past due'.

14.3 As at June 30, 2019, trade debts outstanding for more than one year amounted to Rs 0.517 million (2018: Rs 0.157 million) were impaired.

14.4 Receivable from SBP is pledged as security against running finance facility obtained by the Corporation from Bank Al-Habib Limited (note 35). The related 'No Objection Certificate' has been obtained from SBP vide SBP's letter number CMD/211/2-2011 dated March 2, 2011.

14.5 The maximum amount of receivable due from related party - SBP at the end of any month during the year was Rs 1,491.183 million (2018: Rs 2,581.250 million).

	June 30, 2019	June 30, 2018
15. LOANS AND ADVANCES	----------Rupees '000----------	
Loans - *Considered good*		
Employees	26,070	10,539
Advances - *Considered good*		
Suppliers	23,950	17,797
Employees	14,829	704
	38,779	18,501
Advances - *Considered doubtful*		
Suppliers	5,556	5,556
Less: Provision for doubtful balances	(5,556)	(5,556)
	-	-
	64,849	29,040

16. TRADE DEPOSITS AND PREPAYMENTS		
Deposits with excise and custom authorities	1,044	1,044
Margin against letter of credit	41,208	-
Deposits with Pakistan National Shipping Corporation (PNSC)	3,150	-
	45,402	1,044
Short-term prepayments	18,961	8,777
	64,363	9,821

		Note	June 30, 2019	June 30, 2018
			----------Rupees '000----------	
17.	**OTHER RECEIVABLES**			
	Considered good			
	Advance sales tax		107,707	9,444
	Workers' Profits Participation Fund	17.1	24,394	3,102
	Insurance claim		264	182
	Others		2,122	32,369
			134,487	45,097
	Considered doubtful			
	Sales tax recoverable			
	- On sale of assets to SICPA		26,529	26,529
	- Others		2,959	2,959
			29,488	29,488
			163,975	74,585
	Less: Provision for doubtful balances		(29,488)	(29,488)
			134,487	45,097

17.1 Workers' Profits Participation Fund

Asset at the beginning of the year		3,102	8,260
Allocation for the year	28	(75,606)	(116,898)
		(72,504)	(108,638)
Payments made during the year		96,898	111,740
Receivable at the end of the year		24,394	3,102

18.	**SHORT TERM INVESTMENTS**		
	Investments at 'amortised cost'		
	Term Deposit Receipts	18.1	1,522,000	6,122,000
	Treasury Bills	18.2	499,559	-
			2,021,559	6,122,000
	Investments at 'fair value through profit or loss'			
	Mutual funds	18.3 & 18.4	1,119,067	1,328,263
			3,140,626	7,450,263

18.1 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 25.1.6).

18.2 These represent investments in three months Treasury Bills having a yield of 10.96% per annum. These Treasury Bills have matured subsequent to the year end on July 4, 2019.

18.3 Investments in mutual funds designated at fair value through profit or loss:

June 30, 2019	June 30, 2018	Name of investee	June 30, 2019	June 30, 2018
------- Number of units ------			---------Rupees '000----------	
748,554	666,328	MCB Cash Management Optimizer Fund	75,263	70,587
6,758,035	6,758,035	Meezan Islamic Fund	323,913	428,019
741,447	669,794	MCB DCF Income Fund	78,958	74,565
6,168,107	6,168,107	ABL Islamic Stock Fund	74,846	89,787
129,909	115,695	Atlas Money Market Fund	65,317	61,241
7,571,877	7,571,877	NAFA Islamic Asset Allocation Fund	104,045	117,461
17,735,243	17,735,243	NAFA Islamic Stock Fund	161,527	202,134
1,550	1,372	NAFA Money Market Fund	15	14
417,331	417,331	Al-Ameen Shariah Stock Fund	45,702	56,039
2,602,512	2,602,512	MSAF Meezan Strategic Allocation Plan I	94,605	114,551
2,645,091	2,645,091	MSAF Meezan Strategic Allocation Plan II	94,876	113,865
45,519,656	45,351,385		1,119,067	1,328,263

18.4 The Corporation invests in a portfolio of financial assets (investments in mutual funds) with a view to earn profit from their total return in the form of dividends or changes in fair value and evaluates its performance on that basis.

	Note	June 30, 2019	June 30, 2018
19. CASH AND BANK BALANCES		----------Rupees '000----------	
With banks in current accounts			
- remunerative	19.1	266,688	542,370
- non-remunerative		27,556	20,209
		294,244	562,579
Cash in hand		10,041	15,745
		304,285	578,324

19.1 These accounts carry mark-up ranging from 5.85% to 11.00% (2018: 4.50% to 6.25%) per annum.

20. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

June 30, 2019	June 30, 2018		June 30, 2019	June 30, 2018
--------(No. of Shares)--------			---------Rupees '000----------	
529,237	529,237	Ordinary shares of Rs 1,000 each fully paid in cash	529,237	529,237
1,999	1,999	Ordinary shares of Rs 1,000 each issued as fully paid for consideration other than cash	1,999	1,999
468,764	468,764	Ordinary shares of Rs 1,000 each issued as fully paid bonus shares	468,764	468,764
1,000,000	1,000,000		1,000,000	1,000,000

20.1 As at June 30, 2019, 1,000,000 ordinary shares of Rs 1,000 each were held by SBP (the parent) and its nominee.

	Note	June 30, 2019	June 30, 2018
21. RESERVES		----------Rupees '000----------	
Surplus on revaluation of property, plant and equipment - net	21.2	54,301,206	51,503,347
Other reserves			
- Deficit on revaluation of investments		-	(82,462)
- Asset acquisition reserve	21.1	7,500,000	7,500,000
- General reserve		1,690,164	1,630,950
- Accumulated loss		(1,308,976)	(1,189,890)
		7,881,188	7,858,598
		62,182,394	59,361,945

21.1 This includes amount transferred from unappropriated profit each year for the purpose of setting aside reserves for future capital expenditure. The reserve is not utilisable for the purpose of distribution to shareholders.

	June 30, 2019	June 30, 2018
	----------Rupees '000----------	
21.2 **Surplus on revaluation of property, plant and equipment - net**		
As at July 1		
- Freehold land	51,068,759	51,068,759
- Buildings on freehold land	620,840	623,892
	51,689,599	51,692,651
Surplus on revaluation of land and buildings on freehold land	2,614,218	-
Less: Transferred to accumulated loss		
Surplus relating to incremental depreciation charged during the year - net of deferred tax	(1,865)	(2,136)
Related deferred tax	(746)	(916)
	(2,611)	(3,052)
	54,301,206	51,689,599
Less: Related deferred tax liability:		
As at July 1	(186,252)	(187,168)
Deferred tax adjustment	6,220	-
Incremental depreciation charged during the year on related assets transferred to profit or loss	746	916
Deferred tax reversal on account of revaluation	179,286	
Deferred tax liability recognised on surplus	-	(186,252)
	54,301,206	51,503,347

22. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

	June 30, 2019			June 30, 2018		
	Minimum lease payments	Financial charges	Present value of minimum lease payments	Minimum lease payments	Financial charges	Present value of minimum lease payments
	----------Rupees '000----------					
Not later than one year	9,998	2,255	7,743	11,302	1,916	9,386
Later than one year and not later than five years	22,549	2,123	20,426	29,516	1,371	28,145
	32,547	4,378	28,169	40,818	3,287	37,531
Less: shown in current maturity			(7,743)			(9,386)
Long term portion			20,426			28,145

22.1 The above represents finance leases entered into to procure the Corporation's vehicles. The financing rate used as discounting factor ranges from 9.56% to 11.54% (2018: 6.17% to 7.19%). The Corporation intends to exercise its option to purchase the leased assets on completion of the respective lease periods. The liabilities against assets subject to finance lease are secured by the lessor's charge over the leased assets. The cost of operating and maintaining the leased assets are borne by the Corporation.

22.2 Following is the movement in liabilities against assets subject to finance leases:

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
Opening balance as at July 1		37,531	16,834
Financial charges on leases		2,704	1,845
Finance leases obtained during the year		-	30,317
Lease discontinued		-	(1,196)
Lease rental paid		(12,066)	(10,269)
Closing balance as at June 30		28,169	37,531

23. DEFERRED LIABILITIES

Defined benefit plan (staff pension scheme) - funded	23.3	4,311,844	4,098,377

23.1 As stated in note 2.16, the Corporation operates a defined benefit plan i.e. an approved funded pension scheme for all its permanent employees subject to attainment of retirement age and minimum service of the prescribed period. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2019. The disclosures made in notes 23.2 to 23.15 are based on the information included in that actuarial report.

23.2 The projected unit credit method using the following significant assumptions was used for this valuation:

	Note	June 30, 2019	June 30, 2018
- Discount rate - per annum		14.50 % p.a	10.00% p.a
- Expected rate of increase in salaries - annual		12.50% p.a	10.00% p.a
- Expected rate of increase in monthly pension		10.00% p.a	6.00% p.a
- Pre-retirement mortality		SLIC 2001-2005	SLIC 2001-2005
- Post-retirement mortality		SLIC 2001-2005	SLIC 2001-2005

23.3 Reconciliation of statement of financial position:

Present value of defined benefit obligation	23.4	5,785,717	5,788,238
Fair value of plan assets	23.5	(1,473,873)	(1,689,861)
Net liability in the statement of financial position		4,311,844	4,098,377

23.4 Present value of defined benefit obligation

as at July 1, 2018 / 2017	5,788,238	4,957,302
Current service cost	69,371	58,305
Interest cost	564,011	448,191
Benefits paid	(296,263)	(223,980)
Past service cost	88,194	-
Remeasurement (gain) / loss on obligation	(427,834)	548,420
Present value as at June 30	5,785,717	5,788,238

23.5 Movement in fair value of plan assets

Fair value as at July 1, 2018 / 2017	1,689,861	1,811,035
Expected return on plan assets	157,956	160,716
Corporation's contributions	75,658	76,844
Benefits paid	(296,263)	(223,980)
Remeasurement loss on fair value of plan assets	(153,339)	(134,754)
Fair value as at June 30	1,473,873	1,689,861

23.5.1 In addition to these investments, plan assets aggregating Rs 453.842 million owned by the Corporation for and on behalf of NSPC in accordance with the common facilities and cost sharing agreement dated May 19, 2017.

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	

23.6 Movement in net liability in the statement of financial position is as follows:

Opening balance of net liability		4,098,377	3,146,267
Charge for the year	23.8	563,620	345,780
Corporation's contributions		(75,658)	(76,844)
Net remeasurement (gain) / loss for the year	23.10	(274,495)	683,174
Closing balance of net liability		4,311,844	4,098,377

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	

23.7 Charge for the year has been allocated as under:

Cost of sales	26	421,941	267,542
Administrative expenses	27	141,679	78,238
		563,620	345,780

23.8 The following amounts have been recognised in profit or loss in respect of the pension plan:

	June 30, 2019	June 30, 2018
	----------Rupees '000----------	
Current service cost	69,371	58,305
Past service cost	88,194	-
Net interest cost	406,055	287,475
	563,620	345,780

23.9 Actual return on plan assets

Expected return on plan assets	157,956	160,716
Remeasurement loss on fair value of plan assets	(153,339)	(134,754)
Actual return on plan assets	4,617	25,962

23.10 Remeasurement recognised in other comprehensive income

Remeasurement (gain) / loss on defined benefit obligation	(427,834)	548,420
Remeasurement loss on fair value of plan assets	153,339	134,754
	(274,495)	683,174

23.11 Plan assets comprise of the following:

	June 30, 2019		June 30, 2018	
	Rs in '000	Percentage %	Rs in '000	Percentage %
Equity instruments	89,092	4.62	582,186	26.12
Debt instruments	1,083,083	56.18	700,260	31.41
Cash and cash equivalents	755,540	39.20	946,867	42.47
	1,927,715	100.00	2,229,313	100.00
Less: Pertaining to NSPC	453,842		539,452	
	1,473,873		1,689,861	

23.12 Expected charge to profit or loss in respect of post employment benefit plan for the year ending June 30, 2020 is Rs 675.572 million.

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

	June 30, 2019		
	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
	Rupees '000		
Discount rate	1%	(587,234)	707,102
Salary growth rate	1%	179,205	(165,726)
Pension indexation rate	1%	541,945	(464,272)

23.14 The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. 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 pension liability recognised within the statement of financial position.

23.15 The weighted average duration of the defined benefit obligation is 11 years (2018: 13 years).

23.16 Through its defined benefit plan, the scheme 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 scheme 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 scheme 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.

		Note	June 30, 2019	June 30, 2018
24.	**TRADE AND OTHER PAYABLES**		----------Rupees '000----------	
	Creditors			
	- Payable to associates	24.1	470,670	1,011,322
	- Payable to others		49,971	24,412
	- Payable to SBP		10,559	41,432
	Bills payable		674,852	2,291
	Accrued liabilities		684,829	640,359
	Advance from SBP	24.2	-	159,490
	Deposits and retention money		25,954	18,443
	Advance rent and security deposits	24.3	1,872	1,817
	Others		191,984	149,575
			2,110,691	2,049,141
24.1	Payable to associates			
	Security Papers Limited		248,423	488,688
	SICPA Inks Pakistan (Private) Limited		222,247	522,634
			470,670	1,011,322

24.2 This represents advance from SBP for the production of prize bonds.

24.3 This includes amount received as security deposit against rent of a premises. This amount has not been kept in a separate bank account since it is utilisable for the purpose of the Corporation's business.

25. CONTINGENCIES AND COMMITMENTS

25.1 **Contingencies**

25.1.1 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.

25.1.2 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.

25.1.3 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.

25.1.4 Outstanding letters of guarantee amounted to Rs 22 million (2018: Rs 22 million).

25.2 **Commitments**

25.2.1 Capital commitments at the year end amounted to Rs 39.467 million (2018: Rs 16.293 million).

25.2.2 Letters of credit for raw material and stores and spares outstanding at the year end amounted to Rs 1,532.645 million (2018: Rs 1,595.255 million).

		Note	June 30, 2019	June 30, 2018
26.	**COST OF SALES**		----------Rupees '000----------	
	Raw material			
	Opening stock		1,025,080	1,144,470
	Purchases including in transit		9,585,440	7,787,202
	Closing stock	13	(660,010)	(1,025,080)
			9,950,510	7,906,592
	Salaries, wages and other benefits		747,889	769,943
	Pension	23.7	421,941	267,542
	Outsourced services		389,589	190,066
	Training		7,657	828
	Stores and spares		603,522	344,812
	Fuel and power		122,001	98,820
	Insurance		10,329	6,497
	Rent, rates and taxes		33,001	27,048
	Depreciation	4.2	64,857	72,378
	Provision for obsolete stores and spares - net		5,286	4,072
	Provision for slow moving and obsolete stock-in-trade - net	13.1	-	809
	Repairs and maintenance		56,513	40,680
	Amortisation	6.2	-	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	13	(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	(13,494)	(4,359)
			(9,135)	229,857
			11,419,149	9,362,218

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
27. ADMINISTRATIVE EXPENSES			
Salaries, wages and other benefits		339,859	277,380
Pension	23.7	141,679	78,238
Outsourced services		60,289	33,266
Training		12,251	5,903
Directors' meeting fee and expenses		2,190	1,172
Fuel and power		28,922	23,946
Insurance		2,895	2,124
Travelling		16,415	16,986
Depreciation	4.2	31,761	28,838
Amortisation	6.2	2	2
Security charges		98,314	81,361
Repairs and maintenance		24,407	14,817
Communication		3,753	2,652
Legal and professional charges		4,226	1,603
Advertisements		8,474	7,691
Printing and stationery		538	247
Operating lease rentals		2,627	1,998
Provision for doubtful debts - net	14.1	360	157
Entertainment		1,084	2,840
Others		17,942	10,197
		797,988	591,418

28. OTHER EXPENSES

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
Auditor's remuneration	28.1	1,197	2,148
Exchange loss - net		220,029	2,293
Workers' Profit Participation Fund	17.1	75,606	116,898
Loss on sale of investments		-	9,808
Loss on remeasurement of investments		237,045	87,195
Others		100	100
		533,977	218,442
28.1 Auditor's remuneration			
Audit fee		847	770
Fee for half yearly review		-	137
Other services	28.1.1	168	1,046
		1,015	1,953
Out of pocket expenses		182	195
		1,197	2,148

28.1.1 These include fee in respect of taxation services.

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
29. OTHER INCOME			
Income from financial assets			
Return on investment in Pakistan Investment Bonds		-	507
Mark-up on bank deposits	29.1	300,085	346,620
Mark-up on Treasury Bills		102,497	-
Dividend income		27,104	-
Service charges on long term loans	9	5,301	3,013
		434,987	350,140
Income from non-financial assets			
- Related parties			
Rental income from SICPA		10,475	9,453
Service charges recovered from SPL		293	335
		10,768	9,788
- Others			
Rental income		10,411	9,705
Scrap sales		6,813	4,045
Reversal of provision for slow moving and obsolete stock-in-trade - net	13.1	651	-
Gain on disposal of operating fixed assets		-	2,655
Miscellaneous income		721	649
		18,596	17,054
		464,351	376,982

29.1 These amounts have been netted off against share of other income aggregating Rs Nil (2018: Rs 19.728 million) relating to NSPC.

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
30. FINANCE COST			
Financial charges on liabilities against assets subject to finance lease		2,704	1,845
Bank charges		1,353	1,428
		4,057	3,273
31. SHARE OF PROFIT FROM ASSOCIATES			
Security Papers Limited	7.1.1	264,837	370,066
SICPA Inks Pakistan (Private) Limited	7.2.1	437,460	321,351
		702,297	691,417

		June 30, 2019	June 30, 2018
		----------Rupees '000----------	
32.	**TAXATION**		
	Current - for the year	545,432	905,828
	- prior year	1,455	12,585
		546,887	918,413
	Deferred	(17,665)	129,702
		529,222	1,048,115
32.1	Relationship between tax expense and accounting profit		
	Profit before taxation	2,358,646	3,107,329
	Tax applicable at the rate of 29% (2018: 30%)	684,007	932,199
	Difference in effective tax rate of equity-accounted investees	(98,860)	(60,482)
	Tax effect of transactions taxed at lower rates	30,114	1,901
	Tax credits	(42,239)	(316)
	Tax effect of change in tax rate for next year	(87,843)	74,729
	Tax effects of notional expenses allowed on rental income	(604)	(582)
	Super tax	43,192	88,081
		527,767	1,035,530
	Prior year tax effect	1,455	12,585
		529,222	1,048,115
33.	**EARNINGS PER SHARE**		
	Profit after taxation	1,829,424	2,059,214
		----------(No. of Shares)---------	
	Weighted average number of ordinary shares outstanding during the year	1,000,000	1,000,000
		----------Rupees----------	
	Earnings per share	1,829	2,059

There are no dilutive potential ordinary shares outstanding as at June 30, 2019 or 2018.

34. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

34.1 Related parties comprise of parent i.e. State Bank of Pakistan (SBP), associates [Security Papers Limited (SPL) and SICPA Inks Pakistan (Private) Limited (SICPA)], entities under common control / directorship, employee benefit plans and key management personnel of the Corporation.

34.2 Significant transactions with related parties other than those specifically included in investment in associates (note 7), transactions with employee's pension scheme (note 23), cost of sales (note 26), administrative expenses (note 27) and other income (note 29) are as follows:

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
Transactions with parent / common control and directorship			
Sale of bank notes		13,757,877	11,776,570
Sale of prize bonds	34.9	189,292	437,711
Charge of staff deputed at the Corporation		38,258	40,490
Transactions with associated undertakings			
Purchase of paper from SPL		4,088,126	3,458,205
Sharing of group pool expenses with SPL		36,557	41,178
Purchase of ink from SICPA		5,349,880	4,269,892
Share of group pool expenses with SICPA		2,917	2,761
Transactions with entities under common control / directorship			
Expenses borne on behalf of NSPC		516,463	544,801
Transactions with Government of Pakistan			
Maturity of Pakistan Investment Bonds		-	100,000
Investment in Treasury Bill		4,353,125	-
Markup income on government securities		102,497	507
Key management personnel		Note 34.7	

34.3 All transactions with related parties are entered on mutually agreed terms.

34.4 Transactions with employee benefit scheme are carried out based on the terms of employment of the employees and according to the actuarial advice (note 23).

34.5 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation. The Corporation considers its Chief Executive / Managing Director and all its directors as its key management personnel. There are 9 directors (2018: 9 directors) of the Corporation including the Managing Director.

34.6 The outstanding balances of related parties as at June 30, 2019 is included in notes 7, 14, 23 and 24. These are to be settled in the ordinary course of business.

34.7 Remuneration of the Managing Director, Directors and Executives of the Corporation is as follows:

	June 30, 2019			June 30, 2018		
	Managing Director	**Directors**	**Executives**	**Managing Director**	**Directors**	**Executives**
	----------Rupees '000----------					
Directors' meeting fee	-	2,138	-	-	950	-
Managerial remuneration	24,051	-	104,840	24,909	-	86,178
Bonus	5,431	-	21,121	3,083	-	17,633
Ex-gratia	4,400	-	20,342	-	-	14,107
Staff retirement benefits	-	-	8,436	-	-	6,739
Medical expenses	232	-	476	83	-	171
Others	195	52	1,375	120	222	2,367
	34,309	2,190	156,590	28,195	1,172	127,195
Number of persons	1	9	26	1	10	22

34.8 Following are the related parties with whom the Corporation had entered into transactions or have arrangements / agreements in place.

S. No.	Company name	Basis of relationship	Aggregate % of shareholding in the Company
1	State Bank of Pakistan	Parent	100.00%
2	Government of Pakistan	Major shareholder of SBP	N/A
3	Security Papers Limited	Associate	N/A
4	SICPA Inks Pakistan (Private) Limited	Associate	N/A
5	Pakistan Security Printing Corporation - Employees' Pension Fund	Employees pension scheme	N/A
6	National Security Printing Company (Private) Limited	State owned / controlled entity	N/A
7	Mr. Reza Baqir	Director	N/A
8	Mr. Jameel Ahmad	Director	N/A
9	Mr. Zaffar A. Khan	Director	N/A
10	Mr. Izhar Hussain	Director	N/A
11	Mr. Malik Asrar Hussain	Director	N/A
12	Mr. Mohammad Tanvir Butt	Director	N/A
13	Mr. Ashraf Khan	Director	N/A
14	Mr. Saleem Ullah	Director	Nominee shareholder on behalf of parent company
15	Mr. Muhammad Haroon Rasheed	Managing Director	N/A

34.9 In respect of sale of prize bonds, SBP is acting as an agent on behalf of its principal i.e Central Directorate of National Savings (CDNS).

35. RUNNING FINANCE - unavailed

The Corporation has a short-term running finance facility available from Bank Al-Habib Limited which is secured by way of a registered hypothecation charge against its receivable from SBP (see note 14.4). The facility amounts to Rs 250 million (2018: Rs 250 million) and the rate of mark-up is three months average KIBOR (2018: three months average KIBOR).

		Note	June 30, 2019	June 30, 2018
			----------Rupees '000----------	
36.	**CASH GENERATED FROM OPERATIONS**			
	Profit before taxation		2,358,646	3,107,329
	Adjustments for non cash items and other items:			
	Depreciation	4.2	96,618	101,216
	Gain on disposal of operating fixed assets	29	-	(2,655)
	Loss on remeasurement of investments	28	237,045	87,195
	Expense for pension fund	23.8	563,620	345,780
	Mark-up on bank deposits	29	(300,085)	(346,620)
	Mark-up on government securities	29	(102,497)	(507)
	Share of profit from associates	31	(702,297)	(691,417)
	Provision for doubtful debts - net	14.1	360	157
	Provision for slow moving and obsolete stock-in-trade and stores and spares - net	12 & 13	4,635	5,202
	Amortisation	6.2	2	90
	Financial charges on liabilities against assets subject to finance lease	30	2,704	1,845
	Loss on sale of investments	28	-	9,808
	Service charges on long term loans	29	(5,301)	(3,013)
	Dividend income	29	(27,104)	-
	Working capital changes	36.1	(1,680,729)	(3,288,192)
			445,617	(673,782)
36.1	Working capital changes			
	(Increase) / decrease in current assets			
	Stores and spares		(334,960)	(48,826)
	Stock-in-trade		(628,876)	(248,567)
	Trade debts		64,318	345,526
	Loans and advances		(35,809)	(2,259)
	Trade deposits and prepayments		(54,542)	(5,000)
	Other receivables		(89,390)	1,698,939
			(1,079,259)	1,739,813
	(Decrease) / increase in current liabilities			
	Trade and other payables		61,550	(159,394)
	Payable to NSPC		(663,173)	(4,868,789)
	Accrued mark-up		153	178
			(601,470)	(5,028,005)
			(1,680,729)	(3,288,192)
37.	**CASH AND CASH EQUIVALENTS**			
	Investments at amortized cost with contractual maturity of less than three months			
	Term Deposit Receipts		1,000,000	6,100,000
	Treasury Bills	18	499,559	-
			1,499,559	6,100,000
	Cash and bank balances	19	304,285	578,324
			1,803,844	6,678,324

38. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

38.1 Financial instruments by category

	Note	June 30, 2019	June 30, 2018
		----------Rupees '000----------	
FINANCIAL ASSETS			
Amortised cost			
Long term loans	9 & 15	254,729	92,626
Long-term deposits	10	28,066	18,172
Trade debts	14	1,292,416	1,357,094
Trade deposits	16	44,358	-
Accrued mark-up		15,706	4,702
Other receivables	17	2,386	32,551
Short term investments	18	2,021,559	6,122,000
Cash and bank balances	19	304,285	578,324
		3,963,505	8,205,469
Fair value through profit or loss			
Short term investments	18	1,119,067	1,328,263
Other long-term investments			
- Al Hamra Islamic Stock Fund	8	19,092	23,904
		5,101,664	9,557,636
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Liabilities against assets subject to finance leases	22	28,169	37,531
Trade and other payables	24	2,108,819	1,887,834
Payable to NSPC		240,306	905,862
Accrued mark-up		401	248
		2,377,695	2,831,475

38.2 The Corporation's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but not limited to credit risk, liquidity risk and market risk. The Corporation's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance. Risks measured and managed by the Corporation are explained in notes 38.2.1, 38.2.2 and 38.2.3 below:

38.2.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted.

Out of the total financial assets of Rs 5,101.664 million (2018: Rs 9,557.636 million), the financial assets that are subject to credit risk amounted to Rs 5,091.623 million (2018: Rs 9,541.891 million).

The analysis below summarises the credit quality of the Corporation's financial assets as at June 30, 2019 / 2018:

The bank balances along with credit ratings are tabulated below:

	June 30, 2019	June 30, 2018
	----------Rupees '000----------	
Credit ratings		
A-1+	294,244	562,579

The analysis of credit rating of investments carried at fair value through profit or loss is as follows:

Credit ratings		
AM1+	824,683	1,032,083
AM2	65,317	61,241
AM2++	248,159	258,843
	1,138,159	1,352,167

Term Deposit Receipts of the Corporation as at June 30, 2019 are kept with commercial banks having minimum credit rating of A-1.

As at June 30, 2019, trade debts balance is due from SBP (the parent). Accordingly the credit risk is minimal.

38.2.2 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The management believes that it is not exposed to any significant level of liquidity risk.

The management forecasts the liquidity of the Corporation on basis of expected cash flow considering the level of liquid assets necessary to meet such risk.

Financial liabilities in accordance with their contractual maturities are presented below:

	Maturity within one year	Maturity after one year	Total
	June 30, 2019		
	----------Rupees '000----------		
Financial liabilities			
Liabilities against assets subject to finance leases	9,998	22,549	32,547
Trade and other payables	2,108,819	-	2,108,819
Payable to NSPC	240,306	-	240,306
Accrued mark-up	401	-	401
	2,359,524	22,549	2,382,073
	June 30, 2018		
	----------Rupees '000----------		
Financial liabilities			
Liabilities against assets subject to finance leases	11,302	29,516	40,818
Trade and other payables	1,887,833	-	1,887,833
Payable to NSPC	905,862	-	905,862
Accrued mark-up	248	-	248
	2,805,245	29,516	2,834,761

38.2.3 Market Risk

Currency Risk

Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The Corporation does not have any significant exposure in foreign

Interest rate risk

Interest / mark-up rate risk arises from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. At June 30, 2019, if the market interest rate had changed by 100 bps with all other variables held constant, profit before taxation for the year would have been higher / lower by Rs 17.887 million (2018: Rs 66.644 million). This is mainly due to changes in the interest rates of balances placed on term deposits and saving accounts with banks where changes in interest rates may have impact on the future profits / cash flows.

Other price risk

Other price risk is the risk that the fair value or future cash flows from financial instruments will fluctuate due to 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 effects of changes in fair value of such investments in mutual funds made by Corporation, on the future profits will impact the Corporation.

38.2.4 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction 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.

As at June 30, 2019, all financial assets and financial liabilities are carried at amortised cost except for investment in mutual funds which are carried at their fair values.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the reporting date. The fair values of all other financial assets and liabilities are not considered to be significantly different from their carrying values as these financial assets and liabilities are short term in nature.

The Corporation classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2).

c) Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the year.

The following table analysis within the fair value hierarchy of the Corporation's financial assets (by class) measured at fair value at June 30, 2019:

Financial assets	June 30, 2019			
	Level 1	Level 2	Level 3	Total
	----------Rupees '000----------			
Investments at fair value through profit and loss	1,138,159	-	-	1,138,159

Financial assets	June 30, 2018			
	Level 1	Level 2	Level 3	Total
	----------Rupees '000----------			
Investments at fair value through profit and loss	1,352,167	-	-	1,352,167

39. CAPITAL RISK MANAGEMENT

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt.

As at June 30, 2019 and 2018, the Corporation had surplus reserves to meet its requirements.

40. PLANT CAPACITY AND ACTUAL PRODUCTION

	June 30, 2019	June 30, 2018
	----------Reams----------	
Production	144,664	133,555

The actual production was sufficient to meet the demand. Due to nature of business of the Corporation, installed capacity is not relevant.

41. NUMBER OF EMPLOYEES

The total and average number of employees during the year and as at June 30, 2019 and 2018 respectively are as follows:

	June 30,	June 30,
	----------No of employees----------	
Average number of employees during the year	756	758
Number of employees as at June 30	731	741

42. NON-ADJUSTING EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

The Board of Directors at its meeting held on October 11, 2019 has proposed for the year ended June 30, 2019 cash dividend of Rs NIL per share (2018: Rs 2,000 per share), amounting to Rs NIL (2018: Rs 2,000 million), transfer to asset acquisition reserve and general reserve from unappropriated profits amounting to Rs NIL (2018: Rs NIL) and Rs NIL (2018: Rs NIL) respectively, subject to the approval of the members at the annual general meeting to be held on October 28, 2019. The financial statements for the year ended June 30, 2019 do not include the effect of these appropriation which will be accounted for subsequent to the year end.

43. GENERAL

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

43.2 Corresponding figures have been reclassified wherever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison.

44. DATE OF AUTHORISATION

These financial statements were authorised for issue on **October 11, 2019** by the Board of Directors of the Corporation.

Chief Executive Officer **Chief Financial Officer**

Chief Executive Officer **Director**

A Chronology of Important Policy Announcements

A-1 Banking Policy & Supervision Group

***Guidelines on Prohibited Banking Conduct*:** SBP issued guidelines on prohibited banking conduct in order to address the issue of irresponsible conduct, which undermines the confidence of the public in the banking sector. These guidelines have been developed in line with the best international practices (BC&CPD Circular No. 02 dated July 26, 2018).

***Governance Framework for Banks' Overseas Operation*s:** SBP developed the Governance Framework for banks' overseas operations for strengthening not only banks' capacity to understand, identify and manage various risks but also the related governance, risk management and compliance practices (BPRD Circular No. 06 dated August 06, 2018).

***Security of Digital Payments*:** SBP issued instructions to Banks/ Micro Finance Banks (MFBs) to carry out extensive internal assessment and independent third party review to identify potential weaknesses in their Alternate Delivery Channels and payment systems. These instructions are aimed towards safeguarding the financial institutions and their customers from potential losses due to cyber-crimes and online banking frauds (**PSD Circular No. 09 dated November 28, 2018).**

***Regulations for Electronic Money Institutions*:** SBP issued guidelines on Electronic Money Institutions to the non-banking entities. It will not only remove the entry barriers and provide level playing field to the non-banking entities but also foster innovation in the payment industry and promote financial inclusion in the country (PSD Circular No. 01 dated April 01, 2019).

***Internal Audit Function*:** SBP issued instructions on Internal Audit Function (IAF) to provide a standardized framework for the establishment and implementation of robust internal audit governance practices in line with international standards and best practices. IAF acts as the 'Third Line of Defense' and provides an independent assurance on the state of internal controls to FIs (BPRD Circular No. 02 dated April 03, 2019).

A-2 Development Finance Group

***Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations for MFBs*:** SBP issued instructions on AML/CFT to strengthen the existing supervisory regime in line with the recommendations of Financial Action Task Force (AC&MFD Circular No. 02 dated October 05, 2018).

***Islamic Financing Facility for Renewable Energy (IFRE)*:** SBP introduced Mudarabah based Islamic financing facility for Islamic Banking Institutions. The financing under IFRE is available for setting up renewable energy power projects with capacity ranging between 1-50 MW and to consumers willing to install facility using renewable energy source for generation of electricity ranging between 4 KW - 1

MW for own use and/or for supplying to a distribution company (IH&SMEFD Circular No. 01 dated February 22, 2019).

***Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP)*:** IFFSAP will allow the customers to avail long-term facility for the establishment, expansion and Balancing, Modernization and Replacement (BMR) of Steel/ Metal/ Concrete Silos, Warehouses and Cold Storage facilities for storing agricultural products (IH&SMEFD Circular No. 02 dated February 22, 2019).

Islamic Refinance Facility for Modernization of SMEs (IRFMS: Under IRFMS, financing would be available to the SME sectors for modernization of their existing infrastructure (IH&SMEFD Circular No. 03 dated February 22, 2019).

Adoption of 'Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) Shariah Standards: SBP adopted the 'Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) Shariah Standards. These standards will not only strengthen Shariah compliance framework but also harmonize the Shariah practices in the industry (IBD Circular No. 01 dated March 01, 2019).

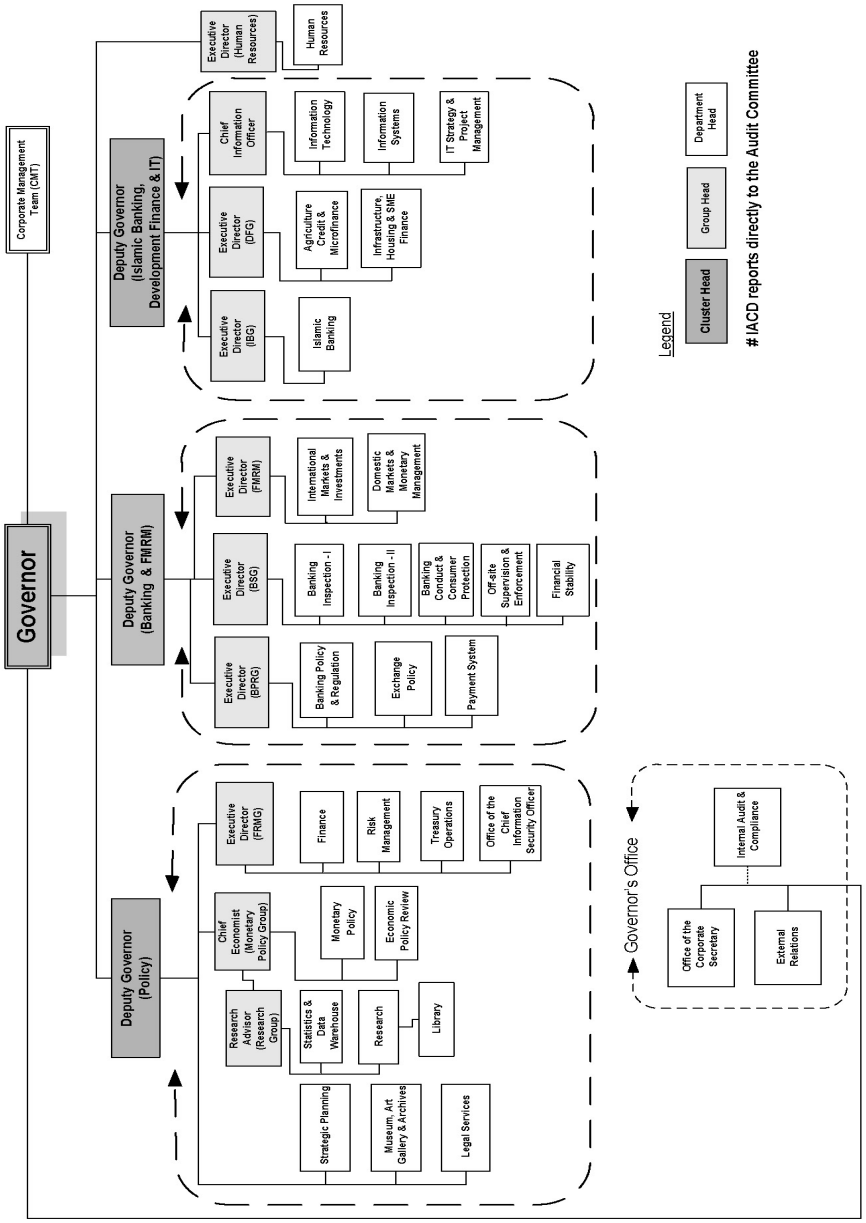
A-3 Financial Markets & Reserve Management Group

***Declaration of Obligations of State Bank of Pakistan arising from Bai-Muajjal transaction as Approved Security for Maintenance of Statutory Liquidity Requirement (SLR)*:** To enhance the available pool of Shariah compliant instruments for Islamic Banking Institutions and to enable them to meet the required SLR, SBP supported the declaration of obligations of SBP arising from Bai-Muajjal transaction as an approved Security for maintenance of SLR **(**DMMD Circular No. 04 of February 04, 2019).

***Declaration of Pakistan Energy Sukuk as Approved Security for Maintenance of Statutory Liquidity Requirement (SLR)*:** Considering the scheduled maturities of GoP Ijara Sukuk and limited issuance of sovereign Shariah compliant securities vis-à-vis increasing demand for investment opportunities by Islamic Banking Institutions, SBP supported the eligibility of Pakistan Energy Sukuk issued by Power Holding Private Limited as an approved security for maintenance of SLR **(**DMMD Circular No. 07 of February 28, 2019).

***Exemption on 'Borrowings from Pakistan Mortgage Refinance Company Limited' from Maintenance of CRR and SLR for Banks and MFBs*:** SBP exempted the 'Borrowings from Pakistan Mortgage Refinance Company Limited' from maintenance of CRR and SLR for Banks and MFBs. This measure would encourage the FIs to finance low cost housing (DMMD Circulars No. 8 & 9 of March 11, 2019).

B Organizational Chart



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* *Above list is in alphabetical order as at October 30, 2019*