

10 Unconsolidated Financial Statements of SBP

A. F. FERGUSON & CO.

Chartered Accountants
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INDEPENDENT AUDITOR'S REPORT**To the Board of Directors of the State Bank of Pakistan****Report on the Audit of the Unconsolidated Financial Statements****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, 2020, 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 unconsolidated financial statements give a true and fair view of the financial position of the Bank as at June 30, 2020, 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 Unconsolidated 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 unconsolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

A. F. FERGUSON & CO.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Key Audit Matter	How the matter was addressed in our audit
<p>1 Foreign currency accounts and investments (Refer note 9 of the annexed unconsolidated financial statements)</p> <p>The Bank maintained certain foreign currency accounts and investments which aggregated to Rs 2,207 billion as at June 30, 2020. This includes balances aggregating to Rs 173.698 billion which were placed through appointed fund managers by the Bank under the supervision of a custodian.</p> <p>The existence and valuation of these were assessed by us as a significant risk area and therefore we considered this as a key audit matter.</p>	<p>Our audit procedures, among others, included the following:</p> <ul style="list-style-type: none"> ▪ We obtained understanding of the processes, assessed the design and implementation and tested operating effectiveness of key controls throughout the year over recognition, derecognition and valuation of investments and related revenue; ▪ Sent direct confirmations to counterparties to confirm the balances of investment holdings; and ▪ We compared the prices to independent sources where quoted market prices were used; <p>Further, in respect of the investment made through fund managers:</p> <ul style="list-style-type: none"> ▪ 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 recognising income in respect of foreign currency securities and reconciled them 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. <p>We also evaluated the adequacy of the overall disclosures in the unconsolidated financial statements in respect of the investment portfolio in accordance with the requirements of applicable financial reporting framework.</p>

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Chartered Accountants

Key Audit Matter	How the matter was addressed in our audit
<p>2 Impact of COVID-19 (Refer note 15.6 of the annexed unconsolidated financial statements)</p> <p>During the year, the Bank in response to COVID-19 pandemic has launched three new interest free financing facility schemes and disbursed Rs 38,244 million. These facilities have been recorded at their fair value resulting in a fair valuation adjustment of Rs 4,194 million.</p> <p>The disbursement of these loans was a significant event for the Bank during the year. Further, the measurement at the fair value involved management judgement with respect to the use of market rate. Accordingly, this was considered as a key audit matter.</p>	<p>Our audit procedures, among others, included the following:</p> <ul style="list-style-type: none"> ▪ Obtained understanding, evaluated the design and tested the operating effectiveness of controls related to process for disbursements of these loans; ▪ Sent direct confirmations, on a sample basis, to the counterparties to confirm the balances of loans so disbursed; ▪ With respect to the fair valuation of these loans, evaluated the appropriateness of the valuation methodology used and assessed the reasonableness of the assumptions and inputs used to determine the fair value; and ▪ Evaluated the adequacy of the disclosures in the financial statements in respect of the impact of fair valuation adjustment and related balances of these loans.

Information Other than the Consolidated and Unconsolidated Financial Statements and Auditor's Reports Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated and unconsolidated financial statements and our auditor's reports thereon.

Our opinion on the unconsolidated 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 unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated 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 Those Charged with Governance for the Unconsolidated Financial Statements

A. F. FERGUSON & CO.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

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

In preparing the unconsolidated 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 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 Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated 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 unconsolidated 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 unconsolidated 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.

A. F. FERGUSON & CO.
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- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated 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 unconsolidated 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.

Other Matter

The unconsolidated financial statements of the Bank for the year ended June 30, 2019 were audited by EY Ford Rhodes and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 24, 2019.

The engagement partners on the audit resulting in this independent auditor's report are **Salman Hussain** (A. F. FERGUSON & CO.) and **Mohammad Mahmood Hussain** (KPMG TASEER HADI & CO.).

A. F. FERGUSON & CO.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Dated: October 27, 2020

Karachi

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2020

	Note	2020	2019
		------(Rupees in '000)-----	
ASSETS			
Gold reserves held by the Bank	7	617,495,037	468,625,002
Local currency - coins	8	1,028,584	1,039,138
Foreign currency accounts and investments	9	2,206,980,030	1,375,854,388
Earmarked foreign currency balances	10	62,010,317	72,702,673
Special drawing rights of the International Monetary Fund	11	29,537,127	55,461,054
Reserve tranche with the International Monetary Fund under quota arrangements	12	27,555	26,999
Securities purchased under agreement to resell	13	917,539,647	782,918,155
Current accounts of governments	22.2	30,157,106	28,200,405
Investments - local	14	7,508,358,936	8,003,637,100
Loans, advances and bills of exchange	15	795,578,146	587,644,204
Assets held with the Reserve Bank of India	16	11,943,164	9,580,097
Balances due from the Governments of India and Bangladesh	17	13,141,164	12,266,548
Property, plant and equipment	18	79,009,653	79,875,653
Intangible assets	19	106,342	198,754
Other assets	20	14,692,431	10,020,508
Total assets		12,287,605,239	11,488,050,678
LIABILITIES			
Banknotes in circulation	21	6,458,763,106	5,285,025,504
Bills payable		1,226,036	1,146,660
Current accounts of governments	22.1	748,790,102	1,101,513,930
Current account with SBP Banking Services Corporation - a subsidiary		52,124,619	44,969,274
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		186,607	105,235
Payable to Islamic banking institutions against Bai Muajjal transactions	23	19,512,958	124,410,232
Payable under bilateral currency swap agreement	24	476,722,596	469,397,756
Deposits of banks and financial institutions	25	1,171,103,559	1,246,238,770
Other deposits and accounts	26	1,093,622,482	1,116,033,768
Payable to the International Monetary Fund	27	1,045,944,378	1,150,064,353
Other liabilities	28	99,530,744	176,874,734
Deferred liability - unfunded staff retirement benefits	29	34,736,075	29,383,383
Total liabilities		11,202,263,262	10,745,163,599
Net assets		1,085,341,977	742,887,079
REPRESENTED BY			
Share capital	30	100,000	100,000
Reserves	31	167,389,105	112,706,196
Unappropriated profit		152,541,510	6,518,736
Unrealised appreciation on gold reserves held by the Bank	32	613,003,558	464,180,641
Unrealised appreciation on remeasurement of investments - local	14.6	61,416,969	68,490,671
Surplus on revaluation of property, plant and equipment		90,890,835	90,890,835
Total equity		1,085,341,977	742,887,079
CONTINGENCIES AND COMMITMENTS			
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Pursuant to the requirements of section 26 (1) of the 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, 2020

	Note	2020	2019
------(Rupees in '000)-----			
Discount, interest / mark-up and / or profit earned on financial assets measured at:			
- amortised cost	34	1,208,313,253	645,524,016
- fair value through profit or loss	34	10,058,650	10,943,995
Less: Interest / mark-up expense	35	(73,343,302)	(110,759,499)
		<u>1,145,028,601</u>	<u>545,708,512</u>
Fair valuation adjustment on COVID loans	15.6	(4,193,815)	-
Commission income	36	4,647,788	4,136,396
Exchange gain / (loss) - net	37	66,409,760	(505,911,025)
Dividend income		400,000	2,390,000
Other operating income - net	38	7,905,169	4,391,840
Other income - net	39	382,194	113,396
		<u>79,744,911</u>	<u>(494,879,393)</u>
		<u>1,220,579,697</u>	<u>50,829,119</u>
Less: Operating expenses			
- banknotes' printing charges	40	15,991,886	13,755,031
- agency commission	41	10,668,548	10,642,735
- general administrative and other expenses	42	34,061,404	26,781,911
(reversal of provision against) / provision for:			
- other doubtful assets	28.3.1.1	(42,143)	456,042
- others		-	(76)
(reversal) / charge for credit loss allowance on financial instruments - net	43	(30,846)	39,622
		<u>(72,989)</u>	<u>495,588</u>
		<u>60,648,849</u>	<u>51,675,265</u>
Profit / (loss) for the year		<u><u>1,159,930,848</u></u>	<u><u>(846,146)</u></u>

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, 2020**

	Note	2020 ------(Rupees in '000)-----	2019
Profit / (loss) for the year		1,159,930,848	(846,146)
Other comprehensive income			
<i>Items that may be reclassified subsequently to the profit and loss account:</i>			
Unrealised appreciation on gold reserves held by the Bank	7	148,822,917	152,866,872
<i>Items that will not be reclassified subsequently to the profit and loss account:</i>			
Unrealised diminution on remeasurement of investments - local	14.6	(7,073,702)	(21,618,750)
Remeasurements of property, plant and equipment		-	25,406,655
Remeasurements of staff retirement defined benefit plans	42.7.3.1	(4,398,637)	2,650,167
Remeasurements of staff retirement defined benefit plans - allocated by SBP Banking Services Corporation - a subsidiary	42.7.3.1	(6,297,792)	6,038,910
		(17,770,131)	12,476,982
Total comprehensive income for the year		1,290,983,634	164,497,708

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

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Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2020

	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	
	Share capital	Reserve fund	Reserve for building up share capital	Reserve for acquisition of PSPC	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Subtotal					Unappropriated profit
(Rupees in '000)															
Balance as at July 1, 2018	100,000	33,926,656	-	65,464,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	110,690,656	13,208,172	311,313,769	90,109,421	65,484,180	590,906,198
Loss for the year	-	-	-	-	-	-	-	-	-	-	(846,146)	-	-	-	(846,146)
<i>Other comprehensive income</i>															
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 (note 32)	-	-	-	-	-	-	-	-	-	-	152,866,872	-	-	-	152,866,872
Surplus realised on revaluation of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	25,406,655	25,406,655
Remeasurements of staff retirement defined benefit plans (note 42.7.3.1)	-	-	-	-	-	-	-	-	-	2,650,167	-	-	-	-	2,650,167
Remeasurements of staff retirement defined benefit plans - allocated by SBP Banking Services Corporation - a subsidiary (note 42.7.3.1)	-	-	-	-	-	-	-	-	-	6,038,910	-	-	-	-	6,038,910
	-	-	-	-	-	-	-	-	-	8,689,077	152,866,872	(21,618,750)	25,406,655	-	165,343,854
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	7,842,931	152,866,872	(21,618,750)	25,406,655	164,497,708
Appropriations															
Transfer to the reserve fund	-	15,540	-	-	-	-	-	-	-	15,540	(15,540)	-	-	-	-
Transfer to the reserve for acquisition of PSPC	-	-	-	2,000,000	-	-	-	-	-	2,000,000	(2,000,000)	-	-	-	-
	-	15,540	-	2,000,000	-	-	-	-	-	2,015,540	(2,015,540)	-	-	-	-
Transaction 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	112,706,196	6,518,736	464,180,641	68,490,671	90,890,835	742,887,079
Profit for the year	-	-	-	-	-	-	-	-	-	-	1,159,930,848	-	-	-	1,159,930,848
<i>Other comprehensive income</i>															
Unrealised diminution on remeasurement of investments - local (note 14.6)	-	-	-	-	-	-	-	-	-	-	-	-	(7,073,702)	-	(7,073,702)
Unrealised appreciation on gold reserves held by the Bank (note 32)	-	-	-	-	-	-	-	-	-	-	148,822,917	-	-	-	148,822,917
Remeasurements of staff retirement defined benefit plans - SBP (note 42.7.3.1)	-	-	-	-	-	-	-	-	-	(4,398,637)	-	-	-	-	(4,398,637)
Remeasurements of staff retirement defined benefit plans - allocated by SBP Banking Services Corporation - a subsidiary (note 42.7.3.1)	-	-	-	-	-	-	-	-	-	(6,297,792)	-	-	-	-	(6,297,792)
	-	-	-	-	-	-	-	-	-	(10,696,429)	148,822,917	(7,073,702)	-	-	131,052,786
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	1,149,234,419	148,822,917	(7,073,702)	-	1,290,983,634
Appropriations															
Transfer to the reserve fund (note 31.3)	-	9,566	67,673,343	-	-	-	-	-	-	67,682,909	(67,682,909)	-	-	-	-
Transfer to unappropriated profit against IDBL loan	-	(13,000,000)	-	-	-	-	-	-	-	(13,000,000)	13,000,000	-	-	-	-
Adjustment to recover loan of IDBL (note 15.3.1)	-	-	-	-	-	-	-	-	-	(13,000,000)	-	-	-	-	(13,000,000)
	-	(12,990,434)	67,673,343	-	-	-	-	-	-	54,682,909	(67,682,909)	-	-	-	(13,000,000)
Transactions with owners															
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(935,518,736)	-	-	-	(935,518,736)
	-	-	-	-	-	-	-	-	-	-	(935,528,736)	-	-	-	(935,528,736)
Balance as at June 30, 2020	100,000	20,951,762	67,673,343	67,464,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	167,389,105	152,541,510	613,003,558	61,416,969	90,890,835	1,085,341,977

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

Dr. Reza Baqir
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019
------(Rupees in '000)-----			
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	44	1,042,240,027	194,241,985
Decrease / (increase) in assets:			
Foreign currency investments and placements		(286,135,672)	340,817,199
Gold reserves held by the Bank		(47,118)	(147,358)
Reserve tranche with the International Monetary Fund under quota arrangements		-	(6,637)
Securities purchased under agreement to resell		(134,621,472)	779,391,608
Investments - local		488,204,462	(4,091,414,607)
Loans, advances and bills of exchange		(212,109,838)	(143,451,408)
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh		(874,616)	(4,519,664)
Other assets		(4,671,923)	(5,969,758)
		<u>(150,256,177)</u>	<u>(3,125,300,625)</u>
		891,983,850	(2,931,058,640)
Increase / (decrease) in liabilities:			
Banknotes issued - net		1,173,737,602	649,878,793
Bills payable		79,376	502,208
Current accounts of Governments		(354,680,529)	1,016,589,006
Current account with SBP Banking Services Corporation - a subsidiary		7,155,345	(11,577,029)
Current account National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		81,372	(19,852)
Payable to Islamic Banking Institutions against Bai Muajjal transactions		(104,897,274)	124,410,232
Payable under bilateral currency swap agreement		(1,766,789)	98,988,685
Deposits of banks and financial institutions		(75,135,211)	432,289,855
Payment of retirement benefits and employees' compensated absences		(5,343,737)	3,370,531
Other deposits and accounts		(22,411,286)	915,876,311
Other liabilities		(76,706,662)	98,185,887
		<u>540,112,207</u>	<u>3,328,494,627</u>
Net cash generated from operating activities		1,432,096,057	397,435,987
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		400,000	2,390,000
Capital expenditure		(1,186,047)	(294,111)
Proceeds from disposal of property, plant and equipment		32,597	16,881
Contribution of initial capital in Deposit Protection Corporation		-	(500,000)
Net cash (used in) / generated from investing activities		(753,450)	1,612,770
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(935,518,736)	(12,516,827)
Net change in balances pertaining to IMF		(114,594,748)	237,479,321
Dividend paid		(10,000)	-
Net cash (used in) / generated from financing activities		(1,050,123,484)	224,962,494
Increase in cash and cash equivalents during the year			
		381,219,123	624,011,251
Cash and cash equivalents at the beginning of the year		1,503,996,401	1,064,481,971
Effect of exchange gain / (loss) on cash and cash equivalents		50,758,771	(184,496,821)
Cash and cash equivalents at the end of the year	45	<u>1,935,974,295</u>	<u>1,503,996,401</u>

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, 2020

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 governments. 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 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 governments under specific arrangements between governments 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 Bank, 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 (now 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 (PSPC) was incorporated in Pakistan under the repealed Companies Act, 1913 (now Companies Act, 2017) and is a wholly owned subsidiary of the Bank. 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 employees' compensated absences have been carried at present value of defined benefit obligations.

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

3.3 Standards, interpretations of and amendments to the IFRSs that are effective in the current year

3.3.1 Effective from July 1, 2019, the Bank has adopted IFRS 16, 'Leases' which has replaced IAS 17, 'Leases' and various other interpretations. For the effects of adoption of IFRS 16 on these unconsolidated financial statements, refer note 4.1 below.

3.3.2 There are certain other new and amended standards and interpretations that became effective during the current year, but are considered not to be relevant or did not have any significant effect on the Bank's operations and are, therefore, not detailed in these unconsolidated financial statements.

3.4 Standards, interpretations of and amendments to the IFRSs that are not yet effective

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

Standards	Effective date (annual periods beginning on or after)
- IAS 1, 'Presentation of financial statements' (amendments)	January 1, 2020 and July 1, 2022
- IAS 8, 'Accounting policies, changes in accounting estimates and errors' (amendments)	July 1, 2020
- IAS 16, 'Property, plant and equipment' (amendments)	July 1, 2022
- IAS 37, 'Provisions, contingent liabilities and contingent assets' (amendments)	July 1, 2022
- IFRS 3, 'Business combination'	January 1, 2020
- IFRS 16, 'Leases' (amendments)	June 1, 2020

The management is in the process of assessing the impact of the above amendments on these unconsolidated financial statements.

3.4.2 There are certain other new or amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2020, but are considered not to be relevant or will not have any significant effect on the Bank's operations and are, therefore, not detailed in these unconsolidated financial statements.

4 CHANGES IN ACCOUNTING POLICY

4.1 IFRS 16 Leases

Effective from July 1, 2019, the Bank has adopted IFRS 16, 'Leases' which replaces 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 lease.' The standard addresses recognition and measurement of leases for both lessor and lessee.

IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exception for short term leases and leases of low value items. Lessor accounting remains similar to the previous standard i.e. lessor continues to classify leases as finance or operating leases.

The Bank has various lease arrangements relating to guest houses for its employees and branches of the Corporation. All these lease arrangements have termination clause which gives a right to both the lessor and the lessee to terminate each of these lease arrangements, by giving the other party, a prior notice of one to three months. On adoption of IFRS 16, the Bank has applied judgment to determine the lease term for aforementioned lease arrangements and has elected to apply the practical expedient of not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognised as an expense on a straight line basis over the lease term.

The adoption of IFRS 16, therefore, does not have any impact on the Bank's unconsolidated financial statements.

The new accounting policy, consequent to adoption of the standard, is disclosed in note 5.5.1 to these unconsolidated 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. These policies are consistently applied from year to year, except as stated otherwise.

5.1 Banknotes in circulation and local currency coins

The liability of the Bank towards banknotes 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 banknotes lying with the Bank and previously issued notes held by the Bank are not reflected in the unconsolidated 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 unconsolidated 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, certain other assets, banknotes 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 certain 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 unconsolidated profit and loss account.

5.2.2 Classification and subsequent measurement of financial assets and liabilities

The Bank classifies all of its financial assets other than equity instruments 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'). The financial assets are measured at either:

- amortised cost, as explained in note 5.2.3;
- fair value through other comprehensive income (FVOCI), as explained in note 5.2.4; or
- fair value through profit and loss (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; and
- the expected frequency, value and timing of sale which also form 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 assets 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 note 5.2.8. The Bank may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in note 5.2.6.

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 notes 5.2.6 and 5.2.7.

5.2.3 Financial assets at amortised cost

The Bank classifies its financial assets at amortised 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; and
- 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 amortised cost using the effective interest rate (EIR), less impairment (if any).

5.2.4 Debt instruments at FVOCI

The Bank classifies its financial instruments 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; and
- the contractual terms of the financial asset meet the SPPI test.

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

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the unconsolidated balance sheet, 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 unconsolidated comprehensive income. The accumulated loss recognised in OCI is recycled to the unconsolidated profit and loss upon derecognition of the assets.

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

5.2.5 Equity instruments at FVOCI

At 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 the unconsolidated profit and 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 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 are part of a group of financial liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- the liabilities 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 unconsolidated balance sheet at fair value. Changes in fair value are recorded in the unconsolidated profit and loss account. 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 earned 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 - a subsidiary, current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary, payable to Islamic banking institutions against Bai Muajjal transactions, payable to the IMF, banknotes in circulation, bills payable and certain 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 unconsolidated profit and loss account. Forwards, futures and swaps are shown under commitments in note 33.2.

5.2.9 Reclassification of financial assets and liabilities

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.

5.2.10 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.

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 unconsolidated profit and loss account.

5.2.11 Impairment of financial assets

5.2.11.1 Overview of the expected credit losses (ECL) principles

The Bank is 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 ECL.

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 5.2.11.2. 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 LTECL that represent the ECL that result from default events on a financial instrument that are probable 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.

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 12mECL. 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 LTECL. 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 LTECL.

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.

5.2.11.2 The calculation of ECL

The Bank calculates ECL 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:

- EAD Exposure at default (EAD) 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.
- PD Probability of default (PD) 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.
- LGD Loss given default (LGD) 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 ECL, the Bank considers three scenarios (a base case, a best case and a worse case). Each of these is associated with different PD. 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.

The mechanics of the ECL method are summarised below:

- stage 1: the 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are probable 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 LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs 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 unconsolidated profit and loss account, and the ECL provision. For this purpose, the Bank estimates ECL 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.

5.2.11.3 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 various macro-economic factors.

5.2.11.4 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.

5.2.12 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability are offset and the net amount is reported in the unconsolidated 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 Repurchase and reverse repurchase agreements

Securities sold subject to a commitment to repurchase them at a pre-determined price, are retained on the unconsolidated 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 recognised on the unconsolidated 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 unconsolidated 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 unconsolidated 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 33.2.6.

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 unconsolidated profit and loss account on a time proportion basis as mark-up expense. Amount payable to Islamic banking institutions under deferred payment basis on purchase of sukuks is reported at transaction value plus profit payable thereon (i.e. at amortised cost).

5.4 Gold reserves held by the Bank

Gold is recorded at 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 the State Bank of Pakistan Act, 1956 and the 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 unconsolidated profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the unconsolidated 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 unconsolidated 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 unconsolidated financial statements. The useful life of assets is reviewed and adjusted, if appropriate, at each reporting 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 reporting date.

Depreciation on additions is charged to the unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated profit and loss account.

5.5.1 Leasing arrangements

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The lease liability is initially measured at the present value of the lease payments over the period of lease term and that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

Lease payments include fixed payments less any lease incentive receivable, variable lease payment that are based on an index or a rate which are initially measured using the index or rate as at the commencement date, amounts expected to be payable by the Bank under residual value guarantees, the exercise price of a purchase option (if the Bank is reasonably certain to exercise that option) and payments of penalties for terminating the lease (if the lease term reflects that the lessee will exercise that option). The extension and termination options are incorporated in determination of lease term only when the Bank is reasonably certain to exercise these options.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payment.

The lease liability is remeasured when the Bank reassesses the reasonable certainty to exercise extension or termination option upon occurrence of either a significant event or a significant change in circumstances, or when there is a change in assessment of an option to purchase underlying asset, or when there is a change in amount expected to be payable under a residual value guarantee, or when there is a change in future lease payments resulting from a change in an index or rate used to determine those payments. The corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in the unconsolidated profit and loss account if the carrying amount of right of use asset has been reduced to zero.

When there is a change in scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions, the same is accounted for as a lease modification. The lease modification is accounted for as a separate lease if modification increases the scope of lease by adding the right to use one or more underlying assets and the consideration for lease increases by an amount that commensurate with the standalone price for the increase in scope adjusted to reflect the circumstances of the particular contract, if any. When the lease modification is not accounted for as a separate lease, the lease liability is remeasured and corresponding adjustment is made to right of use asset.

The right of use asset is initially measured at an amount equal to the initial measurement of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which the asset is located.

The right of use asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses, if any. The right of use asset is depreciated on a straight line method over the lease term as this method most closely reflects the expected pattern of consumption of the future economic benefits. The carrying amount of the right of use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

5.6 Intangibles

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

Intangible assets are amortised using the 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 reporting date to determine whether there is any indication of impairment of any asset or a group of assets. If such an 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 unconsolidated 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 July 1, 2005 to May 31, 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 monetised 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 monetised salary.
- b) an unfunded General Provident Fund (GPF) scheme for all those employees who joined the Bank between May 1, 1977 to June 30, 2005 and opted to remain under this scheme after introduction of the new scheme (ECPF). Under GPF, C766 contribution is made by the employee only at the rate of 5% of the monetised salary.
- c) following are other staff retirement benefit schemes:
 - an unfunded gratuity scheme (old scheme) for those employees who joined the Bank between July 1, 2005 to May 31, 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 May 1, 1977 to June 30, 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 unconsolidated 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 amount arising as a result of remeasurements are recognised in the unconsolidated 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 unconsolidated 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(xiii) 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 reporting date.

Exchange gains and losses are taken to the unconsolidated 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.

Commitments for outstanding foreign exchange forward and swap contracts disclosed in note 33.2 to these unconsolidated 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 reporting 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 GoP's contribution for quota with the IMF is recorded by the Bank as depository of the GoP. 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 unconsolidated profit and loss account.
- the cumulative allocation of special drawing rights (SDRs) by the IMF is recorded as a liability and is translated at the closing exchange rate for SDRs prevailing at the reporting date. Exchange differences on translation of SDRs is recognised in the unconsolidated profit and loss account.
- service charge is recognised in the unconsolidated 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 unconsolidated 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, contingent liabilities and contingent assets

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.

Contingent assets are disclosed when there is a possible asset 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 Group. Contingent assets are not recognised until their realisation become virtually certain.

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 Group; or
- there is a 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.

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 reporting 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.

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, liabilities, income and expenses 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 IFRSs 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 unconsolidated 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

The measurement of impairment losses 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 unconsolidated financial statements.

6.4 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 42.7.1 to these unconsolidated financial statements.

6.5 Useful life and residual value of property, plant 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	2020 Net content in troy ounces	2019	2020 (Rupees in '000)	2019
Opening balance		2,078,037	2,077,397	468,625,002	315,610,772
Additions during the year		160	640	47,118	147,358
Appreciation for the year due to revaluation	32	-	-	148,822,917	152,866,872
	21.1	<u>2,078,197</u>	<u>2,078,037</u>	<u>617,495,037</u>	<u>468,625,002</u>

	Note	2020 (Rupees in '000)	2019
8 LOCAL CURRENCY - COINS			
Banknotes held by the banking department		172,707	159,748
Coins held as an asset of the issue department	8.1 & 21.1	1,028,584	1,039,138
		<u>1,201,291</u>	<u>1,198,886</u>
Less: banknotes held by the banking department	21	(172,707)	(159,748)
		<u>1,028,584</u>	<u>1,039,138</u>

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

9 FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2020 (Rupees in '000)	2019
At fair value through profit or loss:			
- investments	9.3	500,826,405	202,587,281
- unrealised gain on derivative financial instruments		499,147	2,803,510
- unrealised (loss) on derivative financial instruments		(149,270)	(40,225)
	9.4	<u>349,877</u>	<u>2,763,285</u>
		<u>501,176,282</u>	<u>205,350,566</u>
At amortised cost:			
- deposit accounts		594,390,455	383,088,658
- current accounts		1,338,337	4,000,054
- securities purchased under agreement to resell	9.5	891,609,264	336,209,469
- money market placements	9.6	218,465,780	447,218,637
		<u>1,705,803,836</u>	<u>1,170,516,818</u>
Credit loss allowance	9.2	(88)	(12,996)
		<u>2,206,980,030</u>	<u>1,375,854,388</u>

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

issue department	21.1	218,465,780	447,218,637
banking department		1,988,514,250	928,635,751
		<u>2,206,980,030</u>	<u>1,375,854,388</u>

- 9.1 The following table sets out information about the credit quality of foreign currency accounts and investments of the bank measured at amortised cost and maximum exposure to credit risk as at reporting date. Details of the Bank's internal grading system are explained in note 47.1.4.

	Note	Stage 1	2020	2019
----- (Rupees in '000) -----				
Deposit accounts				
High rating		594,390,455	594,390,455	383,088,658
		594,390,455	594,390,455	383,088,658
Current accounts				
High rating		1,329,030	1,329,030	3,990,941
Standard rating		9,307	9,307	9,113
		1,338,337	1,338,337	4,000,054
Securities purchased under agreement to resell				
High rating	9.5	891,609,264	891,609,264	336,209,469
		891,609,264	891,609,264	336,209,469
Money market placements				
High rating	9.6	218,465,780	218,465,780	447,218,637
		218,465,780	218,465,780	447,218,637
		1,705,803,836	1,705,803,836	1,170,516,818

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

	2020		
	Nostros	Money market placements	Total
----- (Rupees in '000) -----			
Stage 1			
Opening balance as of June 30, 2019	32	12,963	12,995
Charge / (reversal) of allowance	56	(12,963)	(12,907)
Balance as of June 30, 2020	88	-	88
	2019		
	Nostros	Money market placements	Total
----- (Rupees in '000) -----			
Stage 1			
Opening balance as of June 30, 2018	-	-	-
Adjustments on initial recognition of IFRS 9	9	57	66
Restated balance as of July 1, 2018	9	57	66
Charge of allowance	23	12,906	12,929
Balance as of June 30, 2019	32	12,963	12,996

- 9.3 This includes investments made by the Bank in international markets and balances maintained, on behalf of the Bank, through reputable fund managers. The activities of these fund managers are being monitored through a custodian. The market value of the investments as on June 30, 2020 amounts to Rs. 173,698 million (USD 1033.60 million [2019: Rs. 161,158 million (USD 1006.91 million)]. These carry interest ranging from 0.175% to 0.5% per annum in USD (2019: 0.12% per annum), and 0% to 3.56% per annum in CNY (2019: 2.23% to 2.28% per annum).
- 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 These represent lending under repurchase agreements and carry mark-up in USD at the rate of 0.00% per annum (2019: 2.51% per annum) and these are due to mature on July 1, 2020 (2019: July 01, 2019).
- 9.6 These represent money market placements carrying interest ranging from 0.10% to 0.16% per annum in USD (2019: 2.39% to 2.55% per annum) and having maturities ranging from July 3, 2020 to August 7, 2020 (2019: July 2, 2019 to August 22, 2019).

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 the reporting date. 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	2020	2019
------(Rupees in '000)-----			
SDRs are held as follows:			
- by the issue department	21.1	11,601,465	34,152,690
- by the banking department		17,935,662	21,308,364
		<u>29,537,127</u>	<u>55,461,054</u>

12 RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

Quota allocated by the International Monetary Fund	469,862,627	460,387,623
Liability under quota arrangements	(469,835,072)	(460,360,624)
	<u>27,555</u>	<u>26,999</u>

13 SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

This represents collateralized lending made to various financial institutions under resell arrangement carrying mark-up ranging from 7.03% to 12.33% per annum (2019: 12.33% to 12.45% per annum) and are due to mature on July 3, 2020 (2019: July 05, 2019). The fair value of securities collateralised as on June 30, 2020 amounts to Rs. 1,001,208 million (2019: Rs. 782,504 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 amortised cost:

	Stage 1	2020	Stage 1	2019
------(Rupees in '000)-----				
High rating	917,539,654	917,539,654	777,680,180	777,680,180
Standard rating	-	-	5,238,002	5,238,002
Less: Credit loss allowance	(7)	(7)	(27)	(27)
	<u>917,539,647</u>	<u>917,539,647</u>	<u>782,918,155</u>	<u>782,918,155</u>

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

	Stage 1	2020
------(Rupees in '000)-----		
Opening balance as of June 30, 2019	27	27
Reversal during the year	(20)	(20)
Balance as of June 30, 2020	<u>7</u>	<u>7</u>
	Stage 1	2019
	------(Rupees in '000)-----	
Opening balance as of June 30, 2018	-	-
Adjustments on initial recognition of IFRS 9	15	15
Restated balance as of July 1, 2018	15	15
Charge during the year	12	12
Balance as of June 30, 2019	<u>27</u>	<u>27</u>

14	INVESTMENTS - LOCAL	Note	2020 ------(Rupees in '000)-----	2019
	At amortised cost			
	Government securities			
	Market related treasury bills (MRTBs)		-	569,202,498
	Pakistan investment bonds (PIBs)		7,270,563,969	7,189,706,100
	Federal government scrips		2,740,000	2,740,000
		14.2	7,273,303,969	7,761,648,598
	Zarai Taraqati Bank Limited (ZTBL) preference shares - unlisted	14.3	54,539,302	54,399,134
	Term finance certificates		56,483	56,483
	Certificates of deposits		22,470	22,470
			78,953	78,953
	Credit loss allowance	14.5	(78,953)	(78,953)
			7,327,843,271	7,816,047,732
	At fair value through other comprehensive income			
	Investments in banks and other financial institutions			
	Ordinary shares			
	- Listed		44,235,735	53,850,807
	- Unlisted		35,101,670	32,560,301
		14.4	79,337,405	86,411,108
			7,407,180,676	7,902,458,840
	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
			7,508,358,936	8,003,637,100
	The above investments are held as follows:			
	issue department	21.1	5,598,401,783	4,324,569,688
	banking department		1,909,957,153	3,679,067,412
			7,508,358,936	8,003,637,100

14.1 The following table sets out information about the credit quality of Government securities of the Bank measured at amortised cost.

	2020			
	Stage 1	Stage 2	Stage 3	Total
	------(Rupees in '000)-----			
High rating	7,327,843,271	-	-	7,327,843,271
Rating below standard	-	-	78,953	78,953
	7,327,843,271	-	78,953	7,327,922,224
Less: Credit loss allowance	-	-	(78,953)	(78,953)
	7,327,843,271	-	-	7,327,843,271
	------(Rupees in '000)-----			
	2019			
	Stage 1	Stage 2	Stage 3	Total
High rating	7,816,047,732	-	-	7,816,047,732
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

14.4.1 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 During the year 2018-19, in accordance with section 9 of the Deposit Protection Corporation Act, 2016 (DPC Act), the Bank has made an initial capital contribution of Rs. 500 million in 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 DPC are not entitled to receive any dividend in terms of section 9(5) of DPC Act. 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, DPC is not treated as a subsidiary in these unconsolidated financial statements. Considering the substance of this transaction, the capital injection in the DPC was fully provided.

	Note	2020	2019
----- (Rupees in '000) -----			
14.5 Credit loss allowance			
Opening balance		78,953	817,388
Impact on opening balances on initial recognition of IFRS 9		-	(738,435)
Closing balance		<u>78,953</u>	<u>78,953</u>

14.6 Unrealised diminution on remeasurement of investments

Opening balance		68,490,671	74,683,886
Impact on opening balances on initial recognition of IFRS 9		-	15,425,535
		<u>68,490,671</u>	<u>90,109,421</u>
Diminution during the year - net		<u>(7,073,702)</u>	<u>(21,618,750)</u>
Closing balance		<u>61,416,969</u>	<u>68,490,671</u>

15 LOANS, ADVANCES AND BILLS OF EXCHANGE

Government owned / controlled financial institutions	15.3	85,114,788	72,896,028
Private sector financial institutions	15.4	700,781,998	504,975,653
		<u>785,896,786</u>	<u>577,871,681</u>
Employees		11,867,119	11,976,201
		<u>797,763,905</u>	<u>589,847,882</u>
Credit loss allowance	15.7	<u>(2,185,759)</u>	<u>(2,203,678)</u>
		<u>795,578,146</u>	<u>587,644,204</u>

15.1 The following table sets out information about the credit quality of loans, advances and bills of exchange of the Bank measured at amortised cost:

	2020			
	Stage 1	Stage 2	Stage 3	Total
----- (Rupees in '000) -----				
Government owned / controlled financial institutions				
High rating	83,334,487	-	-	83,334,487
Rating below standard	-	-	1,780,301	1,780,301
	<u>83,334,487</u>	-	<u>1,780,301</u>	<u>85,114,788</u>
Private sector financial institutions				
High rating	690,302,476	-	-	690,302,476
Standard rating	141,068	-	-	141,068
Rating below standard	9,271,257	-	1,067,197	10,338,454
	<u>699,714,801</u>	-	<u>1,067,197</u>	<u>700,781,998</u>
Employees				
Performing loans	11,867,119	-	-	11,867,119
	<u>11,867,119</u>	-	-	<u>11,867,119</u>
	<u>794,916,407</u>	-	<u>2,847,498</u>	<u>797,763,905</u>
Less: Credit loss allowance	<u>(55,522)</u>	-	<u>(2,130,237)</u>	<u>(2,185,759)</u>
	<u>794,860,885</u>	-	<u>717,261</u>	<u>795,578,146</u>

15.3 Loans and advances to government owned / controlled financial institutions

Note	Scheduled banks		Other financial institutions		Total	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Agricultural sector	435,707	456,870	-	-	435,707	456,870
Industrial sector	28,071,472	17,552,496	-	-	28,071,472	17,552,496
Export sector	54,060,479	40,393,590	-	-	54,060,479	40,393,590
Others	1,748,668	13,734,148	798,462	758,924	2,547,130	14,493,072
	84,316,326	72,137,104	798,462	758,924	85,114,788	72,896,028

15.3.1 This includes exposure to Industrial Development Bank Limited (IDBL) under locally manufactured machinery (LMM) credit line amounting to Rs. 1,054 million (2019: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 340.78 million (2019: Rs. 340.78 million) to IDBL which are secured by government securities. The Federal Government vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of Industrial Development Bank of Pakistan (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 Privatisation in its meeting held on October 31, 2018 approved to delist IDBL from privatization programme. The Federal Cabinet also ratified the decision of the Cabinet Committee on Privatization. Accordingly, the process of winding up of IDBL is under process. During the year ended June 30, 2020, a loan amounting to Rs. 13 billion has been settled by utilizing the appropriation held in the Reserve Fund for said purpose.

15.3.2 These balances include Rs. 327.949 million (2019: Rs. 327.949 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

Note	Scheduled banks		Other financial institutions		Total	
	2020	2019	2020	2019	2020	2019
	(Rupees in '000)					
Agricultural sector	1,548,967	834,426	214,819	279,970	1,763,786	1,114,396
Industrial sector	185,912,309	139,665,544	14,477,862	12,525,578	200,390,171	152,191,122
Export sector	452,884,058	340,315,670	-	-	452,884,058	340,315,670
Others	36,581,037	2,970,994	9,162,946	8,383,471	45,743,983	11,354,465
	676,926,371	483,786,634	23,855,627	21,189,019	700,781,998	504,975,653

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 mark-up 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, 2020 is Rs. 3,220 million (2019: Rs. 2,946 million).

15.4.3 Loans to other financial institutions 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:

	2020	2019
	(% per annum)	
Government owned / controlled and private sector financial institutions	0 to 14.49	0 to 12.00
Employees loans (where applicable)	0 to 10.00	0 to 10.00

15.6 During the year ended June 30, 2020, the Bank in response to the COVID-19 pandemic has launched several new financing facility schemes in line with its mission to maintain financial and monetary stability. The following facilities were introduced via IH&SMEFD circular no. 01 and 03 of 2020 dated March 17, 2020 and IH&SMEFD circular no. 06 of 2020 dated April 10, 2020:

- i) temporary economic refinance facility
- ii) refinance facility for combating COVID-19 (RFCC)
- iii) refinance scheme for payments of wages and salaries to workers and employees of business concerns

Facilities disbursed to banks under the above mentioned schemes aggregated to Rs 38,244 million and were interest free. These facilities have been recorded at fair value and a loss for fair valuation amounting to Rs 4,194 million has been recorded in these financial statements.

	Note	2020	2019
----- (Rupees in '000) -----			
15.7 Credit loss allowance			
Opening balance		2,203,678	2,130,236
Impact on opening balances due to initial application of IFRS 9		-	46,761
		<u>2,203,678</u>	<u>2,176,997</u>
(Reversal) / charge during the year		(17,919)	26,681
Closing balance		<u>2,185,759</u>	<u>2,203,678</u>

16 ASSETS HELD WITH THE RESERVE BANK OF INDIA

Gold reserves			
- opening balance		7,573,743	5,102,356
- appreciation for the year due to revaluation	28.3.1.1	2,405,211	2,471,387
		<u>9,978,954</u>	<u>7,573,743</u>
Sterling securities		682,421	670,887
Government of India securities		318,125	331,449
Rupee coins		6,464	6,726
	16.1	<u>10,985,964</u>	<u>8,582,805</u>
Indian notes representing assets receivable from the Reserve Bank of India			
	16.2	957,200	997,292
	21.1	<u>11,943,164</u>	<u>9,580,097</u>

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).

	Note	2020	2019
----- (Rupees in '000) -----			
17 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
		<u>40,453</u>	<u>40,453</u>
Bangladesh			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	17.1	12,280,787	11,406,171
		<u>13,100,711</u>	<u>12,226,095</u>
	17.2	<u>13,141,164</u>	<u>12,266,548</u>

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).

	Note	2020	2019
----- (Rupees in '000) -----			
18 PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	18.1	78,452,596	79,496,485
Capital work-in-progress	18.3	557,057	379,168
		<u>79,009,653</u>	<u>79,875,653</u>

18.1 Operating fixed assets

2020										
Freehold land*	Leasehold land*	Buildings on freehold land*	Buildings on leasehold land*	Plant and Machinery	Furniture and fixtures	Office equipment	Electronic data processing equipment	Motor vehicles	Total	
(Rupees in '000)										
As at July 01, 2019										
Cost / revalued amount	17,496,689	54,121,144	2,326,662	4,620,726	1,266,565	51,769	239,687	2,080,831	564,372	82,768,445
Accumulated depreciation	-	-	-	-	(739,638)	(40,821)	(216,056)	(1,935,057)	(340,388)	(3,271,960)
Net book value	17,496,689	54,121,144	2,326,662	4,620,726	526,927	10,948	23,631	145,774	223,984	79,496,485
Year ended June 30, 2020										
Opening net book value	17,496,689	54,121,144	2,326,662	4,620,726	526,927	10,948	23,631	145,774	223,984	79,496,485
Additions	606	-	2,095	-	4,444	1,401	8,162	311,588	212,680	540,976
Transfers from capital work in progress	-	8,593	16,833	133,041	19,344	-	18,777	-	-	196,588
	606	8,593	18,928	133,041	23,788	1,401	26,939	311,588	212,680	737,564
Disposals										
Cost	-	-	(723)	-	(67,286)	(1,393)	(31,496)	(36,824)	(155,632)	(293,354)
Accumulated Depreciation	-	-	-	-	52,039	391	27,172	16,259	143,482	239,343
	-	-	(723)	-	(15,247)	(1,002)	(4,324)	(20,565)	(12,150)	(54,011)
Adjustments **	(1,587,900)	1,587,900	(354,288)	354,288	-	-	-	-	-	-
Depreciation charge	-	954,871	115,064	288,740	88,642	2,269	8,449	166,051	103,356	1,727,442
Net book value	15,909,395	54,762,766	1,875,515	4,819,315	446,826	9,078	37,797	270,746	321,158	78,452,596
As at June 30, 2020										
Cost / revalued amount	15,909,395	55,717,637	1,990,579	5,108,055	1,223,067	51,777	235,130	2,355,595	621,420	83,212,655
Accumulated depreciation	-	954,871	115,064	288,740	776,241	42,699	197,333	2,084,849	300,262	4,760,059
Net book value	15,909,395	54,762,766	1,875,515	4,819,315	446,826	9,078	37,797	270,746	321,158	78,452,596
Useful life / Rate of depreciation	-	90-99 years	20 years	20 years	10%	10%	20%	33.33%	20%	
2019										
Freehold land*	Leasehold land*	Buildings on freehold land*	Buildings on leasehold land*	Plant and Machinery	Furniture and fixtures	Office equipment	Electronic data processing equipment	Motor vehicles	Total	
(Rupees in '000)										
As at July 01, 2018										
Cost / revalued amount	13,035,959	38,505,682	2,229,775	4,328,303	1,229,169	107,604	239,431	2,089,217	535,338	62,300,478
Accumulated depreciation	-	(2,590,461)	(255,448)	(501,326)	(649,188)	(95,124)	(221,556)	(1,776,409)	(299,164)	(6,388,676)
Net book value	13,035,959	35,915,221	1,974,327	3,826,977	579,981	12,480	17,875	312,808	236,174	55,911,802
Year ended June 30, 2019										
Opening net book value	13,035,959	35,915,221	1,974,327	3,826,977	579,981	12,480	17,875	312,808	236,174	55,911,802
Additions	-	-	30,207	-	-	8,461	17,838	164,842	106,679	328,027
Transfers from capital work in progress	-	-	43,344	142,690	28,905	-	12,873	-	-	227,812
	-	-	73,551	142,690	28,905	8,461	30,711	164,842	106,679	555,839
Revaluation during the year	4,460,730	15,610,795	53,891	272,330	-	-	-	-	-	20,397,746
Reversal due to revaluation	-	(3,954,813)	(363,580)	(690,516)	-	-	-	-	-	(5,008,909)
	4,460,730	19,565,608	417,471	962,846	-	-	-	-	-	25,406,655
Disposals										
Cost	-	-	(30,555)	(123,993)	-	(64,296)	(30,455)	(173,228)	(77,645)	(500,172)
Accumulated Depreciation	-	-	1,696	23,750	-	57,072	12,554	73,821	60,984	229,877
	-	-	(28,859)	(100,243)	-	(7,224)	(17,901)	(99,407)	(16,661)	(270,295)
Adjustments **	-	4,667	-	1,396	8,491	-	-	-	-	14,554
	-	-	-	-	(4,853)	-	-	-	-	(4,853)
Depreciation charge	-	1,364,352	109,828	212,940	85,597	2,769	7,054	232,469	102,208	2,117,217
Net book value	17,496,689	54,121,144	2,326,662	4,620,726	526,927	10,948	23,631	145,774	223,984	79,496,485
As at June 30, 2019										
Cost / revalued amount	17,496,689	54,121,144	2,326,662	4,620,726	1,266,565	51,769	239,687	2,080,831	564,372	82,768,445
Accumulated depreciation	-	-	-	-	739,638	40,821	216,056	1,935,057	340,388	3,271,960
Net book value	17,496,689	54,121,144	2,326,662	4,620,726	526,927	10,948	23,631	145,774	223,984	79,496,485
Useful life / Rate of depreciation	-	30-99 years	20 years	20 years	10%	10%	20%	33.33%	20%	

* 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 (Private) limited 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:

	2020	2019
	----- (Rupees in '000) -----	
Freehold land	39,205	39,205
Leasehold land	179,380	194,626
Buildings on freehold land	398,373	453,574
Buildings on leasehold land	<u>736,022</u>	<u>869,918</u>
	<u>1,352,980</u>	<u>1,557,323</u>

18.3 Capital work-in-progress

Buildings on freehold land	46,029	14,738
Buildings on leasehold land	300,455	264,620
Office equipment	43,568	61,570
Electronic data processing equipment	195	195
Plant and machinery	<u>166,810</u>	<u>38,045</u>
	<u>557,057</u>	<u>379,168</u>

18.4 During the year, the management of the Bank has revised the estimate of the useful life of leasehold land on the basis of extension clause of the lease agreements. The revision has been accounted for as a change in accounting estimate in accordance with the requirements of International Accounting Standards (IAS) 8 'Accounting policies, changes in accounting estimates and errors'. Had the revision in useful lives of these assets not been made, the depreciation expense for the year would have been higher by Rs 1,774 million and consequently profit for the year would have been lower by the same amount.

	Note	2020	2019
		----- (Rupees in '000) -----	
19 INTANGIBLE ASSETS			
Software	19.1	103,278	198,754
Capital work-in-progress		<u>3,064</u>	<u>-</u>
		<u>106,342</u>	<u>198,754</u>

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 2020	974,467	23,108	997,575	775,713	118,584	894,297	103,278	33.33
Software 2019	790,063	184,404	974,467	648,369	127,344	775,713	198,754	33.33

	Note	2020	2019
		----- (Rupees in '000) -----	
20 OTHER ASSETS			
Commission receivable and others		3,562,082	3,563,949
Unrealised gain on local currency derivatives		467,045	-
Other advances, deposits and prepayments		<u>10,663,304</u>	<u>6,456,559</u>
		<u>14,692,431</u>	<u>10,020,508</u>

21 BANKNOTES IN CIRCULATION

Total banknotes issued	21.1	6,458,935,813	5,285,185,252
Banknotes held with the banking department	8	<u>(172,707)</u>	<u>(159,748)</u>
Notes in circulation		<u>6,458,763,106</u>	<u>5,285,025,504</u>

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

	Note	2020 ----- (Rupees in '000)	2019 -----
Gold reserves held by the Bank	7	617,495,037	468,625,002
Local currency - coins	8	1,028,584	1,039,138
Foreign currency accounts and investments	9	218,465,780	447,218,637
Special drawing rights of the International Monetary Fund	11	11,601,465	34,152,690
Investments - local	14	5,598,401,783	4,324,569,688
Assets held with the Reserve Bank of India	16	11,943,164	9,580,097
		<u>6,458,935,813</u>	<u>5,285,185,252</u>
22 CURRENT ACCOUNTS OF GOVERNMENTS			
22.1 Current accounts of governments - payable balances			
Federal Government	22.3	530,892,360	953,723,619
Provincial governments			
- Punjab	22.4	81,724,341	71,904,587
- Sindh	22.5	65,497,762	22,340,295
- Khyber Pakhtunkhwa	22.6	11,159,840	18,825,192
- Baluchistan	22.7	40,926,370	20,449,672
Government of Azad Jammu and Kashmir	22.8	5,046,863	97,061
Gilgit - Baltistan Administration Authority	22.9	13,542,566	14,173,504
		<u>217,897,742</u>	<u>147,790,311</u>
		<u>748,790,102</u>	<u>1,101,513,930</u>
22.2 Current accounts of governments - receivable balance			
Railways account	22.10	30,157,106	28,200,405
22.3 Federal Government			
Non-food account		508,391,267	929,325,959
Zakat fund accounts		7,929,167	9,256,663
Other accounts		14,571,926	15,140,997
		<u>530,892,360</u>	<u>953,723,619</u>
22.4 Provincial Government - Punjab			
Non-food account		76,274,341	42,007,486
Zakat fund account		154,335	1,565,166
Other accounts		5,295,665	28,331,935
		<u>81,724,341</u>	<u>71,904,587</u>
22.5 Provincial Government - Sindh			
Non-food account		59,101,115	20,279,182
Zakat fund account		1,757,082	1,599,775
Other accounts		4,639,565	461,338
		<u>65,497,762</u>	<u>22,340,295</u>
22.6 Provincial Government - Khyber Pakhtunkhwa			
Non-food account		97,619	9,396,814
Zakat fund account		8,223,742	7,585,840
Other accounts		2,838,479	1,842,538
		<u>11,159,840</u>	<u>18,825,192</u>
22.7 Provincial Government - Baluchistan			
Non-food account		38,330,273	17,067,872
Zakat fund account		1,821,076	1,377,537
Other accounts		775,021	2,004,263
		<u>40,926,370</u>	<u>20,449,672</u>

		2020	2019
		----- (Rupees in '000) -----	
22.8	Government of Azad Jammu and Kashmir	5,046,863	97,061
22.9	Gilgit - Baltistan Administration Authority	13,542,566	14,173,504
22.10	These balances carry mark-up ranging from 8.41% to 13.80% per annum (2019: 6.83% to 13.13% 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 (CSA) 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 (Rs. 475.138 billion) million against PKR during the year with the maturity buckets of three months to 1 year (2019: CNY 20,000 million (Rs. 466.280 billion) with maturity bucket of three months to 1 year). These purchases have been fully utilised as at June 30, 2020 and the same amounts are outstanding as on June 30, 2020. Interest is charged on outstanding balance at agreed rates.		
25	DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS	Note	2020
			2019
			----- (Rupees in '000) -----
	Foreign currency		
	Scheduled banks		37,854,192
	Held under cash reserve requirement	25.1	244,598,533
			236,978,765
	Local currency		
	Scheduled banks	25.1	950,672,620
	Financial institutions		13,031,466
	Others		81,959
			934,124,794
			1,171,103,559
25.1	This includes cash deposited with the State Bank of Pakistan by scheduled banks under regulatory requirements.		
26	OTHER DEPOSITS AND ACCOUNTS	Note	2020
			2019
			----- (Rupees in '000) -----
	Foreign currency		
	Foreign central banks		152,341,810
	International organisations		364,429,695
	Foreign government		487,918,827
	Others		29,067,136
		26.1 & 26.2	983,607,445
	Local currency		
	Special debt repayment	26.3	24,243,841
	Government	26.4	17,850,348
	Foreign central banks		2,172
	International organisations		5,788,171
	Others		34,391,768
			110,015,037
			1,093,622,482
			1,116,033,768

26.1 This includes FCY deposits equivalent to Rs.504,152 million (based on exchange rate as of June 30, 2020) (2019: Rs 480,156 million (based on exchange rate of June 30, 2019)), carrying interest at twelve month LIBOR + 1.00% (2019: LIBOR + 1.75%), payable semi-annually. These deposits have been set off against the Rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantee whereby the MoF has agreed to assume all liabilities and risks arising from these deposits.

26.2	The interest rate profile of the interest bearing deposits is as follows:	2020	2019
		(% per annum)	
	Foreign central banks	0.51 to 2.61	2.03 to 3.00
	International organisations	3.00 to 4.53	3.00 to 4.53
	Foreign government	3.00	3.00
	Others	0.17 to 2.40	1.98 to 2.51

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 GoP.

27	PAYABLE TO THE INTERNATIONAL MONETARY FUND	Note	2020	2019
			----- (Rupees in '000) -----	
	Borrowings under:			
	- fund facilities	27.1 & 27.3	816,542,992	924,568,518
	- allocation of SDRs	27.2	229,401,334	225,495,788
			1,045,944,326	1,150,064,306
	Current account for administrative charges		52	47
			1,045,944,378	1,150,064,353

27.1 The 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) and budgetary support needs.

Under GRA financing, the 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 instalments. A total amount of SDR 4,393 million has been disbursed under twelve tranches of EFF. The repayment under this facility started from March 2018 and will continue till September 2026. Repayments made during the year amounted to SDR 540 million (2019: SDR 270 million) in 16 different tranches (2019: 8 tranches)

27.2 This represents amount payable against allocation of SDRs. A charge is levied by the IMF on SDR allocation of the Bank at weekly interest rate applicable on daily product of SDR.

27.3	Interest profile of amount payable to the IMF is as under:	Note	2020	2019
			(% per annum)	
	Fund facilities	27.3.1	1.05 to 2.03	1.89 to 2.16

27.3.1 The IMF levies a basic rate of interest (charges) on loans based on 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.

28	OTHER LIABILITIES	Note	2020	2019
			----- (Rupees in '000) -----	
	Provision against overdue mark-up	28.1	11,886,685	11,012,018
	Special reserve provision under FIIP		10,245,290	9,140,395
	Remittance clearance account		4,096,502	1,591,851
	Exchange loss payable under exchange risk coverage scheme		477,713	563,869
	Dividend payable	28.2	10,000	-
	Unrealised loss on derivative financial instruments - net		22,298,736	112,862,311
	Other accruals and provisions	28.3	41,018,769	33,656,895
	Others		9,497,049	8,047,395
			99,530,744	176,874,734

- 28.1** This represents suspended mark-up which is recoverable from the Government of Bangladesh (former East Pakistan) subject to the final settlement between the governments of Pakistan and Bangladesh.
- 28.2** This represent dividend payable on shares held by the Government of Pakistan and government controlled entities amounting to Rs. 10 million (2019: NIL).

	Note	2020	2019
----- (Rupees in '000) -----			
28.3 Other accruals and provisions			
Agency commission		15,505,814	14,538,592
Provision for employees' compensated absences	42.7.9	5,321,424	3,019,130
Provision for other doubtful assets	28.3.1	13,525,632	11,162,564
Other provisions	28.3.2	2,845,378	2,850,288
Others		3,820,521	2,086,321
		<u>41,018,769</u>	<u>33,656,895</u>

28.3.1 Provision for other doubtful assets

Provision against assets held with / receivable from the Government of India and the Reserve Bank of India

- issue department		11,943,175	9,580,107
- banking department		40,483	40,483
		<u>11,983,658</u>	9,620,590

Provision against assets receivable from the Government of Bangladesh

- issue department		-	-
- banking department	28.4	1,541,974	1,541,974
		<u>1,541,974</u>	1,541,974
	28.3.1.1	<u>13,525,632</u>	11,162,564

28.3.1.1 Movement of provisions for other doubtful assets

Opening balance		11,162,564	8,235,135
(Reversal) / charge during the year		(42,143)	456,042
Appreciation relating to gold reserves held by the Reserve Bank of India		2,405,211	2,471,387
Closing balance		<u>13,525,632</u>	<u>11,162,564</u>

- 28.3.2** This represent provision against home remittance amounting to Rs. 260.363 million (2019: Rs. 260.363 million), specific claims pertaining to provision made against claims under arbitration amounting to Rs. 1,600 million (2019: Rs. 1,600 million) and other provision made in respect of various litigations and claims against the Bank amounting to Rs. 985.02 million (2019: Rs. 989.92 million).

- 28.4** This includes liability maintained against balances due from the Government of Bangladesh amounting to Rs. 778.399 million (2019: Rs. 778.399 million).

	Note	2020	2019
----- (Rupees in '000) -----			
29 DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS			
Pension		23,868,103	19,235,767
Gratuity scheme		90,324	60,967
Benevolent fund scheme		393,081	285,915
Post retirement medical benefits		9,506,824	9,052,574
Six months post retirement facility		694,630	542,990
	42.7.3	<u>34,552,962</u>	29,178,213
Provident fund scheme		183,113	205,170
		<u>34,736,075</u>	<u>29,383,383</u>

30 SHARE CAPITAL

2020 ---- (Number of shares) --	2019	2020 ----- (Rupees in '000) -----	2019
Issued, subscribed and paid-up capital			
<u>1,000,000</u>	<u>1,000,000</u>	<u>100,000</u>	<u>100,000</u>
Fully paid-up ordinary shares of Rs. 100 each			
Authorised share capital			
<u>1,000,000</u>	<u>1,000,000</u>	<u>100,000</u>	<u>100,000</u>
Ordinary shares of Rs. 100 each			

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 the Bank's exposure in PSPC.

31.3 Reserve for building up share capital

The Board of Directors has approved appropriation of Rs.67.673 billion for building up of share capital.

31.4 Other funds

This represents appropriations made out of the annual profits of the Bank in accordance with the provisions of the State Bank of Pakistan Act, 1956.

32 UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK

Note	2020 ----- (Rupees in '000) -----	2019
	464,180,641	311,313,769
7	148,822,917	152,866,872
	<u>613,003,558</u>	<u>464,180,641</u>

33 CONTINGENCIES AND COMMITMENTS

33.1 Contingencies

a) Contingent liability in respect of guarantees given on behalf of:			
Federal Government	33.1.1	13,459,912	16,387,061
Federal Government owned / controlled bodies and authorities		8,150,080	9,094,341
		<u>21,609,992</u>	<u>25,481,402</u>
b) Other claims against the Bank not acknowledged as debts	33.1.2	20,202	86,826
c) In addition to the above 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 these unconsolidated financial statements.			

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.

	Note	2020	2019
		----- (Rupees in '000) -----	
33.2 Commitments			
33.2.1 Foreign currency forward and swap contracts - sale		<u>1,134,906,714</u>	<u>1,724,182,418</u>
33.2.2 Foreign currency forward and swap contracts - purchase		<u>177,598,187</u>	<u>524,896,291</u>
33.2.3 Futures - sale		<u>9,323,533</u>	<u>6,478,867</u>
33.2.4 Futures - purchase		<u>9,056,126</u>	<u>8,000,504</u>
33.2.5 Capital Commitments	33.2.5.1	<u>484,591</u>	<u>353,753</u>
33.2.5.1	This represent amounts committed by the Bank to purchase assets from successful bidders.		
33.2.6	The Bank has a commitment to extend equivalent PKR of CNY 20,000 million (Rs. 475.138 million) (2019: CNY 20,000 million (Rs.466.280 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, 2020 amounted to Rs. 7,500 million (2019: Rs. 76,900 million).		
	Effective from June 29, 2020, the extension of direct credit by the Bank to provincial governments has been taken over by the Federal Government and the Bank's commitment to provide ways and means advance to provincial governments is withdrawn.		
	In case the Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority 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.		
34 DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED ON FINANCIAL ASSETS	Note	2020	2019
		----- (Rupees in '000) -----	
At amortised cost			
Discount, interest / mark-up on government transactions:			
- Government securities		1,047,999,770	568,337,040
- Federal Government scrips		82,200	82,200
- Loans and advances to and current accounts of governments	34.1	534,618	358,435
Securities purchased under agreement to resale		128,764,269	43,833,298
Interest income on preference shares		4,224,784	4,209,078
Return on loans and advances to financial institutions		12,837,164	11,643,681
Foreign currency deposits		13,603,153	16,084,959
Profit on Sukuks purchased under Bai Muajjal agreement		14,398	142,202
Others		252,897	833,123
		<u>1,208,313,253</u>	<u>645,524,016</u>
Fair value through profit or loss			
Foreign currency securities		<u>10,058,650</u>	<u>10,943,995</u>
		2020	2019
34.1	Interest profile on loans and advances to facilities are as under:		
		(% per annum)	
Mark-up on facility		8.41 to 13.80	6.83 to 13.13
Additional mark-up (where ways and means facility limit is exceeded)		4	4
		2020	2019
35 INTEREST / MARK-UP EXPENSE		----- (Rupees in '000) -----	
Deposits		29,581,779	15,443,987
Interest on bilateral currency swap		20,560,492	21,817,682
Interest on special drawing rights		13,718,133	18,812,906
Securities sold under agreement to repurchase		1,499,607	47,978,340
Profit on Sukuks purchased under Bai Muajjal agreement		6,728,246	4,636,357
Charges on allocation of special drawing rights of the IMF		1,255,045	2,070,227
		<u>73,343,302</u>	<u>110,759,499</u>

	Note	2020	2019	
----- (Rupees in '000) -----				
36	COMMISSION INCOME			
	Market treasury bills	36.1	2,503,164	2,870,683
	Management of public debts	36.1	1,594,705	731,831
	Prize bonds and national saving certificates	36.1	543,056	526,374
	Draft / payment orders		6,793	7,456
	Others		70	52
			<u>4,647,788</u>	<u>4,136,396</u>

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

	Note	2020	2019	
----- (Rupees in '000) -----				
37	EXCHANGE GAIN / (LOSS) - NET			
	Gain / (loss) on:			
	- foreign currency placements, deposits, securities and other accounts - net		83,567,128	(233,065,048)
	- IMF fund facilities		(10,474,773)	(232,359,891)
	- Special drawing rights of the IMF		(6,682,595)	(40,486,086)
			<u>66,409,760</u>	<u>(505,911,025)</u>

38 OTHER OPERATING INCOME - NET

	Penalties levied on banks and financial institutions		3,933,387	2,033,174
	License / credit information bureau fee recovered		1,682,274	951,784
	Gain / (loss) on disposal of investment - net:			
	- local - at fair value through profit or loss		246,596	186,113
	- foreign - at fair value through profit or loss		673,692	(2,552,143)
			<u>920,288</u>	<u>(2,366,030)</u>
	Gain on remeasurement of securities at fair value through profit or loss		1,223,141	3,748,571
	Others		146,079	24,341
			<u>7,905,169</u>	<u>4,391,840</u>

39 OTHER INCOME - NET

	Loss on disposal of property, plant and equipment		(376)	(145,109)
	Liabilities and provisions written back - net		25,946	7,493
	Grant income under foreign assistance program		173,726	61,971
	Income from subsidiary	39.1	69,340	54,379
	Others	39.2	113,558	134,662
			<u>382,194</u>	<u>113,396</u>

39.1 This represents income of a subsidiary - SBP Banking Services Corporation transferred to the Bank in accordance with the arrangements mentioned in note 42.5 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 National Bank of Pakistan's chest branches.

40 BANKNOTES' PRINTING CHARGES

Banknotes 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, certain portion of the agency commission also pertains to Bank of Punjab (BOP), which was appointed as agent of the Bank in March 2016, to collect Government of Punjab's taxes and receipts.

	Note	2020	2019
----- (Rupees in '000) -----			
42 GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		4,812,226	4,278,337
Retirement benefits and employees' compensated absences	42.1 & 42.7.4	7,208,632	3,621,190
Rent and taxes		49,990	52,804
Insurance		56,241	53,608
Electricity, gas and water		57,211	54,835
Depreciation	18.1	1,727,442	2,117,217
Amortisation of intangible assets	19.1	118,584	127,344
Repairs and maintenance		475,907	466,673
Auditors' remuneration	42.6	10,800	8,160
Legal and professional		186,413	72,505
Fund managers / custodian expenses		298,246	346,315
Travelling expenses		94,124	95,843
Daily expenses		60,805	87,827
Postages, telegram / telex and telephone		238,157	205,409
Training	42.2	224,904	274,507
Stationery		12,139	15,578
Books and newspapers		43,315	44,866
Advertisement		6,098	8,667
Board committee expenses		11,541	11,000
Recruitment charges		4,924	10,525
Others		250,054	280,224
		15,947,753	12,233,434
Expenses allocated by:			
SBP Banking Services Corporation	42.3	9,864,384	6,487,836
		9,864,384	6,487,836
Expenses reimbursed to:			
SBP Banking Services Corporation	42.4	8,249,267	8,060,641
		8,249,267	8,060,641
		34,061,404	26,781,911

42.1 This includes an amount relating to defined contribution plan aggregating Rs. 310.36 million (2019: Rs. 255.93 million) and employee compensated absences amounting to Rs. 2,627.653 million (2019: Rs. 203.167 million).

42.2 This includes Rs 211.455 million relating to NIBAF representing reimbursement of training expenses relating to employees of the Bank.

	2020	2019
----- (Rupees in '000) -----		
42.3 Expenses allocated by SBP Banking Services Corporation - a subsidiary		
Retirement benefits and employees' compensated absences	9,598,953	6,174,970
Depreciation	265,460	312,745
Credit loss allowance	(29)	121
	9,864,384	6,487,836

42.4 Expenses reimbursed to SBP Banking Services Corporation - a subsidiary	Note	2020 ----- (Rupees in '000) -----	2019
Salaries and other benefits		6,017,811	5,931,240
Rent and taxes		48,569	42,714
Insurance		21,761	17,905
Electricity, gas and water		424,156	391,813
Repairs and maintenance		319,596	336,502
Auditors' remuneration	42.6	10,800	8,160
Legal and professional		9,027	15,188
Travelling expenses		22,091	29,966
Daily expenses		39,040	50,058
Passages, rent and recreation allowance		318,520	293,380
Fuel		5,730	4,523
Conveyance		18,826	21,127
Postage and telephone		17,359	17,521
Training		14,670	100,411
Remittance of treasure		180,119	174,077
Stationery		24,692	33,462
Books and newspapers		1,862	2,565
Advertisement		14,908	19,391
Bank guards' charges		209,879	198,601
Uniforms		35,086	34,436
Expenses to be reimbursed to National Institute of Banking and Finance (Guarantee) Limited		201,008	-
Others		293,757	337,601
		<u>8,249,267</u>	<u>8,060,641</u>

42.5 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, 2020, as mentioned in note 39.1 to these unconsolidated financial statements, has also been transferred to the Bank.

42.6 Auditors' remuneration	2020			2019		
	KPMG	A. F. Ferguson & Co.	Total	EY Ford Rhodes	KPMG	Total
	----- (Rupees in '000) -----					
State Bank of Pakistan						
Audit fee	4,285	4,285	8,570	3,241	3,241	6,482
Out of pocket expenses	715	715	1,430	537	537	1,074
Sindh Sales Tax on services	400	400	800	302	302	604
	<u>5,400</u>	<u>5,400</u>	<u>10,800</u>	4,080	4,080	8,160
SBP Banking Services Corporation						
Audit fee	3,570	3,570	7,141	2,699	2,699	5,398
Out of pocket expenses	1,430	1,430	2,859	1,079	1,079	2,158
Sindh Sales Tax on services	400	400	800	302	302	604
	<u>5,400</u>	<u>5,400</u>	<u>10,800</u>	4,080	4,080	8,160
	<u>10,800</u>	<u>10,800</u>	<u>21,600</u>	<u>8,160</u>	<u>8,160</u>	<u>16,320</u>

42.7 Staff retirement benefits

42.7.1 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:

	2020	2019
- discount rate for year end obligation	9.25% p.a	14.25% p.a
- salary increase rate	14.00% p.a	15.00% p.a
- pension indexation rate	7.25% p.a	8.50% p.a
- medical cost increase rate	9.25% p.a	14.25% p.a
- petrol price increase rate (where applicable)	14.00% p.a	15.00% p.a
- personnel turnover	6.51% p.a	6.40% 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.

42.7.2 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.

42.7.3 Change in present value of defined benefit obligation

	2020					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
	(Rupees in '000)					
Present value of defined benefit obligation July 01, 2019	19,235,767	60,967	9,052,574	285,915	542,990	29,178,213
Current service cost	273,656	8,645	188,866	1,789	38,562	511,518
Interest cost on defined benefit obligation	2,545,082	8,462	1,245,729	37,155	75,822	3,912,250
	2,818,738	17,107	1,434,595	38,944	114,384	4,423,768
Benefits Paid	(2,751,086)	(3,168)	(621,239)	(50,351)	(21,812)	(3,447,656)
Liability Transferred to SBP Banking Service Corporation - a subsidiary	-	-	-	-	-	-
Remeasurements:						
actuarial (gains) / losses from changes in financial assumptions	-	-	-	-	-	-
experience adjustments	4,564,684	15,418	(359,106)	118,573	59,068	4,398,637
	4,564,684	15,418	(359,106)	118,573	59,068	4,398,637
Present value of defined benefit obligation as on June 30, 2020	23,868,103	90,324	9,506,824	393,081	694,630	34,552,962
	2019					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
	(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
	2,230,174	10,316	815,731	36,349	78,320	3,170,890
Benefits Paid	(1,846,585)	(1,856)	(398,869)	(35,586)	(15,970)	(2,298,866)
Liability Transferred to SBP Banking Service Corporation - a subsidiary	-	-	(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
	(3,634,111)	(412)	1,094,545	(99,142)	(11,047)	(2,650,167)
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

42.7.3.1 The break-up of remeasurements recognised during the period in the other comprehensive income are as follows:

Remeasurements recognised in the other comprehensive income

2020					
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	-	-	-	-	-
- Experience adjustments	(4,564,684)	(15,418)	359,106	(118,573)	(59,068)
	<u>(4,564,684)</u>	<u>(15,418)</u>	<u>359,106</u>	<u>(118,573)</u>	<u>(4,398,637)</u>
Allocated by SBP Banking Services Corporation - a subsidiary*	<u>(6,194,573)</u>	<u>(1,689)</u>	<u>67,163</u>	<u>(126,747)</u>	<u>(41,946)</u>
	<u><u>(6,194,573)</u></u>	<u><u>(1,689)</u></u>	<u><u>67,163</u></u>	<u><u>(126,747)</u></u>	<u><u>(41,946)</u></u>
	<u><u>(6,297,792)</u></u>				
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
- Experience adjustments	(1,172,256)	(1,862)	(850,574)	1,938	533
	<u>3,634,111</u>	<u>412</u>	<u>(1,094,545)</u>	<u>99,142</u>	<u>11,047</u>
Allocated by SBP Banking Services Corporation - a subsidiary*	<u>6,555,808</u>	<u>21</u>	<u>(701,087)</u>	<u>174,670</u>	<u>9,498</u>
	<u><u>6,555,808</u></u>	<u><u>21</u></u>	<u><u>(701,087)</u></u>	<u><u>174,670</u></u>	<u><u>9,498</u></u>
	<u><u>6,038,910</u></u>				

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

42.7.4 Amount recognised in the unconsolidated profit and loss account

2020					
Pension	Gratuity scheme	Post retirement medical benefits	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
Interest cost on defined benefit obligation	2,545,082	8,462	1,245,729	37,155	75,822
	<u>2,818,738</u>	<u>17,107</u>	<u>1,434,595</u>	<u>38,944</u>	<u>114,384</u>
	<u><u>2,818,738</u></u>	<u><u>17,107</u></u>	<u><u>1,434,595</u></u>	<u><u>38,944</u></u>	<u><u>114,384</u></u>
	<u><u>4,423,768</u></u>				
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
Interest cost on defined benefit obligation	1,940,670	4,679	661,379	33,001	43,663
Contribution made by employees	-	-	-	(3,521)	-
	<u>2,230,174</u>	<u>10,316</u>	<u>815,731</u>	<u>32,828</u>	<u>78,320</u>
	<u><u>2,230,174</u></u>	<u><u>10,316</u></u>	<u><u>815,731</u></u>	<u><u>32,828</u></u>	<u><u>78,320</u></u>
	<u><u>3,167,369</u></u>				

42.7.5 Movement of present value of defined benefit obligation

	2020					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
	(Rupees in '000)					
Net recognised liabilities at July 1, 2019	19,235,767	60,967	9,052,574	285,915	542,990	29,178,213
Amount recognised in the unconsolidated profit and loss account	2,818,738	17,107	1,434,595	38,944	114,384	4,423,768
Remeasurements	4,564,684	15,418	(359,106)	118,573	59,068	4,398,637
Benefits paid during the year	(2,751,086)	(3,168)	(621,239)	(50,351)	(21,812)	(3,447,656)
Liability Transferred to SBP Banking Service Corporation - a subsidiary	-	-	-	-	-	-
Net recognised liabilities at June 30, 2020	<u>23,868,103</u>	<u>90,324</u>	<u>9,506,824</u>	<u>393,081</u>	<u>694,630</u>	<u>34,552,962</u>
	(Rupees in '000)					
	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 unconsolidated profit and loss account	2,230,174	10,316	815,731	36,349	78,320	3,170,890
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 SBP Banking Service Corporation - a subsidiary	-	-	(6,919)	(178)	(1,447)	(8,544)
Employees contribution / amount transferred	-	-	-	-	-	-
Net recognised liabilities at June 30, 2019	<u>19,235,767</u>	<u>60,967</u>	<u>9,052,574</u>	<u>285,915</u>	<u>542,990</u>	<u>29,178,213</u>

42.7.6 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%	(1,716,188)	1,994,244
Future salary increase	1%	483,832	(353,148)
Future pension increase	1%	1,537,865	(1,338,766)
Expected mortality rates	1 Year	826,719	(747,688)
Gratuity			
Discount rate	1%	(8,268)	9,454
Future salary increase	1%	9,416	(8,394)
Post retirement medical benefit scheme			
Discount rate	1%	(983,039)	1,213,502
Future Post-Retirement medical cost increase	1%	1,160,138	(945,431)
Expected mortality rates	1 Year	394,528	(353,662)
Benevolent			
Discount rate	1%	(20,824)	23,287
Six months post retirement facility			
Discount rate	1%	(50,537)	56,913
Future salary increase	1%	57,367	(51,941)

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 unconsolidated balance sheet.

42.7.7 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	9 Years	10 Years	12 Years	6 Years	8 Years

42.7.8

Estimated expenses to be charged to the unconsolidated profit and loss account for the year ending June 30, 2021

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2021 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	309,085	11,321	197,249	5,181	43,985	566,821
Interest cost on defined benefit obligation	2,100,761	8,337	854,233	34,736	62,056	3,060,123
Amount chargeable to the unconsolidated profit and loss account	<u>2,409,846</u>	<u>19,658</u>	<u>1,051,482</u>	<u>39,917</u>	<u>106,041</u>	<u>3,626,944</u>

42.7.9 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. 5,321.424 million (2019: Rs. 3,019.130 million). An amount of Rs. 2,627.653 million (2019: Rs. 203.167 million) has been charged to the unconsolidated 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, 2021 would be Rs 868.840 million. The benefits paid during the year amounted to Rs. 325.359 million (2019: Rs 111.516 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 332.103 million and Rs. 373.057 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. 380.605 million and Rs. 345.742 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 7 years.

43 (REVERSAL) / CHARGE FOR CREDIT LOSS ALLOWANCE ON FINANCIAL INSTRUMENTS - NET

The following table reconciles the expected credit losses allowance for the year ended June 30, 2020 by classes of financial instruments:

	2020					
	Foreign currency accounts and investments	Investments - Local	Loans, advances and bills of exchange	Current accounts of governments	Securities purchased under agreement to resell	Total
	(Rupees in '000)					
As at June 30, 2019	12,995	78,953	2,203,678	-	27	2,295,653
Reversals during the year	(12,907)	-	(17,919)	-	(20)	(30,846)
As at June 30, 2020	<u>88</u>	<u>78,953</u>	<u>2,185,759</u>	<u>-</u>	<u>7</u>	<u>2,264,807</u>
	2019					
	Foreign currency accounts and investments	Investments - Local	Loans, advances and bills of exchange	Current accounts of governments	Securities purchased under agreement to resell	Total
	(Rupees in '000)					
As of June 30, 2018 (under IAS 39)	-	817,388	2,130,236	-	-	2,947,624
Adjustments on initial recognition of IFRS 9	66	(738,435)	46,761	-	15	(691,593)
As of July 1, 2018 (under IFRS 9)	66	78,953	2,176,997	-	15	2,256,031
Charge during the year	12,929	-	26,681	-	12	39,622
As at June 30, 2019	<u>12,995</u>	<u>78,953</u>	<u>2,203,678</u>	<u>-</u>	<u>27</u>	<u>2,295,653</u>

44	PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS	Note	2020	2019
			----- Rupees in '000 -----	
	Profit/(loss) for the year		1,159,930,848	(846,146)
	Adjustments for:			
	Depreciation	18.1 & 42.3	1,992,902	2,429,962
	Amortisation of intangible assets	19.1	118,584	127,344
	(Reversal)/Charge of Credit loss on financial instruments		(30,846)	26,693
	Provision / (reversal) for / write-off:			
	- retirement benefits and employees' compensated absences		16,807,585	9,796,160
	- other doubtful assets	28.3.1.1	(42,143)	456,042
	(Gain) / loss on disposal of property, plant and equipment	39	376	145,109
	(Gain) / loss on disposal of financial assets		(673,316)	-
	Dividend income		(400,000)	(2,390,000)
	Effect of exchange (gain) / loss on assets and liabilities		(135,463,963)	184,496,821
			<u>1,042,240,027</u>	<u>194,241,985</u>
45	CASH AND CASH EQUIVALENTS			
	Local currency - coins		1,028,584	1,039,138
	Foreign currency accounts and investments		1,843,398,267	1,374,793,536
	Earmarked foreign currency balances		62,010,317	72,702,673
	Special Drawing Rights of the International Monetary Fund		29,537,127	55,461,054
			<u>1,935,974,295</u>	<u>1,503,996,401</u>
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 and Finance (Guarantee) Limited (the institute)		2020	2019
			----- Rupees in '000 -----	
	Balances at the year end			
	Payable against training programs		303,256	33,049
	Current account with the Institute		116,649	105,235
	Transactions during the year			
	Training expense		211,455	271,257
	Payments / (Receipts)		74,759	293,094
	Grant during the year		-	70,546
46.2	Pakistan Security Printing Corporation (Private) Limited			
	Balances at the year end			
	Payable against printing charges		1,811,854	1,262,615
	Receivable against salaries		10,822	79,691
	Transactions during the year			
	Banknotes printing charges		15,991,886	13,755,031
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		2020	2019
			----- Rupees in '000 -----	
	- Creation of MRTBs		-	19,225,370,000
	- Creation of PIBs		-	7,187,000,000
	- Retirement / rollover of MRTBs		569,000,000	22,250,040,000
	- 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:

	2020	2019
	----- (Rupees in '000) -----	
Short-term employee benefit	787,130	471,777
Post-employment benefit	86,871	62,525
Loans disbursed during the year	44,174	123,765
Loans repaid during the year	120,645	109,194
Directors' fees	11,780	11,904
Number of key management personnel	19	19

Short-term benefits include salary and benefits, medical benefits and free use of the 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, 39.2 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 (SICPA) - associated undertaking

SICPA is a joint venture of SICPA SA, Switzerland and 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 (SPL) - associated undertaking

SPL is an associated company of 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. SPL is engaged in manufacturing of paper required by 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 unconsolidated balance sheet.

47.1.2 Impairment assessment

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 reorganisation; 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	2020	2019	External Rating
	12 month PD	12 month PD	
Performing			
High grade	0.0000%	0.0000%	Sovereign
High grade	0.0000%-0.0318%	0.0000%-0.0318%	AAA
High grade	0.0318%-0.0751%	0.0318%-0.0751%	AA+ to AA-
High grade	0.0751%-0.2334%	0.0751%-0.2334%	A+ to A-
Standard grade	0.2334%-0.5574%	0.2334%-0.5574%	BBB+ to BBB-
Standard grade	0.5574%-1.3393%	0.5574%-1.3393%	BB+ to BB-
Standard grade	1.3393%-3.3597%	1.3393%-3.3597%	B+ to B-
Rating below standard	3.3597%-9.6562%	3.3597%-9.6562%	CCC+ to CCC-
Rating below standard	9.6562%-100%	9.6562%-100%	CC
Non performing			
Individually impaired	100%	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 financial instruments, 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 EAD by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. PDs are then assigned to each economic scenario based on the outcome of the 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 reporting date without taking any collateral held or other credit enhancements is shown below:

47.2.1 Geographical analysis

	2020						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand total
	(Rupees in '000)						
Financial assets							
Local currency - coins	1,028,584	-	-	-	-	-	1,028,584
Foreign currency accounts and investments	-	771,653,490	991,293,185	420,343,857	9,994,287	13,695,211	2,206,980,030
Earmarked foreign currency balance	62,010,317	-	-	-	-	-	62,010,317
Special drawing rights of International Monetary Fund	-	-	29,537,127	-	-	-	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	27,555	-	-	-	27,555
Securities purchased under agreement to resell	917,539,647	-	-	-	-	-	917,539,647
Current accounts of governments	30,157,106	-	-	-	-	-	30,157,106
Investments - local	7,407,180,676	-	-	-	-	-	7,407,180,676
Loans, advances and bills of exchange	795,250,197	327,949	-	-	-	-	795,578,146
Assets held with the Reserve Bank of India	-	1,964,210	-	-	-	-	1,964,210
Balances due from the Governments of India and Bangladesh	-	13,141,164	-	-	-	-	13,141,164
Other assets	6,252,653	8,160,701	3,305	6,225	-	-	14,422,884
Total financial assets	9,219,419,180	795,247,514	1,020,861,172	420,350,082	9,994,287	13,695,211	11,479,567,446

	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	-	597,212,845	348,408,820	352,875,855	94	77,356,774	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	587,316,255	327,949	-	-	-	-	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	9,629,381	-	103,253	-	-	-	9,732,634
Total financial assets	9,384,264,847	611,813,696	404,000,126	352,875,855	94	77,356,774	10,830,311,392

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

	2020						
	Sovereign	Supra-national	Public sector entities	Corporate	Banks & financial institutions	Others	Grand total
	(Rupees in '000)						
Financial assets							
Local currency - coins	1,028,584	-	-	-	-	-	1,028,584
Foreign currency accounts and investments	1,269,465,668	385,876,467	-	-	551,637,895	-	2,206,980,030
Earmarked foreign currency balance	62,010,317	-	-	-	-	-	62,010,317
Special drawing rights of International Monetary Fund	-	29,537,127	-	-	-	-	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	-	27,555	-	-	-	-	27,555
Securities purchased under agreement to resell	-	-	-	-	917,539,647	-	917,539,647
Current accounts of governments	30,157,106	-	-	-	-	-	30,157,106
Investments - local	7,273,303,969	-	107,980,934	-	25,895,773	-	7,407,180,676
Loans, advances and bills of exchange	327,949	-	85,686,655	-	697,696,790	11,866,752	795,578,146
Assets held with the Reserve Bank of India	1,964,210	-	-	-	-	-	1,964,210
Balances due from the Governments of India and Bangladesh	13,141,164	-	-	-	-	-	13,141,164
Other assets	12,349,274	9,531	53,625	-	1,041,808	968,646	14,422,884
Total financial assets	8,663,748,241	415,450,680	193,721,214	-	2,193,811,913	12,835,398	11,479,567,446

	2019						
	Sovereign	Supra-national	Public sector entities	Corporate	Banks & financial institutions	Others	Grand total
	(Rupees in '000)						
Financial assets							
Local currency - coins	1,039,138	-	-	-	-	-	1,039,138
Foreign currency accounts and investments	425,771,043	242,471,231	-	-	707,612,114	-	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	7,761,648,598	-	119,127,245	-	21,682,997	-	7,902,458,840
Loans, advances and bills of exchange	327,949	-	68,334,074	-	507,033,361	11,948,820	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	8,109,341	103,253	126,330	-	448,487	945,223	9,732,634
Total financial assets	8,312,072,049	298,062,537	187,587,649	-	2,019,695,114	12,894,043	10,830,311,392

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 VIS and PACRA are used.

2020							
Sovereign (47.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
(Rupees in 000')							
Financial assets							
Local currency - coins	1,028,584	-	-	-	-	-	1,028,584
Foreign currency accounts and investments	1,269,406,931	398,541,244	108,441,477	425,450,285	5,140,093	-	2,206,980,030
Earmarked foreign currency balance	62,010,317	-	-	-	-	-	62,010,317
Special drawing rights of International Monetary Fund	-	-	-	-	-	29,537,127	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	27,555	27,555
Securities purchased under agreement to resell	-	244,674,800	464,483,712	199,225,964	6,846,463	2,308,708	917,539,647
Current accounts of governments	30,157,106	-	-	-	-	-	30,157,106
Investments - local	7,327,843,272	68,120,503	9,128,446	2,088,455	-	-	7,407,180,676
Loans, advances and bills of exchan	-	310,103,108	431,490,408	31,988,290	141,068	115,223	795,578,146
Assets held with the Reserve Bank of India	-	-	-	-	1,964,210	-	1,964,210
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	13,100,711	13,141,164
Other assets	12,349,274	-	467,045	-	-	1,606,565	14,422,884
Total financial assets	8,702,795,484	1,021,439,655	1,014,011,088	658,752,994	14,132,287	15,524,642	11,479,567,446

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 exchan	-	235,255,045	289,604,403	27,647,659	90,608	19,047	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	12,226,095	12,266,548
Other assets	8,211,659	262,440	495,563	98,658	-	664,314	9,732,634
Total financial assets	7,927,378,747	1,476,065,078	588,514,637	683,534,121	10,488,794	28,709,680	10,830,311,392

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

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.

	2020						Grand total
	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	
	(Rupees in '000)						
Financial assets							
Non-derivative assets:							
Local currency - coins	-	-	-	1,028,584	-	1,028,584	1,028,584
Foreign currency accounts and investments	1,509,074,108	130,627,178	1,639,701,286	566,621,706	307,161	566,928,867	2,206,630,153
Earmarked foreign currency balance	-	-	-	62,010,317	-	62,010,317	62,010,317
Special drawing rights of International Monetary Fund	29,537,127	-	29,537,127	-	-	-	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	27,555	-	27,555	27,555
Securities purchased under agreement to resell	916,654,476	-	916,654,476	885,171	-	885,171	917,539,647
Current accounts of governments	3,574,338	-	3,574,338	26,582,768	-	26,582,768	30,157,106
Investments - local	5,998,000,000	1,329,843,271	7,327,843,271	29,641,655	49,695,750	79,337,405	7,407,180,676
Loans, advances and bills of exchange	544,693,616	199,785,381	744,478,997	19,846,971	31,252,178	51,099,149	795,578,146
Assets held with the Reserve Bank of India	-	-	-	1,964,210	-	1,964,210	1,964,210
Balances due from the Governments of India and Bangladesh	-	-	-	13,141,164	-	13,141,164	13,141,164
Other assets	-	-	-	13,954,810	1,029	13,955,839	13,955,839
Grand total	9,001,533,665	1,660,255,830	10,661,789,495	735,704,911	81,256,118	816,961,029	11,478,750,524
Derivative assets							
Foreign currency accounts and investments - net	-	-	-	362,728	(12,851)	349,877	349,877
Other assets	-	-	-	467,045	-	467,045	467,045
Grand total	9,001,533,665	1,660,255,830	10,661,789,495	736,534,684	81,243,267	817,777,951	11,479,567,446
Financial liabilities							
Banknotes in circulation	-	-	-	6,458,763,106	-	6,458,763,106	6,458,763,106
Bills payable	-	-	-	1,226,036	-	1,226,036	1,226,036
Current accounts of the governments*	-	-	-	748,790,102	-	748,790,102	748,790,102
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	52,124,619	-	52,124,619	52,124,619
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	186,607	-	186,607	186,607
Payable to Islamic banking institutions against Bai Muajjal transactions	18,533,398	-	18,533,398	979,560	-	979,560	19,512,958
Payable under bilateral currency swaps agreements	475,138,000	-	475,138,000	1,584,596	-	1,584,596	476,722,596
Deposits of banks and financial institutions	125,055,961	-	125,055,961	1,046,047,598	-	1,046,047,598	1,171,103,559
Other deposits and accounts	957,888,420	-	957,888,420	135,734,062	-	135,734,062	1,093,622,482
Payable to the International Monetary Fund	229,375,871	815,030,053	1,044,405,924	1,538,454	-	1,538,454	1,045,944,378
Other liabilities	-	10,245,290	10,245,290	26,705,862	-	26,705,862	36,951,152
Grand total	1,805,991,650	825,275,343	2,631,266,993	8,473,680,602	-	8,473,680,602	11,104,947,595
Derivative liabilities							
Other liabilities	-	-	-	22,298,736	-	22,298,736	22,298,736
Grand total	1,805,991,650	825,275,343	2,631,266,993	8,495,979,338	-	8,495,979,338	11,127,246,331
On balance sheet gap (a)	7,195,542,015	834,980,487	8,030,522,502	(7,759,444,654)	81,243,267	(7,678,201,387)	352,321,115
Foreign currency forward and swap contracts - sale	-	-	-	1,134,906,714	-	1,134,906,714	1,134,906,714
Foreign currency forward and swap contracts - purchase	-	-	-	177,598,187	-	177,598,187	177,598,187
Futures - sale	-	-	-	9,323,533	-	9,323,533	9,323,533
Futures - purchase	-	-	-	9,056,126	-	9,056,126	9,056,126
Capital commitments	-	-	-	484,591	-	484,591	484,591
Contingent liabilities in respect of guarantees given	-	-	-	-	21,609,992	21,609,992	21,609,992
Off balance sheet gap (b)	-	-	-	1,331,369,151	21,609,992	1,352,979,143	1,331,369,151
Total yield / interest risk sensitivity gap (a+b)	7,195,542,015	834,980,487	8,030,522,502	(9,090,813,805)	59,633,275	(9,031,180,530)	(979,048,036)
Cumulative yield / interest risk sensitivity gap	7,195,542,015	8,030,522,502	16,061,045,004				

(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

	2019						Grand total
	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	
	(Rupees in '000)						
Financial assets							
Non-derivatives 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	3,824,339	360,256,689	1,373,091,103
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	782,121,699	-	782,121,699	796,456	-	796,456	782,918,155
Current accounts of Governments	3,180,892	-	3,180,892	25,019,513	-	25,019,513	28,200,405
Investments - local	-	7,246,985,402	7,246,985,402	569,062,328	86,411,110	655,473,438	7,902,458,840
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	-	-	-	12,266,548	-	12,266,548	12,266,548
Other assets	-	-	-	9,731,605	1,029	9,732,634	9,732,634
	2,105,622,950	7,530,888,525	9,636,511,475	1,100,761,748	90,274,884	1,191,036,632	10,827,548,107
Derivatives assets							
Foreign currency accounts and investments	-	-	-	2,763,285	-	2,763,285	2,763,285
Grand total	2,105,622,950	7,530,888,525	9,636,511,475	1,103,525,033	90,274,884	1,193,799,917	10,830,311,392
Financial liabilities							
Banknotes 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 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	119,769,544	-	119,769,544	4,640,688	-	4,640,688	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	174,095,604	-	174,095,604	1,072,143,166	-	1,072,143,166	1,246,238,770
Other deposits and accounts	992,323,020	-	992,323,020	123,710,748	-	123,710,748	1,116,033,768
Payable to International Monetary Fund	225,080,856	921,001,932	1,146,082,788	3,981,565	-	3,981,565	1,150,064,353
Other liabilities	-	-	-	36,102,372	-	36,102,372	36,102,372
	1,977,549,024	921,001,932	2,898,550,956	7,676,456,898	-	7,676,456,898	10,575,007,854
Derivative liabilities							
Other liabilities	-	-	-	112,862,311	-	112,862,311	112,862,311
	1,977,549,024	921,001,932	2,898,550,956	7,789,319,209	-	7,789,319,209	10,687,870,165
On balance sheet gap (a)	128,073,926	6,609,886,593	6,737,960,519	(6,685,794,176)	90,274,884	(6,595,519,292)	142,441,227
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
Contingent liabilities in respect of guarantors given	-	-	-	-	25,481,402	25,481,402	25,481,402
Off balance sheet gap (b)	-	-	-	(1,291,654,087)	25,481,402	(1,266,172,685)	(1,266,172,685)
Total yield / interest risk sensitivity gap (a+b)	128,073,926	6,609,886,593	6,737,960,519	(5,394,140,089)	64,793,482	(5,329,346,607)	1,408,613,912
Cumulative yield / interest risk sensitivity gap	128,073,926	6,737,960,519	13,475,921,038				

(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 / mark-up 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, 2020 would increase / decrease by Rs 3,344.02 million (2019: Rs 1,749.27 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 and financial asset at fair value through other comprehensive income. 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, 2020, 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 384.77 million (2019: Rs 198.79 million) or decrease by Rs 386.18 million (2019: Rs 200.15 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 unconsolidated 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, 2020 with all other variables constant profit for the year would have been Rs. 9,830.59 million higher / lower (2019: Rs. 14,255.59 million). Net foreign currency exposure of the Bank is as follows:

	2020	2019
	----- (Rupees in '000) -----	
US Dollar	(295,354,414)	(972,112,595)
Pound Sterling	(77,327,599)	(81,468,161)
Chinese Yuan	279,547,027	49,812,533
Euro	(306,242,263)	(345,499,790)
Japanese Yen	(37,738,016)	(83,450,003)
United Arab Emirates Dirham	709,707	3,109,629
Australian Dollar	10,799	16,052
Canadian Dollar	1,805	346,500
Others	332,068	3,686,836
	<u>(436,060,886)</u>	<u>(1,425,558,999)</u>

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 the reporting date are not necessarily indicative of the effects on the Bank's unconsolidated 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 at fair value through other comprehensive income. 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, 2020, other comprehensive income would increase or decrease by Rs. 644.941 million (2019: Rs. 655.904 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 fair value through OCI.

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, 2020 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 47.4.1 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 summarises the carrying amounts and fair values of financial assets and liabilities:

	Carrying value		Fair value	
	2020	2019	2020	2019
(Rupees in '000)				
Financial assets				
Local currency - coins	1,028,584	1,039,138	1,028,584	1,039,138
Foreign currency accounts and investments	2,206,980,030	1,373,091,103	2,206,980,030	1,373,091,103
Earmarked foreign currency balances	62,010,317	72,702,673	62,010,317	72,702,673
Special drawing rights of the International Monetary Fund	29,537,127	55,461,054	29,537,127	55,461,054
Reserve tranche with the International Monetary Fund under quota arrangements	27,555	26,999	27,555	26,999
Securities purchased under agreement to resell	917,539,647	782,918,155	917,539,647	782,918,155
Current accounts of governments	30,157,106	28,200,405	30,157,106	28,200,405
Investments - local	7,407,180,676	7,902,458,840	7,552,796,283	7,885,297,556
Loans, advances and bills of exchange	795,578,146	587,644,204	795,578,146	587,644,204
Assets held with the Reserve Bank of India	1,964,210	2,006,354	1,964,210	2,006,354
Balances due from the Governments of India and Bangladesh	13,141,164	12,266,548	13,141,164	12,266,548
Other assets	14,422,884	12,495,919	14,422,884	12,495,919
Financial liability				
Banknotes in circulation	6,458,763,106	5,285,025,504	6,458,763,106	5,285,025,504
Bills payable	1,226,036	1,146,660	1,226,036	1,146,660
Current accounts of Governments	748,790,102	1,101,513,930	748,790,102	1,101,513,930
Current account with SBP Banking Services Corporation - a subsidiary	52,124,619	44,969,274	52,124,619	44,969,274
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	186,607	105,235	186,607	105,235
Payable to Islamic banking institutions against Bai Muajjal transactions	19,512,958	124,410,232	19,512,958	124,410,232
Payable under bilateral currency swap agreement	476,722,596	469,397,756	476,722,596	469,397,756
Deposits of banks and financial institutions	1,171,103,559	1,246,238,770	1,171,103,559	1,246,238,770
Other deposits and accounts	1,093,622,482	1,116,033,768	1,093,622,482	1,116,033,768
Payable to the International Monetary Fund	1,045,944,378	1,150,064,353	1,045,944,378	1,150,064,353
Other liabilities	36,951,152	148,964,683	36,951,152	148,964,683

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).

	2020			Total
	Level 1	Level 2	Level 3	
(Rupees in '000)				
Recurring fair value measurements				
On balance sheet financial assets				
Foreign currency accounts and investments	-	500,826,405	-	500,826,405
Investments - local	44,235,735	35,101,670	-	79,337,405
Non - recurring fair value measurements				
On balance sheet non-financial assets				
Operating fixed assets (land and buildings)	-	-	77,366,991	77,366,991
Gold reserves held by the Bank	617,495,037	-	-	617,495,037
	<u>661,730,772</u>	<u>535,928,075</u>	<u>77,366,991</u>	<u>1,275,025,838</u>
Recurring fair value measurements				
Off balance sheet financial asset and liabilities				
Foreign currency forward and swap contracts - sale	-	1,156,814,337	-	1,156,814,337
Foreign currency forward and swap contracts - purchase	-	178,069,336	-	178,069,336
Futures - sale	9,374,673	-	-	9,374,673
Futures - purchase	9,061,924	-	-	9,061,924

	2019			Total
	Level 1	Level 2	Level 3	
Recurring fair value measurements				
On balance sheet financial assets				
Foreign currency accounts and investments - held for trading	-	202,587,281	-	202,587,281
Investments - local	53,850,807	32,560,301	-	86,411,108
Non - recurring fair value measurements				
On balance sheet 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
	<u>522,475,809</u>	<u>235,147,582</u>	<u>78,565,221</u>	<u>836,188,612</u>

Recurring fair value measurements**Off balance sheet financial asset and liabilities**

Foreign currency forward and swap contracts - sale	-	1,866,923,143	-	1,866,923,143
Foreign currency forward and swap contracts - purchase	-	557,581,622	-	557,581,622
Futures - sale	8,024,543	-	-	8,024,543
Futures - purchase	6,411,196	-	-	6,411,196

The Bank's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date when the event or change in circumstances require the Bank to exercise such transfers.

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.

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.
Foreign currency debt securities	These are measured at fair value using the rates published by the valuation expert portals, such as, Bloomberg, S&P , Reuters etc.
Unquoted equity securities	The value of unquoted equity securities are determined by using the market adjusted price to book ratio of the comparable quoted companies.

The valuations, mentioned above, are conducted by the valuation experts appointed by the Bank which are also on the panel of the Pakistan Banks' Association (PBA). The valuation experts use a market based approach to arrive at the fair value of the Bank's properties. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable or similar properties. These values are adjusted to reflect the current condition of the properties. The effect of changes in the unobservable inputs used in the valuations cannot be determined with certainty, accordingly a quantitative disclosure of sensitivity has not been presented in these unconsolidated financial statements.

49 CLASSIFICATION OF FINANCIAL INSTRUMENTS

2020				
At fair value through profit or loss	Amortised cost	At fair value through other comprehensive income	Total	
(Rupees in '000)				
Financial assets				
Local currency - coins	-	1,028,584	-	1,028,584
Foreign currency accounts and investments	501,176,282	1,705,803,748	-	2,206,980,030
Earmarked foreign currency balances	-	62,010,317	-	62,010,317
Special drawing rights of the International Monetary Fund	-	29,537,127	-	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	-	27,555	-	27,555
Securities purchased under agreement to resell	-	917,539,647	-	917,539,647
Current accounts of governments	-	30,157,106	-	30,157,106
Investments - local	-	7,327,843,271	79,337,405	7,407,180,676
Loans, advances and bills of exchange	-	795,578,146	-	795,578,146
Assets held with the Reserve Bank of India	-	1,964,210	-	1,964,210
Balances due from the Governments of India and Bangladesh	-	13,141,164	-	13,141,164
Other assets	-	14,422,884	-	14,422,884

2019				
At fair value through profit or loss	Amortised cost	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	-	12,266,548	-	12,266,548
Other assets	-	3,145,470	-	3,145,470

2020			
Amortised cost	At fair value through profit or loss	Total	
(Rupees in '000)			
Financial liabilities			
Banknotes in circulation	6,458,763,106	-	6,458,763,106
Bills payable	1,226,036	-	1,226,036
Current accounts of governments	748,790,102	-	748,790,102
Current account with SBP Banking Services Corporation - a subsidiary	52,124,619	-	52,124,619
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	186,607	-	186,607
Payable to Islamic banking institutions against Bai Muajjal transactions	19,512,958	-	19,512,958
Payable under bilateral currency swap agreement	476,722,596	-	476,722,596
Deposits of banks and financial institutions	1,171,103,559	-	1,171,103,559
Other deposits and accounts	1,093,622,482	-	1,093,622,482
Payable to the International Monetary Fund	1,045,944,378	-	1,045,944,378
Other liabilities	36,951,152	22,298,736	59,249,888

	2019		
	Amortised cost	At fair value through profit or loss	Total
	(Rupees in '000)		
Financial liabilities			
Banknotes 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	105,235	-	105,235
Payable to Islamic banking institutions against Bai Muajjal transactions	124,410,232	-	124,410,232
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

50 NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 26, 2020 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, 2020 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, 2021.

51 DATE OF AUTHORISATION

These financial statements were authorised for issue on **October 26, 2020** 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	2019 Rupees in '000
Foreign currency accounts and investments - current accounts	Foreign currency accounts and investments - deposit accounts	358,836,324
Loans, advances and bills of exchange - Private sector financial institutions	Loans, advances and bills of exchange - Government owned / controlled financial institutions	3,179,720
Other liabilities - others	Other liabilities - other accruals and provisions	778,399
Discount, interest / mark-up and / or profit earned - foreign currency securities	Discount, interest / mark-up and / or profit earned - Profit on Sukuks purchased under Bai Muajjal agreement	142,202
Discount, interest / mark-up and / or profit earned - foreign currency securities	Discount, interest / mark-up and / or profit earned - others	588,169
Interest / mark-up expense - Deposits	Interest / mark-up expense - Interest on bilateral currency swap	21,817,682
Exchange gain / (loss) - net - forward cover under exchange risk coverage scheme	Exchange gain / (loss) - net - foreign currency placements, deposits, securities and 'other accounts - net	4,101
Exchange gain / (loss) - net - Exchange risk fee income	Exchange gain / (loss) - net - foreign currency placements, deposits, securities and 'other accounts - net	39,672

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