2020-21

ANNUAL PERFORMANCE REVIEW

STATE BANK OF PAKISTAN

Annual Performance Review

2020-21

Our Vision

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

Our Mission

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

STATE BANK OF PAKISTAN

The Team

Mr. Amin Lodhi	**amin.lodhi@sbp.org.pk**
Mr. Shehzad Ali Sharif	**shehzad.sharif@sbp.org.pk**
Mr. Abdullah Tahir	**abdullah.tahir@sbp.org.pk**
Mr. Ibaad Ahmed Khan	**ibaad.ahmed@sbp.org.pk**
Mr. Haroon	**haroon.sattar@sbp.org.pk**

State Bank of Pakistan
KARACHI

DR. REZA BAQIR
GOVERNOR

Letter of Transmittal

October 28, 2021

Dear Mr. Shaukat Tarin,

As required under Section 40(2) of the State Bank of Pakistan Act, 1956, I am pleased to enclose a report by the SBP Board on the working of the Bank along with the annual financial statements of the Bank and auditors' report thereon for the year ended June 30, 2021.

Sincerely,

Mr. Shaukat Fayaz Ahmed Tarin
Advisor to Prime Minister on Finance and Revenue
Ministry of Finance
Government of Pakistan
Islamabad.

Phone Office: 0092-21-99212447-48 Fax: 0092-21-99212446 E-mail: governor.office@sbp.org.pk

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Governor's Review

I am pleased to present the State Bank of Pakistan's Annual Performance Review for FY21. As we all know, this was a particularly challenging year, as the global economy adjusted to a once-in-a-life time healthcare pandemic. Notwithstanding the human toll of the COVID-19 outbreak, the economic and financial challenges posed by the containment measures, including lockdowns and limited movability, were also quite significant and required a timely, well-coordinated and data-driven policy response. Amid such testing times, which included multiple waves of the virus outbreak, I am pleased to note that Pakistan's economy and financial sector performed considerably well. The economic growth rebounded to 3.94 percent during the year, against a COVID-induced contraction of 0.47 percent last fiscal year and an original target of 2.1 percent set for FY21. At the same time, average inflation also moderated to 8.9 percent in FY21, within the SBP's previously announced target range of 7 – 9 percent, and down from 10.8 percent last year. In addition, other key macroeconomic balances also improved during FY21 over the previous year: the current account deficit fell from 1.7 to 0.6 percent of GDP and the overall fiscal balance improved from -8.1 to -7.1 percent of GDP.

This improvement was enabled by timely, aggressive, and targeted policy measures to provide financial support to address the imminent liquidity and solvency concerns that had emerged immediately after the outbreak in March 2020. The SBP's monetary policy stance, including quantitative measures, remained supportive and was supplemented by targeted fiscal support, especially for the economically vulnerable segments of the society, and the agriculture and industrial sectors. This turnaround in growth while improving macroeconomic balances was also striking from a cross-country perspective, where emerging and developing economies on average contracted by -2.1 percent and developing Asian economies contracted by -0.8 percent on average in CY2020.[1]

At the outset of the virus outbreak, SBP had realized the critical role of ensuring liquidity flows to both firms and households amidst the unfolding national lockdowns. In this regard, SBP introduced concessional refinance schemes to prevent layoffs (Rozgar Scheme); facilitate healthcare institutions to upscale their facilities (Refinance Scheme to Combat COVID); and encourage firms to undertake long-term investments (under the Temporary Economic Refinance Facility). The export-oriented firms, which were faced with an extremely challenging global business environment, were facilitated by time-bound relaxations in export-related procedural requirements, and an expansion in the eligibility criteria for the concessionary Export Finance Scheme (EFS). In addition to the refinance schemes, SBP also allowed banks to temporarily defer principal repayments of loans for firms,

[1] Source: IMF, World Economic Outlook – October 2021 update

including SMEs, and households, and to restructure loans where appropriate. In aggregate, SBP measures provided liquidity support of around 5.0 percent of GDP.

These measures were well distributed across the beneficiaries. Approximately 73 percent of the beneficiaries of the Rozgar scheme to prevent layoffs were small corporates (defined as businesses with turnover of less than Rs. 2 billion) and SMEs. Similarly, approximately 94 percent of the beneficiaries of the principal extension scheme were clients of micro finance banks which are small borrowers. The major share of TERF offtake (for new investment, expansion and BMR) is in textiles (42 percent), food and FMCG (11.9 percent) and plastic manufacturing firms (7.9 percent).

These measures were also well targeted and temporary in nature; of the Rs.691.7 billion approved quantitative measures, approximately Rs. 64.9 billion worth of measures have been unwound by end-FY21. The Rozgar scheme, Loan principal deferment scheme and Refinance Facility for Combating COVID-19 (RFCC)[2] expired on September 30, 2020, whereas Temporary Economic Refinance Facility (TERF) and Loan restructuring schemes, expired on March 31, 2021. Such normalization of support provided during COVID has been an important goal of central banks around the globe and I am pleased to share that SBP was able make concrete progress in this regard.

Furthermore, the anchoring of inflation expectations, despite some upward pressures from supply management issues in food items and the surge in international commodity prices, allowed the Monetary Policy Committee (MPC) to keep the policy rate unchanged throughout the year. The adoption of forward guidance on Monetary Policy by SBP since January 2021, played a major role in reducing short-term policy uncertainty for stakeholders. Moreover, the temporary nature of the stimulus measures also ensured that the overall financial stability was not compromised.

FY 2021 also witnessed an improvement in Pakistan's external indicators. SBP's FX reserves depicted strong annual growth of more than 40 percent during FY21, with an increase of USD 5.2 billion to USD 17.3 billion. The increase was largely attributed to reduction in the current account deficit to a 10-year low, on the back of record-high workers' remittances and export receipts, as well as much lower services and primary income deficits. The market-based exchange rate facilitated this improvement in increasing export competitiveness, and by encouraging emigrants to remit funds back to their home country via the formal banking channel. Furthermore, the financial incentives announced by the SBP and the government for remittance processors under the Pakistan Remittance Initiative (PRI) also played an important role in increasing remittance flows to USD 29.4 billion during the year.

Being the regulator of the payment infrastructure in the country, SBP undertook two major policy measures that are likely to have a lasting impact on the country's banking landscape and external accounts. First, SBP, in collaboration with the government and commercial banks, launched a landmark initiative to engage the millions of Pakistanis living abroad with Pakistan's banking system. This objective was achieved by introducing Roshan Digital Accounts (RDA) in September 2020, which allowed non-resident Pakistanis to open and operate their bank accounts remotely with banks in

[2] For existing hospitals, the scheme expired on September 30, 2020, however, validity of this scheme for new hospitals is June 30, 2021. (details: https://www.sbp.org.pk/COVID/index.html)

Pakistan. The RDA facilitates non-resident Pakistanis to make a wide range of payments to support their families; invest their savings in the newly launched Naya Pakistan Certificates (NPCs), as well as in the stock market, mutual funds and real estate; and to purchase cars for their family members (under Roshan Apni Car). The RDAs have been immensely popular among the Pakistani diaspora, as evident in the rapid increase in number of RDAs open during FY21; by end June 2021, a total of 181,556 accounts have been opened and funds amounting to USD 1.56 billion have been received. From the policy perspective, the RDAs have provided another avenue to the country to diversify the sources of its foreign exchange earnings, by more actively tapping the savings of the millions of Pakistanis living and working abroad.

The second major payments-related undertaking by SBP was the launch of the first use-case of Raast - a state-of-the-art, interoperable and secure payment platform that enables consumers, merchants and government entities to exchange funds in a seamless, instant and cost-effective manner. The implementation of Raast would transform the payment landscape of Pakistan by allowing multiple partners and stakeholders to swiftly process funds and payments.

Financial inclusion remained the top strategic priority at SBP, in line with the vision of the National Financial Inclusion Strategy. To achieve its underlying objectives, SBP issued 706 licenses for new branches and offices to commercial banks and microfinance banks during FY21. Around 19 percent of these new branches, were opened in the rural, underserved, and unbanked areas. Special focus remained on the priority areas of Balochistan, Khyber Pakhtunkhwa, Azad Jammu and Kashmir and Gilgit Baltistan; 135 new branches were approved for these areas under the Annual Branch Expansion Plan 2021.

In terms of credit disbursement, there was a renewed focus during FY21 on the relatively underserved economic segments, especially housing and construction finance, agriculture finance, and finance for micro, small and medium enterprises. To develop a cohesive and facilitative environment for housing finance, various measures and initiatives were taken by the government and SBP. These included the Government Mera Pakistan Mera Ghar (MPMG) Scheme for housing finance, mandatory housing and construction finance targets for banks, incentive and penalty structure, digitization of land records at the provincial level for online land transfers and development of framework for new channels. Resultantly, the housing and construction finance portfolio witnessed a growth of 74 percent during FY21 with the outstanding loan portfolio reaching to Rs.259 billion by end June 2021, from Rs.149 billion at end June 2020. Moreover, the third five-year strategic plan for the Islamic banking industry was issued by SBP in April 2021 to set a strategic direction and strengthen the existing growth momentum of industry. The strategic plan has set headline targets for Islamic banking industry to be achieved by 2025.

Another major initiative of the SBP during FY21 was the implementation of the Risk Based Supervision (RBS) framework for supervision of regulated entities. The RBS is a forward-looking supervision framework that would allow the SBP to pursue a coherent risk-based approach through proactive identification of risks, and take timely mitigation measures to ensure financial stability in the country.

To achieve the broad strategic goals, organizational efficiency of SBP was further strengthened during the year. Key initiatives included workforce rationalization, automation of process workflows, strengthening the cyber security and risk management framework, improvements in the bank's resilience against shocks and disruptions and enhancing communications with the stakeholders. On the communications front, in addition to the issuance of forward guidance, the SBP increased its engagements with economic agents, including via post-MPC analyst briefings, interactions with industrial groups and media organizations across the country, and an active presence on social media. The SBP is also cognizant of the importance of gender diversity, and undertook efforts to encourage the hiring of more female employees across the wider financial services industry. Around 11 percent of the SBP's workforce consists of female employees, who serve in diverse roles at various level of hierarchy, ranging from entry level to senior management.

Lastly, I would like to express my gratitude to the SBP Board for their firm support and guidance, which enabled us to pursue the central bank's strategic objectives with persistence and vigor. I also extend my appreciation to SBP staff for their unwavering efforts and dedication in helping the institution to actively contribute to the country's growth prospects.

Dr. Reza Baqir
Governor

October 28, 2021

Executive Summary

The State Bank of Pakistan (SBP) is governed under the State Bank of Pakistan Act, 1956, which gives the Bank the authority to function as the central bank of the country. The Act mandates the Bank to regulate the monetary and credit system of Pakistan to foster economic growth in the best national interest, secure monetary stability, and ensure fuller utilization of the country's productive resources. SBP carries a wide range of responsibilities, these include pursuing monetary and price stability; ensuring a sound banking sector; promoting safe and efficient payments systems; issuing and distributing currency; providing banking services to Government; boosting development finance activities and managing the nation's reserves. SBP has been pursuing its operational and developmental activities in line with its strategic goals. In this regard, significant progress was made in a number of areas during FY21, as summarized below and expounded upon further in subsequent chapters.

Enhancing Effectiveness of Monetary Policy: The domestic and global economic environment became highly uncertain due to the global spread of COVID-19 pandemic in FY21. While large stimuli packages and introduction and widespread distribution of vaccines, particularly in the advanced economies, raised hopes of a positive global economic outlook, the emergence of new variants, lower access to vaccines and limited resources in low-income economies remained sources of downside risk. On the domestic front, the emergence of new strains and multiple waves of COVID-19 required a balanced approach that involved both containment measures to slowdown the spread of the virus and a focus on policy measures that would protect employment while leading to a sustainable economic recovery. Accordingly, the Monetary Policy Committee (MPC) maintained its accommodative monetary policy stance and kept the policy rate unchanged at 7.0 percent throughout FY21.

The accommodative monetary policy stance was backed by well-anchored inflation expectations, strong external position, continuous build-up in foreign exchange reserves, active communication and outreach to the stakeholders (including via effective forward guidance), and data-driven policymaking by the SBP. As a result, the domestic GDP growth clocked in at 3.94 percent, supported by strong private sector credit off-take and growth in both industry and services. Meanwhile, CPI inflation remained moderate and within the forecasted range of 7-9 percent, despite significant uncertainties and rise in international commodity prices.

SBP also proactively introduced well-targeted subsidized refinance schemes to improve liquidity of businesses and households. These schemes complemented the accommodative policy stance of SBP and prevented unemployment, encouraged investment and supported hospitals and health sector in combating economic challenges due to COVID. Cumulatively, SBP measures provided liquidity support of over Rs.2 trillion so far to businesses and households, which is around 5 percent of GDP. The low interest rate environment along with structural reforms and policies also expanded the portfolio of consumer financing through increase in housing, automobile and personal loans.

During FY21, business confidence and outlook for economic growth improved significantly due to decline in COVID cases in Pakistan, easing of lockdowns, timely stimulus by the government and prompt policy response and schemes introduced by SBP. However, increase in the COVID cases during second wave of pandemic posed downside risks to economic growth yet again. Nevertheless, the economic recovery remained on track along with improvement in business sentiment and manufacturing sector due to provision of financing particularly under Temporary Economic Refinance Scheme.

Economic agents, during FY21, were provided with forward guidance in the Monetary Policy Statement (MPS) for the first time to facilitate policy predictability and decision-making. Moreover, to make monetary policy formulation process more structured, SBP released the half-yearly schedule of MPC meetings in advance. The Governor SBP also actively engaged with the domestic and foreign media, audiences, analysts and investors to enhance policy communication. Stakeholder interaction was further enhanced by soliciting their take on outlook of Pakistan economy and forecasts of key macroeconomic indicators.

SBP researchers contributed to a range of topical issues in FY21 to improve existing economic models for monetary policy formulation in order to better understand evolving dynamics of inflation, impact of IMF program and government borrowing. Incorporation of climate change, along with its impact on prices of food items, in the general equilibrium forecasting model has been a key contribution during FY21. Further, to gauge the impact of COVID on real GDP growth, inflation and financial markets, short studies were also conducted.

Despite external volatilities and challenges, SBP's FX reserves depicted strong growth during FY21 with an annual increase of USD 5.2 billion to USD 17.3 billion at end June 2021, from USD 12.1 billion at end June 2020. The increase was driven by improved trade balance, higher Government-related Eurobond flows, Naya Pakistan Certificate (NPCs) and multilateral borrowings. Current account balance also improved significantly during FY21, reaching a deficit of USD 1.6 billion in June 2021, (0.6 percent of GDP), being the lowest in last one decade after recording surpluses in preceding months. The improvement in current account deficit was attributed to encouraging trend in workers' remittance inflows, exports and much lower level of trade deficit in services.

SBP played an active role in completing the combined second through fifth reviews of the Extended Arrangement under the EFF for Pakistan. The reviews allowed for a release of about USD 500 million in March 2021, bringing total budget support under the arrangement to about USD 2 billion. Moreover, Pakistan also successfully negotiated purchases under Rapid Financing Instrument (RFI) for disbursement of USD 1.386 billion in April 2020.

During FY21, the GoP continued with its commitment to abstain from borrowing directly from the SBP, which has positive connotations for anchoring inflation expectations and self-discipline. SBP monitored the market position and managed liquidity as and when needed. SBP, in coordination with GoP, also introduced new variants of Floating Rate Pakistan Investment Bonds (PFLs) and made revisions to auction participation mechanism for PFLs to allow GoP to meet its requirement from the market and increase the maturity profile of public debt. A mechanism for re-opening auctions of GoP Ijara Sukuk (GIS) was also introduced in coordination with Finance Division.

SBP in collaboration with GoP and the banking industry, launched Roshan Digital Account (RDA) scheme in September 2020 to allow non-resident Pakistanis as well as non-resident Pakistan Origin Card holders to open and operate their bank accounts remotely with RDA banks in Pakistan. RDA can be opened in 48 hours through dedicated online portals of RDA banks and can be used to make payments, transfer funds, and do e-commerce transactions. The account can also be utilized to invest savings in different attractive investment avenues like Naya Pakistan Certificate, stock market, real estate and other avenues. Moreover, RDA holders can also avail different types of liability products from the banks, including credit cards, auto loan, mortgage financing and others.

Despite challenges due to COVID, home remittances of Pakistan rose to USD 29.4 billion during FY21 compared to USD 23.13 billion in the corresponding period of FY20, witnessing an exponential growth of 27.11 percent. This rise in remittances is mainly attributed to supportive Government policies, pro-active strategy of SBP/PRI and positive response of banks and exchange companies to implement SBP/PRI strategy. Further, a Regulatory Approval System (RAS) was launched and operationalized on March 24, 2020 to facilitate online submission of foreign exchange (FX) related cases to SBP.

Payment System: SBP, being the regulator of payments and financial industry, played a pivotal role in promoting and developing payment and digital financial services in the country. SBP took numerous steps, including promoting and developing interoperable payments infrastructure, issuing enabling regulations especially for retail payment providers and financial technology (fintechs) firms, ensuring trust and security of digital payment channels, and promoting new technologies and innovations. Simultaneously, focus remained on keeping these services affordable for the general public. These initiatives were primarily aimed at developing digital payment platforms, providing a conducive regulatory environment for the industry and promoting innovative and convenient digital payment instruments in the economy.

Resultantly, the payments industry in Pakistan continued to show a healthy growth, both in terms of volume and value of transactions conducted during FY21. Significant progress was observed in usage of Internet Banking and Mobile Banking channels in the last four years, with an annualized transactions growth of 44 percent and 107 percent respectively. Similarly, digital access points and infrastructure witnessed a substantial increase, with 5.3 percent annual growth in number of ATMs and 47 percent YoY growth in POS machines during the last 4 years. Likewise, number of debit cards at the end of FY21 were 29.8 million, with a YoY growth of 11.8 percent and an annualized growth of 11.2 percent during the last 4 years.

SBP successfully launched the first use-case of Raast on January 11, 2021. Raast is a state-of-the-art, interoperable and secure payment platform that would enable consumers, merchants and government entities to exchange funds in a seamless, instant and cost-effective manner. Through Application Programming Interfaces (APIs), Raast has the capability to on-board participants including banks, merchants, Electronic Money Institutions (EMIs) and other relevant stakeholders.

To encourage low-income segments of the population to make digital transactions, particularly IBFTs while supporting the income streams of banks, SBP with effect from July 01, 2021 allowed the industry to charge high-value IBFT transactions with a minimal fee of 0.1 percent of the amount being

transferred or Rs.200 (whichever is lower), to cover their operational costs. Banks will continue to provide free of cost digital fund transfer services to individual customers up to, at least, a minimum aggregate sending limit of Rs.25,000 per month per account/wallet.

The collection of government taxes and fees through Alternate Delivery Channels (ADCs) exhibited exponential growth with an aggregate amount of Rs.4,310 billion being collected since its inception in March 2018, out of which Rs.3,799 billion have been collected during FY21. SBP also eliminated the transaction fee for taxpayers using digital modes for government-related payments with effect from January 1, 2020.

SBP in collaboration with FBR developed and implemented an e-Payment system for end-to-end digitization of duty drawbacks and income tax refunds to businesses. Since its introduction on September 30, 2021, Rs.25.2 billion have been refunded to business through approximately 297,000 transactions.

SBP further strengthened its Currency Management Strategy (CMS) implementation during FY21. All commercial banks' branches are now mandated to disburse machine-authenticated banknotes of Rs.50 and above from January 2021. Banks have also increased Cash Processing Centers (CPCs) and correspondingly decreased cash processing arrangements with other banks implying that the industry is moving towards establishment of independent CPCs over time.

Following the COVID-19 pandemic, SBP also continued to monitor the ongoing global developments to ensure the uninterrupted supply of disinfected cash at banks and ATMs. SBP issued special instructions to the banks to contain the potential spread of the virus through banknotes by taking additional precautionary measures concerning disbursement and collection of cash. SBP also allowed banks to process banknotes through machines certified by the Pakistan Council of Scientific and Industrial Research (PCSIR).

Strengthening Financial System Stability and Effectiveness: SBP made further improvements to strengthen the financial stability regime during FY21. Key achievements include: progress towards Macro Prudential Policy Framework (MPPF); development of a consolidated supervision assessment model, adoption of Risk-based Supervision Framework, designing of Lender of Last Resort (LOLR) facility and revision of stress testing guidelines. SBP also continued progress on the FATF action plan and strengthened its supervisory regime with multi-dimensional efforts to identify and mitigate potential risks in the financial sector, and issued various guidelines to improve effectiveness of its regulatory regime. During FY21, SBP also took measures to improve banking conduct and consumer protection and enhance financial inclusion. In this regard, among a number of other measures, a major initiative was introduction of policy for inclusion of Persons with Disabilities (PWDs).

SBP developed and implemented the Risk Based Supervision (RBS) Framework, which marked a paradigm shift in the approach for supervision of regulated entities. SBP's RBS framework follows the international best practices, aligned with local industry dynamics. RBS, being a forward-looking framework, would help in better understanding of regulated FI's risk profile with reference to both external and internal risks, allowing supervisors in early identification of problems,

efficient deployment of supervisory resources towards more risky areas and articulate prompt and specific responses to financial stress. Further, revision of Risk Assessment and Control Evaluation Regime (RACER) for inspection of Exchange Companies was undertaken to align it with RBS framework for both on-site and off-site assessments.

SBP further strengthened AML/CFT regime in Pakistan in line with GoP's full commitment to comply with international AML/CFT standards and requirements. Pakistan's performance against action items pertaining to illegal Money and Value Transfer System (MVTS) was rated as "largely addressed" during Asia Pacific - Joint Group (AP - JG) review, published in February 2021.

SBP issued revised set of stress testing guidelines in September 2020 to further strengthen the risk management capacity of the banks/DFIs. The revised guidelines require D-SIBs to conduct scenario analysis (Macro-stress testing – MST) and Reverse Stress Testing (RST). Moreover, Microfinance Banks and Islamic Banks/Islamic Bank Branches have also been advised to conduct sensitivity analysis (SA) according to shocks, particularly designed for these institutions.

SBP and SECP have set up a dedicated Joint Task Force (JTF) to monitor and manage the risks posed by financial conglomerates. During FY21, a consolidated supervision assessment model was developed to infuse the element of objectivity and quantification in the assessment and to ensure that all key aspects of consolidated inspection are covered in a holistic manner.

To enhance the outreach of financial services, SBP issued 706 new branches/offices licenses to commercial banks/microfinance banks during FY21, despite the encumbering conditions of COVID-19 pandemic. The banks/MFBs were also allowed to open those branches during FY21, which were approved for FY20 but could not be opened due to the pandemic. Out of these new branches, 19 percent of branches were opened in rural, underserved, and unbanked areas. Special focus remained on the priority areas of Baluchistan, Khyber Pakhtunkhwa, AJK and Gilgit Baltistan for which 135 new branches were approved under Annual Branch Expansion Plan 2021.

To strengthen and improve the supervisory oversight on cyber risk of the banking industry, a risk-based cybersecurity inspection framework was developed. Further, a 'Risk Based Supervisory Framework for Credit Bureaus' was developed to perform supervisory oversight of the private credit bureaus.

Despite COVID-19 pandemic, offsite monitoring and enforcement activities were conducted on regular basis whereas onsite assessments were carried out as per approved annual plan. Thematic inspections of 'Consumer Grievance Handling Mechanism' and 'Call Center Management' were conducted to review the overall process of consumer grievance handling mechanism including oversight role of board/senior management, adequacy and effectiveness of banks' policies and procedures and functions of complaint and call center management.

To strengthen the Fair Treatment of Consumers regime, SBP introduced a comprehensive policy for 'Financial Inclusion of Persons with Disabilities (PWDs)' to improve financial independence for PWDs by making financial services accessible and ensuring adequate employment opportunities for PWDs within the banking sector. SBP also issued revised instructions to further enhance the grievance handling mechanism at banks.

To enhance Ease of Doing Business (EODB), SBP reduced the reflection period of written off/waived loans and advances for corporate borrowers in the CIB report from 15 years to 10 years after detailed research of international practices and World Bank reporting guidelines. Further, SBP also started reporting two years history of negative/overdue information for consumer/individual borrowers in the Credit Information Reports in line with international practices from July 2021.

Broadening Access to Financial Services: Financial inclusion is a key priority for SBP to promote inclusive economic growth. In order to promote financial inclusion, SBP has taken a number of initiatives during FY21, including: introducing regulatory changes, setting ambitious targets and pushing financial institutions to enhance disbursement and outreach of credit and financial services to priority sectors. As a result, and despite challenging environment due to COVID pandemic, active accounts continued to grow and disbursement of credit to priority sectors recorded a double-digit growth during FY21.

The scope of National Financial Inclusion Strategy was enhanced in 2018 after review by GoP to achieve inclusive economic growth by 2023. The revised scope of NFIS entailed enhanced access to finance and deposit base, promotion of small and medium enterprises, easy and affordable access to finance for farmers, facilitation in low-cost housing finance and provision of Shariah compliant banking solutions. Under NFIS 2023, GoP has set the target of 65 million active digital transaction accounts, with gender segregation of 20 million accounts by women, as one of the headline targets to be achieved by 2023. In line with the targets, Pakistan reached 82 million unique accounts, out of which 65 percent are active as on December 2020. Further unique account ownership in women increased to 21 million.

During FY21, the agriculture lending institutions disbursed Rs.1,365.9 billion, being 91.1 percent of the overall annual target (Rs.1,500 billion) and 12.4 percent higher than the disbursement of Rs.1,214.7 billion made during the corresponding period of last year. The outstanding portfolio of agricultural credit increased to Rs.627.9 billion at the end of June 2021, registering a growth of 8.1 percent compared to the last year's outstanding credit of Rs. 580.8 billion. In terms of outreach, the number of outstanding borrowers reached to 3.5 million in June 2021.

Despite COVID-19 pandemic, combined asset base of MFBs witnessed a YoY growth of 28.3 percent (Rs.113 billion), increasing to Rs.513.8 billion during FY21. The deposit base of MFBs registered an impressive growth of 29.5 percent reaching Rs.378.4 billion, compared to Rs.292.2 billion over June 30, 2020. Similarly, an 18.6 percent growth was witnessed in aggregate microcredit portfolio with an increase of Rs.55.70 billion to Rs.355.7 billion as of June 30, 2021 from Rs.299.9 billion at the end of June 30, 2020. The number of borrowers increased by 16.7 percent to 8 million at end of the June 30, 2020.

All key indicators of branchless banking exhibited an encouraging growth during FY21. The number of BB accounts reached 76.4 million after witnessing a growth of 42 percent in FY21. BB deposits increased by 51 percent to reach Rs.55.2 billion from Rs.36.6 billion, compared to FY20. Number of branchless banking players increased to 534,460 as compared to 445,181 at end of June 2020, showing a growth of 20 percent. The volume and value of transactions witnessed a growth of 50

percent and 57 percent respectively compared to FY20. A little over 2.2 billion transactions were performed during FY21, with total value of around Rs.8,086 billion.

SBP continued its support for increasing SME financing in the country. Banks/ DFIs reported outstanding SME finance of Rs.437.57 billion at end of June 2021, showing YoY increase of 9.08 percent in total SME finance outstanding portfolio. Total number of SME borrowers were 172,893 at the end of June 2021. Further, Prime Minister of Pakistan constituted a National Coordination Committee (NCC) on SME Development on August 20, 2020 to facilitate development and promotion of SMEs in the country. The NCC is chaired by the Federal Minister for Industries & Production (MOI&P) whereas Deputy Governor represents SBP in the committee.

During FY21, significant developments were made in SBP subsidized refinance schemes to provide support to industries in the challenging times of COVID through short and long-term financing facilities to priority segments by banks/DFIs at concessional mark-up rates. Moreover, participating financial institutions under Prime Minister's Kamyab Jawan Youth Entrepreneurships Scheme (YES) reported cumulative disbursement of Rs.14.89 billion to 13,224 borrowers at the end of June 2021.

SBP issued SBP Financing Scheme for Renewable Energy in 2016 to promote usage of renewable energy, which was further revised/updated in 2019 and 2020. As of June 2021, cumulative outstanding financing under the scheme reached Rs.53.3 billion, depicting YoY growth of 242 percent (Rs.15.56 billion in FY20), for 598 projects having potential of adding 900 MWs of energy supply (217 projects: total capacity ranging to 292 MWs in FY20).

FY21 marked significant milestones for housing and construction finance, as it remains center of attention for GoP and SBP. Numerous measures and initiatives were taken by GoP and SBP for developing a more facilitative and enabling environment and market for all stakeholders. Resultantly, the housing and construction finance portfolio witnessed a 74 percent growth during FY21 with an outstanding portfolio reaching Rs.259 billion as compared to Rs.149 billion in June 2020.

GoP also announced mark-up subsidy facility for the construction and purchase of new houses to allow individuals to avail bank's financing at subsidized and affordable markup rates for construction or purchase of new house for the first time. SBP is the executing partner with GoP and Naya Pakistan Housing and Development Authority (NAPHDA) in the said scheme. The scheme was also revised in March 2021 to align it with consumer dynamics, make it forthcoming and allow greater portion of population to benefit from the scheme.

Islamic Banking: SBP took a number of measures/steps to promote Islamic banking during FY21 including: issuing third five-year strategic plan for the Islamic Banking industry, updating guidelines for establishing Islamic Banking Institutions (IBIs), introducing guidelines for DFIs to undertake Shariah compliant businesses and operations, expanding the scope of operations of Islamic banking windows, strengthening Shariah standards, and improving Shariah governance framework for IBIs.

During FY21, the overall assets and deposits of the Islamic Banking Industry (IBI) witnessed a significant growth of Rs.1,164 billion and Rs.876 billion respectively. By end of June 2021, the industry's asset base increased to Rs.4,797 billion, whereas deposits were recorded at Rs.3,822

billion. Financing to deposit ratio (FDR) of IBI was recorded at 55.4 percent compared to the conventional banking industry's advances to deposits ratio of 43.1 percent. By the end of June 2021, 22 Islamic Banking Institutions (IBIs) (5 full-fledged Islamic banks (IBs) and 17 conventional banks having standalone Islamic banking branches (IBBs) were providing Shariah compliant products and services through their network of 3,583 branches spread across 124 districts of the country.

SBP issued its third five-year strategic plan for the Islamic banking industry in April 2021 to set a strategic direction and strengthen the existing growth momentum of industry. The strategic plan has set headline targets for Islamic banking industry to be achieved by 2025, which include 30 percent share in both assets and deposits of overall banking industry, 35 percent share in a branch network of overall banking industry, and 10 percent and 8 percent share of SMEs and agriculture financing respectively, in private sector financing of Islamic banking industry.

The Islamic Financial Services Board (IFSB) Council in its 37th meeting held on December 10, 2020, appointed Governor SBP, Dr. Reza Baqir, as the Deputy Chairman of the Council for the year 2021. Further in its meeting held on June 09, 2021, he has also been appointed as the Chairman of the General Assembly of IFSB for the year 2022. SBP has been awarded as "Best Central Bank of the Year 2020" by Global Islamic Finance Awards (GIFA). SBP has also been voted as the Best Central Bank for 2020 in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of RED money Group, Malaysia.

Institutional Strengthening: In FY21, SBP undertook various initiatives and activities to further grow as an institution through improvement in Human Resources, organizational development, IT systems and governance, Enterprise Risk Management (ERM), risk-based audits, and communicating to external stakeholders. Efforts were focused on workforce rationalization, gender equity, talent resourcing, career growth, capacity building and diversification of SBP's human resources.

A robust HR management framework has been fostered at SBP to promote a performance-oriented culture and create an enabling environment for employees to contribute towards achievement of organizational objectives. Major initiatives in the areas of workforce rationalization, talent resourcing, career growth, capacity building and automation were pursued during FY21. SBP is an equal opportunity employer and facilitates the evolving role of women and the strategic significance of their inclusion in the workforce to achieve organizational objectives. Against a national requirement of 10 percent, SBP's workforce consists of 11 percent of female employees in diverse roles at each level of hierarchy ranging from entry level to senior management.

SBP undertook various initiatives in FY21 to ensure good IT governance, upgrade IT infrastructure, pace up automation projects for value delivery under various initiated programs and national level projects through in-house and insourced resources. Projects completed under the Knowledge Management program during FY21 include Regulatory Approval System for foreign exchange policy and operations, digital initiation and processing of internal cases in SBP, SBP-BSC, NIBAF and DPC through ICMS, domestic training module and Banking Inspection Management System. Further, numerous business development projects were implemented in T24 Banking & Currency Systems, Data Warehouse and Custom-Build Applications to cater the business requirements.

The Business Continuity Plan (BCP) of SBP was invoked on August 28, 2020 due to torrential rains in Karachi. Critical time sensitive and critical support functions were successfully performed from the backup sites along with the operations of commercial banks. Further, more than 190 annual BCP exercises were performed by the critical time sensitive departments, critical support function departments and SBP-BSC offices at their respective backup sites in FY21 despite the challenges of COVID.

During FY21, major focus remained on implementing cyber security controls and policies from the security assessment reports, penetration testing, continuing user-awareness and education on cybersecurity and improving the security monitoring, detection and response capabilities of SBP. Risk assessments of business and IT support systems were conducted to ensure security of productions systems. SBP also updated its internal IT Security Policy and other key artifacts to stay abreast with industry standards.

SBP Board approved "Risk Appetite Statement (RAS)" in FY21, required under the Enterprise Risk Management (ERM) Framework. The SBP's risk appetite pursue a conservative approach to manage risks across the four main categories i.e., strategic, financial, operational and reputational risks. A revised "Incident Reporting Policy (IRP)" was also approved by the Board to further streamline operations. SBP was also placed in top-5 Central Banks in terms of organizational maturity for Operational Risk Management by International Operational Risk Working Group (IORWG). This ranking was also presented in the annual conference of IORWG held in May 2021.

SBP also promoted various important initiatives including RDA, NPC, Roshan Apni Car (RAC), Roshan Samaaji Khidmat (RSK), Digital Financial Services including Raast and Banking on Equality. Extensive media campaigns for RDA & NPC were also designed and executed. Brochures related to RDA and NPC (both Urdu & English) were provided to Pakistani embassies/missions globally for distribution among Pakistani community.

SBP Subsidiaries: SBP four subsidiaries including State Bank of Pakistan-Banking Services Corporation (SBP-BSC), National Institute of Banking and Finance (NIBAF), Pakistan Security Printing Corporation (PSPC) and Deposit Protection Corporation (DPC) continued to improve their institutional capacity, operational efficiency and provide seamless support and services to banking industry, government agencies and people of Pakistan to ensure smooth functioning of banking operations across the country.

Financial Performance: SBP earned a profit of Rs.760,859 million (consolidated) in FY21 as compared to a profit of Rs.1,163,433 million in FY20. The decline in profit is primarily attributed to lower income from lending to the government, maturing of PIBs, and decrease in average interest rate during FY21.

The total assets stood at Rs. 13,603 billion as at June 30, 2021 as compared to Rs. 12,273 billion on June 30, 2020, registering an increase of Rs.1,330 billion primarily due to increase in securities purchased under agreement to resell. Similarly, the total liabilities of the bank stood at Rs.12,446 billion as at June 30, 2021 as compared to Rs.11,219 billion as at June 30, 2020, registering an increase of Rs.1,227 billion. This rise was primarily led by increase in currency in circulation.

Governance Structure

Governance Structure
The State Bank of Pakistan (SBP) is governed under the *SBP Act, 1956*, which gives the Bank the authority to function as the central bank of the country and mandates the Bank to regulate the monetary and credit system of Pakistan.

Board of Directors
SBP is governed by a Board of Directors, which is responsible for the general supervision of the Bank, other than the functions assigned to the Monetary Policy Committee. The ten-member Board is chaired by the Governor and also includes eight non-executive Directors and the Federal Secretary, Ministry of Finance (as an ex-officio member). Non-executive members of the Board are appointed by the Federal Government for a period of 3 years, under Section 9(2) (c) of the *SBP Act, 1956*. Five meetings of the Board were held during FY21.

Executive Management
The Governor is the Chief Executive Officer of SBP and heads the executive management. He is assisted by one or more Deputy Governors. The management hierarchy includes Cluster Heads, Group Heads and Departmental Heads (Organogram is placed at **Annexure - B**).

The Governor
The President of Pakistan appoints the Governor for a term of three years, and may reappoint for an additional term of three years. The Governor is the Chief Executive Officer and manages the affairs of the Bank. Dr. Reza Baqir is serving as Governor, SBP since May 5, 2019.

Deputy Governors
The Deputy Governors are appointed by the Federal Government in accordance with the SBP Act, 1956. A Deputy Governor performs such duties as assigned by the Board.

Mr. Jameel Ahmad[3] has served as Deputy Governor (Banking & Financial Markets and Reserve Management) till October 24, 2021. Earlier he served as Deputy Governor from April 11, 2017 to October 15, 2018 and was re-appointed as Deputy Governor by the Federal Government for a period of three years and assumed charge on October 25, 2018.

Dr. Murtaza Syed is serving as Deputy Governor (Policy). He was appointed as Deputy Governor by the Federal Government on January 20, 2020 for a period of three years.

Ms. Sima Kamil is serving as Deputy Governor. (Financial Inclusion, Digital Financial Services & Information Technology). She was appointed as Deputy Governor by the Federal Government on August 25, 2020 for a period of three years.

[3] Mr. Jameel Ahmad completed his term as Deputy Governor State Bank of Pakistan on October 24, 2021.

Board of Directors

Dr. Reza Baqir

Governor

State Bank of Pakistan

Dr. Reza Baqir was appointed as the Governor of SBP by the President of Pakistan on May 04, 2019. Prior to his appointment, Dr. Baqir had eighteen years of experience with the IMF and two years of experience with the World Bank. He was the Head of the IMF's Office in Egypt and Senior Resident Representative since August 2017. He has also held positions as IMF's Mission Chief for Romania and Bulgaria, Division Chief of the IMF's Debt Policy Division overseeing IMF's work on debt relief and sovereign debt restructuring, Head of the IMF delegation to the Paris Club, Deputy Division Chief of the IMF's Emerging Markets Division overseeing IMF's loans and policies in emerging markets, IMF Resident Representative to the Philippines, and numerous other positions.

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

Mr. Azam Faruque (Member since November 14, 2018)

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

Mr. Ali Jameel (Member since July 23, 2019)
Mr. Ali Jameel is the CEO of TPL Corp Ltd which was established in 2001, and has diversified investments in Asset Tracking, Digital Mapping, Life Insurance, General Insurance, Fintech, Information Technology and Property Development. Today, four companies of TPL are listed on the Pakistan Stock Exchange (PSX). He has also recently setup a REIT Management Company in Pakistan.

Mr. Ali is also the Founding Sponsor and Director of TRG Pakistan Ltd; which consists of Afiniti and Ibex, and is listed on Pakistan Stock Exchange (PSX).

Mr. Ali has also held several advisory posts in Board of Investment, Economic Advisory Council, Pakistan's information technology and telecommunication sectors, including appointments on the Task Force on Telecom Deregulation, the Fiscal Incentive Group of the IT Commission and the Task Force on Venture Capital. Currently, he is a Board Member of Port Qasim Authority and the State Bank of Pakistan.

Mr. Ali received his B.Sc. degree in Economics from London School of Economics and is also a Fellow Member of the Institute of Chartered Accountants in England & Wales and qualified in 1994 at KPMG Peat Marwick in London. In addition, he is a Member of YPO Pakistan, Pakistan Business Council and Overseas Investors Chamber of Commerce and Industry. Mr. Ali is also on the Board of the London School of Economics (South Asia Centre) and the Patient Aid Foundation of Jinnah Hospital.

Mr. Muhammad Saleem Sethi (Member since July 23, 2019)
Mr. Saleem Sethi is a retired Federal Secretary of the Government of Pakistan. He belongs to the Pakistan Audit & Accounts Service. He possesses a diverse experience of 36 years in the field of public finance, policy formulation and audit. During his illustrious carrier, he served as Secretary Finance in Government of Baluchistan, AJK and as Controller General of Accounts besides various other important positions. He also served as Secretary, Economic Affairs Division.

During his career, he has served as Executive Director at the Board of Islamic Development Bank (IDB) and remained on the Audit Committee of the Board. Mr. Sethi has also been the Senior Advisor Middle Eastern Constituency at the Executive Board of the IMF, Washington DC.

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

Dr. Tariq Hassan (Member, Board since July 23, 2019)
Attorney and Advocate, Supreme Court of Pakistan. Dr. Hassan is a former Chairman, Securities and Exchange Commission of Pakistan and the Audit Oversight Board and has served as an advisor to the Finance Minister of Pakistan.

He has also been associated as legal counsel with the World Bank Group in Washington, DC, International Fund for Agriculture Development in Rome and Shearman & Sterling in New York. In addition to practicing law, he has been teaching law as an adjunct professor at George Washington University and Fletcher School of Law & Diplomacy, USA and Departments of Law at LUMS, International Islamic University, and Bahria University, Pakistan. He did his PhD in Juridical Science from Harvard University, USA.

Mr. Yusuf Khan (Member, Board since May 28, 2021)
Secretary, Finance Division, Government of Pakistan is an ex-officio member of the Board. Mr. Yusuf Khan belongs to Pakistan Administrative Service. In his career of thirty-three years, he has worked at the sub-district, district, provincial and federal levels. His key assignments in public-sector financial management have been Finance Secretary to the Government of Punjab, Finance Secretary to the Government of AJ&K and Joint Secretary (External Finance) at Finance Division. His previous assignment with the Government of Pakistan was Secretary, BISP, where he was responsible for the roll out of several key Ehsaas Program initiatives. Earlier, as Director General, Tobacco Control, he worked towards the successful introduction of the "pictorial health warning" on cigarette packs in Pakistan. Mr. Khan has led eleven development projects related to various socio-economic sectors. He has served as Deputy Commissioner in the province of KP and has lived and worked in former-FATA as Assistant Political Agent and Political Agent for five years. In 1996, he won the Britannia 'Premier Award', which is given to individuals possessing high academic credentials and the potential to contribute towards improvement of life in their country. Yusuf Khan has done MPhil in Development Studies, from the University of Cambridge, UK. He speaks nine languages and is an avid painter and calligrapher.

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

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

Monetary Policy Committee

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

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

The present composition of the MPC includes Dr. Reza Baqir, Governor SBP as Chairman MPC, Mr. Azam Faruque and Dr. Tariq Hassan as members of the Board. Dr. Asad Zaman, Dr. Naved Hamid and Dr. Hanid Mukhtar are three External Members (Economists), whereas Mr. Jameel Ahmad - Deputy Governor (Banking & FMRM), Dr. Murtaza Syed - Deputy Governor (Policy) and Dr. Inayat Hussain - Executive Director (BSG) are three Senior Executives of the Bank. The Committee met five times during FY21. Brief profiles of the MPC members (other than the Governor and Board Members) are as follows:

Dr. Naved Hamid (Member, MPC since January 24, 2019)

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

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

Dr. Asad Zaman (Member, MPC since June 3, 2019)[2]
[BS Math MIT (1974), Ph.D. Econ Stanford (1978)] has taught at leading universities such as Columbia, University of Pennsylvania, Johns Hopkins, Cal. Tech. and Bilkent University, Ankara. He served as Vice Chancellor of Pakistan Institute of Development Economics from December 2013 to March 2019. His textbook Statistical Foundations of Econometric Techniques (Academic Press, NY, 1996) is widely used as a reference in advanced graduate courses. He is on the editorial board of many international journals. His publications in top ranked journals like Annals of Statistics, Journal of Econometrics, Econometric Theory, Journal of Labor Economics, etc. have over 1600 citations as per Google Scholar. He is currently the Director of Uloom-ul-Umran (replacement for Eurocentric Social Sciences) on the Al-Nafi Online Educational Platform, and engaged in developing online courses for the Islamic world.

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

Mr. Jameel Ahmad (Member since January 30, 2016)[4]
Mr. Jameel Ahmad – Deputy Governor (Banking & FMRM) has served on the MPC since January 2016. His illustrious career as an accomplished central banker at senior positions at the SBP and the Saudi Arabian Monetary Agency (SAMA) spans over 30 years which covers key areas of central banking including banking and exchange policy, regulations, supervision, financial stability, development finance, monetary and debt management, reserve management and payment systems. His association with the SBP dates back to 1991 in various capacities including Deputy Governor and Executive Director. He has also served as Advisor to SAMA from July 2009 to April 2015.

He attained Master's degree in Business Administration from University of Punjab in 1988. He is also a Fellow Member of the Institute of Cost & Management Accountants, Institute of Bankers and Institute of Corporate Secretaries of Pakistan.

[4] Mr. Jameel Ahmad completed his term as Deputy Governor State Bank of Pakistan on October 24, 2021.

Dr. Inayat Hussain – Executive Director BSG (Member since May 8, 2017)
Dr. Inayat Hussain - Executive Director Banking Supervision Group SBP (ED-BSG) is serving on the MPC since May 2017. As ED-BSG, he leads five departments that include three Banking Supervision Departments, the Financial Stability Department and the Banking Conduct and Consumer Protection Department. His areas of responsibilities include financial stability, supervision of financial institutions, enforcement function and banking conduct. He brings a diversified experience spanning over two decades in banking supervision, regulations, policy and operations.

He is member of the Monetary Policy Committee, Council of Regulators (a body consisting of representatives from SBP and SECP to deal with financial sector vulnerabilities) and Financial Stability Executive Committee of SBP. He also serves as a member on the Council of Institute of Bankers in Pakistan and chairs its academic committee. He holds a doctorate degree in Economics and Finance from Curtin University, Australia. He is a member of CFA Institute, a fellow member of Institute of Cost and Management Accountants in Pakistan as well as the Institute of Bankers in Pakistan. He also holds Financial Risk Manager (FRM) designation and an MBA degree in Finance.

Dr. Murtaza Syed (Member MPC since January 27, 2020)
Dr. Murtaza Syed – Deputy Governor (Policy) is serving on the MPC since January 2020. Dr. Syed has more than 20 years of experience in macroeconomic research and policy making. He worked with the IMF for 16 years before resigning to join the SBP. Most recently, he served as Advisor in the IMF's Institute for Capacity Development, overseeing the planning and implementation of IMF training and technical assistance programs around the world. Earlier, he was Deputy Division Chief in the IMF's Strategy, Policy and Review Department and was involved in IMF programs and surveillance of various emerging markets and advanced economies, including Colombia, Cyprus, the Euro Area, Japan and Korea. He also served as the IMF's Deputy Resident Representative in China between 2010 and 2014 and as IMF mission chief to Macao. He started his career at the IMF in the Fiscal Affairs Department before moving to the Asia and Pacific Department, where he worked on a variety of emerging markets and developing countries.

Dr. Syed started his career in the late 1990s as a Senior Policy Analyst at the Islamabad-based, Human Development Center under former Finance Minister of Pakistan, Dr. Mahbub ul Haq. Later, he worked for the Institute for Fiscal Studies in London, the UK's premier public policy think tank, where he conducted research projects on business investment and employment behavior, as well as evaluating two large Latin American antipoverty programs.

Dr. Syed has a Ph.D in economics from Nuffield College at the University of Oxford. He has published papers on a variety of macroeconomic issues, including fiscal and monetary policy, financial stability, economic crises, investment, demographics, poverty and inequality. He has also delivered lectures on public policy at Cambridge and Oxford Universities.

Committees of the Board

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

Audit Committee

The Committee assists the Board in reviewing SBP's financial statements, auditing, accounting and related reporting processes, assurance on the system of internal controls, governance, business practices, risk management process and standards of conduct established by the management and the Board. The Committee met six times during FY21. It is currently chaired by Mr. Muhammad Saleem Sethi with Dr. Tariq Hassan as a member.

Investment Committee

The Committee assists the Board in fulfilling its oversight responsibilities relating to management of foreign exchange reserves. It reviews the strategy and policy for reserves management and approves operational guidelines for investment as well as the appointment of asset managers, custodians and investment consultants. It also reviews the performance of the foreign exchange reserves managed in-house and externally and the appropriateness of the approved investment policy, its benchmarks and guidelines on an annual basis or as warranted by global market conditions. The Committee met twice during FY21. It is currently chaired by Mr. Yusuf Khan with Mr. Ali Jameel as a member.

Human Resources Committee

The Committee assists the Board in reviewing and approving HR policies prepared by the management. It reviews all the proposals requiring approval of the Board on the formulation, revision, modification or interpretation of HR policies and submits its recommendations to the Board. The Committee also reviews the terms and conditions of employment of senior level Bank officers including those reporting directly to the Governor. The Committee met four times during FY21. It is currently chaired by Mr. Azam Faruque with Dr. Tariq Hassan and Mr. Ali Jameel as members.

Publications Review Committee (PRC)

The Committee assists the Board in the review and approval of the Annual and Quarterly Reports on the State of the Pakistan Economy, Annual Performance Review of SBP and the Financial Stability Review. The Committee deliberates on the draft reports and reviews them for the consideration and final approval of the Board. The Committee met five times during FY21. It is currently chaired by Mr. Muhammad Saleem Sethi with Mr. Azam Faruque as a member.

Enterprise Risk Management Committee
The Committee assists the Board in fulfilling oversight responsibilities with respect to risk management in the Bank. The Committee oversees the management in identifying and assessing all the risks that the Bank faces, supported by a risk management infrastructure capable of addressing those risks. The Committee reviews and approves the Bank's risk management policy and plan. The Committee also coordinates, when required, with the ERM Committee of the management and with other Committees of the Board. The Committee met twice during FY21. It is currently chaired by Mr. Ali Jameel with Mr. Azam Faruque and Mr. Muhammad Saleem Sethi as members.

Financial Law Reform Committee (FLRC)
The Committee assists the Board in proposing a cohesive and comprehensive legal framework, reflecting the principles of financial regulatory authorities as practiced globally and as applicable in the domestic environment. Besides formulating its recommendations regarding amendments in the legal framework, the Committee also takes into account comments and observations of the various departments on inconsistencies and anomalies in the legal framework. The Committee met once during FY21. It is currently chaired by Dr. Tariq Hassan with Mr. Azam Faruque as a member.

Management Committees
In order to discuss critical and operational issues and take policy decisions, various management committees have been formed which include:

Corporate Management Team (CMT) and CMT-HoD Forum
The Corporate Management Team (CMT) serves as the principal forum for discussion and consultation on critical management and operational issues. It facilitates decision making and their implementation, especially in matters where several departments are involved. The CMT is headed by the Governor and comprises of the Deputy Governors and Executive Directors, as well as Managing Directors of the SBP subsidiaries i.e., SBP-BSC, NIBAF, PSPC and DPC. In addition to the CMT, combined meetings of the CMT and the Heads of Departments (HoDs) provide a broader platform to deliberate on issues having wider implications. The Corporate Secretary is also secretary to both, the CMT and the CMT-HoD. Depending on the agenda, Directors and HoDs of SBP-BSC are also invited to attend the meetings. The CMT met thirty times during FY21.

Corporate Management Team (CMT)[5]

Dr. Reza Baqir
Governor

Mr. Jameel Ahmad[6]
Deputy Governor (Banking & FMRM)

Dr. Murtaza Syed
Deputy Governor (Policy)

Ms. Sima Kamil
Deputy Governor (FI, DFS & IT)

Mr. Qasim Nawaz
Executive Director (HR)

Dr. Inayat Hussain
Executive Director (BSG)

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

Mr. Muhammad Haroon Rasheed
Managing Director (PSPC)

Syed Samar Husnain
Executive Director (DFG)

Syed Irfan Ali
Managing Director (DPC)

Mr. Muhammad Ali Malik
Executive Director (FMRM)

Mr. Riaz Nazarali Chunara
Managing Director (NIBAF)

Mr. Saleemullah
Executive Director (FRM)

Dr. Muhammad Ali Choudhary
Research Advisor

Mr. Muhammad Amin
Chief Information Officer

Mr. Arshad Mehmood Bhatti
Executive Director - BPRG

Syed Sohail Javaad
Executive Director, DFSG

Mr. Mohammad Mansoor Ali
Director OCS/ Corporate Secretary

[5] CMT Composition as of October 24, 2021.
[6] Mr. Jameel Ahmad completed his term as Deputy Governor State Bank of Pakistan on October 24, 2021.

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

Enterprise Risk Management Committee
The objective of the Management Committee on Enterprise Risk Management Committee (MC-ERM) is to formulate the strategy aimed at strengthening the capacity of organization to proactively address potential internal and external risk factors. The MC-ERM ensures that a holistic approach is adopted to anticipate, identify, prioritize, and manage significant risks faced by SBP and its subsidiaries.

The MC-ERM comprises seventeen members and is chaired by Deputy Governor (Banking & FMRM). The decisions taken by the MC-ERM are shared with SBP's Board's Committee on Enterprise Risk Management (BC-ERM) for necessary guidance and direction.

Payment System Policy Committee
The objective of the Payment System Policy Committee (PSPC) is to strengthen governance of regulatory and oversight developments of National Payments, Clearing and Settlement systems. The PSPC comprises eight members and is chaired by Deputy Governor (FI, DFS & IT). Director-PSD acts as the secretary of the Committee. In FY21, two meetings of the committee were conducted.

Library Committee
The Library Committee was constituted to select and approve the reading materials for library including, overseeing the weeding process, formulate or change the library policies and processes, and provide general guidelines for efficient functioning of SBP Library in terms of environment, facilities and resources. It comprises of five members and is chaired by Chief Economic Advisor. Chief Librarian acts as the secretary of the committee.

Financial Stability Executive Committee
The Financial Stability Executive Committee (FSEC) monitors the developments in the financial sector affecting financial stability, deliberates upon issues, which may have systematic implications for the financial sector, and suggests and formulates coordinated policy response to address financial stability issues. It comprises of nine members and is chaired by the Governor. Director-FSD acts as the secretary of the committee.

Management Committee on Property and Equipment
The objective of this committee is to assist the Governor in exercising oversight responsibilities relating to planning, execution and monitoring of activities and functions related to all procurements, renovation and replacement of properties and equipment excluding equipment relating to IT. The committee comprises of nine members and is chaired by Deputy Governor (Banking & FMRM). Director/Head Engineering acts as the Secretary of the Committee. In FY21, the committee conducted ten meetings.

Business Plan Review Committee
The Business Plan Review Committee (BPRC) was constituted to ensure consistency in the Business Plans and Development Projects of departments across the organization, rationalize the human resource, IT, logistics, physical infrastructure and budgetary needs of the departments, and assist the Governor in monitoring and implementation of Business Plans. It comprises of six members and is

headed by Executive Director-FRMG). Director-SPD acts as the secretary of the committee. The committee conducted more than seventy meetings in FY21.

COVID Committee

During the prevalent COVID-19 pandemic, a committee comprising MD-BSC, ED-HR and ED-BPRG under the Chairmanship of Deputy Governor (Banking & FMRM) was formed to monitor the situation regarding threats related to coronavirus and suggest additional measures in the light of the guidelines issued by the Health Department/World Health Organization (WHO) and measures adopted by the affected countries. The committee met regularly during FY21, monitored the COVID situation closely at SBP, and took necessary steps to curtail the spread of COVID-19.

Sports Committee

SBP has emerged as one of the leading institutions for promotion of sports to nurture the social aspects of its employees and community. The management believes in enhancing the zeal and sportsmanship in its employees to boost up the healthy environment in organization. This philosophy is reflected by their on-going endeavors to provide the sports facilities, conducting sports events and patronizing talented sportsmen. To achieve these objectives, a Sports committee was constituted to oversee the sports matters at SBP and SBP-BSC. The committee is headed by MD-BSC.

Business Continuity Planning Committee

Business Continuity Planning Committee was constituted to establish controls and minimize the chances of disruption of critical time sensitive functions of SBP and SBP-BSC in case of a disaster/emergency. The BCP Committee is the apex steering body for all BCP related activities. It comprises of fourteen members and is chaired by Deputy Governor (FI, DFS & IT). Director-SPD acts as the secretary of the committee**.**

Strategic Plan Steering Committee

The objective of Strategic Plan Steering Committee (SPSC) is to steer the implementation of SBP Strategic Plan on an ongoing basis. The SPSC ensures effective implementation, review and monitoring of Strategic Plan. The SPSC comprises of eight members of senior management drawn from different areas of SBP and is headed by Deputy Governor (Policy). Director-SPD acts as the secretary of the committee**.**

Publications Review Committee

The mandate of the Publication Review Committee of the management is to review SBP publications to ensure high standard of analysis, consistency in the arguments and data presented in the reports, and appropriateness of the messages conveyed by the reports. The committee is chaired by Deputy Governor (Policy). Director-EPRD acts as the secretary of the committee.

Inquiry Committees on Workplace Harassment

The Inquiry Committees have been approved under Section 3 of the Adoption of Protection against Harassment of Women at the Workplace Act, 2010. For officers, the committee comprises of four members and is headed by DG-FMU. For Clerical/ Non-Clerical employees, the committee comprises of three members and is headed by Director-HRD.

Monetary Operations Committee
The objective of establishing the Monetary Operations Committee is to ensure the implementation of monetary policy in accordance with the decisions of the Monetary Policy Committee of the SBP. It comprises of twelve members and is chaired the Governor SBP. Director MPD acts as a Secretary to MOC. During FY21, five meetings of MOC were held.

Banking Policy Committee
Banking Policy Committee (BPC) was constituted to discuss and review all new laws, regulations, policies for due deliberation and recommendations, before submission to the Governor for final approval. It comprises of eighteen members and is chaired by the Deputy Governor (Banking & FMRM). Additional Director BC&CPD acts as a secretary of the BPC for facilitating the meetings and keeping records. During FY21, twelve meetings of BPC were held.

Information Technology Steering Committee (ISC)
The main function of Information Technology Steering Committee (ISC) is to assist the Governor SBP in exercising oversight responsibilities relating to planning, execution and monitoring of activities and functions performed by the IT function. The committee comprises of eight members and is chaired by Deputy Governor (Policy). Additional Director, ITS&PMD is Secretary of ISC. Ten meeting of ISC were held in FY21.

Data Warehouse Management Committee
The Data Warehouse Management Committee is responsible for providing recommendations regarding automation of statistical processes under data warehouse and other related matters. The committee comprises of ten members and is chaired by Chief Economic Advisor. Additional Director / Senior Joint Director (Data Warehouse Coordination Division- SDWD) is the secretary of the committee.

Investment Committee of Management
The Investment Committee of Management is headed by Deputy Governor (Banking & FMRM) whereas Director-IMID acts as a secretary to the committee. During FY21, six meetings of the investment committee were held.

SBP Subsidiaries
The SBP Act, 1956 (as amended) provides provision for establishment of subsidiaries for managing functions including supply, receipt, and exchange of currency notes and coins, issue, supply, sale and purchase of prize bonds, protect small depositors, cater training and development needs of its employees and carry out any other business or discharge functions connected to the affairs of the Bank. In line with these provisions, SBP has four subsidiaries, including the State Bank of Pakistan-Banking Services Corporation (SBP-BSC), National Institute of Banking and Finance (NIBAF), Pakistan Security Printing Corporation (PSPC) and Deposit Protection Corporation (DPC). A brief description of these subsidiaries is as under:

SBP-BSC

SBP-BSC is a fully owned subsidiary of SBP which was formed under *SBP-BSC Ordinance 2001* with the mandate to perform tasks such as currency management, facilitate the inter-bank settlement system and provide operational support to the central bank. SBP-BSC is also entrusted with the management of various public debt schemes (as an agent to the Government), acts as Banker to Federal, Provincial, local Governments (collects revenue & makes payments on behalf of the Government) and Financial Institutions (facilitates the inter-bank settlement systems). Additionally, SBP-BSC is also engaged in formulating operational policies and conducts operations in the areas of Development Finance, Foreign Exchange Operations and Export Refinance. SBP-BSC also provides support services to the central bank in areas of Engineering, Medical, Procurement and Internal Security.

The Managing Director of SBP-BSC, appointed by SBP, is the Chief Executive Officer of the organization. The SBP-BSC Board of Directors, chaired by Governor SBP, comprises of all the members of the SBP Board and the Managing Director.

NIBAF

National Institute of Banking and Finance (NIBAF) is the training arm of SBP with the mandate to develop, design and conduct training and capacity building programs in the area of banking and finance. Key focus of NIBAF is to provide trainings to SBP and its subsidiaries including pre-induction trainings as well as programs pertaining to various functions of central banking operations. It serves as the main centre for banking professionals, who are interested in enhancing their knowledge and skills of modern banking concepts and practices. NIBAF supports the central bank in its efforts to promote financing to priority areas (agriculture, SME, housing, microfinance and Islamic banking). Further, to improve financial inclusion in the country, NIBAF is steering National Financial Literacy Program for Youth that aims to directly reach 1.6 million youth in the three age groups (from ages 9-12; 13-17 and 18-29 years) across the country and teach them the basic financial concepts and skills. NIBAF also organizes international courses on central and commercial banking in collaboration with the Federal Government and SBP.

PSPC

The PSPC was acquired by SBP in FY17 from the Federal Government to have full control over the spectrum of the banknote printing function. PSPC supports SBP in its currency management policy in line with core mandate and function by monitoring the production cycle of banknote and prize bond to ensure timely delivery to SBP-BSC. PSPC holds 40.03 percent and 47 percent equity stakes in Security Papers Limited and SICPA Inks Pakistan (Pvt) Limited respectively. These entities are the sole suppliers of banknote paper and security ink to PSPC respectively. The Board of Directors of PSPC consists of Governor as the Chairman and Deputy Governor (Banking & FMRM) as the Vice Chairman. The other members include Senior Joint Secretary, Finance Division, Managing Director SBP-BSC, Executive Director FRM, Managing Director PSPC and three independent directors.

DPC

Deposit Protection Corporation (DPC) is a wholly-owned subsidiary of SBP and was established under the *DPC Act 2016*. The objective of DPC is to compensate the small and financially

unsophisticated depositors to the extent of protected deposits in the unlikely event of a bank failure. DPC plays a key role in promoting financial stability by sustaining confidence in the banking system. All the banks scheduled under subsection (2) of section 37 of the SBP Act, 1956 (XXXIII of 1956), unless exempted or excluded by the Board, shall compulsorily be member institutions of the Corporation and liable to pay the premium prescribed by DPC.

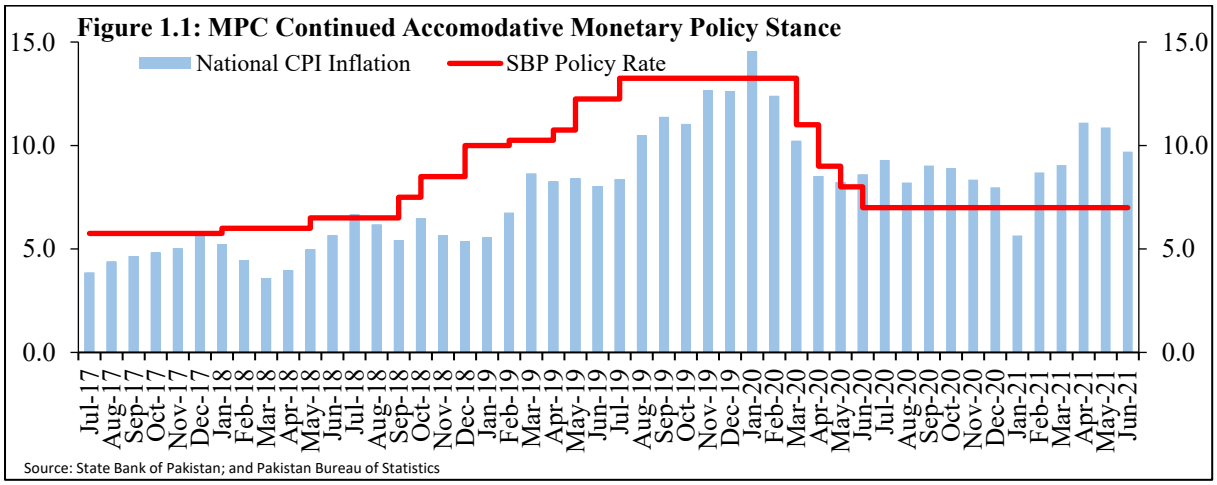
DPC is governed by an independent and professional Board of Directors under the Chairmanship of Deputy Governor of SBP, while its affairs are administered by the Managing Director DPC. The Board of DPC consists of seven directors, including a Deputy Governor of SBP as Chairman and a senior SBP official as its Managing Director. An official from the Finance Division, Ministry of Finance is also appointed as a director on its Board, while the remaining four members are from the private sector.

1 Enhancing Effectiveness of Monetary Policy

The domestic and global economic environment remained plagued with uncertainties due to the global spread of COVID-19 pandemic in FY21. While large stimuli packages and introduction and widespread distribution of vaccines, particularly in the advanced economies, raised hopes of a positive global economic outlook, but the emergence of new variants, lower access to vaccines and limited resources in low-income economies created significant downside risks. At the domestic front, emergence of new strains and multiple waves of COVID-19 required a balanced approach that involved both targeted containment measures to slowdown the spread of the virus and a focus on policy measures that would protect employment while leading to a sustainable economic recovery. Accordingly, the Monetary Policy Committee (MPC) maintained its accommodative monetary policy stance and kept the policy rate unchanged at 7.0 percent throughout FY21. The accommodative monetary policy was backed by well-anchored inflation expectations, a strong external position, a continuous build-up in foreign exchange reserves, an active communication and a continuous outreach to the stakeholders (including via effective forward guidance), and data-driven policymaking by the SBP. As a result, the domestic GDP growth clocked in at 3.94 percent, supported by strong private sector credit off-take and growth in both industrial and services sectors. Meanwhile, CPI inflation remained moderate and within the forecasted range of 7-9 percent, despite significant uncertainties and rise in international commodity prices.

1.1 Monetary Policy Stance in FY21

During FY21, the monetary policy stance continued to be accommodative due to uncertainty prevailing in the economy amid the second and third waves of COVID-19 pandemic. In the five meetings held in FY21,[7] the Monetary Policy Committee (MPC) of SBP decided to keep the policy rate unchanged at 7 percent. The accommodative monetary policy stance was backed by well-anchored inflation expectations, moderate inflation within the forecasted range of 7-9 percent, strong external position, buildup in foreign exchange reserves and an effective forward guidance by the SBP. **(Figure 1.1)**.



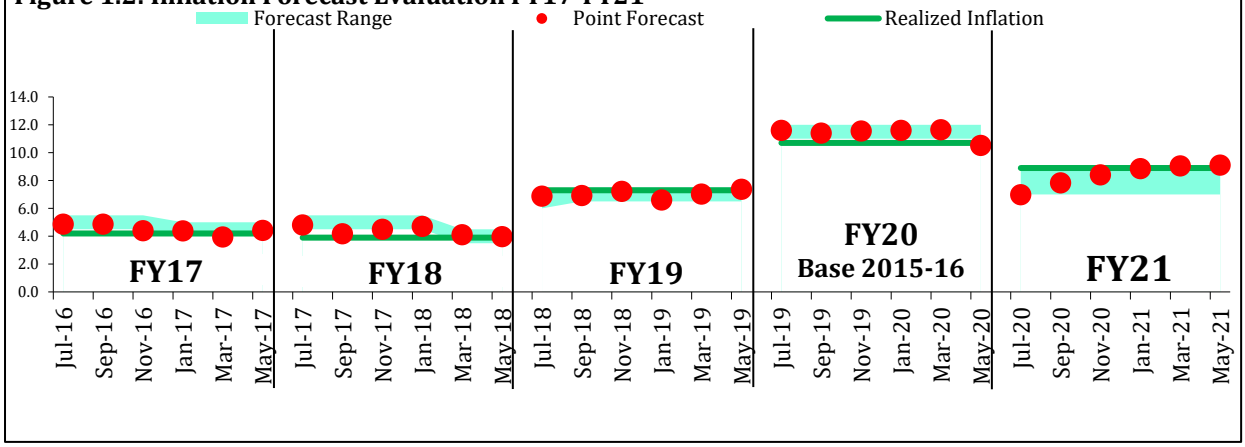
[7] MPC meetings during FY21 were held in September 2020, November 2020, January 2021, March 2021 and May 2021.

During FY20, the MPC proactively reduced the policy rate by a cumulative 625 bps from 13.25 percent to 7.0 percent within a short period i.e., from mid-March to June 2020, in order to effectively respond to the fast-evolving COVID-19 pandemic shock. The accommodative monetary policy was supplemented by various well-targeted yet time-bound liquidity-enhancing schemes by SBP. To improve the cash flows of businesses and households, SBP allowed both the deferment of principal amount and restructuring of loans. In addition, the SBP introduced refinance schemes to prevent unemployment, encourage investment activities, and support the healthcare sector to upscale their facilities to provide services to combat COVID-19. In aggregate, SBP's measures provided liquidity support of over Rs 2 trillion (or around 5 percent of GDP) to the businesses and households.[8]

During September 2020, the MPC observed that since its meeting in June 2020 business confidence and the outlook for economic growth had improved in line with the decline in domestic COVID-19 cases, easing of lockdowns, and timely stimulus from the government and SBP. At the same time, the forecast for inflation had risen slightly, primarily due to supply-side shocks to food prices; nonetheless, the average inflation was expected to fall within the range of 7-9 percent during FY21.

In subsequent MPC meeting held in November 2020, it was noted that the rise in COVID-19 cases in Pakistan and many other countries during the second wave of the pandemic was posing considerable downside risks to economic growth. Domestically, inflation remained high primarily due to temporary increases in food prices. However, SBP's projection for average inflation during FY21 remained unchanged at 7-9 percent, despite significant uncertainty surrounding the trajectory of global economic growth and international commodity prices **(Figure 1.2).**

Figure 1.2: Inflation Forecast Evaluation FY17-FY21



By January 2021, the domestic economic recovery gradually gained traction, with further improvement in business sentiments. During its meeting in March 2021, the MPC observed that employment continued to recover while prospects of economic growth had enhanced further. Expected improvements in the manufacturing sector, particularly due to the provision of loans under the Temporary Economic Refinance Scheme (TERF), led to an upward revision in growth projections of about 3 percent for GDP during FY21, the first agency to revise growth forecasts for FY21, as compared to an earlier forecast of around 2 percent. However, an increase in electricity prices would

[8] https://www.sbp.org.pk/COVID/index.html

continue to manifest in headline inflation in the coming months, keeping average inflation in FY21 close to the upper end of the projected range of 7-9 percent.

Finally, in May 2021, the MPC noted that the annual GDP growth estimate of 3.94 percent announced by the Pakistan Bureau of Statistics (PBS) confirmed the strength of the broad-based economic recovery on the back of targeted fiscal measures and appropriate monetary stimulus. It also acknowledged that average CPI inflation projection for FY22 was remarkable given the uncertainties, in line with the earlier anticipation of it remaining close to the upper end of the range of 7-9 percent.

1.1.1 Effective Communication

Central bank communication is key for transparency and effective transmission of monetary policy decisions. Over the years, SBP has strived to modernize and increase transparency in monetary policy formulation and communication in line with international best practices. The need for timely and clear communication of the policy stance gained more prominence during the pandemic, so as to facilitate decision-making by firms and households during an uncertain environment.

During FY21, SBP moved forward to implement a well-articulated and transparent communication strategy to further anchor inflation expectations and strengthen the effectiveness of monetary policy. The MPC provided forward guidance in the Monetary Policy Statement (MPS) for the first time to facilitate policy predictability and decision-making by economic agents. Reducing economic uncertainty and improving policy predictability were the main objectives behind adoption of forward guidance.

Subsequent to its first iteration in the January 2021 MPS that read, "*In the absence of unforeseen developments, the MPC expects monetary policy settings to remain unchanged in the near term*", term premiums witnessed a marked decline. The term premium between the 10-year and 3-year bonds decreased from 147 bps (as of January 21, 2021) to 93 bps (as of June 29, 2021). The investment in the government securities shifted from three-month Market Treasury Bills (MTBs) to six-month instruments, while participation in Pakistan Investment Bonds (PIBs) also improved.

SBP also started releasing the half-yearly schedule of MPC meetings in advance to make monetary policy formulation process more structured and to enhance transparency. This also reduced the uncertainty regarding the timeline of monetary policy decisions.

Moreover, SBP started to conduct regular post-MPC analyst briefings as well as sessions with academia, media (both print and electronic) and the business community to discuss key macroeconomic developments in more detail. These sessions and briefings are aimed at better articulating the role of the underlying economic trends that lead to monetary policy decision-making.

1.1.2 Policy Coordination

The coordination among domestic policymaking entities remained an important component of an overall economic policy strategy. Accommodative monetary stance of SBP during FY21 was aligned with the targeted fiscal support to the economy in the wake of COVID-19 pandemic. SBP's refinance schemes also continued to complement the targeted fiscal stimulus to combat COVID-19 by providing social security and support to corporate sector. These schemes encouraged employment and

sustainable growth, without compromising financial stability and the medium-term inflation targets of the government.

Coordination with International Financial Institutions

During FY21, SBP maintained closed coordination with the government and multinational financial institutions. The IMF's Extended Fund Facility (EFF) program was delayed from March 2020 till December 2020, mainly due to the COVID-related disruptions. Nonetheless, discussions picked up from the second half of the fiscal year and culminated in the successful completion of the combined 2nd-5th reviews and the release of a USD 500 million tranche, bringing cumulative disbursements under the EFF to around USD 2.0 billion. Meanwhile, Pakistan had also successfully negotiated purchases under the IMF's Rapid Financing Instrument (RFI) for disbursement of USD 1.386 billion in April 2020. This, along with close coordination with the World Bank, Asian Development Bank and the Asian Infrastructure Investment Bank, paved way for further sizable multilateral disbursements during FY21.

1.1.3 Strengthening Monetary Policy Formulation

The conduct of monetary policy also improved in Pakistan, in line with international best practices by taking following measures:

Exchange Rate Reforms

SBP has adopted the market-determined exchange rate regime since June 2019 to act as an automatic stabilizer and help correct the macroeconomic imbalances that had developed over the previous few years. The regime change supplemented SBP's efforts of data-driven approach to monetary policymaking and proactive management of potential macroeconomic risks. The regime remained in place during FY21, as reflected in the two-way movement in the exchange rate, in line with market conditions. Due to the encouraging trend in workers' remittances, exports and much lower level of services trade deficit, the current account improved significantly during FY21. After recording surpluses in the earlier months of the year, the current account deficit for full-year FY21 reached a 10-year low of USD 1.8 billion or 0.6 percent of GDP. Accordingly, the PKR appreciated against USD, from Rs.168.05 on June 30, 2020 to Rs.157.25 on June 30, 2021.

Emphasize on Prices Stability

To preserve the value of the currency, it is imperative that price stability is considered as the overriding objective of the monetary policy. In this regard, the medium-term inflation target is now determined and explicitly announced by the government, while SBP strives to achieve the target with the conduct of monetary policy. During FY21, SBP remained vigilant of rising pressures on urban and rural inflation arising from supply-side factors related to major food items and administered prices. All monetary policy statements and annual and quarterly reports on the State of the Pakistan's Economy analyzed the situation upfront, especially with emphasis on determining the impact of economic activities on inflation.

Elimination of monetization of fiscal deficit through zero borrowing from the SBP

In order to keep the supply of relatively more inflationary reserve money under control, amendment was proposed in SBP Act 1956 to curb deficit monetization. Cognizant of the inflationary impact, the

government did not borrow any money from SBP during FY21. SBP continued to monitor market position and managed liquidity accordingly.

Trends and developments

For its decision-making, the MPC requires latest trends and developments of domestic and global economic indicators. SBP staff provides a detailed analysis of the real, external, monetary and fiscal sectors, along with discussion of trends in international economic conditions and an information compendium of detailed statistics. SBP staff also shared the outlook of major sectors of the economy, along with projections on inflation, growth, trade deficit, remittances, money supply, etc. This high-quality background material on the full macroeconomic framework and unbiased forecasts of key variables facilitates the MPC make informed decisions about the policy rate.

Economic models

SBP employs Dynamic Stochastic General Equilibrium (DSGE) and Forecasting and Policy Analysis System (FPAS) models to forecast the future paths of macroeconomic variables and to perform policy scenario analysis. Cognizant of the risks posed by climate change to a developing economy like Pakistan, SBP initiated a development project in FY21 to analyze short- to medium-term impact of a climate change shock on the agriculture sector and its dynamics effects on the rest of the economy. For this purpose, SBP has formulated a multi-sector DSGE model for Pakistan's economy, in which the agriculture sector has been embedded with a climate change-induced damage function, to be used extensively in integrated assessment models. Once developed, the model would provide some quantitative assessment of the macroeconomic dynamics of the recurrent spells of extreme weather events, such as floods, droughts, heatwaves and heavy rainfall, on Pakistan's economy.

Perception surveys

Expectations and perceptions of various economic agents about the economic conditions and outlook remained an important input for monetary policy formulation in FY21. The perceptions of consumers, businesses and banking professionals were collected by SBP through surveys for consumer and business confidence, and for bank lending. During the COVID-19 pandemic, new questions were added in all the surveys, about the respondents' perception of the impact of the pandemic on their living and business conditions. Moreover, the SBP, in collaboration with the Ministry of Planning, Development and Special Initiatives, also conducted a unique survey on the perceptions of overseas Pakistanis with respect to their remittance-sending patterns during the pandemic. This survey served as a useful input for understanding the much higher than expected inflow of remittances during FY21; the realized inflows were contrary to projections from multilateral agencies of a substantial decline. Likewise, surveys on financial exclusion, savings behavior, and real estate investment & housing finance needs of the Roshan Digital Account holders provided valuable input to streamline RDA-related regulations.

Market Based Exchange Rate Regime

The transition to the flexible, market-determined exchange rate regime, successfully implemented in end of FY19, continued to benefit the economy. Serving as the first line of defense, the exchange rate acted as a shock absorber against external shocks and buildup of external imbalances. The interbank foreign exchange market had also adjusted relatively well to the market-based exchange rate, with the

PKR/USD exchange rate parity showing a healthy two-way movement.

As a result of stabilization measures taken by SBP during the last couple of years and adoption of flexible exchange rate regime, SBP's FX reserves depicted strong growth during FY21. SBP's FX reserves increased by USD 5.2 billion in FY21, from USD 12.1 billion at end-June 2020 to USD 17.3 billion at end-June 2021. The strengthening of FX buffers helped in improving the import coverage ratio, building confidence of market participants and turning the overall sentiments positive by keeping demand and supply conditions orderly in the foreign exchange market.

1.2 Money and Debt Market

1.2.1 Reforming the Primary Dealers System

SBP further strengthen the Rules governing the Primary Dealer (PD) system aimed at widening the investor base of government securities, enhance liquidity, transparency and promote market development. These revisions in PD rules were made after a comprehensive review of international best practices and experiences of other countries, and detailed consultations with financial market stakeholders.

The revised PD rules provide for expansion of the eligible list of institutions that can work as primary dealers, including security depositories and clearing institutions. This would cater to the needs of a diverse group of investors, including capital market clients, corporates and individuals, and attract new clientele to the government securities market. Further, SBP has also relaxed the selection and performance criteria for DFIs, Investment banks and Brokerage Houses to encourage them to become part of the PD system. Hence, a larger and more diverse group of institutions will now have direct access to primary auctions, among other privileges offered to the PDs.

The other key changes to the PD Rules focus on tightening the responsibilities, increasing ownership and commitment of primary dealers towards the objectives of the PD system, striking a balance between their privileges and obligations, and utilizing the strength of each individual dealer institution in the development of the government securities market.

The changes in the PD Rules would also ensure participation and competitive pricing in the auctions of government securities, reduce the cost of borrowing for the government, encourage savings in the economy, and allow a diverse group of investors to benefit from attractive returns offered on these instruments.

1.2.2 Floating Rate Pakistan Investment Bonds (PFLs) – Introduction of Quarterly Coupon Instruments and Changes in Auction Pricing Mechanism

In order to further diversify the product suite of Government securities, lengthen the maturity profile and improve sustainability of public debt, SBP, in coordination with GoP, introduced new variants of PFLs with quarterly coupon payment frequency, in addition to existing semi-annual coupon PFLs. These quarterly coupon PFLs are offered with quarterly coupon re-fixing and fortnightly coupon re-fixing variants.

1.2.3 Introduction of Re-opening Auction and Abolishing Holding Limit on GoP Ijara Sukuk (GIS)

SBP, in coordination with Finance Division, introduced a mechanism for re-opening auctions of GoP Ijara Sukuk (GIS)[9]. Previously, due to absence of re-openings, each issue of GIS would be a separate security, which resulted in fragmentation and limited liquidity of each instrument. Further, SBP also abolished holding limits on all existing and new issues of GIS[10]. Previously, Islamic banks and commercial banks with Islamic branches had a holding limit of 35 percent, while commercial banks with no Islamic branches had a limit of 25 percent, of the cumulative target or issued amount, whichever was higher. Accordingly, now GoP Ijara Sukuk may be held by institutions without any restriction of holding limit.

Introducing re-opening auctions and eliminating holding limits on GIS would improve participation in GIS auctions and secondary market trading, and support development of Islamic financial markets in Pakistan.

1.2.4 Enhancing Single Investor NCB Limit for MTB and PIB

SBP, in coordination with Finance Division, increased the single investor Non-Competitive Bid (NCB) Limit from 0.25 percent to 0.50 percent of the auction target for both MTBs and PIBs[11]. The enhanced limit would help to (i) diversify the investor-base of government securities; (ii) cater needs of institutions that mobilize retail investments; and (iii) promote participation in the auctions at competitive rates to promote savings.

1.2.5 Abolishing Limits on PIB Holding and SLR Eligibility

SBP withdrew the holding limit applicable on PIBs[12]. Previously, a PD's holding in a particular issue with days to maturity greater than 1-year could not exceed 30 percent of the cumulative target or issued amount, whichever was higher, in each tenor. For Non-PDs, this limit was set at 15 percent. Further, the PDs had to run down their issue-wise holding limit of 30percent to 15percent on expiry of 90 days from the last auction date of that particular issue.

In a similar perspective, SBP also abolished the limit of 15 percent of liabilities (subject to SLR) for banks and 5percent for DFIs on counting their holding of PIBs towards maintenance of SLR[13]. Accordingly, now the holdings of PIBs by banks and DFIs are fully counted towards maintenance of SLR.

These measures will help improve participation in auctions and improve secondary market trading of long-term paper.

1.3 Foreign Exchange Reserve Management

The fiscal year 2021 started with the COVID-19 pandemic in full swing, wherein authorities globally were implementing movement restrictions, lockdowns and at the same time providing monetary and

[9] DMMD Circular No. 19 dated August 18, 2020
[10] DMMD Circular No. 03 dated February 18, 2021
[11] DMMD Circular No. 28 dated December 02, 2020
[12] DMMD Circular No. 02 dated February 18, 2021
[13] DMMD Circular No. 04 dated February 18, 2021

fiscal stimuli to their economies. During this period, the global economy witnessed the sharpest slowdown in decades, with commodity and asset prices declining and safe-haven asset prices surging. The pandemic-related disruptions induced a worldwide economic slowdown, and the measures adopted to curb the ensuing impact on the global economy dominated market sentiment. Most notably, the Federal Reserve re-engaged in expansionary measures, after having initiated a tapering down of the GFC-era stimuli, resulting in the doubling of the Fed balance sheet from the already inflated post-GFC levels. In coordination, central banks of other major developed nations also provided support to their national economies, followed by emerging economy central banks. Quantitative easing, targeted asset purchase programs, bilateral swap lines, and yield curve control programs comprised the primary monetary measures deployed by central banks. Meanwhile, tax reliefs, job retention schemes, unemployment insurance, direct benefit checks and targeted support for particular segments comprised fiscal measures deployed by the governments.

The second half of FY21 brought some respite for the global economy, as COVID-19 vaccines began to roll out, providing hope for an economic recovery. With encouraging vaccine administrations, national lockdowns and travel restrictions were gradually eased. As these measures buoyed market sentiment and global growth picked up, the same was reflected in improving economic indicators and recovering commodity prices. Major central banks, including the Federal Reserve and the European Central Bank (ECB), resisted the temptation to hike interest rates, despite unhinging inflation expectations, in favor of their commitment to keep interest rates 'lower for longer' and to maintain an overall accommodative monetary stance. While the outlook for the global economy has improved, notable risks remain. Any future waves of the virus or new variants can lead to re-imposition of lockdowns, hampering the re-opening of businesses that remain at the heart of the global recovery. Also, authorities will closely monitor the risks of inflation, considering the massive monetary and fiscal stimuli provided after the COVID-19 outbreak.

SBP's FX Reserves recorded a notable increase of USD 5.2 billion; and the enhanced reserve position was utilized through investment strategies formulated under the broad investment guidelines of safety, liquidity and optimal return, as approved by the SBP Board, which allow SBP to maintain returns and high-quality credit profile of overall portfolio. Going forward, FX reserve position is expected to remain favorable and SBP would continue to deploy reserve assets with the objective of optimizing returns while adhering to the approved risk parameters.

1.4 Supporting Ease of Doing Business and Enhancing Effectiveness of Foreign Exchange Regime

SBP has been taking initiatives in collaboration with different stakeholders to face the challenge of balancing / fulfilling the needs of stakeholders on one hand and ensuring a stable foreign exchange position on the other by way of taking steps to enhance ease of doing business, improve investment climate in the country, increase home remittances, and provide efficient / effective framework for trade settlements including e-commerce framework.

The important initiatives taken by SBP during FY21 to improve the efficiency and effectiveness of Foreign Exchange regime of Pakistan are outlined below.

1.4.1 Connecting Overseas Pakistanis with Banking System of Pakistan

One of the major initiatives undertaken by SBP was the launch of Roshan Digital Account (RDA) scheme in September 2020 in collaboration with GoP and the banking industry. Under RDA, millions of non-resident Pakistanis as well as non-resident Pakistan origin card holders can now remotely open and operate their bank accounts with RDA banks in Pakistan from the comfort of their homes without any need to visit a bank branch. RDA will allow non-resident Pakistanis (NRPs) living abroad to integrate with Pakistan's banking system and easily access a wide suite of banking and investment services, and support their families in their home country. The account can be opened within 48 hours through an entirely digital process without compromising the customer due diligence. The account can be opened in foreign currencies (USD, GBP, EUR, etc.) as well as PKR.

The RDA not only fulfils the banking needs in Pakistan for the overseas Pakistanis but also provides lucrative investment opportunities in government securities including Government debt Securities i.e., Naya Pakistan Certificate, shares listed on Pakistan Stock Exchange, Mutual Funds, commercial & residential Real Estate and term/ Remunerative deposits of banks. The accounts can also be used to avail different types of liability products from the banks, including credit cards, auto loans, and mortgage financing.

The RDAs are fully repatriable, i.e., the funds can be remitted back to the overseas Pakistanis' bank account abroad any time, without any approval from SBP. While the profits/return earned on the investments made from the account are subject to applicable taxes, the RDA is subject to simplified tax regime, where the account holder is not required to file income tax return, if he/she has no other tax obligation in Pakistan.

The RDAs have been an outstanding success, leading to valuable foreign exchange inflows into the country. To further encourage their adoption by the vast Pakistani diaspora across the world, SBP has defined minimum service standards for RDAs to ensure confidence within the NRP population.

1.4.2 Ease of Doing Business

To improve ease of doing business for the industry, SBP took a number of regulatory measures to facilitate cross border trade and investment. Key measures taken during FY21 are given below:

- Policy of Equity Investment Abroad was revised to simplify the process for residents to boost country's export and to attract FDI. Under the revised policy, transactions have been divided into four categories (A, B, C & D). Except transactions falling under Category-C, the rest of the transactions pertaining to: (i) establishing subsidiary / branch office by exporters (category A), (ii) establishing holding company abroad by resident start-ups to channelize investment to Pakistan (category B) and (iii) investment by individuals to a certain limit (category D) would be approved by the banks without seeking any approval from SBP.
- Framework has been introduced for acquisition of services from a whitelist digital service providers on the concept of "Payment vs Receipt", with an annual limit of USD 400,000/- per entity. This would help our start-ups as well as export-oriented entities to use these platforms for bringing efficiency in their business processes and extending services to more customers worldwide.

- SBP allowed startup companies to avail loans as "Convertible Debt" to facilitate them in raising financing from abroad. This would attract more foreign investment by providing another investment option to international investors in startup companies operating in Pakistan. The foreign investors, hesitant to invest in equity of startup company at initial stage, may provide financing under this category.
- Developed mechanism of valuation and remittance of disinvestment proceeds exceeding market/breakup value of shares and delegated remittance of disinvestment proceeds to authorized dealers.
- Exporters were allowed to retain a certain portion of their export proceeds in their special foreign currency accounts, to be used for limited purposes. To facilitate the exporters, the permissible uses of the exporters' retention account were broadened in consultation with the exporters, enabling them to use funds for all legitimate needs to boost the exports of the country.
- Special foreign exchange regulations were issued for entities operating in Special Technology Zones (STZA) in Pakistan, in terms of sub-section 5 of Section 19 of the STZA Ordinance, 2020.
- Statutory Liquidity Requirement (SLR) for Exchange Companies (ECs) has been revised to 15 percent from 25 percent. This would enable Exchange Companies to increase their business and profitability.
- The exposure limits for ECs and ECs – B were revised to 70 percent and 50 percent (of the paid-up capital) from earlier 50 percent and 25 percent respectively. This measure was taken due to decrease in demand of FCY in KERB market because of COVID-19 pandemic, which increased FCY exposure of ECs.
- ECs were allowed for five days forward purchase contracts after reviewing the requisite policy and procedure.
- SBP extended time for settlement of foreign currency loans amid COVID-19 pandemic to facilitate the exporters and importers by allowing extension up to 180 days in settlement of their export and import loans under FE-25 foreign exchange loan Scheme.
- SBP engaged with provincial governments for continuity of business of ECs, while complying with the COVID guidelines, to facilitate the foreign remittances. Reportedly, ECs have facilitated USD 2.1 billion of remittances while USD 4.12 billion has been surrendered/sold in the interbank market.

1.4.3 E-Commerce

To promote Business-to-Consumer (B2C) e-Commerce exports from Pakistan, SBP revised instructions of FE Manual to align it with the changing business dynamics of e-commerce exports. A comprehensive regulatory framework was issued for current business needs of e-commerce exports, along with facilitation for developing a separate Module in WeBOC in collaboration with Pakistan Customs and other relevant stakeholders.

1.4.4 Home Remittances

Despite challenges due to COVID-19, home remittances of Pakistan rose to USD 29.4 billion during FY21 compared to USD 23.13 billion in the corresponding period of FY20, witnessing robust growth of 27.11 percent. This rise in remittances is mainly attributed to supportive Government policies, pro-active strategy of SBP/PRI and positive response of banks and exchange companies to implement SBP/PRI strategy. Some major steps taken during FY21 to boost remittances through formal channels are as follows:

- Reintroduced incentive scheme for marketing of home remittances to further encourage domestic financial institutions to increase marketing of home remittances for remitters and beneficiaries.
- Media/Awareness campaign launched by FIs under the incentive scheme for marketing and promotion of Home Remittance Products and Services both locally and abroad;
- Timely disbursement of rebate under reimbursement of TT charges scheme with pending claims lag of just two months compared to previous lag of six months, motivating home remittance channel partners for mobilizing funds for Pakistan.
- Increase in outreach by allowing domestic financial institutions to enter new agency arrangements with overseas tie ups.
- End to end digital integration of remittances by encouraging domestic financial institutions to bring forth more digitally enabled Fintech and Money Service Businesses (MSBs) for swift disbursement of funds in Pakistan.
- Arrangement of webinars in coordination with Pakistani Embassies and High Commissions, to increase awareness and outreach of initiatives of GoP for home remittances for Pakistani communities.
- SBP/ PRI conducted orientation sessions of Community Welfare Attaches (CWAs), Pakistani missions abroad and embassies in Pakistan to train them regarding remittance markets, available products for home remittance segment and modes to send remittances through formal channels.
- Banks and exchange companies celebrated "International Day for Family Remittances" (IDFR) on June 16, 2021, an official day for IDFR as conveyed by UNO, to recognize the contribution of migrants to improve the lives of their family members back home and create a future of hope for their children.

1.4.5 Digitalization of FX Regulatory Approval System (RAS)

SBP launched an online platform i.e., Regulatory Approval System (RAS), to facilitate online submission of foreign exchange (FX) related cases to SBP. The SBP-RAS became operational on March 24, 2020 whereby manual case submission by banks was discontinued in SBP-BSC. After successful parallel run, paper-based case submission to SBP by banks was also discontinued with effect from August 28, 2020. The objective of this initiative was to provide a fully digitalized platform to the business community and individuals in approaching banks for their foreign exchange related requests. This initiative will transform FX operations by replacing the paper-based requests with electronic submissions, which is not only efficient but also cost-effective. Till date, 28 banks

have developed their portals to receive cases digitally. Further, it has been made mandatory for all customers to submit all FX related cases digitally to banks from July 2021 onwards.

1.5 Research

In-house research at SBP has been a key element of the toolkit, aimed at providing strong empirical and conceptual foundation for policymaking. Research work at SBP covers monetary policy, exchange rate, trade and other relevant macroeconomic issues. The research is published in SBP publications including the Working Paper Series, Staff Notes and SBP Research Bulletin. These publications are available online on SBP's website, as well as at other sources. During FY21, SBP researchers contributed to a range of topical issues, which broadly aimed at improving existing economic models used for monetary policy formulation at SBP, understanding the evolving dynamics of inflation, impact of IMF program and government borrowing.

Research on incorporation of climate change in the FPAS model has been a key contribution towards strengthening and modernizing monetary policy formulation at SBP. Similarly, other research studies on exploring the dependency structure of CPI basket items using Vine Copulas, role of transitory shocks and structural determinants of inflation in Pakistan, spillovers from global and regional shocks, and role of imported inputs in exchange rate pass through in Pakistan yielded valuable insights regarding inflation dynamics in Pakistan. Short studies were also conducted to gauge the impact of COVID-19 on real GDP growth, inflation and financial markets.

Evidence-based research also increased in SBP, with the objective to improve policy formulation and effectiveness. SBP conducted numerous surveys, including two flagship surveys in the areas of consumer and business confidence. The following surveys are some of the examples portraying SBP's efforts in line with a broader central bank vision:

- Remittance behavior survey of overseas Pakistanis to gauge the impact of COVID-19 on remitting behaviors
- Perception Survey for Assessing Quality and Usage of Security Features of Banknotes
- Real Estate Investment and Housing Finance Needs of RDA holders

Research support was also extended for various in-house surveys in SBP that have contributed to strengthening of internal controls, standards and procedures to provide a conducive working environment in the bank.

SBP also organized multiple discussions with academics, policymakers and other stakeholders, to foster a better understanding of the evolving research areas. These included lectures, conferences, seminars and webinars. In particular, a webinar series was conducted during the COVID-19 lockdowns, and provided an effective way of promoting and sharing research ideas. SBP's webinar series covered the following topics:

- Allocative Inefficiencies and Growth
- Export Competitiveness: Perspectives from Mid-sized Firms
- The Volatility in Stock Markets with Geographical Perspective
- Foreign Aid and Public Sector Capacity in Pakistan
- Transmission of Asset Prices into Goods Prices - the Moderating Role of Monetary Policy

- Economic Modeling in The Post-COVID Era
- Closing Yield Gap in the Dairy Farms in Punjab, Pakistan
- Digitization and Development: Property Rights Security, and Land and Labor Markets
- Taxation of Agricultural Income: Conceptual Issues, Practical Challenges and Potential Revenue Estimates in Pakistan
- An Analysis of Pakistan's Agricultural Commodities Based on Effective Protection Rate and its Decomposition
- Household Debt and Indebtedness: Estimates and Implications
- Financial Markets Lessons from the COVID-19 Crisis: A Practitioner Perspective
- Economic Modeling and Forecasting: Practice in Central Banks

Moreover, a virtual SAARC-FINANCE seminar was organized on *"Economic Modeling and Forecasting in Central Banks".* The seminar was attended by delegates from SAARC central banks, including Afghanistan, Bangladesh, Bhutan, Sri Lanka and Nepal.

SBP also collaborated with other central banks, especially those in the SAARC region, to conduct joint research. During COVID-19, central banks around the world have been playing critical roles to provide economic stimulus and ensure financial soundness. In this regard, SBP initiated a joint study titled *"The use of Unconventional Policy Instruments by South Asian Central Banks: A Study on Refinance Schemes"* to assess policies and their effectiveness of various refinance facilities provided by the regional central banks.

SBP has been contributing to strengthen research at national level by establishing SBP Memorial Chairs at various public sector universities and by participating in meetings and other related forum to provide input regarding policy formulation at national level.

1.6 Economic Analyses and Publications

SBP publishes its quarterly and annual reports on the "State of Pakistan's Economy", which review the recent economic developments and challenges and provide policy recommendations where applicable. During FY21, the coverage of these reports was enhanced with the introduction of a new section on the labor market, which adds value to the discussion of real sector developments. The section utilized alternative official data sources with higher frequency than the Labor Force Survey: these data sources include monthly surveys of industrial performance and employment conducted by the provincial statistical bureaus; the employment index from the SBP's Business Confidence Survey; and CPI wage rate data. The set of proxy indicators to track activity in the services sector was also expanded.

Besides the sectoral coverage, the flagship reports of FY21 documented the policy measures taken to mitigate the impact of the COVID-19 pandemic on the economy. The publications highlighted the importance of the highly accommodative monetary policy environment, SBP's liquidity support via refinance schemes, and targeted fiscal support from the government, including for the agriculture sector, as essential for facilitating the economic rebound after the ease in the lockdown conditions. Furthermore, a special section in the FY20 Annual Report, titled '*COVID-19 and the Need to Boost Digital Connectivity in Pakistan*', underscored the significance of digitization during COVID-19 through digital cash transfers, telehealth, e-learning and e-commerce. The special section also

recommended measures to tackle the remaining demand- and supply-side constraints for inclusive and equitable access to digital services. Moreover, a box item in the first quarterly report of FY21 (*COVID Impacts on Domestic Production*) summarized the findings of an ADB survey on the impact of COVID-19 on the production and marketing of certain crops. Similarly, a box item in the second quarterly report (*Special Survey on Evaluating the Impact of COVID-19*) reported the findings of a PBS survey, which revealed that total employment – which amounted to 55.7 million workers prior to the first COVID-19 lockdown – fell to 35 million when the restrictions peaked, before recovering to 52.5 million workers once they were eased.

In addition, SBP publications shed light on various topical issues. A special chapter in the FY20 Annual Report, titled '*Understanding Low Private Credit Penetration in Pakistan: Contextualizing Recent Policy Reforms*', analyzed the reasons behind low credit penetration in Pakistan's economy over time. The findings included the risk aversion of commercial banks amid information asymmetries, high borrowing appetite of the government, and declining role of specialized lending institutions. The chapter also highlighted the coordinated efforts by SBP and government to promote low-cost housing finance, creation of a secured transactions registry, development of private credit bureaus and growing use of digital financial services and their potential to improve credit penetration.

A special section in the first quarterly report of FY21 (*Public Pension Expenditures in Pakistan - The Need for Reforms*) flagged the rapid growth in public pension expenditures in the country and highlighted the parametric and systemic reforms, including proper indexation of increments, elimination of retrospective increases and rationalization of survivorship benefits, which may result in a more sustainable pension structure. The second quarterly report contained a special section on the LNG sector (*LNG Sector in Pakistan - Attaining Sustainability through Deregulation and Structural Reforms*), which explored multiple operational and structural bottlenecks in the current framework, highlighted some international best practices, and suggested reforms for deregulating the LNG market. Similarly, a special section in the third quarterly report (*Private Credit Bureaus in Pakistan – Enhancing Credit Penetration by Addressing Information Asymmetries*) identified the legal, operational and policy level challenges faced by private credit bureaus in the country and made recommendations to address the same.

The overall analysis in the reports was further enriched by box items on diverse topics. Some of these are mentioned below, along with their key takeaways:

- ***Introduction of ultra-low-sulfur-fuel*** (Q1-FY21 report): The government's decision to move to a new emissions standard is expected to affect domestic automobile and crude oil refining industries in the short-to medium-term. The measure would also improve urban air quality and modernize these industries over the long term.
- ***Rising global food prices*** (Q1-FY21 report): A wide range of factors, mostly related to the COVID-19 pandemic, are responsible for the broad-based surge in global commodity prices. These factors include supply disruptions and unfavorable grain production outlook; stockpiling of key commodities by some major importers; increasing protectionism; and limited food exports. These challenges are likely to keep the global food inflation at an elevated level for some time.

- ***Implementation of Public Financial Management Rules and data reclassification in Q1-FY21*** (Q1-FY21 report): The major amendments to the fiscal accounts pertained to tax refunds through the Finance Division, deduction of refunds from the divisible pool, reclassification of federal taxes (not collected by FBR) as non-tax revenues, PSDP allocation in compliance with PFM, and adjustment in provincial expenditures to reflect statistical discrepancy.
- ***Recent changes in the floating-rate bond market*** (Q2-FY21 report): New PIBs-Floating rate (PFLs) were introduced in October 2020 for 3, 5 and 10 years, with quarterly coupon and quarterly resets. A 2-year PFL with fortnightly coupon resets and quarterly coupon payments was also introduced, bringing the total number floaters available in the market to seven.
- ***Implications of geographical indications (GI) tagging for exports*** (Q2-FY21 report): Pakistan needs to expedite the domestic registration of exportable and GI-worthy products (besides basmati rice) to increase the country's exports earnings. The GI tagging would benefit the fetching premium prices and from increased market access and endorsements by international companies and brands.
- ***The state of internet inclusiveness*** (Q3-FY21 report): The Economist Intelligence Unit's Inclusive Internet Index 2021 report showed that Pakistan lags behind regional peers on internet inclusiveness. In particular, the country ranked low on the dimensions of 'availability' (linked to low level of literacy and digital skills, and gender gaps in internet usage) and 'relevance' (due to non-availability of public sector open data policy and e-government services in local language).
- ***Implications of the Debt Service Suspension Initiative (DSSI) for Pakistan's fiscal sector and debt sustainability indicators*** (Q3-FY21 report): The positive implications of the DSSI include a reduction in the fiscal deficit and public debt burden during H1-FY21 and FY22, and improvements in the 'external debt servicing to exports' and 'external debt servicing to FX earnings' ratios.

1.7 Data Management System

The statistics compiled by SBP largely follow international standards. The statistics on balance of payments, monetary and financial variables, external and domestic debt, and flow of funds accounts are compiled in accordance with the guidelines provided in the manuals of international organizations, such as the IMF, UN and World Bank. Various stakeholders both within and outside SBP use these compiled statistics for analysis, research and policy formulation.

1.7.1 Initiatives including adoption of International Standard Classification

A number of initiatives were taken for data compilation and dissemination during FY21. Details are given below:

- ***Compilation of data on Roshan Digital Accounts (RDA):*** RDAs remained a big success by attracting over USD 1.5 billion through more than 180,000 accounts in FY21. SBP initiated acquisition of data on RDAs for utilization in balance of payments, external debt and liabilities and domestic debt. Furthermore, a note titled "Tracing RDA impact in Balance of Payments" was prepared to highlight the positioning of RDA inflows and their utilization in the balance of payments data.

- ***Survey of CIF Margin on Import Payments:*** Manual on Balance of Payments and International Investment Position, sixth Edition (BPM6) recommends: *"the principle for valuation of general merchandise is the market value of goods at the point of uniform valuation. The point of uniform valuation is at the customs frontier of the economy from which the goods are first exported, that is, free on board (FOB)"*. Import payments recorded through the International Transactions Reporting System (ITRS) is on mixed basis (e.g. CFR, CIF and FOB). To calculate the FOB value, the cost of insurance and freight (CIF) component is deducted from import payments. To update this estimate/coefficient periodically, a survey of importers is conducted every three years. The fourth iteration of the survey was undertaken during FY21 to update the coefficient of CIF margin on import payments.
- ***Monetary Survey compilation based on revised format of SBP Statement of Affairs:*** In terms of Section 40(1) of SBP Act 1956, SBP Board has approved revised format of Weekly Statement of Affairs, effective from week ending on July 3, 2020. Accordingly, working procedure manual and the back-end compilation methods of weekly monetary survey were revised to realign them with the revised format of SBP Statement of Affairs.
- ***Implementation of the IMF methodology for splicing the new CPI series (base 2015-16=100) into base year 2010 for compilation of REER index:*** The CPI index base of 2007-08 was used for the compilation of the relative price index (RPI) up to June 2020 after rebasing it to year 2010. The Pakistan Bureau of Statistics shifted the CPI base to 2015-16 and discontinued the dissemination of price statistics on the 2007-08 base from July 2020. Therefore, the CPI based on 2015-16 was spliced backward up to January 2010 by using the ratio of the CPI series base 2007-08 (old base) for the following month in the first step and rebased to 2010 for the compilation of REER index in the second step. This method has also been used by the IMF for rebasing.
- ***Revamped code guide for weekly ITRS data reporting of exchange companies:*** A developmental project was completed on *"Enhancing the scope of data acquired from exchange companies"* to develop an improved reporting mechanism for exchange companies, according to the guidelines in the exchange companies' manual.
- ***Implementation of classification of Balance of Payments and International Investment Position Manual Sixth Edition (BPM6) in Rest of the World (ROW) sector of Flow of Funds Accounts:*** Pakistan's flow of funds accounts is prepared by using data of the Sectoral Balance Sheets (SBS) of all sectors of the economy, as per the definitions in the System of National Accounts (SNA, 2008), except for those related to the Rest of World (ROW). The classification and guidelines of the IMF's Manual on Balance of Payments and International Investment Position Sixth Edition (BMP-6) has been implemented in preparation of the ROW sector to synchronize it with SNA-2008.

1.7.2 Improvements in statistical publications

Monthly, quarterly, half-yearly and annual publications are compiled to provide a warehouse of statistical information, pertaining to a broad spectrum of economic sectors. Some of the major achievements include the release of the fourth edition of the Handbook of Statistics on Pakistan Economy 2020; addition of regional statistics on disbursement of loans to textile sector; province-

wise scheduled banks branches annexures; and merging basic banking accounts in deposits with respect to type of accounts table in the half-yearly publication of the 'Statistics on Scheduled Banks in Pakistan'

Besides, SBP also initiated a pre-publication of its annual publication "Financial Statement Analysis of Non-Financial Companies listed at PSX". It covers data of 70 percent of the companies and would be released six months ahead of the regular publication. The early availability of this data would facilitate the users in general and market analysts in particular for carrying out their assessments.

1.7.3 Internal support

To provide formal housing finance at affordable rates, the government introduced the Markup Subsidy for Housing Finance (MPMG) and assigned monthly mandatory targets for housing units and amount of disbursements to banks, in proportion to their share in total banking assets. Accordingly, weekly data was compiled on "construction and housing finance" for monitoring the mandatory credit target scheme for the banks.

Furthermore, SBP also started data collection on closed government deposit accounts from banks, DFIs and MFBs, for the implementation of the government's Treasury Single Account policy.

1.7.4 User-friendly data dissemination system

SBP made consistent efforts to enhance its economic data coverage and present the data in a user-friendly manner to stakeholders. In this regard, SBP developed "SBP Asaan Adaad (SAAD)", a new website with a user-friendly and intuitive interface. SAAD displays interactive charts of economic indicators with useful chart controls to understand the evolving trend in the economy. It allows users to easily create a data basket of frequently used variables for later retrieval. It also compiles public time series data from other, disparate sources, on a single platform, and makes this data available for download. SAAD is expected to go live soon.

1.7.5 Ensuring timely dissemination of data during the pandemic

SBP ensured timely dissemination of important statistics during the COVID-related mobility restrictions and the consequent remote-working model. To this end, remote access to data compilation modules was implemented with robust security controls.

1.7.6 Implementation of new data compilation modules

SBP endeavors to improve its data compilation by persistently automating manual processes. During FY21, the following modules were implemented:

a) Data acquisition of daily cash flows from commercial banks
b) Data acquisition of Crop Loan Insurance Scheme
c) TAT Monitoring Portal for SME Financing
d) Compilation of CRR, SLR, CRA & SCRA modules
e) Data acquisition on the National Financial Literacy Program

Besides, detailed analysis of the requirements of the following data compilation modules was completed with the development of System Requirements Specifications (SRS) during FY21:

a) Revamping of Foreign Exchange Computerized Reporting System
b) Electronic Credit Information Bureau - version 2
c) Automation of data collection of hourly FX Net Open Position
d) Non-residents' shareholding registration systems

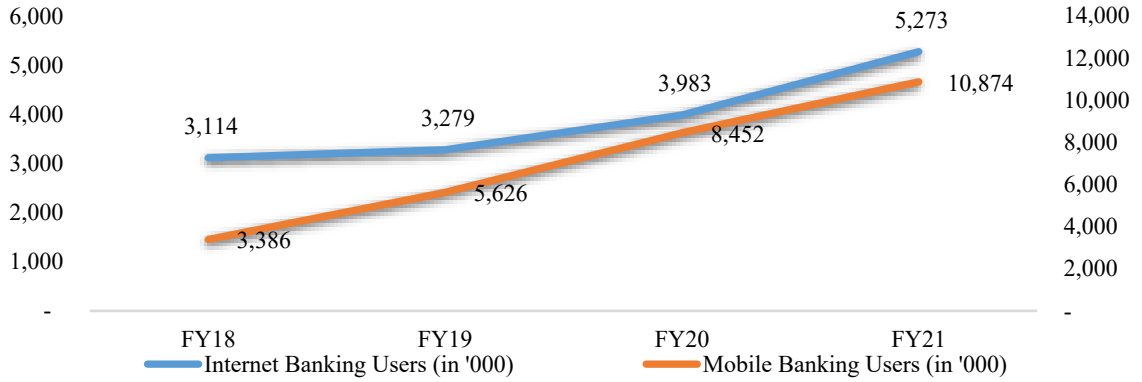
2 Payment System

The outbreak of COVID-19 and the resultant lockdowns from March 2020 onwards had shaken up large swathes of the economy. The continuation of uninterrupted financial services, including transaction settlements, had to be ensured, to mitigate the financial impact of the pandemic on the economy. SBP, being the regulator of payments and financial industry, had already played a pivotal role in promoting and developing payment and digital financial services in the country over the past many years; these policy efforts were significantly scaled up after the COVID-19 outbreak. SBP took numerous steps, including promoting and developing interoperable payments infrastructure, issuing enabling regulations especially for retail payment providers and financial technology (fintechs) firms, ensuring trust and security of digital payment channels, and promoting new technologies and innovations. Simultaneously, there was a focus on keeping these services affordable for the general public. These initiatives were primarily aimed at developing digital payment platforms, providing a conducive regulatory environment for the industry and promoting innovative and convenient digital payment instruments in the economy. Resultantly, the payments industry in Pakistan continued to show a healthy growth, both in terms of volume and value of transactions conducted during FY21.

2.1 Trends in Payment and Settlement Systems

Over the last 4 years, usage of Internet Banking and Mobile Banking channels has grown significantly, recording annualized transactions growth of 44 percent and 107 percent, respectively. Substantial growth has also been observed in the user base of these channels over the same period, as evident from Figure 2.1.

Figure 2.1 - Internet Banking vs Mobile Banking



In addition, the digital access points and infrastructure has grown in parallel: the number of ATMs in the country is growing continuously with annualized growth of 5.3 percent during the last 4 years. The number of POS machines, also recorded a substantial growth of 47 percent YoY, since SBP's regulatory intervention via PSD Circular No. 1 of 2020 on Improving Payment Card Acceptance Infrastructure in Pakistan, played an important role in increasing the number of POS machines in the country, with positive spillover onto both digitization and documentation of the economy.

From the customer standpoint, the number of debit cards has also increased, mainly due to the mandate given by SBP to issue more secure Europay Master Visa (EMV) Chip and PIN-compliant cards, to enhance security without compromising customer experience. The number of debit cards had risen 11.8 percent YoY and reached 29.8 million by the end of FY21; over the last 4 years, debit cards have increased 11.2 percent on an annualized basis.

Some major indicators depicting the strong growth in the usage of digital channels during FY21 are presented in Table 2.1 and Figure 2.2 and Figure 2.3 below:

Table 2.1	FY20		FY21		Percentage Change	
Channel	**Volume (in million)**	**Value (in PKR billion)**	**Volume (in million)**	**Value (in PKR billion)**	**Volume**	**Value**
RTOB	173.7	54,433.2	186.6	67,308.4	7.4%	23.7%
ATM	512.1	6,429.4	598.7	8,075.6	16.9%	25.6%
POS	70.3	364.2	88.8	453.1	26.3%	24.4%
E-commerce	10.2	34.9	21.9	60.6	114.7%	73.6%
Internet Banking	56.6	2,952.7	93.4	5,661.3	65.0%	91.7%
Mobile Banking	82.8	1,763.6	193.4	4,915.2	133.6%	178.7%

Figure 2.2 - Internet Banking Transactions

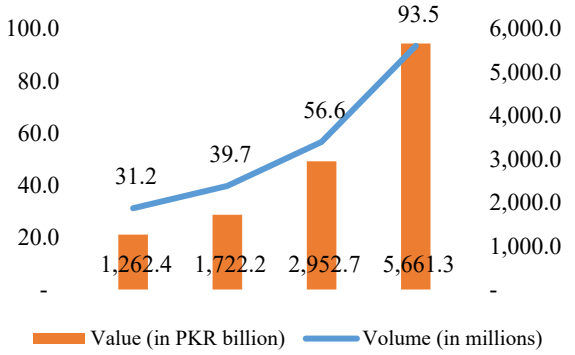
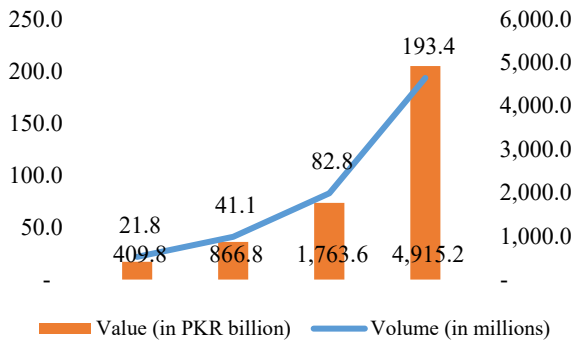


Figure 2.3 - Mobile Banking Transactions



2.2 Strategic Measures by SBP

2.2.1 Stakeholders Session with Industry Leaders on Digital Payments Ecosystem

To enhance the digital payments landscape of Pakistan, SBP under the leadership of the Governor SBP, arranged multiple stakeholder sessions. These sessions were attended by the top executives of payments and financial sectors, heads of multilateral organizations like the World Bank, and the IFC, top management of national regulators like the PTA, SECP, and FBR and other government representatives. The outcome of the discussions during these sessions contributed to the development of a national synergy among all the relevant stakeholders towards a common goal – i.e., digitizing the economy for the benefit of the people of Pakistan.

During FY21, SBP arranged two sessions to discuss the adoption of innovative technologies including open banking, instant payment system, adoption of QRs, Central Bank Digital Currencies (CBDCs), digital banks, e-KYC, and digital onboarding of customers. These consultative sessions complemented the agenda set out under the National Payments Systems Strategy, and facilitated the

development of a clear roadmap for the adoption of innovative technologies. These consultative sessions also assisted in reducing friction in the adoption of digital payments by rationalizing the tax regime for both consumers and businesses, and by streamlining the prices of customer authentication for fintechs and the financial sector.

2.2.2 Implementation of Raast (Instant Payment System of Pakistan)

SBP worked rigorously to achieve its strategic goal of developing modern and robust payment systems in the country. These efforts culminated with the successful launched of the instant payment system, Raast, in a ceremony held on January 11, 2021 at the Prime Minister House Islamabad, with the Honorable Prime Minister of Pakistan as the chief guest. Raast is a state-of-the-art, interoperable and secure payment platform that would enable consumers, merchants and government entities to exchange funds in a seamless, instant and cost-effective manner. It has advanced functionalities to process instant/near real-time and alias-based payments, bulk transfers and Request-to-Pay. Raast also has the capability to on-board participants, including banks, and merchants, Electronic Money Institutions (EMIs) through Application Programming Interfaces (APIs).

2.2.3 Implementation of National Payment Systems Strategy

The National Payment Systems Strategy (NPSS) was launched in 2019. It gives a roadmap and recommendations to design a digital National Payments System that complies with international standards and best practices related to safety, efficiency and inclusiveness.

The dual objectives of enhancing financial stability and increasing financial inclusion are the overarching goals of this strategy. The NPSS made recommendations in a number of areas including:

- Create an enabling legal and regulatory regime for payment system
- Strengthen payment systems oversight
- Development and modernization of the national payments infrastructure
- Digitization of government payments
- Enhancing the efficiency of the retail payments market
- Bringing efficiency in remittance payments

The regulatory measures taken by SBP, are part of the NPSS, and have played a vital role in enhancing the adoption of digital channels across the country.

2.3 Regulatory Measures Taken by SBP during FY21

2.3.1 Enhancing Digitization Initiatives in Banks and Microfinance Banks

To enhance the digitization landscape in the banking industry, SBP issued a comprehensive set of instructions to the banking industry. These included regulations related to banks' governance structure, benchmarking the list of services provided through internet banking and mobile application, promoting use of cards for authentications and payments, discouraging issuance of cheques, enabling accessibility of all beneficiary financial institutions on alternate delivery channels, a card-per-account policy, and deployment of cash deposit machines.

2.3.2 Regulations for Payment Card Security

SBP issued Payment Card Security Regulations in 2016 to provide a set of controls to the banking industry for securing payments through cards. One of the landmarks achieved through these instructions was the transition from the magnetic stripe standard to the more secure EMV Chip & Pin compliant standard. Since then, there has been tremendous strides in the country's payments landscape, along with a reduction in the number of card frauds as well.

During FY21, SBP updated these regulations in line with the evolving global practices. These included disallowing fallback transactions on card processing infrastructure, to prevent skimming frauds, mandating the use of EMV 3D secure for e-commerce transactions, policy measure on contactless payments and providing a limit for authorizing transactions without requiring a PIN.

2.3.3 Provision of Repayment Facility to Bank Borrowers on Alternate Delivery Channels (ADCs)

In 2018, SBP advised banks to develop their systems to allow customers to pay their credit card bills through any bank account using ADC channels. As a next step, SBP, in FY21 instructed the banks to extend the same facility to customers for consumer financing facilities offered by the banks. The instructions also required banks to develop their systems to fetch the amount of outstanding loan as well as installment due, for the particular loan, to facilitate the borrower in making payments via ADCs. This is regulatory change represented another leap towards achieving an interoperable payment systems regime in the country, which would strengthen the financial stability and increase the usage of digital platforms for day-to-day financial needs.

2.3.4 Pricing of Interbank Fund Transfer (IBFT) Services

In March 2020, at the outset of the COVID-19 outbreak, SBP introduced a wide range of regulatory changes to stabilize the country's financial system amidst a rapidly changing local and global landscape. One of these measures was the introduction of a zero-pricing regime on all IBFTs, to facilitate digital payments while physical bank branches were closed due to lockdowns. The result of the free IBFT was so remarkable that 1Link, which registered less than 150,000 IBFTs per day on average, started to process over 800,000 IBFTs per day by December 2020 an over 5-time increase.

Since the change, banks, particularly agent-based branchless banking players, approached SBP numerous times to allow them to charge fees on IBFTs due to the heavy operational and maintenance costs involved in providing the service. The costs were higher for branchless banking players, due to the additional agent costs for each transaction, and were leading to heavy financial pressures for these service providers.

To protect and encourage the low-income segments of the population to use digital transactions particularly IBFTs, SBP with effect from July 1, 2021 allowed the industry to charge high-value IBFT transactions with a minimal fee of 0.1 percent of the transfer amount or Rs.200 (whichever is lower), to cover their operational costs. To protect the low-income segments from these fees, aggregate per account transfers up to Rs.25,000 per month are exempt from the charges; the IBFT fees would only apply beyond this threshold.

2.4 Additional Efforts to Digitize Banking during FY21

2.4.1 Facilitation of EMIs, Payment System Operators and Payment Service Providers

To foster innovations in payments through technology and to provide an enabling regulatory environment to non-bank entities, SBP had further strengthened the regulatory landscape for payment service providers, by introducing Regulations for Electronic Money Institutions in 2019. Since then, SBP has received tremendous response from stakeholders as these regulations provided a new space to numerous fintechs operating in Pakistan

SBP has processed eight applications for EMI licenses, out of which five EMIs have started their pilot operations and would launch their operations on a commercial scale, over the coming few months. The remaining three EMI licensees were given in-principal approval and are expected to soon start their pilot operations. It is quite promising to see that many international and local fintechs have shown their interest for a potential EMI license in Pakistan. The integration of these high-tech service providers into the country's financial landscape would help provide pioneering payment solutions and further facilitate the ongoing digitization of the economy.

In addition to facilitating the EMIs, SBP has also enabled payment system operators (PSOs) and payment service providers (PSPs) to offer white label ATM services, payment initiation and account aggregation services, and e-payment gateway services, to promote innovative payment products and services in the country.

2.5 Efforts to digitalize Government Payments

Government payments make up a significant part of the payment and settlement systems of the country. As payments systems have evolved swiftly in the private sector, providing multiple options for moving money, SBP has also been working to bring the same agility to the cash flows of the government. In this regard, SBP is providing the necessary support to both the federal and provincial governments to digitize their payments and receipts to bring them at par with the industry standards. Particular emphasis is on the digitization of tax and levy collections, tax refunds to businesses, and on payments of salaries, pensions and social security payments to government employees. The process has assumed particular urgency due to the unprecedented spread of COVID-19 pandemic, making the automation and digitization of government payments a priority for the SBP. This initiative has helped provide an alternative to the traditional mode of government payments in the country, and would help to reduce delays and inconsistencies in the process. The key initiatives undertaken by the SBP in this regard are given as under:

2.5.1 Collection of Government Taxes and Fees through ADCs

The collection of government taxes and fees through alternate delivery channels (ADCs) has gained traction, amid trust of the taxpayers. An aggregate amount of Rs.4,310 billion of government taxes and duties has been collected through ADCs since its inception in March 2018, out of which Rs.3,799 billion have been collected from July 1, 2020. This points to the robustness of the new system, especially over the past year. Taxpayers can pay their taxes through internet banking, mobile banking, over 15,000 ATMs and via over-the-counter (OTC) facilities of around 16,000 branches of commercial banks across the country. The Federal Board of Revenue (FBR) and the Government of the Punjab initially adopted the system in 2018. Keeping in view the success of the payments through

the ADCs, the Islamabad Capital Territory Administration (ICTA), and the governments of Khyber Pakhtunkhwa, Sindh and Balochistan also adopted the ADC mechanism for their taxpayers in FY21. Furthermore, to promote digital payment of government taxes and duties, SBP eliminated the transaction fee for taxpayers using digital modes with effect from January 1, 2020.

2.5.2 Automation of Duty Drawback and Income Tax Refunds

The government incentivizes exports via tax refunds under the duty drawback on local taxes and levies (DLTL) scheme, which provides the necessary liquidity and working capital to businesses to contribute positively to country's foreign exchange earnings. Thus, the payment of tax refunds to taxpayers in an important role in helping the businesses manage their cash flows, with positive spillover on the country's export performance and thereby putting the current account on a stable trajectory. SBP in collaboration with FBR has developed and implemented an e-payment system for end-to-end digitization of duty drawbacks and income tax refunds to businesses. After digitization of these processes, the refunds are directly credited to the beneficiaries' (taxpayers) accounts through Straight through Processing (electronic transfers). This reduces the human involvement on part of the Pakistan Customs/FBR to absolute minimum, and significantly decreases the turnaround time for the payment of refunds. Since the introduction of the e-payment refunds on September 30, 2021, Rs.25.2 billion have been refunded to business through approximately 297,000 transactions.

2.5.3 Enhancing currency management practices of Commercial Banks through Currency Management Strategy (CMS)

Despite the technological advancements in the currency and payments infrastructure, cash remains a dominant medium of exchange in Pakistan's economy, which necessitates timely provision of clean disinfected and good quality notes into the economic system. The implementation of SBP's Cash Management Strategy in 2015 has helped streamline the automated currency management system by ensuring timely availability of clean, optimum quality and machine-authenticated banknotes that incorporate state-of-the-art security features. This has helped enhance capacity of commercial banks in the area of currency management, and to implement more standardized banknote packaging and distribution processes in line with practices followed in peer countries. Soiled and unfit notes are removed proactively from the system, while the authentication of banknotes provides a high degree of reliance on the genuineness of the currency. This has been significantly supported by the establishment of the Cash Processing Centers (CPCs) within a large number of commercial banks. In case a bank is unable to set up an independent CPC, they have been encouraged to collaborate with other banking entities having surplus capacity to provide them with authenticated and processed cash for onward disbursement to branches.

2.5.4 Evolution of Currency Management Strategy (CMS)

The SBP has worked to further strengthen CMS implementation duringFY21. All commercial banks' branches are now mandated to disburse machine-authenticated banknotes of Rs. 50 and above from January, 2021. The banks have installed 9,685 banknotes authentication machines and 8,686 banknotes packing machines, which are deployed at CPCs and standalone branches. Banks have also increased Cash Processing Centers (CPCs) to 712, which are providing machine-processed banknotes to 9,608 bank branches. Further, banks have equipped 5,939 branches with individual banknotes processing machines to meet their own needs. It is also seen that banks with cash processing

arrangements with other banks has decreased slightly from 550 to 532, with a corresponding increase in independent CPCs, implying that the industry is moving towards establishment of independent CPCs over time.

2.5.5 COVID-19 – Uninterrupted Supply of Disinfected Cash at Banks and ATMs

After COVID-19 pandemic, central banks across the world were compelled to take multiple steps to curtail the spread of the contagious disease through banknotes by pursuing new technologies. Similarly, SBP also continued to monitor the ongoing global developments in this regard to ensure the uninterrupted supply of disinfected cash at banks and ATMs. SBP issued special instructions to the banks to contain the potential spread of the virus through banknotes by taking additional precautionary measures concerning disbursement and collection of cash. Accordingly, a 14-day quarantine period was mandated for all banknotes received by the bank before their re-issuance to customers and the public. With a view to facilitate banks and ensure availability of a number of banknote disinfection machines and technologies in the market, SBP allowed banks to either continue with the fourteen 14-day quarantine requirement, or to process banknotes through machines certified by the Pakistan Council of Scientific and Industrial Research (PCSIR). The banks were advised to procure machines that specifically mentioned their capacity of the machine to disinfect bacteria and viruses including the SARS-CoV-2 virus that causes COVID-19.

2.5.6 Outsourcing of Cash Processing Activities

The SBP's cash management strategy requires the banks to automate their cash-processing function and disburse only machine-authenticated good quality banknotes of Rs.50 and above to the public. Until last year, the banks could either process the cash through their own processing facilities, or get their cash processed through banks that had the required capacity to process the cash. The outsourcing of processing banknotes of higher denominations was, however, restricted only to banks having the requisite capacity, as the CMS did not allow outsourcing of this function to commercial cash-processing companies. With a view to facilitate banks and to ensure the availability of processed cash, SBP allowed the outsourcing of cash processing functions for all denominations of banknotes to cash-processing companies that have the capacity to process the cash, in full conformity with the CMS instructions.

2.6 The Way Forward

SBP has been diligently working to digitize the payments and financial infrastructure of the country for the last many years, in line with the strategic goal and objectives outlined in the National Payment Systems Strategy. In pursuance of these overarching objectives, SBP is planning to undertake the following measures:

2.6.1 Deployment of 2nd Phase of Raast

SBP has completed the major work on the deployment of the second use-case of Raast i.e., enablement of person-to-person transfers. Successful deployment of this stage would allow consumers to make instance transfer to their family, friends and acquaintance.

2.6.2 Comprehensive Framework on Internet Banking Security Regulations

SBP had, in 2015, issued a set of principle-based instructions under the Internet Banking Security Regulations. These regulations were issued just as usage of mobile applications began to increase substantially, due to increasing ease of access and affordability of smart phones across the world, particularly in Pakistan. With this rapid evolution of digital access points, the associated risks are also evolving. SBP being cognizant of the inherent risks in digital payments, has been strengthening the oversight functions to ensure security of digital payment systems and consumer protection. To protect financial institutions and customers from potential losses due to cyber-crimes and online frauds, SBP is updating the regulations issued in 2015. The updated regulations would help to mitigate the newly emerging risks amidst a constantly evolving landscape. The regulations would cover security aspects related to mobile applications of financial institutions and the usage of APIs (particularly financial APIs). The regulations would also include a revised framework for the deployment and usage of internet banking, in line with the recognized international standards and best practices.

2.6.3 Single & Unified QR Standard in Pakistan

SBP, in order to implement an interoperable payments regime in Pakistan, is working to develop a standardized approach with respect to QR payments across the country. The major objectives envisioned are as follows:

1) Enable domestic payments through QR Codes
2) Devise a unified QR standard to support a multi-scheme model (both domestic and international)
3) Promote wider adoption of QR codes for different types of electronic payments (in-store, ecommerce, bill payments)
4) Reduce capital as well as transactional costs for mass adoption of digital payments
5) Allow merchant aggregators/ non-bank acquirers to enter into the merchant acquiring business for overall growth of the QR acceptance eco system
6) Harmonize the practices of QR placement at merchant locations through interoperability.

To achieve these objectives, SBP is continuously engaged with banks and other financial institutions to enable customers and financial institutions to accept and process QR payments in a seamless manner.

2.6.4 Digital Clearing of Cheques

In order to leverage digital technology and to make the clearing process more efficient, SBP has envisioned developing a regime for the digital clearing of cheques. In addition to reducing processing time, the digital clearance will also in-turn increase consumer convenience. In this regard, SBP has been engaged with relevant stakeholders over the last few months, in order to reform the cheque-clearing process in Pakistan.

2.6.5 Formation of Digital Financial Services Group

As the digital world is changing rapidly with the emergence of new technological advancements, there has been an imminent need to focus and prioritize the new emerging technologies, centric to the banking industry, which would transform the digital banking landscape of the country. In this regard, a new “Digital Financial Services Group” has been created at SBP, comprising departments of

Payment Systems Policy & Oversight, and Digital Innovation & Settlements. This new group would be housed under the portfolio of DG Financial Inclusion, Digital Financial Services & IT and would contribute in bringing efficiency and effectiveness in the digital payments infrastructure of Pakistan.

3 Strengthening Financial System Stability and Effectiveness

SBP made further improvements to strengthen the financial stability regime during FY21. Key achievements include: progress towards Macro Prudential Policy Framework (MPPF); development of a consolidated supervision assessment model, adoption of Risk-based Supervision Framework, designing of Lender of Last Resort (LOLR) facility, and revision of stress testing guidelines. SBP also continued progress on the FATF action plan and strengthened its supervisory regime with multi-dimensional efforts to identify and mitigate potential risks in the financial sector, and issued various guidelines to improve effectiveness of its regulatory regime. During FY21, SBP also took measures to improve banking conduct and consumer protection and enhance financial inclusion. In this regard, among a number of other measures, a major initiative was introduction of policy for inclusion of Persons with Disabilities.

3.1 Institutionalization of Financial Stability Framework

3.1.1 Macroprudential Policy Framework (MPPF)

SBP is working towards formulating and implementing a comprehensive and well-structured Macroprudential Policy Framework (MPPF) to ensure system-wide stability of the financial sector. In this regard, SBP has strengthened the process of assessment and communication of systemic risk. Further, to ensure a well-structured institutional setup for MPPF, a National Financial Stability Council (NFSC) has been established in coordination with Ministry of Finance (MoF) and Securities & Exchange Commission of Pakistan (SECP).

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

SBP, in line with the Basel Committee on Banking Supervision (BCBS) guidelines, issued a framework for regulation and supervision of Domestic Systemically Important Banks (D-SIBs) in Pakistan in April 2018 and carries out its annual assessment for designation of the D-SIBs each year by end June. In the assessment made during FY21, National Bank of Pakistan, Habib Bank Limited and United Bank of Pakistan were designated as D-SIBs.

3.1.3 Strengthening of Stress Testing Framework

SBP uses various stress testing approaches to assess the resilience of banks against hypothetical but plausible extreme scenarios, which include single-factor sensitivity analysis and multi-factor dynamic macro stress tests. SBP over the years has brought improvements in its stress testing framework on regular basis to align it with the best international practices.

To further strengthen the risk management capacity of banks/DFIs, SBP issued revised set of stress testing guidelines in September 2020. The revised guidelines require Microfinance Banks and Islamic Banks/Islamic Bank Branches to conduct sensitivity analysis according to shocks, specifically designed for these institutions. In addition, D-SIBs are now mandatorily required to conduct scenario analysis (Macro-stress testing – MST) and Reverse Stress Testing (RST).

3.1.4 Publication of Financial Stability Review, Mid-Year Performance Review of the Banking Sector and Quarterly Compendium

SBP conducts stability assessment of the financial sector and publishes it annually through its flagship report Financial Stability Review (FSR). Besides covering the performance of the financial system, the review highlights emerging risks and associated vulnerabilities and identifies necessary measures taken to mitigate the risks. The FSR specifically provides assessment on resilience of banking sector to various endogenous and exogenous shocks.

In addition to FSR, SBP also published the Mid-Year Performance Review of the Banking Sector, which addressed the performance and risk analysis of the banking sector for the period January-June 2020. Alongside, SBP continued to disseminate banking sector's data through its regular publication of Quarterly Compendium (QC) Statistics of the Banking System on its website. The compendium includes Financial Soundness Indicators (FSIs) and other statistics of Commercial banks, Islamic banks, Microfinance Banks and Development Financial Institutions.

3.1.5 Systemic Risk Surveys

SBP conducts biannual SBP's Systemic Risk Survey (SRS) to assess the potential risks to the financial system. SRS helps gauge the views of market participants and experts about various existing and emerging risks that can potentially undermine the stability of the financial system.

3.1.6 Strengthening of Consolidated Supervision Framework

SBP has been regularly monitoring the banking sector based on consolidated supervision framework. In this regard, SBP and SECP have set up a dedicated Joint Task Force to monitor and manage the risks posed by financial conglomerates. During FY21, a consolidated supervision assessment model was developed to infuse the element of objectivity and quantification in the assessment and to ensure that all key aspects are covered in a holistic manner.

3.1.7 Crisis Preparedness Initiatives

A well-functioning financial safety net is crucial for preserving and promoting stability of the financial system. The Lender of Last Resort (LOLR) facility is an integral element of financial sector safety net, as it helps a bank in overcoming short-term liquidity strains, preventing any panic behavior among depositors and containing the possibility of bank run and contagion risk. As per the requirement of Section 17-G of the SBP Act, 1956, SBP is working on the development and implementation of an operational framework for the LOLR facility.

3.1.8 Cooperation in Banking Supervision

To share information and contribute to various regional and international studies, SBP participated and provided feedback on various international surveys and consultative documents. SBP updated the 2020 IMF Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) and also participated in the Fund Macroprudential policy survey. The Macroprudential Policy survey collects information on institutional aspects of the Macroprudential Policy Framework in member countries and measures that have been adopted for containing systemic risk. Moreover, SBP also participated in FSB Regional Consultative Group for Asia (RCG Asia) Conference Call in

May 2021, where risks to financial stability arising from COVID-19 pandemic and the challenges to recovery were discussed.

3.2 Supervisory Developments

3.2.1 Development and Implementation of Risk Based Supervision Framework

SBP made a paradigm shift in its supervisory approach with the development and implementation of Risk Based Supervision (RBS) Framework that replaced the framework based on CAMELS/ CAELS methodology. All the regulated entities under SBP's supervisory ambit are now assessed under RBS regime. The framework was developed in collaboration with Toronto Centre (TC) under the Long Term Country Engagement (LTCE) program. SBP's RBS framework follows the international best practices and has been aligned with local industry dynamics. RBS, being a forward-looking framework, would help in better understanding of regulated FI's risk profile with reference to both external and internal risks. This will facilitate the supervisors in early identification of problems, efficient deployment of supervisory resources towards more risky areas and articulating prompt and specific responses to financial stress. For achieving the core objectives of RBS framework, onsite and offsite supervisory functions at SBP have been integrated and aligned with the supervisory structure, as followed by other jurisdictions as well under the RBS regime.

3.2.2 Financial Action Task Force (FATF) Action Plan and Pakistan's Mutual Evaluation

Pakistan is currently reporting progress under FATF Action Plan and the recommended actions, as envisaged under Pakistan' Mutual Evaluation Report (MER). In line with GoP's high level commitment to comply with international AML/CFT standards and requirements, Pakistan has further strengthened its AML/CFT regime in light of its engagement with FATF.

The details of regulatory, supervisory and other prominent actions taken by SBP – as suggested under the FATF Action Plan and MER - are mentioned below:

SBP AML/CFT Regulatory Regime

- In the light of Pakistan's Mutual Evaluation and subsequent amendments in the Anti Money Laundering Act, 2010, SBP has revised the AML/ CFT/ CPF Regulations. The requisite standards have been incorporated in to these regulations to the satisfaction of international assessors of Asia Pacific Group – the FATF styled Regional Body (FSRB). These regulations provide further clarity on implementation of AML/CFT/CPF requirements on different issues such as Risk Based Approach, Customer Due Diligence, Reliance on Third Party, and Targeted Financial Sanctions etc.
- SBP issued detailed guidelines to Regulated Entities (REs) for enhancing the understanding and effective implementation of Targeted Financial Sanctions Regime under UNSC Resolutions.
- SBP in coordination with SECP ensured completion of FATF Action Plan items pertaining to financial sector in Oct 2020.
- The significant improvement in Pakistan's technical compliance ratings, with regard to FATF 40 Recommendations, has been achieved. Pakistan has achieved rating of Compliant or Largely Complaint on 35 Recommendation including some of the important recommendations such as money laundering offence, terrorist financing offence, customer due diligence, record keeping,

suspicious transaction reporting, Politically Exposed Persons, regulation and supervision of financial institutions etc.

- Pertinent to mention that technical compliance ratings for Recommendations 14 – Money and Value Transfer Services (MVTS) and Recommendation 32 – Cash Couriers have been revised to Compliant and Largely Compliant from earlier ratings of Partially Compliant respectively.
- Previously, the exchange companies were allowed to export foreign currencies through individual cash couriers. In view of emerging AML/CFT standards and to further streamline the business of Exchange Companies, the export of foreign currencies was allowed on consignment basis only through Cash in Transit (CIT) companies. This initiative would address the vulnerability of cash smuggling under the garb of regulatory permissions.
- Moreover, significant outreach, awareness, and capacity building sessions have been arranged by SBP to increase the understanding of SBP regulated entities and its supervisory staff concerning ML/TF risks, AML/CFT, and TFS obligations.

Supervisory Actions

- Updated AML/CFT/CPF Inspection Manual to incorporate relevant developments in light of FATF recommendations.
- Developed red flag indicators to identify the persons acting on behalf or at the direction of proscribed/designated persons or entities. The red flag indicators were also shared with the regulated entities for effective identification of such persons.
- Conducted on-site inspections, including two thematic inspections, designed to capture emerging risks, i.e., the risk of proliferation financing and the risk associated with the accounts of proscribed entities.
- Ascertained the level of compliance of the financial groups in the banking industry with FATF's requirements on group supervision.
- Revised AML/CFT penalty scale in light of the sanctions rules under amended AML Act by applying principle of proportionality based on size and economic importance of the regulated entities.
- The risk assessment of Branchless Banking Channel has been carried out in February-March 2021, as part of National Money Laundering/ Terrorist Financing Risk Assessment, identifying vulnerabilities and their associated controls. Further, SBP conducted awareness and capacity building sessions for its Regulated Entities to increase understanding of ML/TF risks and AML/ CFT obligations.

Other Measures

- In addition, SBP officials remained part of several committees, both at national and multi organizational levels, to contribute for the national requirements. SBP efforts played an important role in achieving compliance with remaining actionable items under the FATF's Action Plan and helped Pakistan implement the recommended actions.
- SBP has contributed significantly in National Risk Assessment (NRA) activities for improving understanding of ML/TF risk and update of different laws for strengthening of AML/CFT legal regime at national level.

- The Asia Pacific - Joint Group (AP - JG) rated Pakistan's performance against action items pertaining to illegal Money and Value Transfer System (MVTS) as largely addressed during their review published in February 2021.
- The progress on curbing illegal Hawala Hundi has been achieved through active coordination between SBP, Federal Investigation Agency (FIA) and other related stakeholders. Pakistan demonstrated performance through legal amendments, active inter agency cooperation, improvement of internal governance and actions, international cooperation, awareness raising campaigns and capacity building initiatives.
- SBP is ensuring effectiveness in implementation of Targeted Financial Sanctions (TFS) area in collaboration with Ministry of Foreign Affairs (MoFA) and National Counter Terrorism Authority NACTA Pakistan (NACTA).
- In the area of Financial Intelligence, the active coordination between State Bank and Financial Monitoring Unit (FMU) has assured effectiveness of regulatory beef up, and supervisory actions.

3.2.3 Cybersecurity Assessment Framework

A risk-based cybersecurity inspection framework was developed to strengthen and improve the supervisory oversight on cyber risk of the banking industry. The framework was developed after considering various cybersecurity related standards and best practices. The framework comprises methodologies for assessment of inherent cyber risk and related quality controls.

3.2.4 Supervisory Methodology for Assessment of Credit Bureaus

To perform supervisory oversight over private sector credit bureaus, 'Risk Based Supervisory Framework for Credit Bureaus' was developed. The framework includes parameters for assessment of risks and related control functions in line with SBP's overall risk based supervisory philosophy. The framework also includes formats and data reporting templates, specific to credit bureaus.

3.2.5 Parallel Run of Inspection Workflow under Knowledge Management (KM) project

Parallel run of Inspection Workflow system under Knowledge Management project started with five Regulated Entities (REs). The workflow allowed inspection departments to effectively manage inspection assignments while maintaining electronic record of all steps involved in the process, starting from formation of inspection teams, assignment of roles & responsibilities, issuance of inspection directives, receiving information from selected REs, issuance of draft and final inspection reports, processing points of contest on draft inspection reports and managing compliance reports.

3.2.6 Implementation of Bank Space

A private cloud service was activated under KM Project to address the challenges of data collection from REs for inspection purposes. The features available in Enterprise Content Management system of SBP were utilized for developing an in-house private cloud service for REs, named as Bank Space. The said service was fully isolated from the internal systems, with adequate security controls allowing REs to directly upload data on Bank Space, accessible to inspection teams. Both the REs and inspection teams can access Bank Space over the internet from in and outside of their organizations.

3.2.7 Red Flag System for Assessment of Foreign Exchange Operations

Red flag system for assessment of FX operations of REs was developed to complement RBS. The system aims to identify the red flags triggered by regulatory breaches, violations of FE regulations, applicable Government's Acts and notifications. With the help of data analytics, risky areas would be identified to assist in developing risk profile of the REs in trade and FE operations.

3.2.8 Revision of RACER Framework

Risk Assessment and Control Evaluation Regime (RACER) for inspection of Exchange Companies (ECs) was developed in 2016 and revised in January 2019. However, in order to broadly align it with RBS framework, revision of RACER was undertaken. The revised framework for ECs is aligned with overall RBS framework for both on-site and off-site assessments. The supervisory framework covers assessment of money laundering/terrorist financing risk, legal and regulatory non-compliance risk and operational risk as well as assessment methodologies for operational management, governance, internal audit, compliance, earnings and capital to determine composite risk rating of the ECs.

3.2.9 Study of Supervisory Approaches/ Practices in various Jurisdictions on Enforcement Regime

In view of supervisory transition towards RBS framework and in the backdrop of FATF action plan, a project was undertaken to propose way forward for the SBP's enforcement regime. In this regard, seven jurisdictions were selected including developed and developing economies. A comparative analysis was carried out based on eleven aspects/ parameters, grouped into three broad categories of legal mandate and scope, supervisory methodology and transparency, and market discipline.

3.2.10 Revision of Penalty Scale for Exchange Companies

Penalty scale for Exchange Companies was revised for rationalizing the penalty amounts considering the nature of violations and size of companies. The revised scale has increased emphasis on administrative actions especially for flagrant violations of SBP instructions.

3.2.11 Revision of Off-site Supervisory Framework for Exchange Companies

The off-site supervisory framework for Exchange Companies was revised keeping in view nature of business of the sector as well as size, scope, availability of financial data, etc. of the ECs. This updated framework provides enhanced information on each company and its governance structure. Similarly, the framework assesses the company's quality of compliance along with its financial performance for a particular financial year.

3.2.12 Development of Compendium/Reference Document of the Enforcement Actions & Case Studies on Past Resolutions of Problem REs

To ensure availability of major resolution/ enforcement actions taken by SBP, a project titled "Development of Compendium/Reference Document of the Past Enforcement Actions & Case Studies on Past Resolutions of Problem REs" was initiated. The compendium / reference document would serve as a reference, especially for the officials involved in the enforcement and resolution of problem REs.

3.2.13 Revised Guidelines for Transfer and Assignment of NPAs to Corporate Restructuring Companies

SBP and the banking industry joined hands to create Pakistan Corporate Restructuring Company Limited under Corporate Restructuring Companies Act 2016. Corporate Restructuring Companies (CRC) acquire, restructure and resolve the non-performing assets (NPAs) of financial institutions and thereby reorganize and revive the commercially or financially distressed companies. These companies are expected to evolve as vibrant economic agents contributing towards the revival of sick industrial units and generating employment opportunities. Consequent to the amendments in the Corporate Restructuring Companies Act 2016 during the year under review, the SBP's guidelines for the transfer and assignment of non-performing assets to CRCs were revised so that the Banks/DFIs may appoint CRCs as their agent under an agency agreement to recover their NPAs.

3.3 Supervisory Activities

SBP performs offsite monitoring and onsite assessment to assess the safety and soundness of the financial institutions as well as their compliance with applicable laws and regulations. Despite COVID-19 pandemic, offsite monitoring and enforcement activities were conducted on regular basis whereas onsite assessments were carried out as per approved annual plan. Moreover, additional assignments were also undertaken based on nature and severity of the issues.

3.3.1 Thematic Inspections

Thematic inspection is a supervisory tool which focuses on assessment of risk in a particular business activity across banking industry. Onsite thematic inspections are used to identify inherent risks due to non-compliance with regulatory regime or adverse practices in specific area across industry and to facilitate issuance of further guidance or direction to the industry in addition to enforcement action against non-compliant institutions.

In this regard, thematic inspections of 'Consumer Grievance Handling Mechanism' and 'Call Center Management' were conducted. The main objectives of thematic inspections were to review the overall process of consumer grievance handling mechanism including oversight role of board/senior management, adequacy and effectiveness of banks' policies and procedures and functions of complaint & call center management.

3.3.2 Special Inspections and Assignments

- **Monitoring effectiveness and implementation of COVID-19 support measures**

Pursuant to SBP's announcement of loan deferment and restructuring scheme in the wake of COVID-19, a cross functional committee was formed to monitor effectiveness and ensure smooth implementation of the scheme. For regular monitoring, statistics related to the scheme were prepared and updated on weekly basis. Issue concerning the unapproved cases were duly analyzed and discussed with Regulated Entities (REs) for possible resolution.

- **Monitoring of COVID-19 cases in Financial Institutions**

SBP monitored the daily position of COVID-19 positive cases in banks, DFIs and MFBs and used this information to engage with REs for assessing compliance with COVID related SOPs. Moreover,

special inspections were conducted to ascertain the adherence with the SOPs in randomly selected branches.

3.4 Strengthening Regulatory Framework

3.4.1 Policy Reforms for promotion of Real Estate and Housing Sector

To boost activities in real estate, housing and construction sector, SBP has undertaken the following measures:

- Banks/DFIs have been allowed to make investments in Real Estate Investment Trusts (REITs) up to 15 percent of their equity against the existing limit of 10 percent. This move will not only increase investment in REITs, but would also enable banks/DFIs to diversify their investments. Further, risk weights applicable on banks/ DFIs' investments in the units of REITs have been significantly lowered (from 200 percent to 100 percent).

- SBP allowed banks/DFIs to create their own Special Purpose Vehicles (SPVs) to sell mortgage loans on 'true sale' basis. The revised instructions further allowed parent bank/DFI to act as arranger, structuring agent, administrator, servicing agent and originator for its SPVs.

- In order to promote the low cost housing in Pakistan, banks and DFIs were allowed to apply a risk weight of zero percent, for capital adequacy purposes, on the guaranteed portion of eligible low cost housing finance portfolio covered under the Risk Sharing Facility (RSF). Banks and DFIs were also allowed an exemption from the applicability of implementation and reporting of internal credit risk rating models/ scorecards for this sector until September 30, 2022.

3.4.2 Digital Onboarding of Customers

During FY21, the digital onboarding of customer framework project was initiated to enable remote account opening of bank for resident Pakistanis. This framework would help financially excluded persons including women in opening of accounts without visiting bank branches and would promote access to finance.

3.4.3 Digital Bank Regulatory Framework

SBP issued "Digital Bank Regulatory Framework- Exposure Draft" for public consultation vide its press release dated March 26, 2021. The framework provides a structured roadmap for entities who wish to set up digital banks. The framework would enable Fintechs to offer digital banking services, which is currently only limited to payment services. It also provides path for an existing Electronic Money Institutions to graduate into digital banks.

3.4.4 Implementation of Cash Management and Single Treasury Account Rules, 2020

Federal Government promulgated the Cash Management & Treasury Single Account (CM & TSA) Rules, 2020 to strengthen the fiscal management. In accordance with these rules, all banks/DFIs/MFBs have been advised to conduct KYC of Federal Government's bank accounts and were advised not to open Federal Government accounts without prior authorization of Ministry of Finance.

3.4.5 Financing Against Shares of Group Companies

SBP has allowed companies to seek financing against shares of their listed group companies. This change in policy would enable investors in raising liquidity for further investment in new business opportunities and ventures leading to greater economic activity. The change in regulation would also benefit the capital market by encouraging sponsors of companies to consider listing on the stock exchanges and promote documentation of the economy, transparency and good corporate governance practices as well.

3.4.6 Outsourcing to Cloud Service Providers (CSPs)

Cloud computing solutions serve as the catalyst for digital banking transformation. In order to enable Financial Institutions (FIs) to benefit from cloud service providers located inside and outside Pakistan in a secure and safe manner, SBP issued instructions on Outsourcing to Cloud Service Providers (CSPs) vide BPRD Circular No. 04 of 2020.

The circular allows FIs to outsource their non-core business support processes such as HR Modules, Data Analytics, Risk Modelling and Customer Relationship Management Tools etc. However, the instructions have prohibited to place those banking applications under cloud-based outsourcing arrangements that are used to store and process customers' information.

3.4.7 Branch Network Expansion

To enhance the outreach of financial services, SBP issued 706 new branches/offices licenses to commercial banks/microfinance banks during FY21, despite challenges posed by the COVID-19 pandemic. The banks/MFBs were also allowed to open those branches during FY21, which were approved for year 2020 but could not be opened due to the pandemic. Out of these new branches, 19 percent of branches were opened in rural, underserved, and unbanked areas. Special focus remained on the priority areas of Baluchistan, Khyber Pakhtunkhwa, AJK and Gilgit Baltistan for which 135 new branches were approved under Annual Branch Expansion Plan 2021.

Further, SBP in collaboration with other government /state institutions facilitated the opening of Pakistani banks' branches/offices along the Afghan border areas to provide formal banking channels for cross-border trade/business operations.

3.4.8 Other Regulatory Developments

- Due to ongoing pandemic, SBP advised the REs to continue utilization of NADRA Verisys in place of Biometric Verification till December 31, 2021. Moreover, banks were advised to update their systems so as not to mark accounts dormant up till December 31, 2021.
- The Board of Directors of the foreign bank's subsidiaries and DFIs have been allowed to delegate authority to a relevant board committee to review/approve credit facilities over and above minimum threshold.

3.5 Enhancements in SBP's Conduct Regulation and Supervisory Regime

SBP is committed to delivering an effective "Fair Treatment of Consumers". During FY21, SBP took following regulatory measures to strengthen banking conduct and consumers' protection:

3.5.1 Financial Inclusion of Persons with Disabilities (PWDs)

SBP introduced a comprehensive policy for 'Financial Inclusion of Persons with Disabilities (PWDs)' The policy aims at improving financial independence for PWDs by making financial services accessible and ensuring adequate employment opportunities for PWDs within the banking sector. In terms of regulatory intervention, all banks in Pakistan, are required to cater to the special needs of all categories of PWDs including physically handicapped, visually impaired and those with hearing and speech disabilities.

Banks are advised to ensure availability of all essential forms and documents in braille script, provision of sign language interpretation services, ramps at entrances and ATM cabins in branches. In addition, banks will have to meet the prescribed job quota requirements for PWDs and align their human resource policies and capacity-building initiatives in line with the specific needs. With a special focus on women with disabilities, SBP prescribed a quota of at least 25 percent women induction to be met by banks while employing PWDs. Banks are also required to set up model branches across the country in line with the stipulated infrastructural/ technological and human resource guidelines.

3.5.2 Key Fact Statements for Deposit Products

SBP in its endeavor to promote responsible Banking Conduct and Fair Treatment of Consumers (FTC) recognizes the importance of standardized disclosures. Standardized disclosures such as Key Fact Statements (KFS) increase consumer understanding about a banking product's affordability and risks, leading to better decision-making. KFS also minimizes the risks of ineffective disclosures for banks by standardizing the information provided to the consumers. SBP issued KFS for deposit products to further strengthen the FTC regime of the banking industry. SBP earlier issued KFS for consumer credit products and Most Important Document (MID) for third-party products.

3.5.3 Improving Grievance Handling Mechanism at Banks

To ensure responsible grievance handling by banks, SBP has been addressing gaps in the grievance handling processes of individuals through extensive engagements with the banks. In this regard, SBP issued revised instructions to further enhance the grievance handling mechanism at banks.

3.5.4 Handbook on the Conduct Regulations

In recent years, financial consumer protection has become an emerging priority for policymakers around the world for the long-term stability of the global financial system. Apart from its need in times of any financial crisis, the increasing usage of financial services requires strengthened financial regulations to protect consumers. World Bank in its revised good practices on Financial Consumer Protection has also emphasized the importance of effective conduct regulations as these not only provide guidelines for conduct principles and rules but also form the basis for effective conduct supervision and enforcement. Keeping in view the global trends/practices and local requirements, SBP developed a handbook on conduct regulations for internal use by SBP officials that would serve as a baseline for enhancing the regulatory and supervisory framework of the industry's conduct.

3.5.5 Guidelines on Quality Data Reporting

Quality of data reported to the Credit Information Bureau for dissemination in the Credit Information

Reports (CIR) and supervisory objectives is critically important. SBP issued instructions for quality data reporting in eCIB after a detailed assessment of the mechanisms of member Financial Institutions (FIs) for credit data reporting to the eCIB. These instructions are based on the guidelines issued by World Bank Committee for Credit Reporting and would serve as self-governed instructions to improve data quality reporting in eCIB. Further, consumer complaints and legal cases would also reduce over time.

3.5.6 Ease of Doing Business (EODB) - Credit History Reporting in the Credit Information Reports

SBP, reduced the reflection period of written off/waived loans and advances for corporate borrowers in the CIB report from 15 years to 10 years after detailed research of international practices and in line with the World Bank reporting guidelines.

Similarly, SBP started reporting two years history of negative/overdue information for consumer/individual borrowers in the Credit Information Reports in line with international practices from July 2021. Currently, CIRs reflect negative/overdue information for consumer/individual borrowers for one year. This change would assist in enhancement of credit assessment capability of current and potential customers of member FIs, which would expand credit by reducing risks of default and enabling the FIs to lend to new segments.

3.5.7 Dispute Resolution Mechanism for Licensed Credit Bureaus

Being cognizant of global trends/practices and local requirements in institutionalizing licensed credit bureaus in Pakistan, SBP introduced guidelines on Dispute Resolution Mechanism (DRM) to all the licensed credit bureaus for compliance and submit their complaints' data as per prescribed formats. SBP also prescribed processes and procedures for ensuring effective DRM operations. This would strengthen consumer confidence in the credibility of CBs' credit information and would assist credit bureaus to utilize complaints' data for highlighting procedural, system-related and/ or reporting deficiencies for further improvement.

4 Broadening Access to Financial Services

Financial inclusion is considered an effective tool for promoting inclusive growth in countries by cultivating opportunities for enhanced socio-economic outcomes and enabling masses to integrate into the economy, improve their livelihoods and protect themselves against economic shocks. Therefore, financial inclusion is a key priority for SBP to promote inclusive economic growth. In order to promote financial inclusion, SBP has taken a number of initiatives during FY21, including: introducing regulatory changes, setting ambitious targets and pushing financial institutions to enhance disbursement and outreach of credit and financial services to priority sectors. As a result, and despite challenging environment due to COVID pandemic, active accounts continued to grow and disbursement of credit to priority sectors recorded a double-digit growth during FY21.

4.1 National Financial Inclusion Strategy (NFIS)

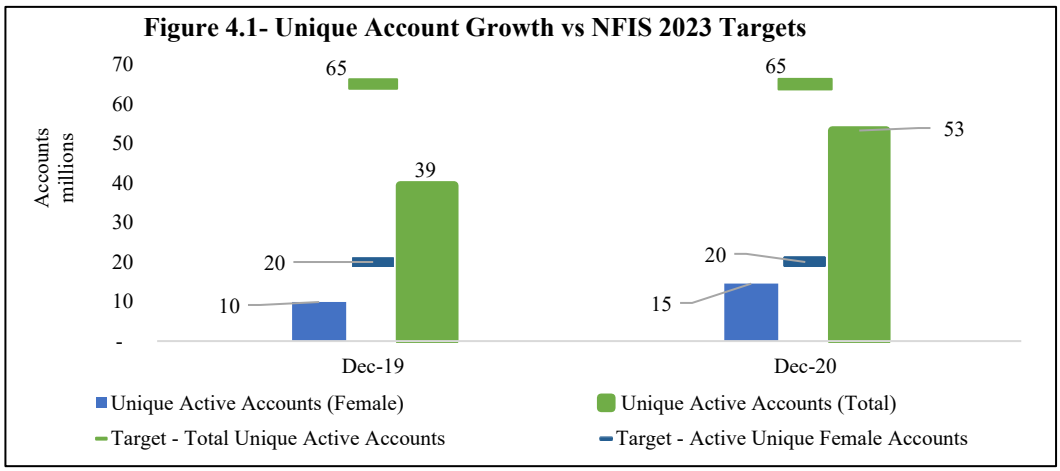
To promote financial inclusion and improve access to finance for priority sectors, GoP and SBP adopted National Financial Inclusion Strategy (NFIS) in 2015. NFIS instilled positive vigor within SBP to improve financial inclusion through enabling regulatory environment to spur innovation, provide support to modernize financial market infrastructure, improve financial access through cost effective digital financial products and enhance awareness & capacity building initiatives. The progress made under the key FI indicators is given in **Table 4.1**.

Table 4.1: Financial Inclusion Indicators

Indicators	June 15	June 21	Growth (Percentage)
In terms of outreach			
No. of Depositors Accounts (million)	41.7	62.0*	49%
No. of Branchless Banking Accounts (million)	10.8	74.62	591%
Scheduled Bank Deposits (Rs. in billion)	9,153	19,796	116%
In terms of payment Infrastructure			
No. of ATMs	9,597	16,355	70%
No. of Bank Branches	11,937	16,308	37%
No. of POS Machines	41,183	71,907	75%

*** Dec 2020**
Source: SBP

In 2018, scope of NFIS was enhanced with the goal to achieve inclusive economic growth by 2023, through enhanced access to finance and deposit base, promotion of small and medium enterprises, easy and affordable access to finance for farmers, facilitation in low-cost housing finance, and provision of Shariah compliant banking solutions. Under NFIS 2023, GoP has set the target of 65 million active digital transaction accounts, with gender segregation of 20 million accounts by women, as one of the headline targets to be achieved by 2023.



In terms of progress, it is highlighted that as of December 2020, Pakistan has reached 82 million unique accounts, out of which 65 percent are active. Further, unique account ownership in women has increased to 21 million (**Figure 4.1**). Regarding progress in priority sectors lending, all the sectors showed double digit growth in terms of credit disbursement and outreach (**Table 4.2).**

Table 4.2: Sectoral Progress

Sector	Item	Baseline FY15	FY21	Percentage change
Agricultural Finance	Agricultural Credit Disbursement (Billion Rs.)	515.9	1,365.9	165%
	Outstanding (O/S) Borrowers (billion)	2.18	3.49	60%
Microfinance (MFBs)	MF Gross Loan Portfolio (Billion Rs.)	45.6	262.529	476%
	No. of Outstanding Borrowers (millions)	1.29	4.63	259%
SME Finance	Outstanding SME financing (Billion Rs.)	260.7	437.6	68%
	Outstanding SME borrowers	152,495	172,893	13%

4.1.1 Banking on Equality Policy

SBP has launched "Banking on Equality Policy" in September 2021 to reduce the gender gap in financial inclusion and enhance women's financial inclusion. The policy aims to introduce a gender lens within the financial sector through specific measures in key areas, to bring a shift towards women friendly business practices. These measures are targeted to improve institutional diversity, product diversification, customer acquisition & facilitation approaches and better gender-disaggregated data collection for improving women's access to financial services.

The policy will facilitate in reducing the gender gap in bank staff, and improve access and use of financial products and services by women. It will also assist in achieving the headline targets of National Financial Inclusion Strategy (NFIS) of reaching 20 million active women owned bank accounts by 2023. The policy will be applicable on all Regulated Entities of SBP.

Furthermore, the progress on major initiatives taken by SBP under NFIS are mentioned below in **(Box 4.1)**

Initiatives under NFIS Strategy

- **Banking on Equality-A Policy to Reduce the Gender Gap in Financial Inclusion** by tackling the rising gender gap in access and usage of financial services in Pakistan. The policy aims to introduce a gender lens within the financial sector through identified pillars and specific measures, to bring a shift towards women friendly business practices. The policy has been launched in September 2021, and will be applicable on Commercial Banks, Islamic Banks, Microfinance Banks, Development Finance Institutions (DFIs) and Electronic Money Issuers (EMIs).
- **Automation of Central Directorate of National Savings** (CDNS): CDNS was provided support to automate its 165 sites/centers to enable to: (i) reduce the cost of funds by at least 25 percent; (ii) Increase customer base by at least 50 percent (iii) develop new digital channels to enhance customer experience; and (iv) develop HR capability and capacity regarding digitalization. The project has been completed successfully as all 165 sites have been fully automated.
- **Automation of Securities and Exchange Commission of Pakistan (SECP):** SECP has been supported for its Leading Efficiency through Automation Prowess (LEAP) Program to help SECP in digitization and automation of its business processes to improve ease of doing business in Pakistan. Particularly, under the LEAP program, SECP has established an electronic Secured Transactions Registry (STR) in line with Secure Transaction Act 2016. The registry helps SMEs and small farmers to obtain financing from banks/DFIs against a registered charge on their movable assets.
- **National Financial Literacy Program (NFLP):** NFLP is SBP's flagship program focused on imparting basic financial education to unbanked/ underserved segments of population especially the women & youth. Keeping in view the diversity & literacy level of target audience, the NFLP program has been segmented into two components i.e., National Financial Literacy Program for Adults and National Financial Literacy Program for Youth. As of June 2021, more than 1.63 million individuals have benefited from these programs.
- **Development of Electronic Warehouse Receipt (WHR) financing mechanism.** The mechanism is being developed to enhance farm credit and reduce post-harvest losses. The SECP in collaboration with SBP has issued the Collateral Management Companies (CMC) Regulations on July 31, 2019, under the Companies Act 2017. Further, in line with CMC Regulations 2019, SBP has issued necessary amendments in Prudential Regulations for Agricultural Financing, SME Financing, and Corporate & Commercial Banking to facilitate banks to provide financing against WHR. In this regard, SECP has also issued license to Naymat Collateral Management Company as CMC.
- **Financial Inclusion and Infrastructure Project (FIIP):** To facilitate achievements of NFIS targets, the World Bank provided a financial intermediary loan of USD 137 million to GOP for its "Financial Inclusion and Infrastructure Project" (FIIP). The activities covered in FIIP are mainly focused on the development of financial infrastructure to enhance financial inclusion and improved access for MSMEs. SBP is responsible for implementing program components worth USD 127.6 million, including USD 75.0 million for Line of Credit (LoC) funds to improve the availability of funds to poorest segment of the society through MFBs and NBMFCs. Since February 2019, SBP successfully disbursed LoC funds of Rs.9.6 billion to eight Participating Financial Institutions (PFIs). As of end-June 2021, these PFIs have onward disbursed around Rs.19.7 billion to 265,740 poor borrowers (of which 71 percent are women borrowers). Under FIIP, SBP is also developing a National Payment Gateway-NPG that provides an interoperable platform for micro, retail and high value payments.

4.2 Agricultural Finance

To take the financial inclusion agenda forward, SBP assigned annual agricultural credit disbursement target of Rs.1,500 billion for FY21, which is 23.5 percent higher than the disbursement of Rs.1,215 billion made during FY20.

Despite prevailing COVID situation, the disbursement is encouraging. During FY21, the agriculture lending institutions disbursed Rs.1,365.9 billion, which is 91.1 percent of the overall annual target and 12.4 percent higher than the disbursement of Rs.1,214.7 billion made during the corresponding period last year. Further, the outstanding portfolio of agricultural credit increased to Rs. 627.9 billion on end June 2021, registering a growth of 8.1 percent compared to the last year's outstanding credit of Rs. 580.8 billion. In terms of outreach, the agricultural outstanding borrowers reached to 3.5 million borrowers in June 2021. (**Table 4.3**)

Table: 4.3 Agricultural Credit Targets and Disbursement (Rupees in billions)

Banks	FY 2019 – 20			FY 2020 – 21			
	Target	Disbursed	% achieved	Target	Disbursed	% achieved	% YoY
5 Big CBs	705	708.2	100.5	800	801.5	100.2	13.2
ZTBL	100	62.3	62.3	105	78.5	74.8	26.0
PPCBL	13	8.8	67.9	13	8.2	63.1	(7.0)
DPBs(14)	253.6	225.0	88.7	296	274.5	92.7	22.0
IBs(5)	55	42.1	76.6	63	47.8	75.9	13.5
MFBs(11)	184	139.3	75.7	182	132.1	72.6	(5.2)
MFIs/RSPs	39.4	28.9	73.4	41	23.3	56.8	(19.5)
Total	**1,350**	**1,214.7**	**90.0**	**1,500**	**1,365.9**	**91.1**	**12.4**

The augmented growth in agricultural financing is due to regular follow-ups and close liaising with financial institutions regarding their assigned targets. The major initiatives taken by SBP to promote agriculture sector include the following:

Box 4.2: Initiatives for promotion of Agriculture Financing

- **Loan repayment relief to dampen the effects of COVID-19**
  Banks were advised to allow deferment of loan principal to agriculture borrowers for one-year, upon their request. Regulatory space is also provided to facilitate banks in rescheduling/ restructuring of loans for borrowers who cannot service markup or need deferment exceeding one year. In this regard, as of April 16, 2021 banks provided relief of Rs.11.6 billion to 27,216 agriculture borrowers.

- **Regulatory space for innovative financing**
  Relevant Prudential Regulations have been amended to allow Electronic Warehouse Receipt (EWR) as acceptable collateral for bank financing. Further, the maximum tenure for agricultural development loans has been increased from 5 to 10 years to encourage development and mechanization for efficiency, resource conservation and yield enhancement. Additionally, indicative credit limits and eligible items for agriculture financing have also been revised to allow banks to provide loans to farmers as per their internal policies. This will also facilitate provincial planning departments in estimating the total financial and credit requirements of provinces/regions for agriculture sector.

- **Crop Loan Insurance Scheme (CLIS) & Livestock Insurance Scheme for Borrowers (LISB)**
  CLIS has enabled financial access for farmers, with premium for small farmers being borne by the government. During the period July 2008 to December 2020, banks have submitted premium claims of Rs.9.4 billion against 6.54 million beneficiaries. Insurance premium for small livestock farmers, availing bank financing, continues to benefit farmers as claims of Rs.2.84 billion against 0.82 million beneficiaries have been received during period July 2014 – December 2020.
- **Adoption of Automation of Land Record for Agriculture Financing**
  SBP is working in collaboration with provincial governments and financial institutions for implementing and mainstreaming electronic land verification records and charge creation for availing bank loans. In Punjab, 35 banks doing agriculture financing have signed MOU with Punjab Land Revenue Authority (PLRA) for availing these services. Out of these, 25 banks are already using the portal for issuing loans to farmers, while remaining 10 banks are in process of integrating their banking system with the PLRA portal.
- **Credit Guarantee Scheme for Small & Marginalized Farmers**
  With support from federal government, SBP is offering a Credit Guarantee Scheme for Small and Marginalized Farmers (CGSMF). This scheme can be availed by banks for providing loans to small farmers, with default protection of up to 50 percent. Under this scheme, loans of Rs. 2.32 billion are outstanding as of June 30, 2021 by 12 PFIs. Since inception more than 131,000 farmers have benefitted through this scheme against Rs.1.1 billion funds released by the federal government.

4.3 Microfinance

The FY21 remained challenging for the microfinance industry as economic issues, amidst COVID-19 pandemic, adversely affected the repayment capacity of borrowers of low-income segments. To counter the adverse impact of COVID-19 pandemic, SBP remained proactive and introduced/made number of policy interventions to support Microfinance Banks (MFBs) and their vulnerable clients.

Table 4.4: Microfinance Banking Indicators

(Rupees in billion)

Indicators	FY20	FY21	Annual Growth
No. of Borrowers	3,541,183	4,630,716	30.77%
Gross Loan Portfolio	218.360	262.529	20.23%
Average Loan Balance (in Rs.)	61,663	56,693	-8.06%
Deposits	292.239	378.438	29.50%
No. of Depositors	49,360,158	66,687,601	35.10%
Equity	43.445	54.65	25.79%
Assets	400.417	513.752	28.30%
Borrowings	24.408	33.899	38.88%
NPL	4.57%	5.43%	-

Source: RCOA, Agricultural Credit & Microfinance Department, SBP.

4.3.1 Performance of the Microfinance Banks

As of June 2021, eleven MFBs and one Islamic bank (MCB Islamic)[14] were involved in extending

[14] Since October/November 2017, MCB Islamic Bank is extending microfinance banking services by establishing counters at its existing branches in line with IBD Circular No. 5 of 2007.

complete range of micro-banking services to the low-income populace of the country.

During the period under review, the combined asset base of MFBs, witnessed a YoY growth of 28.3 percent (or Rs. 113 billion) increasing to Rs. 513.8 billion. Similarly, aggregate loan portfolio of MFBs registered a growth of 20.2 percent to reach Rs. 262.5 billion, as compared to Rs. 218.3 billion as on June 30, 2020. Likewise, the number of borrowers registered an increase of 30.8 percent from 3.5 million to 4.6 million (or 1,089,533 clients). The average loan balance decreased by 8.0 percent to Rs. 56,693. MFBs reported Non-Performing Loans (NPLs) to be around 5.43 percent at the end of the period, that have risen owing to challenges in recovering deferred and restructured portfolio.

The deposit base of MFBs registered an impressive growth of 29.5 percent to reach Rs 378.4 billion, compared to Rs. 292.2 billion at June 30, 2020. Concurrent growth was also witnessed in number of depositors which grew by 29.5 percent to 66.7 million. As of June 2021, MFBs were operating through a network of over 1,208 retail outlets **(Table 4.4)**

4.3.2 Microfinance Industry Performance

As of June 30 2021, around 40 institutions reported provision of microfinance services. These included eleven deposits taking MFBs, one Islamic Banking Institution (MCB Islamic Bank) while the rest were Non-Bank Microfinance Companies (NB-MFCs).[15]

Table 4.5: Microfinance Industry Major Indicators

(Rupees in billion) **Indicators**	**FY20**	**FY21**	**Annual Growth**
Number of Branches	3,755	3,782	0.7%
No. of Borrowers	6,885,117	8,031,941	16.7%
Gross loan portfolio	299.948	355.700	18.6%
Average Loan Balance (in Rs.)	43,565	44,286	1.6%

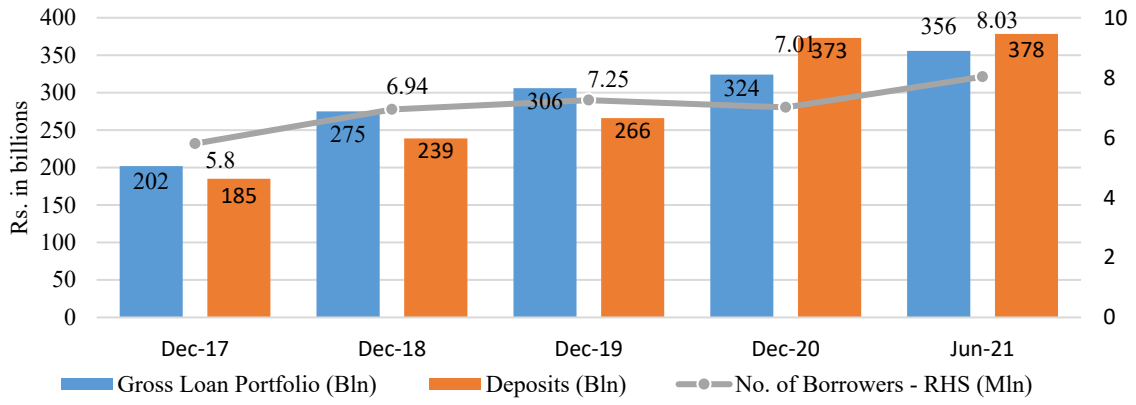
Source: PMN MicroWatch, Issue No 57 and 60

The microfinance industry witnessed 18.6 percent growth in its aggregate microcredit portfolio, which increased by Rs.55.70 billion to Rs.355.7 billion from Rs 299.9 billion at the end of June 30, 2020. The number of borrowers increased by 16.7 percent to 8.0 million at end of the June 30, 2020.

The microfinance industry players operated through 3,782 branches spread in 138 districts across the country (**Table 4.5**). Performance of the microfinance industry is presented below in **Figure 4.2**, which depicts an increasing trend in number of borrowers and gross loan portfolio over the past few years apart from the impact of prevailing pandemic. MFBs continued to serve a slightly larger number of borrowers (56 percent) besides taking lead in terms of the aggregate value of loans (75.2 percent).

[15] Include specialized microfinance institutions, rural support programs besides organizations running microfinance, as a part of their multi-dimensional service offering.

Figure 4.2: Microfinance Industry Performance



Box 4.3: Key initiatives for Microfinance Banking

a) In order to provide relief to borrowers affected due to the COVID-19 pandemic, MFBs have been advised that upon receipt of written request within 90 days from the due date of payment:

- **Defer payment of principal on loan obligations for one year**, whereby borrowers will, continue to service the mark-up amount as per agreed terms and conditions.
- **Reschedule / Restructure financing facilities** of borrowers who are unable to service the mark-up amount or need deferment exceeding one year.

The aforesaid treatment did not affect borrower's credit history as these facilities were not to be reported as restructured in the credit bureaus' data. Later, considering the prevalent COVID-19 pandemic and the representation of the stakeholders;

- Last date for submission of the requests by the borrowers for deferment of principal was extended up to September 30, 2020.
- Relief cover was expanded to accommodate borrowers who were regular on December 31, 2019.
- Borrowers' requests were accommodated via authorized email address or call centers equipped with recorded lines to facilitate them in availing relief on loans and microfinance banks were, vice versa, enabled to contact borrowers on their registered numbers.
- NPL categories were extended by 2-months for borrowers who could not avail relief under the scheme till March 31, 2021.
- MFBs extended relief to over 1.8 million customers amounting to Rs.119 billion in terms of principal deferment and loan restructuring.

b) **Regulatory requirement of Biometric Verification has been relaxed for Microfinance Customers until December 31, 2021:** In order to help mitigate the risk of spread of COVID-19, which may arise from physical contact/ interaction during account opening activities, MFBs have been advised to use NADRA's online Verification System for verification purpose in place of Biometric Verification (BMV). Now MFBs will resume biometric verification with revised timelines of January 31, 2022 and March 31, 2022 for customers assigned medium and normal priorities, respectively.

c) **Amendments in Regulation R-5 (Maximum Loan Size and Eligibility of Borrowers) and R-6 (Maximum Exposure of a Borrower from MFBs/MFIs/Other Financial Institutions)** were made to enable MFBs to serve financing needs of the low-income segments.[16] Towards this end, the maximum loan sizes under all categories were up-scaled along with corresponding borrowers' eligibility criteria. To accommodate these revisions maximum exposure per borrowers prescribed under R-6 was also updated. Maximum loan sizes and borrowers' eligibility and exposure limits are tabulated below;

Table 3: Maximum Loan Sizes and Borrowers Exposure Limits

Category	Maximum Loan Size	Eligible Income	Maximum Exposure
General Loans	Rs. 0.35 million	Rs. 1.2 million	Rs.3.0 million^
Microenterprise Loans	Rs. 3.0 million	n/a	
Housing Loans	Rs. 3.0 million	Rs. 1.5 million	Rs.3.0 million

^ The aggregate exposure of borrowers who are eligible to avail both general and microenterprise loans shall not exceed Rs.3.0 million.

These enhanced loan sizes and eligibility income ceilings would allow MFBs to play a meaningful role towards asset creation in segments at the bottom of the pyramid, besides meeting demand for housing finance particularly in the peri-urban and rural areas.

Moreover, MFBs have also been allowed to extend loans against gold collateral for consumption purposes to meet domestic needs/emergencies. The aggregate loan exposure of a MFB against the security of gold shall not exceed 50 percent of its gross loan portfolio. However, this relaxation shall expire in one year, after which MFBs shall reduce their aggregate loan exposure to 35 percent within a maximum period of 1 year.

d) MFBs continued to provide relief to adversely influenced borrowers in Tharparkar, Umer Kot, Sanghar, Thatta, Jamshoro, Dadu, Badin, and Kamber Shahdad Kot districts that were earlier declared as calamity affected by the Government of Sindh. MFBs were advised to undertake all possible measures in line with Prudential Regulation R – 9 (Rescheduling/ Restructuring of Loans) and their internal policy duly approved by their Board of Directors to provide relief to borrowers adversely affected by natural calamities. As of June 2021, MFBs collectively provided relief of Rs.586 million to 10,997 borrowers in terms of restructuring and rescheduling of loans, whereas, 19,972 loans amounting to Rs.1,230 million have been charged/written-off since November 2018.

4.4 Branchless Banking (BB)

Performance of the Branchless Banking Industry

During FY21, all key indicators of branchless banking exhibited an encouraging growth, which bodes well for the gradual adoption of digital channels and usage of basic financial services in the country. At the end of FY21, sixteen Authorized Financial Institutions (AFIs / branchless banking players) were operating and providing basic financial services across the country.

The number of BB accounts reached 74.6 million after witnessing a growth of 42 percent in FY 21 as compared to the FY20. BB deposits increased by 51 percent to reach Rs. Rs.55.2 billion from Rs.36.6 billion, compared to FY20.

[16] AC&MFD Circular No. 02 of 2020

Branchless banking players have also increased their agent network throughout the country to reach 534,460 as compared to 445,181 at the end of FY21, showing a growth of 20 percent. Similarly, the volume and value of transactions witnessed 50 percent and 57 percent increase, respectively over FY20, which is a positive indicator regarding usage of BB channel. A little over 2.2 billion transactions were performed during FY21, with total value of around Rs.8,086 billion. This computes to more than 6 million transactions per day and an average transaction size of Rs.3,621.

Table 4.6: Branchless Banking Indicators

BB Indicators	FY20	FY21	Growth
Number of Agents	445,181	534,460	20%
Number of Accounts	52,522,222	74,620,636	42%
Deposits (Rs. In millions)	36,660	55,259	51%
No. of transactions ('000')	1,489,664	2,233,117	50%
Value of transactions* (Rs. In millions)	5,151,391	8,086,149	57%

Source: Agricultural Credit & Microfinance Department, SBP.

Box 4.4: Initiatives for Promotion of Branchless Banking

1. New Branchless Banking Authorizations

SBP in its efforts to promote branchless banking and digital innovation, granted a branchless banking license for pilot operations to Dubai Islamic Bank Pakistan Ltd. (DIBPL) in the year 2020. Addition of DIBPL in the list of authorized branchless banking players has increased the total number of Banks/MFBs to 16 that are allowed to offer branchless banking services in the country. Furthermore, after successful completion of the pilot launch of Allied Bank Ltd and First Microfinance Bank Ltd, they have been granted the final approval to launch their branchless banking services commercially in the same year.

2. Initiatives to control COVID-19

Following measures that were previously taken by SBP to minimize the risk of COVID-19 due to biometric verification and physical interaction of general public in branchless banking business, have now been extended till December 2021:

a) Extended timelines for the requirement to conduct biometric verification for the following activities:
   i. Legacy Branchless Banking Level-1 accounts
   ii. Monthly Cash in/cash out up to Rs.25,000 from Level-0 accounts, with two-factor authentication mandatory for cash out transactions
b) Excluded payments made to the trusted merchants, from Level-0 account limits
c) Allowed Authorized Financial Institutions (AFIs) to introduce biometric verification through mobile apps for BB customers onboarding while complying with NADRA security standards
d) Advised banks/MFBs to ensure their BB agents wear masks and make liquid soap/sanitizers available at all biometric touch points
e) Allowed AFIs to onboard agents through digital channels including portal and mobile apps with certain terms applied.

4.5 Small and Medium Enterprise Finance

SBP continued its support for increasing SME financing in the country. Banks/ DFIs have reported outstanding SME finance of Rs.437.57 billion at end of June 2021, showing YoY increase of 9.08 percent in total SME finance outstanding portfolio. Total number of SME borrowers were 172,893 at the end of June 2021. Major developments undertaken to promote SME financing during FY21are as follows:

4.5.1 National Coordination Committee (NCC) on SME Development

Prime Minister of Pakistan constituted a National Coordination Committee (NCC) on SME Development on August 20, 2020. The NCC is chaired by the Federal Minister for Industries & Production (MOI&P) whereas Deputy Governor represents SBP in the committee.

The core responsibility of NCC is to facilitate development and promotion of SMEs in the country. NCC is currently in process of finalizing the National SME Policy. The policy identifies key challenges faced by SMEs in getting credit and proposes measures to address them. Besides, it focuses on defining SMEs on single criteria, offering fiscal and monetary incentives required for SMEs growth, developing credit guarantee mechanism for SMEs etc. SBP facilitates NCC in implementation of these proposals.

4.5.2 Prime Minister's Kamyab Jawan – Youth Entrepreneurship Scheme (PMKJ-YES)

GoP in collaboration with SBP launched Prime Minister's Kamyab Jawan Youth Entrepreneurship Scheme (YES). The scheme has opened new windows of job opportunities for youth. It has enabled youth entrepreneurs to avail affordable financing for starting a new business or strengthening their existing businesses. The scheme provides business loans in three tiers. Under tier-1 (T1), loan limit is Rs. 100 thousand to Rs 1 million. Under tier-2 (T2), loan limit is above Rs. 1 million to Rs. 10 million. Under tier-3 (T3), loan limit is from above Rs.10 million to Rs.25 million.

End user rate under T1, T2 and T3 loans is 3, 4 and 5 percent respectively. Maximum loan tenor is up to 8 years including grace period of up to one year. As a further incentive to banks, GoP is bearing credit losses (principal portion only) on the disbursed portfolio of the banks. For, T1 loans, GoP is providing risk coverage of up to 50 percent, whereas for T2 and T3 loans, risk coverage of 20 and 10 percent respectively is available. At the end of June 2021, participating financial institutions reported cumulative disbursement of Rs.14.89 billion to 13,224 borrowers.

4.5.3 Risk Sharing Facility (RSF) under World Bank's Financial Inclusion and Infrastructure Project (FIIP)

Under the World Bank funded Financial Inclusion and Infrastructure Project (FIIP), USD 35.1 million has been allocated to facilitate Micro, Small and Medium Enterprises (MSMEs) access to finance. Out of the total, USD 33.1 million has been allocated for Risk Sharing Facility (RSF). World Bank has disbursed USD 33.1 to SBP in June 2021 to provide RSF for MSMEs.

4.5.4 Promoting Supply Chain Financing

SBP in collaboration with stakeholders viz banks and multilaterals is working to promote the Supply Chain Financing (SCF) for SME sector. In this regard, SBP is evaluating the possibility of setting up a central technological platform for invoice discounting facility, wherein financial institutions, suppliers

and buyers would be on-boarded. A Working Group comprising members from SBP & IFC has been formed to explore suitable options for setting up a technological platform for SCF in Pakistan.

Further, SBP has recently given regulatory approval to Bank Alfalah and Standard Chartered Bank for launching payable finance products on pilot basis.

4.5.5 Awareness Sessions on SME Financing

SBP in collaboration with NIBAF conducted 30 training programs on SME financing and refinance schemes in FY21. Similarly, SBP in coordination with DFSD, SBP-BSC and local SBP BSC offices conducted 37 awareness sessions on SBP's refinance schemes for SME financing till March 2021.

4.6 SBP Refinance Schemes

SBP is continuously making efforts to encourage banking industry to meet the financing needs of different priority segments of the country including SMEs and exporters. A number of refinance schemes for short and long-term financing facilities are available to priority segments through banks/DFIs at concessional mark-up rates. Further, in order to provide support to industries in the challenging times of COVID-19, SBP launched various time bound subsidized refinance schemes like SBP's Rozgar Scheme to prevent layoff, Temporary Economic Refinance Facility to stimulate investment and Refinance Facility for Combating COVID-19 for enhancing capacity of health sector. Significant developments in schemes that have taken place during FY21 are below:

4.6.1 Export Finance Scheme and Islamic Export Refinance Scheme (EFS/IERS)

During FY21, meat of bovine animals, fresh or chilled (HS Code 0201) and meat of sheep or goats, fresh, chilled or frozen (HS Code 0204) have been made eligible for export refinance facility under the EFS.

Export Finance Scheme is a short-term financing facility for exports of value added goods available through participating banks as per the limits allocated to individual banks. Maximum loan tenor for financing is 180 days. The existing rate of mark-up under EFS is 3 percent per annum while higher export performance against availed ERF facilities qualifies the exporters for additional markup rebate. Shariah compliant mode of financing is also available for exporters under Islamic Export Refinance Scheme (IERS). The outstanding export finance as of June 30, 2021 stood at Rs.578 billion, which is 14.7 percent higher compared to corresponding last year (Rs.504 billion as of June 30, 2020).

4.6.2 Long-Term Financing Facility (LTFF)/ Islamic Long Term Financing Facility (ILTFF)

LTFF / ILTFF is a long-term refinance facility to promote export oriented industrial development. To promote industrial development, LTFF / ILTFF has also been extended to all sectors, which are allowed as per ambit of export policy order issued by the Ministry of Commerce from time to time. Outstanding finance under LTFF / ILTFF as of June 30, 2021 stood at Rs.253.2 billion, which is 21 percent higher compared to corresponding last year (Rs.209 billion as on June 30, 2020).

4.6.3 Financing Facility for Storage of Agricultural Produce (FFSAP)/ Islamic Financing Facility for Storage of Agricultural Produce (IFFSAP)

During FY21, businesses/industries/agriculturists have benefited from FFSAP/IFFSAP, to develop and enhance storage capacity for agricultural produce through establishment, expansion and

balancing, modernization & replacement (BMR) of Steel/Metal/Concrete Silos, Warehouses & Cold Storage Facilities. The financing is available for a maximum period of 10 years including grace period of up to 6 months at markup rate of 6 percent per annum. The outstanding financing as of June 30, 2021 stood at Rs.4 billion, which is more than 122 percent higher compared to previous year (Rs.1.8 billion as on June 30, 2020).

4.6.4 Temporary Economic Refinance Facility (TERF)/ Islamic Temporary Economic Refinance Facility (ITERF)

In March 2020, SBP launched a time bound facility namely TERF/ITERF, to stimulate investment both new and expansion/ BMR of units. Under the scheme, maximum end-user rate was 5 percent with SBP refinance rate of 1 percent while maximum financing limit was Rs.5 billion per establishment with maximum time period of 10 years inclusive of two years grace period. The scheme remained valid till March 31, 2021.

The response to the scheme was overwhelming with an amount of Rs.436 billion being approved for 628 industrial projects.

4.6.5 Refinance Facility for Combating COVID-19 (RFCC)/ Islamic Refinance Facility for Combating COVID-19 (IRFCC)

RFCC/IRFCC was launched in March 2020 and remained valid till September 30, 2020 for expansion of hospitals/medical centers and manufacturers of COVID related items and was valid for new hospital till June 30, 2021. Under the scheme, refinance was provided at zero percent while the end-user rate is 3 percent for 5 years including grace period of up to 6 months. As of June 30, 2021, Rs.19 billion have been approved for 47 hospitals/manufacturers under this facility.

4.6.6 Refinance Scheme for Payment of Wages and Salaries/Islamic Refinance Scheme for Payment of Wages and Salaries - (Rozgar Scheme)

Under the scheme, Rs.238.24 billion was approved against the requests of Rs.276.23 billion which has helped to prevent layoff of 1.7 million jobs out of which more than 382,000 were of SMEs and small corporates.

To provide support for working capital requirements of businesses, this temporary refinance facility for Payment of Wages & Salaries to prevent layoff was launched by SBP. Wages and salaries of employees (permanent, contractual, daily wagers as well as outsourced) for six months (April 2020-September 2020) were being financed under the scheme. The end user rate was 5 percent while SBP rate of refinance was 2 percent for corporate / commercial and 1 percent for SME borrowers. Further, additional rebate of 1 percent was provided by SBP to borrowers who were on active taxpayers list. Further, GoP had also provided the budgetary allocation for risk sharing facility under the scheme; wherein, risk sharing of 40 percent was provided against first loss on disbursed portfolio (principal portion only) of eligible borrowers with sales turnover upto Rs.2 billion and for loans to SMEs with turnover up to Rs.800 million, 60 percent risk coverage was provided.

4.7 Green Banking

4.7.1 SBP Financing Scheme for Renewable Energy

To overcome the challenges of energy shortage, inefficiencies in energy generation and distribution systems, and to mitigate the adverse impact of climate change, SBP has been proactively promoting green banking by use of indigenous resources especially renewable energy. To this end, SBP issued Financing Scheme for Renewable Energy in 2016, which was further revised/updated in 2019 and 2020.

The scheme comprises of three categories. Under categories I & II, financing is available for new Renewable Energy projects of up to 50 MW capacity using solar, wind, hydro and biomass resources. Under category III of the scheme, financing is available to vendors/ suppliers/energy sale companies for their onward selling of electricity or leasing /renting/deferred payment sale of RE equipment up-to 5 MW to ultimate owners/ users.

As of June 2021, cumulative outstanding financing under the scheme reached Rs 53.3 billion depicting growth of 242 percent, for 598 projects having potential of adding 900 MWs of energy supply. The total outstanding amount under the scheme as of June 30, 2020 was Rs.15.56 billion for 217 projects with total capacity ranging to 292 MWs. It is evident that the revised scheme has been welcomed by the market, as there has been 176 percent growth in projects and 208 percent growth in total energy supply under the scheme.

4.7.2 SBP-IFC Pakistan Sustainable Banking Project

SBP in coordination with IFC initiated a two –year work program on improving Sustainable Banking practices in the country. The SBP-IFC Pakistan Sustainable Banking Project focuses on regulatory guidance for banks and capacity building of stakeholders regarding Environmental and Social Risk Management (ESRM).

The project's goal is to increase the share and volume of bank loans screened against improved Green Banking Guidelines (GBGs), enhance banks' awareness and understanding on ESRM and increase the number of intermediaries to provide Environmental, Social & Governance (ESG) training to banks after IFC exit. At least two local intermediaries (NIBAF and WWF-Pakistan) will continue to provide ESG training to banks after IFC exits.

Earlier, to encourage banks and DFIs for adoption of green/sustainable banking practices, SBP issued Green Banking Guidelines in October 2017. These guidelines encourage banks and DFIs to adopt green/sustainable banking practices by focusing on three main aspects: (i) To formulate a policy for environmental risk management, (ii) To increase green financing portfolio by facilitating Green businesses through attractive green products, and (iii) To reduce its own carbon footprint by using sustainable/environmental friendly operational activities like paperless banking operations and services, branches based renewable energy and ATMs.

SBP has received positive response from banks and DFIs in implementation of these guidelines. Most of the banks have formulated their respective Green Banking Policies while others are in process of

getting their policies approved by respective Boards of Directors (BODs). Moreover, many banks/DFIs have established their Environmental Risk Management Procedures and are undertaking measures for facilitation of green businesses and reduction of their own impact on the environment. SBP monitors implementation status of banks/DFIs against GBGs on quarterly basis.

4.8 Housing and Construction Finance

Housing and construction sectors play an important role in reviving economic activity in the country. This year marked significant milestones for housing and construction finance, as it remains center of attention for GoP and SBP. GoP took numerous measures for developing a more facilitative and enabling environment for all stakeholders. Their initiatives include announcement of tax amnesty scheme for construction sector, launch of Naya Pakistan housing program etc., SBP also undertook many initiatives and regulatory facilitative measures to develop mortgage market in the country. Resultantly, the housing and construction credit portfolio witnessed a 74 percent growth during FY21. As of June 2021, the outstanding credit portfolio for housing and construction credit reached Rs.257 billion as compared to Rs.148 billion in June 2020. Initiatives taken by SBP for promotion of Housing and Construction Finance during FY21 are as follows:

4.8.1 Mandatory housing & construction finance Targets and Incentive & Penalty Structure

To promote housing and construction of residential and non-residential buildings in the country, as envisaged by the GoP, SBP assigned mandatory targets to banks to enhance mortgage loans and financing for developers and builders. Banks will be required to increase their housing and construction of building loan portfolios to at least 5 percent of their private sector advances by end of December 2021.

These targets have been further broken down to quarterly targets for each bank for regular monitoring. Banks that achieve or exceed their quarterly financing target are incentivized by maintaining a lower CRR, in the next quarter equivalent to incremental outstanding financing amount as of relevant quarter end. While banks that do not meet the target, will have to maintain additional CRR in the next quarter equivalent to the shortfall.

To further attract funding for housing and construction through capital markets and microfinance banks (MFBs), SBP allowed counting of exposures of banks/DFIs in REITs, PMRC Sukuk/bonds and financing to MFBs to extend housing finance to eligible borrowers) achievement of their housing & construction finance mandatory targets.

4.8.2 Government Mera Pakistan Mera Ghar (MPMG) Scheme for housing finance

In line with its vision of providing affordable housing to the masses, GoP announced mark-up subsidy facility Mera Pakistan Mera Ghar (MPMG) for the construction and purchase of new houses. This facility would allow individuals to avail bank's financing at subsidized and affordable markup rates for construction or purchase of new house for the first time. SBP is the executing partner with GoP and Naya Pakistan Housing and Development Authority (NAPHDA) in the said scheme. Based on the feedback received from Steering Committee, Government also revised the scheme features in March 2021 to align it with consumer dynamics, make it forthcoming and allow greater portion of population to benefit from the scheme.

MFBs were also allowed to extend home finance under revised Government Mera Pakistan Mera Ghar (MPMG) Scheme. It is expected that participation of MFBs will significantly enhance outreach of scheme to low income households.

SBP also assigned mandatory targets to banks for the quarter ending June 30, 2021 and monthly targets for July 2021 onwards. The targets have been assigned in terms of both number of loans and amount disbursed. Progress made by end-June 2021 has been summarized in the **Table 4.7**.

Table 4.7: MPMG Scheme for Housing Finance

Information as on June 30, 2021

Applications:	
Received	33,738
Processed	12,556
Housing Finance:	
Requested	Rs. 111 billion
Approved	Rs. 39 billion

Following are few other major measures undertaken for low cost housing finance under MPMG;

- SBP aligned its definition of low cost housing finance with housing units eligible under Tier 1 and Tier 2 of MPMG; thereby, extending existing regulatory relaxations for low cost housing to these tiers of the scheme. Further, SBP granted regulatory relaxations from requirement of debt burden ratio and internal risk rating in existing regulations for low cost housing finance.
- SBP also allowed banks to accept personal guarantee of third party until the housing unit is completed and the mortgage is perfected. The guarantee would remain valid for a maximum period of one year.
- To provide benefit of above relaxations to the applicants of low cost housing finance with informal sources of income, all banks/DFIs are advised to develop and deploy income estimation /proxy models for assessment of income and repayment capacity.
- To ensure availability of financing to masses, SBP mandated that 50 percent of each bank's network in each district offer housing finance under MPMG.
- To improve the visibility of MPMG for housing finance and facilitate the potential beneficiaries of the scheme, banks have been advised to put in place E-tracking system for all applications received under MPMG to ensure strict compliance of TAT of 30 days. Instructions were also given regarding rationalization and disclosure of allied processing charges and even handholding of applicants under MPMG.
- Banks standardized loan application form, facility offer letter and checklist of property documents required for approval and disbursement of financing across the banking industry.
- To resolve complaints of potential customers under MPMG for affordable housing, SBP launched an Online Complaint Resolution System on January 21, 2021. The complaint resolution mechanism comprises an IT based portal supported by a comprehensive network of SBP and commercial bank staff for resolution of problems faced by applicants. The IT portal has been live for registration of complaints and will help low and middle-income segments to access the formal financial sector, being a key goal of SBP.

- SBP conducted eight rounds of mystery shopping surveys of banks' branches and call centers based on defined parameters to improve customer experience and assess the readiness of banks and their staff for financing under MPMG.

4.8.3 Other Initiatives

- PBA developed a dedicated call center for MPMG customers for the entire banking system. PBA is also involved in facilitation of alternative delivery channels through development of framework for banks' engagement with real estate agents for extension of housing finance.

- A standardized income proxy model was developed to facilitate housing finance to customers with informal sources of income.

- To create an enabling regulatory environment for banks, SBP allowed the banks to accept existing property/liquid assets of a housing finance borrower as equity to avail financing to purchase property.

- Other significant initiatives to boost housing and construction finance by SBP include active role in digitization of land records at the provincial level for online land transfers, alternate data sources to transform the traditional credit approval process to a scorecard and behavior pattern analysis., working with relevant stakeholders on capital market development to create velocity in the banks' balance sheet and produce a financial asset class for institutional / retail investors and development of framework for new channels like micro finance banks, NGO's like Akhuwat and RE brokers etc. In addition to the initiatives above, the supreme court ruling on 15B upholding the Lahore high court full bench decision and the Pakistan mortgage refinance company (PRMC) to provide first loss cover of up to 40 percent with support from World bank have been among the other important developments to boost housing finance in Pakistan.

4.8.4 Capacity Building

To promote banks' outreach to borrowers in the area of Housing Finance, SBP in collaboration with NIBAF initiated an extensive capacity development program for banks' staff. Three iterations of the housing finance capacity building programs have been conducted by NIBAF in FY21. Besides, separate iterations of training for all banks offering housing finance have been completed for capacity building of staff on complaint portal as well as title document verification portal.

4.9 Wheat/Flour mills for procurement of Wheat by private sector

In order to ensure transparency in wheat financing and discourage hoarding, SBP in consultation with the Ministry of National Food Security & Research (MNFS&R) issued instructions to banks on procurement of wheat by the private sector-2021. Banks have been advised to take certain measures besides complying with relevant prudential regulations to avoid market speculation and hoarding while extending financing to private sector for wheat. Further, to monitor situation of financing and stocks of wheat procured by private sector, a monthly data is collected from banks on a prescribed format.

5 Islamic Banking

The growth of Islamic Banking Industry has been substantial during the last few years. With the enhanced diversity of Islamic Banking products and services, Islamic Banking industry has been attracting a wide range of consumer base, and the steady increase in number of branches and Islamic windows has provided the necessary infrastructure support. The strong growth in the size of Islamic Banking industry continued in FY21. Further, SBP took a number of measures/steps to promote Islamic banking during FY21 including: issuing third five-year strategic plan for the Islamic Banking industry, updating guidelines for establishing Islamic Banking Institutions (IBIs), introducing guidelines for DFIs to undertake Shariah compliant businesses and operations, expanding the scope of operations of Islamic banking windows, strengthening Shariah standards, and improving Shariah governance framework for IBIs. SBP has been awarded as "Best Central Bank of the Year 2020" by Global Islamic Finance Awards.

5.1 Overview

The overall assets and deposits of the Islamic Banking Industry (IBI) witnessed a significant growth of Rs.1,164 billion and Rs.876 billion respectively, during FY21. By end June 2021, the industry's asset base increased to Rs.4,797 billion, whereas deposits were recorded at Rs.3,822 billion. In terms of share, IBI achieved a significant mark of 17 percent and 18.7 percent in assets and deposits of overall banking industry, respectively in FY21 (**Table 5.1**).

Table 5.1: Industry Progress and Market Share Rupees in billion

	Islamic Banking Industry Progress		Growth (YoY)		Share in Overall Banking Industry	
	Jun-20	**Jun-21**	**Jun -20**	**Jun-21**	**Jun-20**	**Jun-21**
Total Assets	3,633	4,797	21.4%	32.0%	15.3%	17.0%
Deposits	2,946	3,822	22.0%	29.7%	16.9%	18.7%
Total IBIs	22	22	_	_	_	-
Total Branches*	3,274	3,583	12.4	9.4	_	-

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

During FY21, financing (net) of IBI showed a growth of 24.8 percent and increased to Rs.2,118 billion compared to Rs.1,698 billion in FY20. Financing to deposit ratio (FDR) of IBI was recorded at 55.4 percent compared to the conventional banking industry's advances to deposits ratio of 43.1 percent. Investments (net) of IBI also witnessed a considerable increase of Rs.464 billion and were recorded at Rs.1,363 billion by end FY21.

FY21 ended with 22 Islamic Banking Institutions (IBIs), 5 full-fledged Islamic banks (IBs), and 17 conventional banks having standalone Islamic banking branches (IBBs), providing Shariah compliant products and services through their network of 3,583 branches spread across 124 districts of the country. To enhance outreach of Islamic Banking products and services, IBIs added 309 branches

during the fiscal year. The number of Islamic banking windows (dedicated counters at conventional branches) stood at 1,562 at end June 30, 2021.

5.2 Initiatives for Promotion of Islamic Banking

Some of the key measures/steps taken for promotion of IBI during FY21 are given below:

5.2.1 SBP issued Third Five-year Strategic Plan for Islamic Banking Industry

SBP issued its third five-year Strategic Plan (2021-2025) for the Islamic banking industry in April 2021 which aims to set a strategic direction for the industry to strengthen the existing progressive momentum and lead the industry to the next level of growth. The plan has been developed in close coordination and consultation with all key relevant stakeholders.

The headline targets set for Islamic banking industry to be achieved under the plan by 2025 include: (i) 30 percent share in both assets and deposits of overall banking industry, (ii) 35 percent share in terms of branch network of overall banking industry, and (iii) 10 percent and 8 percent share of SMEs and agriculture financing respectively, in private sector financing of IBI.

The strategic plan envisages achieving the specified targets by focusing on six strategic pillars, namely: (i) strengthening legal landscape, (ii) enhancing conduciveness of regulatory framework, (iii) reinforcing comprehensive Shariah governance framework, (iv) improving liquidity management framework, (v) expanding outreach & market development, and (vi) bolstering human capital & raising awareness.

Islamic banking has remained a top priority area for SBP, keeping in view its potential towards ensuring broad based economic growth and development. The plan provides a consensus-based agenda and strategy to make Islamic banking an efficient and practical solution for consumers. It also contains an extensive focus on improving the public perception of Islamic banking as a distinct and viable system capable of catering to the varied financial services needs of various segments of society. This would positively contribute to SBP's efforts to achieve and improve financial inclusion in Pakistan.

The plan also emphasizes that IBIs must develop innovative products based on distinctive Shariah characteristics to cater to underserved sectors, particularly SMEs and agriculture, which are critical for growth of the country's economy.

5.2.2 Guidelines and Criteria for Establishing (IBIs) and Commencement of Shariah Compliant Business and Operations by Development Finance Institutions (DFIs)

Keeping in view the various developments over time, SBP updated the guidelines, for establishing IBIs vide IBD Circular No. 4 of 2020. The updated guidelines deal with the establishment of a full-fledged Islamic bank, Islamic banking subsidiary and Islamic banking branches of conventional banks. In addition, these guidelines cover different areas including minimum capital adequacy, requirements related to sponsor directors, Shariah governance and preconditions for commencement of business. Further, to enhance the scope of Shariah compliant financial services in the country, SBP also issued guidelines for DFIs to undertake Shariah compliant businesses and operations.

5.2.3 Revised instructions on Islamic Banking Windows Operations

Recognizing the significant potential of Islamic banking windows in enhancing the share and outreach of Shariah compliant financial services, SBP issued revised instructions for IBIs vide IBD Circular No. 02 of 2020 to expand the scope of operations of Islamic banking windows. Islamic banking windows can now offer all types of financing products to their customers including corporates, small and medium enterprises, agriculture, housing, and retail consumers subject to fulfilment of certain regulatory requirements.

5.2.4 Instructions to Improve Shariah Non-Compliance Risk Management

To ensure stability and soundness of the Islamic banking sector, SBP issued instructions on Shariah Non-Compliance Risk (SNCR) management vide IBD Circular No. 01 of 2021 dated June 14, 2021. These instructions would complement the existing comprehensive Shariah Governance Framework, being already in place for IBIs and will push them to broaden their focus on management of SNCR and align the same with their overall risk management framework.

5.2.5 Adoption/Adaption of AAOIFI Shariah Standards

To align and standardized the practices of the domestic Islamic banking industry with internationally recognized standards, SBP notified adoption of Shariah Standard of AAOIFI[17] Shariah Standard No. 49 (Unilateral and Bilateral promise) in FY21. With adoption of this AAOIFI Standard (No. 49), SBP has adopted total sixteen AAOIFI Shariah Standards, while six AAOIFI Shariah Standards i.e., (1) Mortgage and Its Contemporary Applications, (2) Combination of Contracts, (3) Salam and Parallel Salam, (4) Istisna and Parallel Istisna, (5) Al-Wakalah Bi Al-Istithmar (Investment Agency), and (6) Irrigation Partnership (Musaqat) are also under process for adoption.

5.2.6 Instructions on Shariah Governance Framework (SGF) for Islamic Banking Institutions (IBIs)

SBP amended Para 3A (v) of IBD Circular No.1 of 2018 (Shariah Governance Framework for IBIs) vide IBD Circular No.1 of 2021. As per the amendment, the Shariah Board members, except Resident Shariah Board Member (RSBM), may serve on the Shariah Boards of up to three IBIs in Pakistan. However, the IBI must ensure that its Shariah Board has at least 2 members (other than RSBM), who are not on the Shariah Board of any other IBI. Hence, each IBI will have at least three unique members in Shariah Board including RSBM. The revision - effective from July 1, 2021- is aimed at enhancing pool of Shariah Scholars in the Islamic banking industry and provides flexibility to IBIs to have Shariah Boards with diversified experience and exposure.

5.2.7 Liquidity Management Solutions for Islamic Banking Industry

Taking in view the importance of liquidity management for Islamic banking industry, SBP is working to provide multiple liquidity management solutions for the industry. SBP has also been conducting Shariah compliant Open market Operations (OMOs) by utilizing Ijara Sukuk issued by the Government of Pakistan (GoP). During FY21, total twelve (12) Sukuk (Government of Pakistan Ijara

[17] Accounting and Auditing Organization for Islamic Financial Institutions

Sukuk– Fixed Rental Rate & Variable Rental Rate) were issued amounting to Rs.467 billion, providing a Shariah compliant investment avenue to the Islamic Banking industry and its clientele.

5.2.8 Awareness and Capacity Building Programs for Islamic Banking Industry

Awareness creation and capacity building has always remained one of the key focus areas of SBP for promotion and development of the Islamic banking sector in the country.

Apart from supporting the stakeholders in their capacity building & awareness creation initiatives, SBP through its subsidiary, i.e., National Institute of Banking and Finance (NIBAF) conducts customized programs for the banking industry, academia, Shariah scholars, and chambers of commerce, etc. Some of the major initiatives taken in this regard during FY21 include the following:

- SBP, in collaboration with NIBAF, organized ten iterations of five-days 'Fundamentals of Islamic Banking Operations (FIBO)' throughout the country. The programs were held at Peshawar (2 iterations), Quetta, Faisalabad, Sukkur, Hyderabad, Bahawalpur, Lahore, Multan and Rawalpindi/Islamabad region. The training programs were aimed at enhancing skills and knowledge base of field staff of Islamic banking institutions, particularly Branch Managers (BMs), Operation Managers (OMs), Relationship Managers (RMs), academia, students and Shariah scholars.

- In addition to FIBO programs, SBP launched a new three-days training program titled 'Islamic Banking Branch Operations (IBBO)' in FY21. The program is especially designed for upscaling capacity levels of Islamic banking branch operations staff, academia and Shariah scholars in the second tier cities and their adjoining areas. During FY21, nine iterations of the program were successfully held at Swat, Sahiwal, Azad Jammu and Kashmir, Shaheed Benazirabad, Dera Ismail Khan, Mansehra, Gujranwala, Sialkot and Rawalpindi.

- To upgrade the capacity level of Shariah scholars serving the industry, SBP in collaboration with NIBAF held two iterations of focused capacity building programs for Shariah Scholars of industry on i) Islamic Fintech & Islamic Digital Finance, and ii) Pool Management Practices. SBP, also in association with Federal Judicial Academy, organized a two-day program on 'Islamic banking and finance' for the Judges of the Banking Courts. The program was attended by twenty-six (26) judges of the banking courts from across the four provinces of the country.

- SBP hosted the UK Islamic Finance Council (UK IFC) Task Force meeting on 'Global Islamic Finance & UN Sustainable Development Goals (SDGs)' on November 16, 2020. The meeting was attended by the senior management of SBP as well as Presidents/CEOs of leading Islamic banks. During the meeting, the Governor SBP formally launched the Pakistan Chapter of the Taskforce and a working group was constituted. The first meeting of the Pakistan working group on UN SDGs comprising officials of seven local banks was held on December 15, 2020.

- SBP in collaboration with UK IFC organized an online 'Executive Education Session' facilitated by renowned international speakers on the topics of 'Sustainable Banking' and 'Principles for Responsible Banking (PRB)'. The program was held on February 18, 2021 and was attended by officials of local banking industry and SBP.

- SBP hosted an awareness session for Sialkot Chamber of Commerce and Industry on January 21, 2021 wherein participants were enlightened on the basic concepts and practices of Islamic banking with a focus on Shariah compliant refinancing schemes notified by SBP.
- SBP collaborated with the Islamic Finance News (IFN) - a leading provider of international Islamic finance news- in arranging and hosting a virtual IFN On-Air Roadshow focusing on "New Opportunities for Islamic Finance in Pakistan" on June 17, 2021.
- SBP extended its technical support to various universities in their conferences, seminars and workshops on the theme of Islamic finance. Some of the universities include IBA– CEIF Karachi, Institute of Business Management Karachi, Riphah International University Islamabad, and Minhaj University Lahore.
- SBP has recently established a focal group comprising representatives from leading Chambers of Commerce across the country for creating awareness on the Shariah compliant refinance schemes notified by SBP.
- In order to enhance awareness about Islamic banking amongst academic circles, orientation sessions were held at the leading universities at Dera Ismail Khan, Multan, and Sialkot. The programs highlighted the significant features of Islamic banking model and the regulatory initiatives taken in this regard.

5.3 Global Participation

SBP has always remained actively engaged at the global level with international Islamic banking and finance standards issuing bodies such as Islamic Financial Services Board (IFSB), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), International Islamic Financial Market (IIFM), etc. SBP has been actively represented at the Council, Executive Committee, Technical Committee and various Working Groups of IFSB. The IFSB Council (a senior executive and policy making body comprising heads of the regulatory and supervisory authorities on Islamic finance) in its 37th meeting held on December 10, 2020, appointed Governor-SBP, Dr. Reza Baqir, as the Deputy Chairman of the Council for the year 2021. Further in its meeting held on June 09, 2021, he has also been appointed as the Chairman of the General Assembly of IFSB for the year 2022.

Similarly, SBP also has active senior level representation on the Board of Trustees of AAOIFI -a body that develops accounting, auditing, governance, ethics and Shariah standards for Islamic financial institutions. During FY21 relevant SBP's officials also participated virtually in various events organized by AAOIFI including AAOIFI 18th Shariah Boards Conference, 15th AAOIFI – Islamic Development Bank Group (ISDB) annual conference, Regulators Roundtable etc.

5.4 Global Recognition

In recognition of its efforts, SBP has been awarded as "Best Central Bank of the Year 2020" by Global Islamic Finance Awards (GIFA). SBP has also been voted as the Best Central Bank for 2020 in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia.

6 Institutional Strengthening

Institutional strengthening has been a cornerstone of SBP's endeavors to effectively achieve its mandate as envisaged in the SBP Act. In FY21, SBP undertook various initiatives and activities to further grow as an institution through improvement in Human Resources, organizational development, IT systems and governance, Enterprise Risk Management (ERM), risk-based audits, and communicating to external stakeholders. Efforts were focused on workforce rationalization, gender equity, talent resourcing, career growth, capacity building and diversification of SBP's human resources. In line with the increasing demand for IT services, automation and governance of IT infrastructure amidst COVID-19 pandemic, SBP completed various projects under its Knowledge Management (KM) Program, improved cyber-security and provided secure, remote access to administrators and staff to key IT systems for smooth functioning of the institution. Further, SBP's efforts to strengthen Business Continuity over the years paid dividends as the BCP functionality was successfully tested during the torrential rains in August 2020. SBP also made strides in strengthening its ERM framework as it expanded Risk and Control Self-Assessment (RCSA) to include SBP-BSC and NIBAF, developed internal credit risk scorecard to reduce reliance on external rating agencies, and the Board of Directors approved the risk appetite statement and revised internal reporting policy. SBP also strengthened its internal audit function to adapt to the new normal in the COVID environment through greater use of technology.

6.1 HR Developments

SBP fosters a robust HR management framework that strives to promote a performance-oriented culture and creates an enabling environment for employees to contribute towards achievement of organizational objectives.

During FY21, major steps were undertaken in the areas of workforce rationalization, talent resourcing, career growth, capacity building and automation. Consistent efforts were made for skill upgradation of employees to maintain and enhance the delivery of effective and efficient outcomes at every level.

6.1.1 HR Profile

HR strength across grades was 1221 in FY21 wherein15 employees retired upon attaining superannuation whereas 11 employees proceeded for early retirement. The employee turnover against a total strength of 1,182 was 4.57 percent, which is mainly attributed by the Officers of Grade 2-6. However, the gap created was successfully managed by induction of new employees, particularly through batch hiring. Grade wise current strength of FY21 is reflected in **Table 6.1**.

Table 6.1: HR Profile of SBP

Position/Grade	FY21	FY20
Governor/Deputy Governor*	4	3
OG-8	15	15
OG-7	34	35
OG-6	41	43
OG-5	123	133
OG-4	260	267
OG-3	237	242
OG-2	360	339
OG-1	11	11
Support Staff	53	62
Contractual Employees	83	32
Total	**1221**	**1182**

*Appointed by the Government of Pakistan

Talent Resourcing

SBP operates on the basis of a competitive, transparent and meritorious recruitment process. During FY21, a number of fresh graduates and experienced personnel, having diverse educational backgrounds from local / international universities and post qualification experience in various disciplines such as Business Administration, Economics, Finance, IT, etc. were hired on lateral/contractual basis to meet HR needs of the bank, as reflected in **Table 6.2.**

Table 6.2: Recruitments during FY20

Grade/ Designation	Number
OG-2	
Assistant Director	40
Illustrator	1
Assistant Librarian	5
Contractual (in fields of Finance, IT, Media etc.)	52
Total	**98**

SBP is an equal opportunity employer and facilitates the evolving role of women and the strategic significance of their inclusion in the workforce to achieve organizational objectives. Against a national requirement of 10 percent, SBP's workforce consists of 11 percent of female employees in diverse roles at each level of hierarchy ranging from entry level to senior management. In FY21 celebration on the occasion of Women's Day were made to acknowledge the accomplishments of the female officers in SBP, which was live streamed across SBP and its subsidiaries.

6.1.2 Restructuring and Consolidation of Functions

In pursuance of Finance Division's Notification, Ms. Sima Kamil assumed the charge as Deputy Governor of SBP on August 26, 2020. In view of the vast experience of Ms. Sima Kamil, the Board of Directors assigned her the portfolio of Financial Inclusion, Digital Financial Services & IT from the date of assumption of charge. This led to the renaming of 'Islamic Banking, Development Finance &

IT Cluster' as 'Financial Inclusion, Digital Financial Services & IT Cluster' followed by changes in reporting line of the Payment Systems Department.

Further, in view of organization needs, priorities and conclusion of Workload Analysis Project on June 25, 2021, the SBP Board approved creation of new "Digital Financial Services Group" comprising of Payment Systems Policy & Oversight and Digital Innovation & Settlements to be housed under the portfolio of DG Financial Inclusion, Digital Financial Services & IT. The existing Islamic Banking Department has again become part of the Development Finance Group. Further, core functions of Strategic Planning Department have also been absorbed into the Governor's Office. Banking Supervision Group has also been restructured to implement risk based supervisory framework.

Organization Development (OD) Interventions
During FY21, the following measures were taken to meet the organizational needs:

Workload Analysis
The project of Workload Analysis was approved by the SBP Board as part of OD Project. The project was initiated in 2nd quarter of FY20 and concluded in the 3rd quarter of FY21. The project was aimed to identify benchmark positions in the Bank, carry out workload assessment of each department, determine departmental headcount, conduct job evaluation to ascertain grades of the benchmark positions and train SBP team on the project mechanism. A project steering committee remained extensively involved with consultant and all departments of the bank to ensure consistency of the process and facilitate both consultant and department to arrive at optimum head count. The funding of the project was arranged through DFID under Financial Inclusion Program (FIP).

HR Policy Measures
SBP initiated a comprehensive review of HR policies in FY21. Based on the feedback from different stakeholders and to streamline implementation challenges and best market practices, SBP Board approved necessary amendments in the following policies:

1. Recruitment
2. Job Rotation
3. Deputation and Attachment Policies of the Bank.
4. Reward & Recognition Policy

Review of remaining policies is in process and would be completed in next phase. The amendments in Recruitment Policy while streamlining different induction streams also reinforces SBP's vision as an equal opportunity employer by allowing job opportunities to the transgender. SBP also aims to increase share of women in its workforce up to 20 percent by 2023. SBP also strives to maintain statutory quota requirements on account of region, minorities and differently abled persons while ensuring merit. The amendments in Job Rotation and Deputation and Attachment Policies, apart from their implementation, have further facilitated diversification of skillsets through grade and tenure-based rotations and by incentivizing deputation and short assignment specific attachments with national and international organizations. Further, to encourage research and new ideas for SBP's

image building and efficiency and recognizing long association of employees with SBP, Reward and Recognition Policy was also revamped for efficient implementation.

During FY21, SBP also conducted a comprehensive review of its Whistle Blowing Policy in line with the best market practices. A bank wide survey was conducted to have firsthand information and feedback from internal stakeholders on awareness and understanding of various aspects of the policy. SBP would strive to increase awareness of the said policy to enhance employees' understanding and improve reporting mechanism of the policy.

Compensation and Benefits

SBP continued its efforts to maintain internal equity and market alignment in terms of competitive compensation and benefits for its officers. During FY21, SBP allowed salary revisions for market alignment / inflation adjustments while maintaining the pay equity among its salary structures. The management is focused on reviewing the compensation philosophy in line with the provisions of various compensation schemes for fairness.

A 10 percent increase across the board was also allowed in monthly pension in FY21. Further, to ensure that pensioners at lower strata get a reasonable increase, minimum guaranteed increase of Rs. 2,500 was also allowed. To further streamline and standardize the pension increase exercise, internal guidelines have also been developed. Group Term Assurance scheme of the bank was also reviewed and revised rates and coverage were notified. Moreover, insurance cover for the staff loan has also been revised.

Employer Branding

The bank has taken several initiatives to promote SBP as an 'employer of choice' for young graduates as well as for other professionals. The annual internship program is organized every summer and regular visits of business schools and public sector organizations are arranged at SBP. During FY21, first ever-online internship program was held due to COVID-19 constraints. 123 interns (68 males and 55 females) from 35 domestic as well as 8 foreign educational institutions participated in SBP Summer Internship Program. The interns belonged to various academic disciplines such as Economics, Business Administration, Public Administration, Accounting, Finance, Commerce, Mathematics, Statistics, Human Resources, Agriculture, Information Systems and Technology.

To create awareness among the recent and upcoming graduates about SBP as an Employer of Choice, SBP participated in virtual career fair organized at IBA and received a great response and interest from the students.

Adopting measures to increase females in the work force and create a more woman friendly environment

SBP strives to promote a performance-oriented culture in an enabling environment to equip its employees for contribution towards achievement of strategic goals. Being a knowledge institution, the Bank provides multiple learning opportunities and encourages its employees to undertake initiatives for improving the efficiency of organization.

SBP facilitates the evolving role of women and understands the strategic significance of their inclusion in the workforce to achieve organizational objectives. To provide a conducive environment

to its female employees, SBP provides furbished hostel facility to its women officers, pick and drop facility from hostel, female lounge, day care and car parking facilities. During COVID-19 pandemic, SBP also facilitated its female employees by allowing them to work from home. Further, a seminar on 'The Professional Women' was also exclusively arranged in FY20 for all female officers of the Bank to celebrate the International Women's Day which was streamed across the bank on its network.

Career Development

SBP believes that enhancement of organizational efficiency and effectiveness is directly linked with the overall morale and motivation of employees. Providing career development opportunities plays a pivotal role in this regard. Accordingly, keeping in view the organizational requirements, 35 officers were promoted in various grades during FY21.

Capacity Building

SBP being a knowledge-based organization has placed extensive focus on training and development to ensure that the skills mix of HR remains compatible and responsive to organizational needs. SBP also strives to ensure leadership development and effective grooming of line managers to facilitate capacity building.

In-House Trainings

During FY21, new in-house training programs, particularly for dealing with the challenges of COVID-19 pandemic were introduced which include Managing Anger, Fear and Anxiety during and after COVID-19, Virtual Team Building, Managing Procrastination and Sustaining Happiness. Trainings on Managing Teams Remotely and Coping with Anxiety and Stress were designed and arranged for Division Heads. An exclusive program on "Mastering Delegation" was also conducted for Directors.

The in-house and national webinars were supplemented with international webinars, offered by central banks and international financial institutions. The officers also accessed the platform of IMF, EdX, Udemy and Coursera on a frequent basis to avail and learn through Massive Open Online Courses (MOOCs) such as Financial Programming and Policies, Financial Market Analysis, Foundations of Central Bank Law, Financial Development and Financial Inclusion, Energy Subsidy Reforms and many more.

Despite COVID-19 pandemic, employees were able to meet 62 percent of the annual training hours requirement.

HR Automation Initiatives

In-house built E-recruitment module, was further enhanced to improve online scrutiny and speed up the recruitment processes, keeping in view large number of applications received for various positions. Recruitment dashboard to expedite and track the progress of recruitment processes was also developed.

Further, to improve service delivery standards and enhance efficiency, HR module pertaining to retirement benefits has been upgraded and implemented. This would reduce a lot of manual work by ensuring accuracy and minimizing risk of error.

An automated system to keep track of inward and outward mail is being developed to avoid time consuming and labor-intensive method of manually updating the daak registers. This system will also help tracking dispatch and delivery status of mail through MIS reports. Similarly, an Admin E-requisition portal has also been planned to facilitate provision of numerous office use articles, their procurement, inventory and requisition.

6.1.3 Future HR Strategy

To facilitate employees across the bank, SBP has planned to review various HR policies during FY22 through a consultative approach by seeking active involvement and feedback of the internal stakeholders. While SBP has witnessed the success of 'work from home' arrangements in the light of COVID-19 pandemic, SBP also intends to introduce the concept of flexible working hours. SBP also plans to capitalize on technological advancements to optimize the time taken in completing numerous initiatives such as recruitment at various stages.

Services of an independent consultant has been engaged to conduct Employee Engagement Survey (EES) to be launched in the first quarter of FY22. As part of OD project, 'Assessment and Development Centre' is planned to be initiated in 1st quarter of FY22 with a revised scope of work. Going forward, SBP would continue to maintain a work environment where employees are provided with opportunities for professional growth and are recognized and rewarded for the contribution made towards achievement of organizational objectives.

6.2 Strengthening IT Systems

Value delivery by SBP for its stakeholders hinges around technology backbone that is Information Technology Group (ITG). In FY21, SBP undertook various initiatives to ensure good IT governance, upgrade IT infrastructure, pace up automation projects through in-house and insourced resources. Details are summarized below:

6.2.1 SBP Knowledge Management Program

Knowledge Management Program, was initiated in FY19 in line with strategic goal of SBP strategic plan. Under this program, several projects have been completed. The projects completed during FY21 are appended below:

- Regulatory Approval System for foreign exchange policy and operations was made live to eliminate the paper-based submission and processing of regulatory approvals granted by SBP and SBP-BSC to all authorized dealers. The platform would be extended to other regulatory domains such as banking policy and payment systems.
- Digital initiation and processing of internal cases in SBP, SBP-BSC, NIBAF and DPC through Internal Case Management System (ICMS) was also completed with added facility of accessing information anytime and from anywhere.
- Domestic Training Module was automated to process the domestic trainings nominations, approvals and reporting through automated workflow, having interfaces with existing systems of Oracle ERP- Oracle Learning Management module and other underlying technology systems.

- Banking Inspection Management System has automated the inspection function of Banking Supervision Group. An external portal was also developed for the banks/FIs to submit their inspection related data and receive draft and final reports through this portal with embedded TLS security features.

6.2.2 IT Governance

To enforce good IT governance practices in SBP, the role of Management Committee on IT was enhanced by adding cyber security domain in its mandate and redefining its role to focus more on strategic issues.

To improve the decision-making process, a sub-committee was constituted to oversee IT procurement cases with lower financial limits under SBP Expenditure Regulations. Project Prioritization Process was also reviewed and updated through a bank-wide consultation process to improve the selection and implementation of business-related IT projects.

6.2.3 IT Infrastructure Initiatives

- During FY21, SBP's IT systems provided secure access to its administrators to work securely from home for managing IT systems and enhance the internet bandwidth to meet the requirements of online meetings. The relevant departments of SBP worked with various existing service providers to enhance the bandwidth and also procured new internet circuit. A multifactor authentication solution was also procured and deployed for IT and Web administrators.

- A proposal was presented to Management Committees on IT and Enterprise Risk Management for replacement of VSAT with Fiber Optics links. Both the committees approved the said proposal that would save substantial cost of SBP and ensure availability of enhanced bandwidth through Fiber Optics links to cater the new requirements of SBP BSC offices.

- A new email gateway security solution was procured and deployed after incorporating the recommendations from OCISO. The new solution has technical functionalities introduced by OEM over the past five years. The latest and advanced solution would offer more robust security features in line with current security protection requirements.

- The windows servers deployed in SBP, NIBAF and SBP-BSC countrywide offices were replaced during FY21 after completing their useful lives to keep the IT infrastructure updated and maintained.

- The core component of any DR network infrastructure is Data Center Switch that is used to extend layer 2 network infrastructure to DRDC and connect IT infrastructure with DRDC Servers. It provides network connectivity to intranet (WAN) and internet as well as high speed routing. The DR core switch after completing its useful life was replaced during FY21.

- SBP, FBR and 1Link are collecting taxes through Alternate Delivery Channels (ADCs) and Over-the-Counter (OTC) facility of commercial banks branches. . The OTC facility was not available at SBP-BSC counters for dedicated communication circuits and firewalls, which were procured and deployed during FY21.

6.2.4 IT Systems Initiatives

IT Systems of SBP have contributed in viable IT empowered business operations. Numerous business development projects were implemented in T24 Banking & Currency Systems, Data Warehouse and Custom-Build Applications to cater business requirements. In this regard, following major projects were undertaken and completed by different IT teams of SBP.

6.2.5 General Automation Initiatives

- **Direct Credit of Duty Drawback Refunds**

To minimize delays in payment proceeds, the core banking system T24 was integrated with Pakistan Custom's WeBOC, FBR's IRIS systems and RTGS of SBP.

- **Naya Pakistan Certificates (NPC) – Conventional / Islamic**

To facilitate Pakistani investors to invest in Naya Pakistan Certificate (NPC) and Islamic Naya Pakistan Certificate (INPC), issued by GoP, a mechanism was developed and implemented in T24 core banking system. For INPC, the mechanism of Special Purpose Vehicle (SPV) was implemented.

- **Centralization of Commercial Bank Accounts**

On request of Pakistan Bank's Association (PBA) to resolve the liquidity management issues, SBP implemented centralized account management in the core banking systems. The system would improve the liquidity management of commercial banks as the existing system requires maintenance of idle balances, un-necessary borrowing from market and lack of real-time information. It would also eliminate additional charges related to Telegraphic Transfer.

- **SMS Service for General Public**

To enhance service delivery to general public regarding sale, encashment of face value and defective prize bonds and payment of prize money of bonds, a mechanism of direct credit into customers' bank account through IBAN was implemented in T24 and integrated with RTGS. Moreover, an SMS-based service was implemented by SBP for timely intimation to customer.

- **SBP Data Portal**

To compile the statistics related to Monetary, External and Banking sectors, SBP Data Portal was implemented. These statistics were made available to a comprehensive variety of users through SBP's website in the form of datasets and publications. Time series having more than 7000 variables were made available through SBP data portal with multiple features including personalized dashboard and data basket.

- **Automated Monitoring Systems for Prime Minister's Youth Entrepreneurship**

A business application was developed to collect data from banks for monitoring Prime Minister's Youth Entrepreneurship, launched by GoP for provision of loans to unemployed youth. Further, this application also facilitates banks for payments of subsidy claims for loans.

- **Online Exam and Feedback**

A new module of "Online Examination and Feedback System" was developed for NIBAF to facilitate the online examination and upholding its results. Consequently, NIBAF successfully conducted the

Cyber Security quiz through CMS across SBP and SBP-BSC.

- **OBMS and UDMS Enhancements**

Online Branch Management System (OBMS) was upgraded to facilitate Banking Policy and Regulation department of SBP for policy changes in Islamic Banking for banks to perform their operation, make extensive changes in official letters and several MIS reports to fulfill business requirements. Unclaimed Deposit Management System (UDMS) was also upgraded to facilitate bank to upload surrendered accounts' data directly into UDMS without business user involvement.

6.2.6 Major Internal Automation Initiatives

- **Disbursement of Payments through RTGS**

For disbursement of payments for pensioners, NIBAF vendors and beneficiaries (widows/ex-employee), SBP and its subsidiaries used cheques, payment orders and electronic fund transfers mediums. Previously, these methods took at least two working days to credit the payments to the client's bank account.

New interfaces were developed to transfer the payments finalized in Payables and Pension applications to RTGS system. These payments were processed in RTGS application that allowed direct credit of payments to the vendor's bank account on real time.

- **Technology Migration**

In order to reduce Operating System and Database vulnerabilities, boost performance, maximize availability and sustain stability CBA database and application server were upgraded.

6.2.7 Cyber Security at SBP

FY21 witnessed some key developments in the area of cyber security at SBP. The major focus remained on implementing cyber security controls and policies from the security assessment reports, and Penetration Testing. Building a cyber-secure culture also continued along with enhancements in security monitoring, detection and response capabilities of SBP.

During FY21, risk assessments of business and IT support systems were conducted to ensure security of productions systems. Real-time IT security monitoring platform has been scaled-up to ensure its availability during any crisis period. SBP also invested in acquiring a global Cyber-Threat Intelligence platform. This advancement has provided deeper insights in industry-specific monitoring and analyzing the risk of digital landscape through a holistic view of overall threat landscape. With the said enhancement, detection of threats at early stages has been made possible which would improve effectiveness and response time of the teams. SBP also completed iterative exercises to timely remediate vulnerabilities from its IT infrastructure and paved the way for future developments by completing feasibility studies of market available advanced automated security platforms.

Keeping in view the emerging cyber threats and evolving business automation requirements, SBP updated its internal IT Security Policy to stay abreast with industry standards. In order to enhance capacity in cyber resilience against cyber threats like ransomware, the bank conducted internal cyber drills by engaging relevant stakeholders.

In the wake of the COVID-19 pandemic, SBP continued its efforts to bring cultural shift by arranging virtual sessions of user-level cyber security awareness. An interactive online quiz system was also launched to measure performance of the cyber security training program so that more targeted trainings could be planned in the identified areas.

6.3 Business Continuity Management

Business Continuity Management is an important component of organization's resilience and risk management system. An effective business continuity plan (BCP) provides information about the potential impact of disaster situations to business operations and ensures risk mitigation without any disruption.

Validation of Business Continuity Program is an essential element of the BCP lifecycle. SBP also pursue a proactive approach for its business continuity management where critical time sensitive departments perform their functions and activities from backup sites in line with their annual test plans. During FY21, more than 190 annual BCP exercises were performed by the critical time sensitive departments, critical support departments and SBP-BSC offices at their respective backup sites.

Combined Staff Relocation Exercises (CSRE) were suspended during FY21 due to SOPs provided by the Medical Services department to avoid large gatherings and carry out operation with minimum staff. However, the backup sites were fully operational and critical staff performed their day-to-day activities from backup Sites to ensure continuation of work.

During FY21, the BCP was invoked and tested due to heavy rains in Karachi. In August 2020, Karachi received 484 mm torrential rain, being the highest recorded over the last 90 years. The rain devastated the overall infrastructure of Karachi and disrupted the business in major areas of the city.

SBP also faced a number of issues including inundation in main building complex, subsequent non-availability of electricity due to submerged power cables, shut down of main and back up data centers and non-availability of IT applications. A meeting of top management of SBP was held on August 27, 2020 wherein a decision was made to invoke the Business Continuity Plan (BCP) on August 28, 2020 and carry out the business from Alternate working site (Backup Site).

On August 28, 2020, the critical time sensitive activities were performed from the backup site. During the BCP invocation, commercial banks also carried out their settlement activities from the backup site. Governor SBP, Deputy Governors, Executive Directors and Directors also visited the backup site and reviewed the overall operations/arrangements.

6.4 SBP Tech Club

SBP Tech club was established to provide a platform to all technophile employees of the Bank. The objective was to explore out of the box and technology-based solutions, which can potentially have an impact on, and shape, SBP Vision. During FY21, a Tech talk on "Ransomware" was arranged to provide insights to participants regarding risks and mitigation measures for ransomware.

6.5 Enterprise Risk Management (ERM)

In FY21, the Board of Directors approved "Risk Appetite Statement (RAS)" developed under the Enterprise Risk Management (ERM) Framework. The SBP's risk appetite takes a conservative approach to manage risks across the main categories i.e., strategic, financial, operational and reputational risks. Overall, the bank has low appetite for all the four main categories of risks.

The SBP Board of Directors also approved the revised "Incident Reporting Policy (IRP)" based on accumulated learnings and new developments. The revised policy will be applicable to SBP and its subsidiaries except Pakistan Security Printing Corporation (PSPC), which will develop its own IRP due to the peculiar nature of its operations. Notable changes in the revised IRP include: revision in purpose and scope of policy, composition and quorum requirements, clearly defined responsibilities of all stakeholders, Incident reporting Committee (IRC) and Management Committee on ERM (MC-ERM).

During FY21, implementation phase of Risk & Control Self Assessments (RCSAs), developed through bottom-up approach, was initiated in SBP-BSC and NIBAF in addition to SBP. With regards to strategic risks, identified through top–down approach, the MC-ERM is in the process of reviewing the proposed mitigation plans and KRIs.

During FY21, SBP was placed in top-5 Central Banks in terms of organizational maturity for Operational Risk Management by International Operational Risk Working Group (IORWG). This ranking was also presented in the annual conference of International Operational Risk Working Group (IORWG) held in May 2021.

6.5.1 Investment Risk Analysis

In FY21, SBP broadened its footprint and expanded its compliance ambit. SBP developed a monitoring mechanism for testing the practicality of Money Market (MM) deals. Since, MM dealing rates are more sensitive to daily market liquidity and critically depends on the credit rating of the trading parties; therefore, the bank instituted a mechanism to find tolerance bands for MM placements based on the historical prices extracted from Bloomberg and Reuters. SBP has been monitoring MM deals on daily basis as per availability of the daily indicative deposits rates for the currency in the relevant tenor on Reuters and Bloomberg.

SBP developed an internal credit risk scorecard and modelled probability of default to reduce reliance on external rating agencies. This enhancement would help in achieving a transparent and comparable internal rating system that is adaptable to changing market dynamics. The credit risk scorecard would have a full control over technical aspects of the model to meet the expectation of external auditors. Further, it would also improve internal capacity to make informed decisions in line with prevailing economic and financial markets' condition.

6.6 Risk Based Audit Function

Internal Audit (IA), being an important function of SBP corporate governance framework, is providing independent and objective assurance and consulting services to the SBP Board and senior management. For its financial, operational and IT audit engagements and consulting services, SBP adheres to the international auditing standards and code of ethics issued by the Institute of Internal

Auditors - IIA (USA). SBP also refers the Standards of Information Systems Audit & Control Association - ISACA (USA) for its IT audit engagements.

During the FY 21, following major initiatives were taken to improve the internal audit process:

- The paradigm shift within working environment of SBP due to COVID-19 pandemic propelled SBP to take proactive measures for this "new normal". Accordingly, following steps were taken to identify new delivery models and ways to add value and for effective communication with stakeholders:
  - Identified audits in annual audit plans for FY21 where verification material is largely available in soft/digital form.
  - Enhanced utilization of continuous auditing approach for technology enabled auditable areas.
  - Performed audit fieldwork activities, wherever possible, remotely and virtually using web conferencing tools like Zoom.
  - Increased used of organization wide implemented web-based enterprise content and document management tools for data/information requisition/sharing.
- SBP conducted an internal quality self-assessment and concluded that Internal Audit (IA) is largely compliant with the IIA requirements.
- The competencies of IA staff were assessed against the IIA Global Internal Audit Competency Framework and an action plan has been developed to address the identified gaps.
- An auditing framework was developed for determining scope of ethics audit to be conducted in SBP and its subsidiaries with the objective to assess the governance process for promoting ethics within the organization.
- An exercise was conducted in order to align the existing IT Audit Universe of SBP with ISO/IEC 27005 Standard "Information technology — Security techniques — Information security risk management". Resultantly, the risk estimation was improved and gaps were reduced based on the given threat and vulnerabilities criteria and categorization of risks with their possible origins and their motivation factors.
- To determine the efficacy, SBP Audit systems were compared with internal audit functions of other central banks a self-assessment was conducted.

The assessment was focused on areas like governance & oversight, risk assessment & control evaluation, quality assurance & improvement program, monitoring & reporting, types of audit engagements, compliance function, parent-subsidiary audit relationship and audit resource management. Further, SBP's preparedness for emerging risks and future trends in line with the requirements of IIA Standard '2000' was also reviewed.

The assessment showed that the internal audit function in SBP is largely at par with the internal audit function of other central banks. However, a few gaps like non-conduct of ethics audit, missing long term planning with respect to competency development of auditors and nascent implementation of centralized assurance mechanism in SBP and its subsidiaries have been highlighted. Addressing these

gaps will help in augmenting the efficacy of internal audit function, prepare it for future challenges at SBP and its subsidiaries to better serve the expectations of stakeholders.

6.7 Legal Services

In FY21, various new laws were promulgated by the GoP in order to facilitate investment by the non-resident Pakistanis. SBP provided necessary legal support in finalizing the Shariah compliant Rules/ SOPs for Naya Pakistan Certificates. In addition to this, views were also provided on the Naya Pakistan Housing Authority Act, 2020 in order to ensure protection of SBP's interest. Further, legal amendments were proposed in the existing Foreign Exchange Manual for the launch of Roshan Digital Account.

SBP took lead in various meetings to bring amendments in newly promulgated Provincial Trust laws in order to assess the legality of existing trusts established by the banks pursuant to the regulations issued by SECP. These laws were reviewed for meeting the requirements of financial institutions and Financial Action Task Force.

In addition to above, the Financial Laws Reform Committee (FLRC) of the Board made significant progress towards the finalization of a separate Chapter on Islamic Banking' for inclusion in the Banking Companies Ordinance 1962 as well as to bring the law in line with the emerging regulatory requirements. These amendments are in the process of internal approval before being sent to the Finance Division for legislative process. SBP has also been facilitating the Deposit Protection Corporation (DPC) in implementation of the DPC Act, 2016.

6.7.1 Advisory Function

During FY21, legal advice on approximately 3000 references formally put up by various departments of SBP and its subsidiaries were provided. The legal advice pertained to various regulatory functions, as well as administrative, IT related and Human Resources related matters.

In addition, SBP was instrumental in facilitating the implementation of the Loans for Agricultural, Commercial and Industrial Purposes' Act, 1973 (LACIP) in order to promote agriculture financing by the commercial banks. In this regard, a number of meetings took place with the representatives of the commercial banks as well as with the Board of Revenue to ease out the recovery process as provided under LACIP.

6.7.2 Litigation Management Function.

Currently 412 cases of various nature are pending in different courts of Pakistan where either SBP or its subsidiaries are a direct party.

6.8 Effective External Relations

SBP was instrumental in promoting various important initiatives including Roshan Digital Account (RDA), Naya Pakistan Certificates (NPC), Roshan Apni Car (RAC), Roshan Samaaji Khidmat (RSK), Digital Financial Services including Raast and Banking on Equality. Besides active coverage of these initiatives in print and electronic media, extensive media campaigns for RDA & NPC were also designed and executed. Brochures related to RDA and NPC (both Urdu & English – designed in-house) were provided to Pakistani embassies/missions globally to be distributed among Pakistan

community. The media campaigns for both RDA and NPCs were successfully executed in four phases, since their launch and further launching of Roshan Apni Car (RAC) and Roshan Samaaji Khidmat (RSK) schemes and salutation ceremonies of achieving USD 500 million and USD 1 billion Mark in RDA were executed successfully. Currently, launching of Roshan Apna Ghar (RAG) scheme is in its final stages and SBP is working on its campaign in collaboration with partner Banks.

Apart from these campaigns, new pages on SBP's website were added related to SBP's flagship initiatives. Information about these initiatives and other events were shared regularly through SBP's social media platforms through videos, images, animations and live event coverage. Various press releases were issued to inform public about these initiatives and their effective coverage by media fraternity was ensured.

SBP issued 192 press releases and ensured their prominent coverage in print and electronic media. Participation of senior officials from both SBP and SBP-BSC in various television programmes and social media channels on important topics including Government's Markup Subsidy Scheme for Housing Finance, Digitalization of SBP FX Regulatory Approval System, Roshan Digital Account (RDA) and other topics were coordinated. SBP also arranged two awareness sessions for journalists on Digitalization of SBP FX Regulatory Approval System in Faisalabad and Gujranwala.

SBP and SBP-BSC Islamabad organized the launching ceremony of commemorative coin of 70 rupees in connection with the 70th Anniversary of the Establishment of Pakistan-China Diplomatic Relations. The event was widely covered by electronic and print media organizations.

SBP's Twitter profile achieved the status of fastest growing profile in April 2021 across Pakistan. The profile also gained the highest number of 13,000 twitter followers, which is the highest in April 2021 while the impressions reached record high of 3.1 million in the same month. Currently, SBP's Twitter profile has over 192,000 followers while Facebook has over 169,000 followers.

SBP played its role in creating awareness about SBP's Gender Mainstreaming Policy 'Banking on Equality: Reducing the Gender Gap in Financial Inclusion' that aims to promote women financial inclusion in Pakistan by providing the stakeholders with eye-catching pages on the SBP website and posts on social media. The World Bank hosted a webinar titled 'Consultative Dialogue on SBP's Banking on Equality Policy' to learn from global leaders regarding gender responsive policies and their experience on gender financial inclusion in the context of a developing country such as Pakistan. The webinar was shown live on SBP's and World Bank Pakistan's Facebook pages and viewed widely.

6.9 SBP Library

The SBP Library caters to the information needs of SBP employees, the banking community and the general public through provision of high-quality information resources and services. Ranked amongst the most-referred libraries of the country, it serves over 5,000 registered members representing the SBP, commercial banks, public and private firms, insurance companies, brokerage houses, media, and numerous business schools.

6.9.1 Collection Development

In order to support the fresh and on-going research at SBP, a number of new resources were added to the library collections in both print and electronic formats. The print holdings were enriched by 1,304 new books and 1,124 periodical issues. Additionally, latest updates of the federal and provincial budgets, gazettes and annual reports of numerous companies listed on the Pakistan Stock Exchange were also acquired. Further, the electronic resources were augmented with digital subscription of *The Financial Times*, *The Economist*, *Money Laundering Bulletin* and *Capital Stake Investment Analytics* besides renewing all previous year's subscriptions.

6.9.2 Bibliographic Management and Reference Services

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

Officials at the reference desk responded to countless reference queries and proactively provided personal assistance in literature search and library usage. Around 2,177 requisitions for articles were entertained through library's Online Document Delivery Service. Usage of the online library resources during FY21 is depicted in **Table 6.3.**

Table 6.3: Full-Text Article/Chapter Downloads by Database during FY21
(Numbers)

Database Name	*Full-Text Article/Chapter Downloads* FY21
Business Source Complete	604
Cambridge Journals	262
EconLit with Full-Text	246
Emerald	1,075
JSTOR	2,580
Oxford English Dictionary	873
OUP Journals	396
ScienceDirect	2,701
Springer eJournals	918
Taylor and Francis Journals	728
Wiley Journals	969
World Bank eLibrary	59
Totals	11,411

6.9.3 Visitation, Membership & Lending:

During FY21, around 9,886 users visited the library, 91 new members were registered and 20,944 books were loaned to the registered members. The members were also kept posted with the renewal reminders and overdue notices on a daily basis. Book reservation and hold services also remained available for members throughout the year. All out efforts were made to meet members' demand through inter-library loan with local libraries.

6.9.4 Development Projects

Library completed the following development projects during FY21:

Enhancements in Library Information and Management System:

- ***Building a Repository of Doctoral Dissertations on Pakistan's Economy*:** The repository of over 600 doctoral dissertations on Pakistan's economy acquired from various open-access academic platforms would help future researchers to understand how economic issues in Pakistan have been dealt in the past by their predecessors.

- ***Digitization of Gazette of Pakistan (Extraordinary), 2018-2020*:** The acts, ordinances and statutory notifications contained in the official gazettes are highly demanded by users due to their primary archival value in historical research. The digitized gazette archive would not only make the Gazette documents accessible across the Bank through the Library Portal but would also make the retrieval process much easier.

Overall, the FY21 ended up successfully for the library in terms of its goals attainment laid down in the annual business plan. A comparative summary of library progress during the last two years is presented in **Table 6.4.**

Table 6.4: SBP Library Services at a Glance (FY20-FY21)
(numbers)

Operational Areas			FY20	FY21
Procurement	Books	Purchased	1,742	1,245
		Complimentarily acquired	39	59
	Periodical issues		1,221	1,124
Technical processing	Books catalogued		1,780	1,304
	Articles indexed		2,122	1,898
Circulation (Books loaned)	The SBP employees (active and retired)		23,061	20,276
	General public		869	668
Membership	The SBP employees (active and retired)		58	71
	General public		67	20
Visitation	The SBP employees (active and retired)		11,274	8,676
	General public		3,546	1,210
Documents Downloads	Downloaded documents delivery through email		3,179	2,177
	Bank-wide article downloads through subscribed resources		14,812	11,411

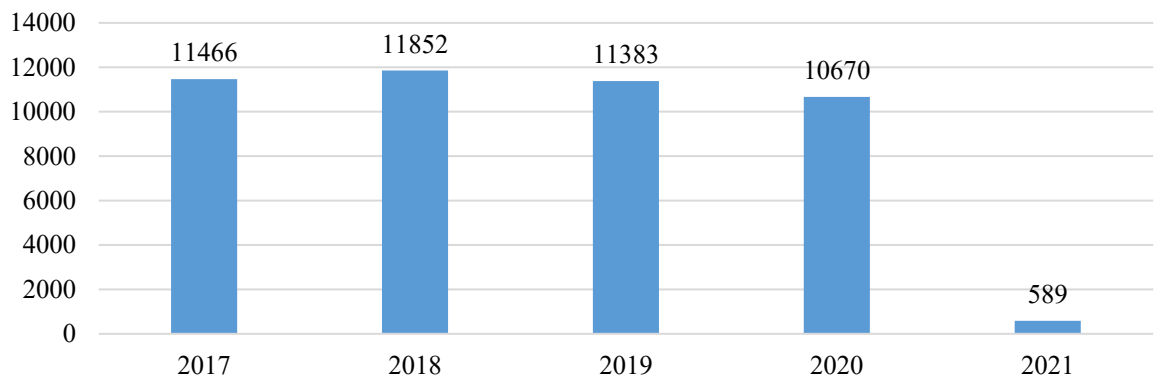
Note: The decline in usage is primarily attributed to the closure of library during 20-Mar-2020 to 14-Sep-2020 as a preventive measure against COVID-19.

6.10 Museum, Art Gallery & Archives

6.9.1 Visitors' Flow

Visitors flow to SBP Museum has been affected greatly due to the prevailing pandemic of COVID-19. Almost a little less than twenty times reduction has been observed in visitors flow during the FY21 to avoid gatherings to combat COVID-19.

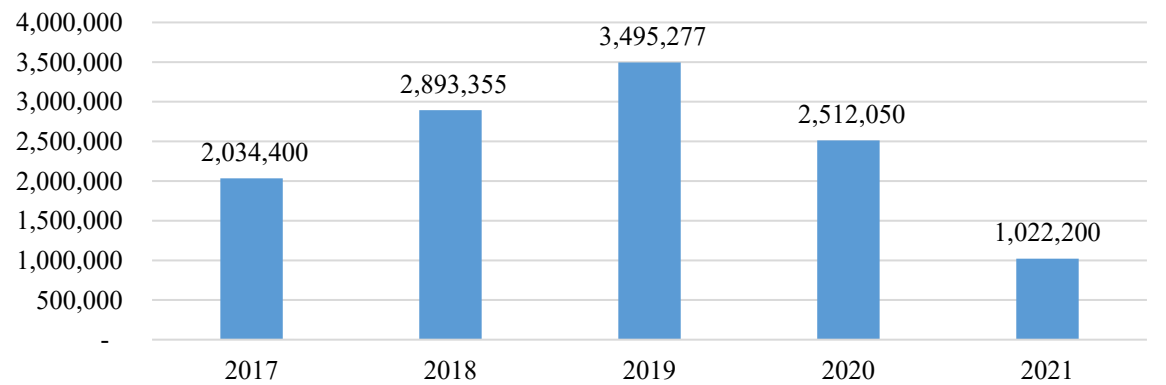
Figure 6.1 : Visitors' flow



6.9.2 Souvenir Shop

The souvenir is an integral part of the travel experience and most tourists return home with souvenirs to preserve and commemorate such experiences. The State Bank Museum Souvenir Shop has become one of the best Souvenir Shop of the country. A total sale of Rs.1,022,200/- was recorded on non-profit basis in FY21, in spite of COVID-19 prevailing pandemic.

Figure 6.2 : Souvenir Shop Sales



6.9.3 Other Activities

Due to closure of the Museum, virtual exhibitions were conducted. Details of the same are as under:

- Special Exhibition: Quaid-i-Azam Muhammad Ali Jinnah, through the Lens of Z.D. Barni.
- (Agha Ziauddin Barni: Official Photographer of Quaid-i-Azam)

- Independence Day Celebrations.
- The role of Women in Freedom Struggle for Pakistan.
- Pakistan Resolution Day.
- International Museum Day.
- Tribute to Allama Iqbal.

The SBP Museum Officials actively participated in the Children Literature Festival during FY21 with an informative outreach work plan at listed below station:

1. **Gilgit**: June 01 to 03, 2021

6.9.4 Publications

In order to digitize and preserve the collection of SBP Museum, following publications were designed in FY21:

1. Quaid-i-Azam Muhammad Ali Jinnah through the lens of Z.D. Barni
2. Art Residency Program for State Bank Museum, Archives & Art Gallery
3. Special Exhibition: 25th December in collaboration with MOIB
4. Conservation and Preservation of Old Historical Record
5. Catalogue of Princely States Coins, supplemented by Pakistani Coins in the Collection of SBP Museum
6. Preservation and Conservation of Old Coins of Numismatic Value

6.9.5 Paper Conservation Lab

A Paper Conservation Lab was established at PSPC. The lab is well equipped with latest tools, machinery and vacuum chamber etc. for paper digitization, preservation & conservation. The lab has become functional after its inauguration by the Governor SBP, Dr. Reza Baqir in October 2020.

7 SBP Subsidiaries

SBP's four subsidiaries including State Bank of Pakistan-Banking Services Corporation (SBP-BSC), National Institute of Banking and Finance (NIBAF), Pakistan Security Printing Corporation (PSPC) and Deposit Protection Corporation (DPC) continued to improve their institutional capacity and operational efficiency, and provide seamless support and services to banking industry, government agencies and people of Pakistan to ensure smooth functioning of banking operations across the country.

7.1 SBP Banking Services Corporation (SBP-BSC)

Established under the SBP-BSC Ordinance 2001, SBP-BSC is a wholly owned subsidiary of SBP. It provides banking services to the Federal and Provincial Governments as well as to the financial institutions. Through its sixteen field offices situated across the country, SBP- BSC ensures management of currency, sale and purchase of prize bonds and savings instruments of the Government on behalf of Central Directorate of National Savings as well as credit management and facilitation of inter-bank settlement system. It also facilitates implementation of various financing schemes of SBP offered to public and businesses for achieving economic growth and financial inclusion. Further, SBP-BSC carries out operational and monitoring functions related to Foreign Exchange (FE) and adjudicates FE related cases as per relevant laws and regulations.

7.1.1 Banker to the Government

As banker to the Government, SBP-BSC undertakes revenue collection and payments on behalf of various government departments through its sixteen (16) field offices. In line with the National Payment Systems Strategy (NPSS), SBP-BSC continued its concerted efforts to enhance digitization of payment systems. These dedicated efforts were aimed at increasing the use of Alternative Delivery Channels (ADCs) such as internet, mobile banking and ATM which resulted in increasing ADC transactions to 17.15 million in FY21 as compared to 5.27 million in FY20, marking a significant increase of 225 percent. Similarly, ADC collection volume also grew from Rs.439 billion in FY20 to Rs.3.14 trillion in FY21, exhibiting a substantial growth of 615 percent. Resultantly, the total number of government receipt and payment transactions executed at the counters of SBP-BSC offices reduced significantly from 13 million in FY20 to 8.6 million in FY21, indicating a decrease of 34 percent.

SBP- BSC also extended assistance to government departments in shifting to Electronic Funds Transfer (EFT) for their payments and streamlining their accounting procedures. During FY21, SBP-BSC coordinated with Central Directorate of National Savings Organization (CDNS), Pakistan Works Department (PWD) and provincial Zakat departments in moving their payment options to EFT for enhanced operational efficiency. Additionally, salary / pension payments of government departments including CNA (Controller of Naval Accounts) and CAAF (Controller Accounts Air Force) were also centralized, resulting in 86 percent decrease of CNA salary cheques and 94 percent reduction in CAAF over the counter pension payments. To further improve process efficiencies, coordination with CAAF is underway to streamline their pensioners' commutation and provident fund payments.

7.1.2 Centralization of Bank Accounts

As banker to banking industry, SBP-BSC centralized commercial bank accounts at its Karachi office during FY21 with an aim to increase process efficiency of banking operations and improved liquidity management and effectiveness.

7.1.3 Automation and Monitoring in Currency Management

Despite increasing usage of digital banking and alternative payment channels, Pakistan is still one of the highest cash-centric economies in the world. Compared to GDP, the consistent increasing trend of Currency-in-Circulation (CiC) is presented in **Table 7.1.1**

Table: 7.1.1: Comparison of GDP and CiC in FY21
(Rupees in Million)

Year	Nominal GDP[1]	Currency in Circulation (CiC)[2]	CiC as % of GDP	CiC Change Over Previous Year
FY20	41,726,683	6,492,272	15.6%	22.0%
FY21	47,709,325	7,349,493	15.4%	13.2%

As part of the revamped operational model adopted by SBP-BSC, banknote processing and destruction is being centralized at eight SBP-BSC field offices, categorized as pool offices (i.e., Karachi, North Nazimabad, Lahore, Faisalabad, Peshawar, Rawalpindi, Multan and Quetta) situated in seven major cities. In line with the Currency Automation Strategy (CAS), SBP-BSC has been gradually deploying high-end Banknote Processing & Authentication Systems (BPAS) and Banknote Disintegration Systems (BDS) since 2016. Currently, the final phase (Phase III) of the CAS is being rolled out, whereby nine BPAS are being installed at six pool offices and three BDS are being installed at three pool offices. As a result of automation efforts, the destruction of soiled banknotes witnessed an increase of 64 percent on YoY basis.

During FY21, Cash Monitoring Hubs (CMHs) examined 854 branches (269 cash feeding branches, 143 cash processing centers, 345 standalone and 97 linked branches) to ensure that good quality machine-authenticated banknotes are issued by bank branches despite facing COVID-19 related restrictions. To ensure effective implementation of Currency Management Strategy (CMS), penalties amounting to Rs. 13.5 million were levied on commercial banks. In addition, a revised mechanism was initiated to strengthen currency compliance framework, whereby banks were required to furnish compliance of their delinquent branches on quarterly basis. Further, during FY21, 47 (classroom and online) training sessions were conducted for commercial banks' cash officers.

As agent to government, SBP-BSC effectively managed various National Saving Schemes (NSS) while adhering to NCOC guidelines and instructions regarding COVID-19. During FY21, Finance Division GoP, notified withdrawal of Rs.25,000, Rs.15,000 and Rs.7,500 National Prize Bonds (NPBs) from circulations, while Rs.40,000 denomination prize bond was withdrawn in FY20.This resulted in a surge

[1] Pakistan's GDP- https://www.sbp.org.pk/ecodata/GDP_table.pdf
[2] Statement of Affairs- 25 June, 2021- https://www.sbp.org.pk/publications/statements/2021/25-Jun-2021.pdf

in retirement of public debt valuing Rs.398.9 billion. However, during FY21, SBP-BSC also raised public debt amounting to Rs.108.9 billion. As of June 30, 2021, SBP-BSC encashed 99 percent of Rs.40,000, 96 percent of Rs.25,000, 75 percent of Rs.15,000 and 55 percent of Rs.7,500 denomination NPBs. Moreover, while taking cognizance of customer service delivery, sixteen (16) new conventional banks were authorized to deal in Premium Prize Bonds (PPBs) for convenience of general public. Additionally, SMS service facility was also introduced for confirmation of transaction / services to customers through SMS alert on the given mobile number.

During FY21, a three-pronged approach was adopted by SBP-BSC to further strengthen AML/CFT regime within SBP-BSC. The approach included: 1) Policy measures wherein detailed SBP-BSC AML, CFT & CPF compliance policy and guidelines for identification and reporting Suspicious Transaction Report (STR) / Cash Transaction Report (CTR) were issued; 2) Technological adoption which included procurement of automated sanction screening solution and implementation of Transaction Monitoring System; and 3) Capacity building through a four-tier training program. Due to these concerted efforts, the number and quality of STRs improved exponentially during FY21. In addition, multiple initiatives are also underway to further augment the AML/CFT regime including development of an electronic Know Your Customer (eKYC) module, enhancement of scope of Transaction Monitoring System (TMS) and implementation of an automated Targeted Financial Sanctions (TFS) screening solution.

7.1.4 Development Finance & Financial Inclusion

Despite COVID-19 restrictions, SBP-BSC managed and accomplished its refinance targets in various areas. SBP-BSC provided requisite support to all stakeholders in an efficient manner through refinance and credit guarantee schemes along with facilitating government-announced programs like low cost housing and PM Youth Loans etc. Table 7.1.2 shows the amounts disbursed during FY21:

Table 7.1.2: Disbursements under Refinance and Credit Guarantee Schemes for FY21

S.N.	Name of Scheme	Disbursements (Rs. in Billion)
1.	Export Refinance Schemes	1,395
2.	Refinance Scheme for Payment of Wages & Salaries to the workers and employees (also called Rozgar Scheme)	178
3.	Long Term Financing Facility	55
4.	Financing Scheme for Renewable Energy	39.6
5.	Financing Facility for Storage of Agricultural Produce	2.6
6.	Refinance Schemes for SMEs	1.8
7.	Credit Guarantee Scheme for Small & Marginalized Farmers (CGS-SMF)	0.7*
8.	Credit Guarantee Scheme for Small & Rural Enterprises (Jul – Dec 2020)**	0.2*

** Guarantee amounts.*

*** Limit was allocated up to Dec 2020 only.*

In October 2020, SBP announced the Government Mera Pakistan Mera Ghar (MPMG) Scheme in order to enhance formal credit to low-cost housing sector. A Markup Subsidy Scheme Portal (MSSP) was developed by SBP-BSC to coordinate with banks for resolution of complaints. During FY21, over 4,000 complaints lodged on the portal were addressed. In addition, separate Housing Finance Helpdesks at all SBP-BSC offices were set up to facilitate the public, where over 10,000 queries with respect to MPMG were received and resolved. Further, four Housing Finance conferences for various stakeholders including banks, Pakistan Mortgage Refinance Company (PMRC), builders and developers, architects, local development authorities etc. were conducted in each provincial capital of the country by SBP-BSC Lahore, Peshawar, Quetta and North Nazimabad offices.

During FY21, focus on the enhancement of SME Finance was sustained through continuation of the initiative "Sector of the Year – Sectoral Interventions by SBP-BSC Offices" under which each SBP-BSC office either continued to work on the sector assigned last year or focused on a new sector for analysis of its credit landscape. The initiative highlighted obstacles for financing of key sectors in the country and provided platform to improve financing of the same. Moreover, SME Finance Clinics were conducted across SBP-BSC offices for facilitation and assistance of SMEs. Similarly, 22 SME Finance focus group meetings were also held to review regional performance of banks and webinars on SME financing were conducted to promote dialogue and deliberate on associated challenges.

Furthermore, SBP-BSC also expanded the mandate of financial inclusion in areas of National Financial Literacy Program (NFLP). Remarkable progress was witnessed in NFLP related key activities, despite COVID-19 restrictions, as shown in **Table 7.1.3.** Since the NFLP's inception in August 2017, financial literacy has been imparted to more than 950,000 individuals, with special focus on women participation and rural areas.

Table 7.1.3: Progress on NFLP Targets for FY21

Key Milestones	Target	Achievement
No. of Districts	158	158
No. of Beneficiaries	226,000	362,223
No. of Classroom Sessions	9,040	12,487
Female Participation Ratio	50%	58%
Account Conversion Ratio	80%	90%
Rural Involvement	70%	71%

To align its efforts with SBP's strategic goal of Islamic Banking, SBP-BSC collaborated with various commercial banks, universities, government departments, institutions and Muftian & Ulema. Various Islamic Banking awareness programs were organized comprising of 19 workshops for and with Muftian & Ulema, 16 two-day capacity-building programs for its own officials and 26 awareness programs for the general public. Moreover, four seminars on Islamic Banking sector were also arranged for provincial governments and their concerned departments.

7.1.5 Monitoring of FE Operations and Realization of Export Proceeds

In the Foreign Exchange (FE) area, SBP-BSC is entrusted to monitor trade related transactions for timely repatriation of export proceeds and taking legal actions against delinquent exporters. Due to continuous and robust monitoring of exports overdue cases by SBP-BSC, repatriation of more than USD 1 billion, without any recourse to adjudication, was ensured during FY21. Further, SBP-BSC also issues approval for foreign exchange payments as per applicable regulations and processes claims of government duty drawback schemes in accordance with applicable Statutory Regulatory Orders (SROs).

SBP-BSC, successfully implemented Regulatory Approval System (RAS) for digital submission of FE related cases from banks. Subsequently, SBP-BSC collaborated with the banking industry to establish end-to-end digitalization of FE related case processing through development of portals by banks for their customers, enabling standardized practice in the FE regime.

Further, SBP-BSC, in coordination with Pakistan Customs, also established an Electronic Data Interchange (EDI), which provides access to the shipment data in Web Based One Customs (WeBOC) through daily feeds. Additionally, SBP-BSC is actively pursuing establishment of an 'Online Portal for Government Support Schemes (OPGS)' with Ministry of Commerce (MoC), to significantly facilitate the processing of claims.

SBP-BSC maintained vigorous enforcement of Section 23K of the FERA 1947, wherein SBP delegated SBP-BSC to impose penalty on Authorized Dealers (ADs) for violation of FE regulations. Under this measure, around 89,746 instances of violations were processed during FY21. SBP-BSC also extended the scope of AML/CFT monitoring to its FE related operations. In this regard, various monitoring exercises were performed during FY21 for identification of FE violations and suspicious activities, which were captured in quarterly Forex Monitoring Report (FMR) and shared with relevant departments of SBP for necessary action.

SBP-BSC lodged complaints against delinquent exporters, who failed to repatriate export proceeds within stipulated time, in its Foreign Exchange Adjudication (FEA) courts. During FY21, export proceeds equivalent to USD 182.4 million were realized and around 11,711 complaint cases were also disposed.

During FY21, SBP-BSC recovered all-time high penalties of Rs. 26 million which accounts for around 46 percent of total recovery made from exporters since inception of FEA courts in 1990.

7.1.6 Human Resource Management

In the wake of COVID-19, SBP-BSC endeavored to develop flexible working arrangements during FY21 to maximize safety, productivity and optimize efficiency gains across the organization. SBP-BSC also undertook various capacity building initiatives for strengthening the organization's talent pool. A number of local, institutional and virtual foreign trainings, as well as e-learning sessions were also organized. In addition, a Time Bound Rotation Plan (TBRP) for aspiring officers was initiated during FY21 to provide opportunity for work exposure at Head Office. During FY21, SBP-BSC actively pursued workforce rationalization for achieving optimum HR strength through automation, digitization,

and BPR initiatives. The total staff strength in various grades shrunk to 2,183 by June 2021 as compared to 2,346 in the previous year due to early retirements and superannuation.

7.1.7 Support Services to SBP and its Subsidiaries

SBP-BSC ensured delivery of support services to internal stakeholders, as well as SBP and its subsidiaries in areas of procurement, engineering, medical and internal bank security. Despite COVID-19, a total of 198 procurement projects amounting to over Rs. 3 billion were undertaken during FY21 while ensuring strict compliance of PPRA rules. Major procurements included "Communication circuits for connectivity of SBP with 1Link & AGPR" and "Targeted Financial Screening Solution". SBP-BSC's Medical Services Division (MSD) implemented SBP's COVID-19 combat strategy effectively by establishing special emergency cell. MSD ensured management and implementation of preventive measures during pandemic and also developed a dashboard for real time monitoring and reporting of COVID-19 cases to top level management. In addition, a team of doctors across SBP-BSC rendered tele-medical consultancy to stakeholders during extended hours as well as on weekends. Further, an effective liaison with hospitals and laboratories was established through which lab tests and swift consultation services were arranged for the employees (and their families) of SBP-BSC and SBP to protect them from any untoward exposure.

SBP-BSC also ascertained the safety and security of workplace environment through issuance and compliance of security instructions, implementation of security controls and periodic assessment of security risks of SBP and its subsidiaries in collaboration with management and Law Enforcement Agencies (LEAs).

7.1.8 Corporate Governance and Internal Audit Framework

To provide effective support to the Corporate Governance Framework of SBP-BSC, 15 meetings of the SBP-BSC Board and its committees on Audit, HR, and Publications Review were conducted during FY21 and decisions were subsequently disseminated to the relevant stakeholders. During FY21, SBP-BSC streamlined its business planning exercise where efforts were made for planning, rationalization and execution of projects with organization-wide impact.

Furthermore, internal audit of SBP-BSC assisted the Board's Audit Committee in its oversight responsibilities on internal controls, governance and business practices through provision of summarized audit results. During FY21, 28 audits were conducted including annual audits of 8 field offices and 6 functional departments at SBP-BSC Head Office, Karachi. In addition, 12 coordinated audits with Internal Audit of, SBP, one hub audit and one thematic audit were also conducted.

7.2 National Institute of Banking & Finance (NIBAF)

FY21 remained the most challenging year for learning and development. NIBAF continuously strategized its training plans during the course of year, as the physical training sessions were possible only for a limited period and that too mainly at NIBAF Islamabad Campus under strict COVID -19 SOPs. Consequently, a substantial number of trainings were derived from Virtual Instructor-Led Training (VILT) sessions and webinars. Despite challenging environment, the overall training delivery during FY21 reached 25,314 person days of training. NIBAF offered 567 training programs in FY21 compared to an average of about 400 trainings during last three years. Category wise details of trainings are as follows:

7.2.1 Programs for SBP and allied subsidiaries

NIBAF continued to play its role in developing human resource capacity of SBP through a set of diversified training programs. NIBAF arranged pre induction, function specific and skill upgradation training programs for SBP officials. NIBAF conducted 287 training programs for SBP, translating into 9,396 person days training during FY21. NIBAF further expanded its training basket in FY21 through new offerings like; Economic Policy Response of COVID 19, RAAST, Micropayment Gateway, Blockchain Technology and Bitcoin, Cyber Security Advanced, Staying Productive while working from home, Cloud & Digital Financial Services, Central Banking Talks, etc.

During FY21, NIBAF also conducted the applied focused theoretical training of a batch of 33 officers under SBOTS-24 from December 28, 2020 – May 10, 2021 successfully. Both modes i.e., VILT and F2F were used during the course.

Further, efforts have been made to complement existing lecture-based training with activity-based learning methods, such as role-play, discussions, scenario analysis, case-studies, research assignments etc.

During FY21, NIBAF arranged more than 100 training programs for SBP-BSC officials. With limitation for physical classes, NIBAF managed to secure 4,116 person days of training of which, 1,052 came through F2F.

7.2.2 Training Programs for Commercial Banks

NIBAF offered a large number of new programs for commercial banks in the priority sectors (i.e., Islamic banking, microfinance, agriculture, SME and housing finance) during FY21. An interesting experiment was the launch of VILT programs targeting bank branches in remote areas of Baluchistan. Cumulatively, NIBAF arranged 108 training programs for commercial banks, translating into 1,693 person days of training.

7.2.3 Training Programs in Priority Sectors

During FY21, NIBAF in close collaboration with SBP arranged multiple training programs for the priority sectors across the country. These programs also promote SBP subsidized schemes specifically developed and designed for encouraging financing to the priority sectors.

Islamic Banking

During FY21, NIBAF conducted 31 training programs, translating into 3,835 person days of training in Islamic Banking sector. Specifically, NIBAF conducted 2 iterations of Islamic Banking Certification Course (a flagship program on Islamic banking), which led to 697 person days. NIBAF also arranged 10 training programs of 5-days each on Fundamental of Islamic Banking Operation (FIBO) in face-to-face mode during FY21 while 6 FIBO courses were conducted in virtual mode. The FIBO program attracted 305 participants, which resulted into 1,525 person days of training. In addition, in consultation with Islamic Banking Department, SBP, NIBAF introduced the 3-Day Islamic Banking Branch Operations (IBBO) program and arranged 9 courses. The IBBO attracted 231 participants, which translated into 693 person days.

Programs to Promote Microfinance

NIBAF in collaboration with SBP has rolled out training programs for microfinance banks to develop

capacity and enhance understanding of MFBs officials regarding financial and operational aspects of microfinancing. During FY21, 15 programs were held translating into 919 person days of training.

Housing Finance & Small and Medium Enterprises (SMEs)
NIBAF with the support of SBP has organized a number of SME & Housing-finance training programs on different aspects for banks' officials and awareness sessions for university students across the country. Specifically, 32 trainings programs were arranged during FY21, resulted into 2,611 person days of training.

Agriculture Sector
NIBAF in collaboration with SBP has initiated extensive capacity development programs for banks in agriculture financing. During FY21, NIBAF arranged 25 training programs in this category, translating into 2,143 person days of training.

Webinars and L&D Moots
NIBAF also arranged Webinars and L&D Moots during FY21. Well renowned financial industry experts and speakers - local and international - were invited to these webinars/moots. A large number of participants benefited from these programs.

7.2.4 Training Programs for Other Stakeholders

NIBAF organized training programs during FY21 for Pakistan Security Printing Corporation (PSPC), Deposit Protection Corporation (DPC) and Exchange Companies. Through multiple training programs, NIBAF managed to deliver more than 150 person days of training in this category.

7.2.5 National Financial Literacy Programs for Youth (NFLP-Y)

National Financial Literacy Program for Youth (NFLP-Y) has achieved some significant milestones during FY21. Since its launch, PomPak – an online game on financial literacy - exceeded 165,000 downloads and scored the top spot in the 'educational games' category in the Google Play Store in Pakistan.

During FY21, NFLP-Y signed 17 MoUs and received 8 NOCs from different educational directorates. Pertinently, three NOCs have been renewed only for Lahore district. Furthermore, 4 TOTs have been conducted in partner institutes during FY21. Furthermore, In June 2021, NIBAF and JazzCash, Pakistan's leading FinTech Company has signed a MoU for increasing financial literacy amongst youth of Pakistan. JazzCash, under its partnership, is going to provide SBP access to more than 26 million Pakistanis by promoting the PomPak application through its platform. This will help the application reach a wider audience, thus increasing its usage and eventually promoting financial literacy resulting in a highly positive socio-economic impact.

7.3 Deposit Protection Corporation (DPC)

Deposit protection is an important component of financial safety net in any jurisdiction and provides support to financial stability. It builds up confidence of the public in the financial system by providing timely and smooth access to their funds in case of bank failures.

DPC has been established under the DPC Act 2016, primarily to protect small and financially unsophisticated depositors from loss of their funds in case of a bank failure. The current protection amount determined by the DPC is Rs. 250,000 per depositor-per bank, which provides full coverage to around 92 percent of the eligible deposits. The corporation has devised a deposit protection framework, which comprises of separate mechanisms for Islamic as well as conventional banking depositors.

During FY21, DPC took following significant initiatives;

7.3.1 Development of Communication Strategy

The communication strategy of DPC was developed and approved by DPC Board. This strategy would allow the corporation to enhance its information footprint. DPC is now working towards establishment of its own platforms on different social media.

The strategy also discussed how and what to communicate with different stakeholders during normal times and during crises.

7.3.2 Efforts towards Enhancing Public Awareness

DPC concentrated its efforts towards enhancing level of awareness of public and external stakeholders on the concepts and working of deposit insurance and about DPC in FY21.

Following efforts were made during FY21 towards public awareness;

- DPC's website became operational in October 2020. This website acts as information gateway for all stakeholders. Plans are underway to further enhance its contents and appearance in FY22.
- The information platforms i.e., websites, emails and SMS services of banks were also leveraged to enhance dissemination of information to depositors on protection of deposits. In this regard, banks sent SMS and emails to their depositors about DPC and coverage of deposits. Such information was also placed on the websites of the banks.
- Extensive information sessions for banks' officials were conducted. Information sessions for the big five audit firms were also conducted and detailed awareness were also given about the workings of deposit insurance.
- For better understanding of deposit coverage, an extensive set of FAQs was developed and placed on DPC website.

7.3.3 Information System on Depositors

The development of database by banks was delayed due to interruptions emanating from COVID-19 pandemic. However, as a result of continuous follow-up and guidance to banks, the database of depositors have now been developed by almost all banks, linked with the core banking systems. DPC is now scrutinizing the data provided by banks to assess its correctness.

7.3.4 Development of Risk Control Self-Assessment Framework for DPC

The Corporation has also developed its own RCSA framework in order to recognize and assess various enterprise risks and their mitigants.

7.3.5 Investments and Fund Management

The Investment Policy of DPC was revised to make it more flexible to handle the growing volume of transactions, while at the same time keeping controls and risk monitoring functions intact. The Management Investment Committee and its role was also strengthened in this regard.

7.4 Pakistan Security Printing Corporation

FY21 was a difficult year for businesses in general and for industry in particular due to COVID-19 pandemic. Managing industrial units under strict lockdown imposed by the Government and ensuring availability and safety of required workforce was an uphill task compounded by supply chain disruptions. Most of the industrial units were compelled to close down due to unmanageable situation. PSPC, being an essential service entity, had to operate under these difficult circumstances and meet requirement for enhanced delivery of fresh banknotes. PSPC was able to manage continuation of its normal operations and produce & deliver highest ever number of fresh banknote pieces to SBP.

PSPC is a critical, essential, and crucial organization of national importance and remained vigilant of its responsibilities. It strictly followed SOPs related to COVID-19 to ensure safety of its employees enabling it to continue its operations. PSPC has successfully completed the annual indent for FY21 before the stipulated time, as well as the production target for the full year. The untiring efforts put in by the employees ensured delivery of 4,300 million banknote pieces, which is 7 percent higher than FY20 and highest ever in the history of PSPC. The table 7.1.4 illustrates last nine years' data of deliveries made by PSPC.

Table 7.1.4: Deliveries made by PSPC

Year	Banknote & Prize Bonds Sales (in million pieces)
2012-13	1,972
2013-14	2,108
2014-15	2,182
2015-16	2,359
2016-17	2,806
2017-18	3,547
2018-19	3,722
2019-20	4,010
2020-21	4,300

7.4.1 Enhancement of the Production Capacity

PSPC has opted to balance its production line to bring efficiency and cost-effectiveness in its core operations. Owing to the high indent, PSPC rehabilitated numbering machine (SN2) which increased the department's capacity by 10 percent. Further, through process reengineering on the numbering machine (SN1), production division was able to eliminate tenning process, which saved 12 workers' hour per day. Similarly, research-based adjustments were made on UNO finishing and packing machine without changing any original settings, which resulted in reduction in retouching work, saving 10 workers' hours per day.

The corporation has embarked on various other initiatives to further enhance its capacities in different areas, which are at different stages of completion and will yield results in the next few years.

7.4.2 Efficiency, Improvement and Waste Reduction

During FY21, the corporation initiated several projects for efficiency improvement and waste reduction. One of such improvement projects was to improve the quality of paper in coordination with producing associate company, M/s Security Papers Limited. A technical team of PSPC conducted several visits to identify process improvement areas at SPL. Moreover, denomination-wise paper specifications have also been debated and agreed upon by the technical teams of both the companies. The project has resulted in substantial production time saving. PSPC was able to improve its production capacity, while reducing wastage at the same time. In addition, PSPC's team was able to bring down the ink drying time, which played a pivotal role in the timely indent completion.

The corporation has also initiated lean management framework in its various production processes, with the help of our associate company, SICPA Pakistan Inks (Private) Ltd. Experts from the SICPA International, Switzerland would train and equip the corporation staff in implementing lean management.

7.4.3 Countrywide Deliveries of Banknotes

In spite of challenges due to COVID-19 pandemic, the corporation managed the smooth and uninterrupted supply of banknotes across the country. The highest ever delivery in one month of 1,124 million pieces was recorded in the month of May 2021. Timely delivery of banknotes enabled SBP to implement its Clean Note Policy, replace soiled banknotes from circulation and cater the spontaneous need of fresh banknotes due to the COVID-19 pandemic and the Prime Minister's Ehsaas Program.

7.4.4 Maintaining Quality of Banknotes

Since its acquisition by SBP, PSPC has been focusing on continuous improvement in its processes and production cycle, and has made constant efforts in pursuance of the zero-defect goal. PSPC aims to continue reforming its policies and adopt best market practices. To uphold this standard, PSPC works in close coordination with SBP to mitigate circulation of counterfeit banknotes and prize bonds. It ensures that various security features are embedded into its products so that it becomes easy to detect and keep counterfeits out of circulation. PSPC has a fully equipped laboratory that forensically analyze any suspected counterfeit product in the market as reported by SBP and law enforcement agencies. The laboratory is capable of running advance tests. During FY21, it benchmarked its operations with internationally acclaimed forensic laboratory at SICPA International, Switzerland.

Additionally, to make sure that no counterfeit products are circulated, PSPC in collaboration with SBP-BSC has established a Document Analytical Paper Laboratory at Lahore. This would provide additional assistance in the fight against counterfeit products.

7.4.5 Upholding Health, Safety & Environment

Various support departments at PSPC provided extraordinary support and assistance during the pandemic and ensured that entire corporation remains functional while safeguarding the health and wellbeing of its workforce. The management at PSPC is committed to provide healthy, safe, and clean

workplace to its employees, visitors, internal and external stakeholders. Although, HSE is a new department with limited resources but it has proven to be a vital one, especially during pandemic. To further strengthen the role of HSE, a Health, Safety & Environment GAP analysis study was conducted for benchmarking purpose. In light of the analysis, steps were taken to introduce new policies and ensure zero accidents. In order to cope up with well-being of employees, new parks have been established in the residential estate to facilitate the residents with a healthy lifestyle.

During the COVID-19 pandemic, all safety measures proposed by international and national health institutes along with the government guidelines for the industrial workplace were taken. PSPC has undertaken various risk mitigating measures on continuous basis to counter the detrimental effects of COVID-19 within the organization, which are as under:

1) Regular monitoring of Body Temperatures
2) Disinfecting Workplace on daily basis
3) Strict compliance of Guidelines / Instructions / SOPs
4) Screening and Testing of Employees on regular basis

Recently, PSPC Management has taken another initiative of COVID-19 vaccination drive wherein, HR Department along with medical team started in-house vaccination of employees. In this regard, it is pertinent to mention that 100 percent employees of PSPC including outsourced workforce and DSF (army) have been vaccinated except for few resources who are medically unfit for the vaccination. Moreover, PSPC has also carried out vaccination of its associated companies which includes SICPA, SPL, and NSPC.

PSPC has also successfully grown an urban forest on over 5000 square yards. The tall trees are now over 20 feet within a short span of one year. The forest hosts a complete eco-system and is a living testament to PSPC's efforts in cleaning the environment. PSPC was also successful in experimenting with composting of the banknote paper waste. After this success, PSPC is now embarking on a project to eliminate the burning or dumping of paper waste. In future, 100 percent of the waste would be converted into compost for agriculture use.

7.4.6 Security Enhancement at PSPC

PSPC, being a critical and strategic organization of the country is categorized as a KPID Alpha-1 facility. Due to its nature of business, PSPC has significant security risks which need to be alleviated effectively. Though, the security risk cannot be completely eliminated, but continuous efforts are made to mitigate it to a lower level. In this regard, latest technological advancements have been made to strengthen the security of the corporation and its employees to increase the area coverage and create an additional layer of security. Further, supplementary physical measures and enhancements have also been taken.

7.4.7 Developments in Information Technology

Upgrading the information management is co-related to the overall performance of an organization. A strong and self-evolving information management system ensures and improves the productivity of the entire organization.

PSPC was successfully able to migrate File Storage Service, Email Service, Internet Proxy, and Active Directory to a virtual environment to reduce their dependability on the server hardware and ensure their timely availability through rapid migrations in case of server hardware malfunctions or maintenance. Furthermore, a Disaster Recovery Site was established for an active back up environment where backup of domain controller, database and email are being maintained to ensure availability of IT related services in the event of a crisis or emergency situation.

PSPC in collaboration with SBP also conducted an IT security assessment of IT infrastructure at PSPC. Steps are being taken to further strengthen the infrastructure, in accordance with the security assessment report recommendations, which will eventually mitigate the potential cyber-security threats at PSPC. Moreover, PSPC has hired a consultant to conduct ERP assessment of the corporation.

7.4.8 HR Developments

Keeping in view the best market practices, organizational restructuring of PSPC is in process to enhance the overall productivity of the corporation and to eliminate the redundancies. Likewise, major initiatives in the areas of workforce rationalization and automation have been taken to boost the effectiveness and efficiency of the business and its processes.

Further, in order to align the policies of PSPC with the leading and comparator organizations, existing HR policies are being revised. In the first phase, policies pertaining to recruitment, promotion, whistle blowing, corporate social responsibility and code of conduct are being revised. Moreover, PSPC is also bringing conspicuous improvement and development in capacity building of human resource through a mixture of in-house, external, and other lateral training programs. These programs were endeavored at improving the functional and behavioral competencies of the human resource.

The strategic partnership between PSPC and NIBAF has developed exceptionally during the course of time. Some critical programs having huge impact on capacity-building of PSPC human resource, were planned and organized in collaboration with NIBAF and various prestigious training institutes of Karachi. In addition, PSPC is initiating a Technical Certification Program for its workforce, which will help in periodic skill enhancement, capacity building, and grooming of workforce.

8 Financial Performance

8.1 Overview

SBP earned a profit of Rs.760,859 million (consolidated) in FY21 as compared to a profit of Rs.1,163,433 million in FY20. The decline in profit is primarily attributed to lower income from lending to the government. Pakistan Investment Bonds (PIBs) worth Rs.569,000 million matured during the year and no fresh lending was made by the Bank to the Federal Government, resulting in lower income under this head. Moreover, decrease in average interest rate during FY21 also impacted adversely on income from lending to Government. Income from reverse repo transactions and foreign currency deposits also witnessed a decline while charge on account of fair value adjustment on COVID loans significantly increased during the year. The decline in income from these major income/expense streams is partly offset by decrease in interest / mark up expense and operating expenses. SBP group also earned higher net exchange gain during FY21 as compared to the previous year due to appreciation of PKR against other currencies particularly USD during the year.

Table 8.1 gives a comparative summary of Bank's annual profit and loss account for FY21 and FY20.

Table 8.1: Summary Statement of Profit and Loss

(million rupees)

Description	FY 21	FY 20
Income		
Discount / interest /markup and/or return earned	768,378	1,218,680
Less: Interest/mark-up expense	52,695	73,346
Net discount / interest /markup and/or return income	**715,683**	**1,145,334**
Fair valuation adjustment on COVID loans - net	(45,732)	(4,194)
Commission income	5,245	4,648
Exchange gain – net	135,328	66,402
Dividend Income	520	461
Share of profit from associates	1,338	580
Other operating income/(loss) – net	3,672	8,604
Other income – net	396	1425
Total income net of interest expenses	**816,450**	**1,223,260**
Expenditure		
Bank notes and Prize Bonds printing charges	15,762	13,325
Agency commission	9,281	10,669
General administrative and other expenses	29,321	35,168
(Reversal of Provisions) / Provisions - net	(88)	(73)
Less: Total expenditure- net of reversal of provisions	**54,276**	**59,089**
Profit for the year	**762,174**	**1,164,171**
Taxation	1,315	738
Surplus Profit/(loss) for the year after tax	**760,859**	**1,163,433**

Details of major heads of income and expenses are appended below:

8.2 Income

8.2.1 Net Discount / Interest / Markup

The interest / markup income decreased by Rs. 453,033 million to Rs. 755,588 million, registering a decrease of 37 percent. For SBP, lending to the Government of Pakistan (GoP) remained the major source of income during the year, which dropped by 39 percent due to maturity of PIBs worth Rs. 569 billion and no further lending to the GoP during the year. Income under this head also declined due to decrease in average interest rate on PIBs during the year. The income earned on lending to commercial banks through OMO injections decreased by 30 percent due to decline in average interest rate despite larger volumes of monetary injections during the year.

The interest earned on refinance facilities to priority sectors increased to Rs. 17,892 million in FY21 from Rs. 12,837 million in FY20 primarily due to increase in lending to banks under various refinance schemes.

The income on FCY deposits registered 59 percent decrease during the year. Although foreign currency placements increased during the year, however, the return on investments decreased due to lower interest rates in the international market. (**Table 8.2 and 8.3).**

On the expenditure side, the Bank incurred interest/ markup expense on FCY and domestic liabilities. FCY liabilities include deposits of international organizations and central banks, borrowings from International Monetary Fund and currency swap arrangements. The domestic interest/markup bearing liabilities include repurchase transactions and sukuks purchased under Bai-muajjal agreement. The interest/ markup expense witnessed a decline of Rs. 20,651 million primarily due to decrease in expense on deposits held by the Bank, expense on sukuks purchased under bai-muajjal agreements and interest on SDR of IMF. **(Table 8.4)**

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

Description	FY 21	FY 20
Discount, interest / mark-up on:		
- Government Securities	637,110	1,048,157
-Securities purchased under agreement to resell	90,251	128,764
Income from loans to financial institutions	17,892	12,837
Foreign currency deposits	5,520	13,603
Others	4,815	5,260
Total	**755,588**	**1,208,621**

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

Description	FY 21	FY 20
Government securities	6,685,409	7,276,174
Overdraft /loans to Governments	33,794	30,157
Securities purchased under agreement to resell	1,792,952	917,540
Banks and financial institutions	1,168,174	785,897
Total	**9,680,329**	**9,009,768**
Yield on Treasury Bills	**7.92% to 13.88%**	**8.23% to 14.02%**
Mark-up on Loans to Banks and FIs	**0% to 9.70%**	**0% to 14.49%**

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

Description	FY 21	FY 20
Deposits	16,512	29,582
Interest on bilateral currency swap	26,107	20,560
Interest on special drawing rights of IMF	7,833	13,718
Securities sold under agreement to repurchase	692	1,500
Expense on sukuks purchased under Bai-muajjal agreement	1,379	6,728
Charges on allocation of special drawing rights of IMF	170	1,255
Others	2	3
Total	**52,695**	**73,346**

8.2.2 Fair valuation adjustment of COVID loans

In order to neutralize the adverse impacts of COVID-19 pandemic on economy, SBP introduced certain interest free/subsidized refinancing schemes. As per the requirements of IFRS-9, the subsidized loans are required to be recorded at fair value. Accordingly, an amount of Rs. 58,418 million has been recognized as fair valuation adjustment against these loans, whereas amortization of fair valuation adjustment of Rs.12,686 million has been recorded as income during FY21.

8.2.3 Exchange Gain – Net

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

The bank earned a net exchange gain of Rs.135,328 million during FY21 compared to an exchange gain of Rs.66,402 million during FY20 (**Table 8.5**). There is a net FCY liability position (including off balance sheet commitments) that resulted in net exchange gain as PKR appreciated against USD, SDR and other currencies during the period. The details of FCY assets and liabilities are given in the **Table 8.6**.

Table 8.5 Breakup of the Exchange Account (million rupees)

Description	FY 21	FY 20
Gain / (loss) on:		
Foreign currency placements, deposits and other accounts - net	107,397	83,567
IMF Fund facilities	21,337	(10,475)
Special Drawing Rights of the IMF	6,615	(6,683)
Others	(21)	(7)
Total	**135,328**	**66,402**

Table 8.6 FCY Assets and Liabilities (million rupees)

Description	FY 21	FY 20
FCY Assets		
Investments	1,024,583	501,176
Deposit / Current Accounts	376,363	595,729
Securities purchased under agreement to resale	423,792	891,609
Money market placements	1,034,107	218,466
Earmarked FCY balances	20,708	62,010
SDR of IMF	60,771	29,537
Reserve tranche position with IMF	27	28
Others	25,169	8,637
Total FCY assets	**2,965,520**	**2,307,192**
FCY Liabilities		
Deposits of banks/FIs	234,791	236,979
Other deposits and accounts	442,148	983,607
Bilateral currency swap agreement	748,494	476,723
Payable to IMF	845,359	1,045,944
Total FCY liabilities (On Balance Sheet)	**2,270,792**	**2,743,253**
Off Balance Sheet Commitments	**767,134**	**957,576**
Total FCY liabilities	**3,037,926**	**3,700,829**
Net FCY Liabilities	**(72,406)**	**(1,393,637)**

8.2.4 Other Operating Income – net

Other operating income include penalties levied on banks/financial institutions, licenses and e-CIB fee, gains/ (losses) on sale and re-measurement of investments and other income. Income under this head decreased to Rs 3,672 million in FY21 from Rs.8,604 million in last year. The decrease is primarily due to a decline in income on penalties levied on banks and financial institutions, licenses fee, e-CIB fee which is partly offset by increase in gain on disposal of foreign investments classified as "fair value through profit or loss".

8.3 Operating Expenditure

The total expenditure during the year was Rs. 54,276 million as against Rs. 59,089 million in FY20. The decrease is due to 17 percent decline in general administrative & other expenses and 13 percent decrease in agency commission. An analysis of major components of the Bank's expenditure is given as under:

8.3.1 Banknotes Printing Charges

The banknote printing charges increased to Rs. 15,762 million in FY21 from Rs 13,325 million in FY20, thereby registering an increase of 18 percent mainly due to larger volumes of printing and increase in printing rates.

8.3.2 Agency Commission

The Agency commission paid to National Bank of Pakistan and Bank of Punjab decreased by 13 percent during the year to Rs 9,281 million from Rs 10,668 million in FY20. The decrease in the agency commission expense is due to impact of higher government receipts through Alternate Delivery Channels (ADC) mechanism, which entails nominal cost for SBP. The agency commission is likely to show further declining trends due to shifting of government payments to online settlement modes in the future.

8.3.3 General Administrative and Other Expenses

The general administrative expenses include employees' salaries and other benefits, retirement benefits, fund managers and custodians' expenses, training expenses, legal and professional expenses, depreciation, repair and maintenance, etc. The overall general and administrative expenses decreased to Rs. 29,320 million in FY21 from Rs. 35,168 million in FY20, thus registering a decrease of Rs.5,848 million. The major decrease was witnessed in retirement benefits, salaries and other benefits and legal and professional expenses during the period. A summary of the general, administrative and other expenses is given in **Table 8.7**.

Table 8.7: General, Administrative and other expenses

(million rupees)

Description	FY 21	FY 20
Salaries & other benefits	11,277	11,448
Retirement benefits	11,652	16,939
Repair and maintenance	946	852
Fund managers' and custodian expenses	310	298
Training	2	83
Deprecation	2,162	2,069
Legal and professional	74	240
Others	2,897	3,239
Total	**29,320**	**35,168**

8.4 Balance Sheet Summary

The total assets stood at Rs. 13,603 billion as at June 30, 2021 as compared to Rs. 12,273 billion on June 30, 2020, registering an increase of Rs. 1,330 billion primarily due to increase in securities purchased under agreement to resell. The increase in total assets can also be attributed to the increase in foreign currency accounts and investments, loans and advances to banks and financial institutions in order to promote the economic activities in the priority sectors and increase in SDRs of IMF.

The total liabilities of the bank stood at Rs. 12,446 billion as at June 30, 2021 as compared to Rs. 11,219 billion as at June 30, 2020 registering an increase of Rs. 1,227 billion. This rise was primarily led by increase in currency in circulation. A comparative analysis of SBP assets and liabilities for FY21 and FY20 are given in the **Figure 8.1 to 8.4.**

Figure 8.1: SBP Assets 2021

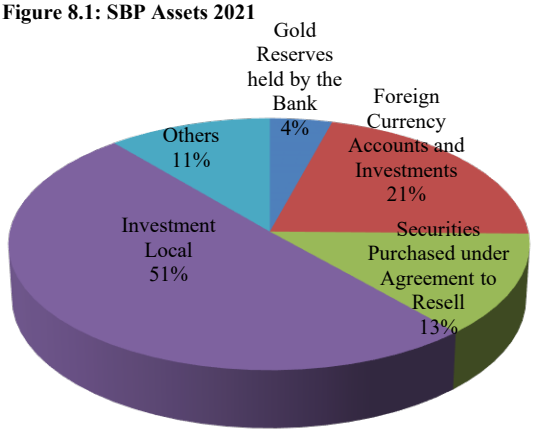


Figure 8.2: SBP Assets 2020

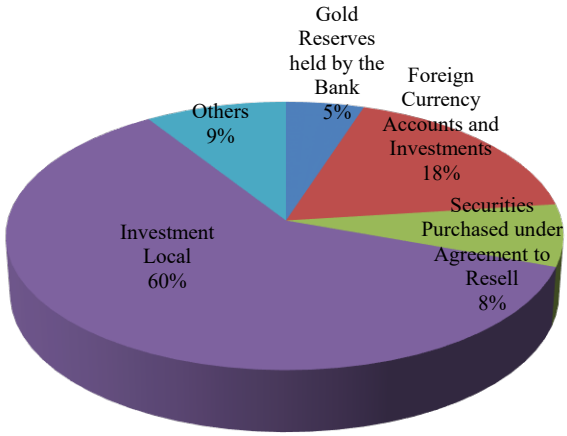


Figure 8.3: SBP Liabilities 2021

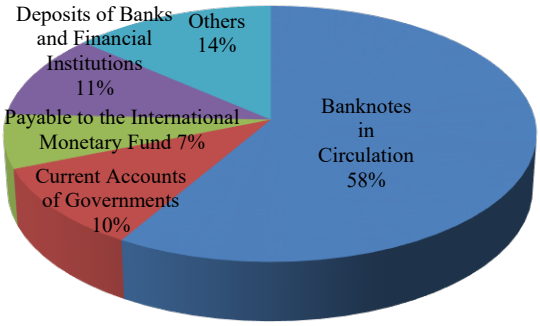
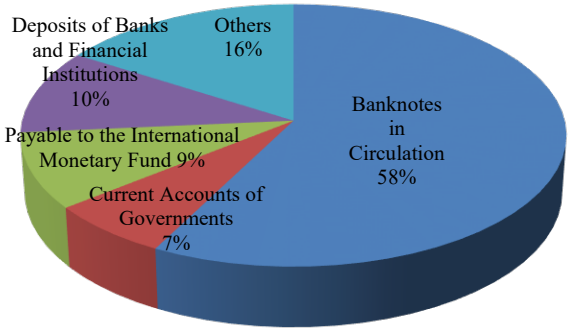


Figure 8.4: SBP Liabilities 2020



9 Consolidated Financial Statements of SBP

A. F. FERGUSON & CO.
Chartered Accountants
State Life Building No. 1-C
I.I Chundrigar Road
P.O. Box 4716
Karachi - 74000

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the State Bank of Pakistan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries, SBP Banking Services Corporation, National Institute of Banking and Finance (Guarantee) Limited and Pakistan Security Printing Corporation (Private) Limited (together 'the Group'), which comprise the consolidated balance sheet as at June 30, 2021, and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at June 30, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

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Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

	Key Audit Matter	How the matter was addressed in our audit
1	**Foreign currency accounts and investments** (Refer note 9 of the annexed consolidated financial statements)	
	The Group maintained certain foreign currency accounts and investments which aggregated to Rs 2,859 billion as at June 30, 2021. This includes balances aggregating to Rs 207.081 billion which were placed through appointed fund managers by the Group under the supervision of a custodian. 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.	Our audit procedures, among others, included the following: ▪ 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; ▪ We sent direct confirmations to counterparties to confirm the balances of investment holdings; and ▪ We compared the prices to independent sources on a sample basis where quoted market prices were used. Further, in respect of the investment made through fund managers: ▪ We obtained Type-2 report from Custodian and Fund Managers to assess that controls were suitably designed by the Fund Managers and the Custodian and operated effectively in respect of their 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 Group to assess that they are accurately recorded; and ▪ We performed substantive audit procedures on year-end balance of portfolio including evaluation of Custodian's statements, and re-performance of valuations on a test basis on the basis of observable data at the year end. We also evaluated the adequacy of the overall disclosures in the consolidated financial statements in respect of the investment portfolio in accordance with the requirements of applicable financial reporting framework.
2	**Fair value adjustment on loans given in response to COVID-19 pandemic** (Refer note 16.6 of the annexed consolidated financial statements)	
	During the year, the Group in response to COVID-19 pandemic has extended new	Our audit procedures, among others, included the following:

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Chartered Accountants

	Key Audit Matter	How the matter was addressed in our audit
	financing facility schemes and disbursed Rs 299.540 billion. These facilities have been recorded at their fair value resulting in a net fair valuation adjustment of Rs 58.419 billion. The disbursement of these loans was a significant event for the Group 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.	▪ 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 consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Consolidated Financial Statements

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

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

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

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Chartered Accountants

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

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

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

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

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

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

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

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

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

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.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

The engagement partners on the audit resulting in this independent auditor's report are **Salman Hussain** (A. F. Ferguson & Co.) and **Muhammad Taufiq** (KPMG Taseer Hadi & Co.).

A. F. FERGUSON & CO.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Dated: **October 29, 2021**

Karachi

STATE BANK OF PAKISTAN
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2021

	Note	2021	2020
		----------(Rupees in '000)----------	
ASSETS			
Cash and bank balances	6	**501,584**	212,825
Gold reserves held by the Bank	7	**577,356,238**	617,495,037
Local currency - coins	8	**417,574**	1,028,584
Foreign currency accounts and investments	9	**2,858,844,812**	2,206,986,255
Earmarked foreign currency balances	10	**20,707,900**	62,010,317
Special drawing rights of the International Monetary Fund	11	**60,771,006**	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	12	**26,727**	27,555
Securities purchased under agreement to resell	13	**1,792,952,119**	917,539,647
Current accounts of governments	25.2	**33,793,930**	30,157,106
Investments - local	14	**6,857,412,223**	7,412,323,127
Investment in associates	15	**7,383,736**	6,488,078
Loans, advances and bills of exchange	16	**1,190,995,127**	804,752,686
Taxation - net		**914,578**	1,045,957
Assets held with the Reserve Bank of India	17	**11,268,449**	11,943,164
Balances due from the Governments of India and Bangladesh	18	**14,087,874**	13,141,164
Property, plant and equipment	19	**138,347,329**	137,165,046
Investment property	20	**983,847**	978,608
Intangible assets	21	**98,187**	106,344
Other assets	23	**36,275,434**	20,105,088
Total assets		**13,603,138,674**	12,273,043,715
LIABILITIES			
Banknotes in circulation	24	**7,278,860,019**	6,458,763,106
Bills payable		**2,051,417**	1,726,348
Current accounts of governments	25.1	**1,295,486,434**	748,790,102
Payable to Islamic banking institutions against Bai Muajjal transactions	26	**-**	19,512,958
Payable under bilateral currency swap agreement	27	**748,494,053**	476,722,596
Deposits of banks and financial institutions	28	**1,327,668,392**	1,171,103,559
Other deposits and accounts	29	**629,029,916**	1,093,994,030
Payable to the International Monetary Fund	30	**845,358,651**	1,045,944,378
Securities sold under agreement to repurchase	31	**135,051,390**	-
Other liabilities	32	**82,443,362**	105,218,885
Deferred liability - staff retirement benefits	33	**100,980,115**	96,370,511
Deferred taxation	22	**954,804**	560,356
Endowment fund		**128,771**	120,984
Total liabilities		**12,446,507,324**	11,218,827,813
Net assets		**1,156,631,350**	1,054,215,902
REPRESENTED BY			
Share capital	34	**100,000**	100,000
Reserves	35	**217,737,753**	124,134,119
Unappropriated profit		**173,303,751**	159,739,454
Unrealised appreciation on gold reserves held by the Bank	36	**572,779,945**	613,003,558
Unrealised appreciation on remeasurement of investments - local	14.7	**96,888,099**	61,416,969
Surplus on revaluation of property, plant and equipment		**95,821,802**	95,821,802
Total equity		**1,156,631,350**	1,054,215,902
CONTINGENCIES AND COMMITMENTS	37		

Pursuant to the requirements of section 26 (1) of the SBP Act, 1956, the assets of the Group specifically earmarked against the liabilities of the Issue department have been detailed in note 25.1 to these consolidated financial statements.

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		----------(Rupees in '000)----------	
Discount, interest / mark-up and / or profit earned on financial assets measured at;			
- amortised cost	38	**755,587,586**	1,208,621,301
- fair value through profit or loss	38	**12,790,878**	10,058,650
Less: interest / mark-up expense	39	**(52,695,370)**	(73,346,285)
		715,683,094	1,145,333,666
Fair valuation adjustment on COVID loans	16.6	**(45,731,983)**	**(4,193,815)**
Commission income	40	**5,244,753**	4,647,788
Exchange gain - net	41	**135,327,773**	66,402,530
Dividend income		**520,498**	460,688
Share of profit from associates	42	**1,337,861**	579,908
Other operating income - net	43	**3,671,854**	8,603,985
Other income - net	44	**395,522**	1,424,801
		816,449,372	1,223,259,551
Less: operating expenses			
- banknotes' and prize bonds printing charges	45	**15,762,129**	13,325,213
- agency commission	46	**9,280,641**	10,668,548
- general administrative and other expenses	47	**29,320,541**	35,168,241
(Reversal of provision against) / provision for:			
- other doubtful assets	32.3.1.1	**(24,621)**	(42,143)
- others		**1,111**	117
		(23,510)	(42,026)
Reversal of credit loss allowance on financial instruments - net	48	**(63,953)**	(30,875)
		54,275,848	59,089,101
Profit before taxation		**762,173,524**	1,164,170,450
Taxation	49	**1,314,724**	737,860
Profit after taxation		**760,858,800**	1,163,432,590

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		----------(Rupees in '000)----------	
Profit after taxation		**760,858,800**	1,163,432,590
Other comprehensive income			
Items that may be reclassified subsequently to the consolidated profit and loss account:			
Unrealised (diminution) / appreciation on gold reserves held by the Bank	7	**(40,223,613)**	148,822,917
		(40,223,613)	148,822,917
Items that will not be reclassified subsequently to the consolidated profit and loss account:			
Unrealised appreciation / (diminution) on remeasurement of investments - local	14.7	**35,471,130**	(7,073,637)
Impact of reclassification of property, plant and equipment to investment property - net of deferred tax		**-**	(946,293)
Impact of adjustment in remeasurement of property, plant and equipment of associate - net of deferred tax		**-**	3,310,469
Impact of adjustment surplus of property, plant and equipment relating to deferred tax		**-**	(232,933)
Remeasurements of staff retirement defined benefit plans	47.3.3.1 & 47.4.7	**(3,139,359)**	(10,740,799)
		32,331,771	(15,683,193)
Total comprehensive income for the year		**752,966,958**	1,296,572,314

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

Dr. Reza Baqir Governor	**Murtaza Syed** Deputy Governor	**Saleemullah** Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2021

	Share capital	Reserves										Unrealised appreciation on gold reserves held by the Bank (note 36)	Unrealised appreciation/ (diminution) on remea-surement of investments - local (note 14.7)	Surplus on revaluation of property and equipment	Total
		Reserve fund (note 35.1)	Reserve for building up share capital	Reserve for acquisition of PSPC (note 35.2)	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, 2019	**100,000**	**33,966,563**	**-**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**(41,279,353)**	**69,451,210**	**10,259,308**	**464,180,641**	**68,490,606**	**93,690,559**	**706,172,324**
Profit after taxation	-	-	-	-	-	-	-	-	-	-	-	1,163,432,590	-	-	-	1,163,432,590
Other comprehensive income																
Unrealised diminution on remeasurement of investments - local (note 14.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,073,637)	-	(7,073,637)
Impact of reclassification of property, plant and equipment to investment property - net of deferred tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*(946,293)*	(946,293)
Impact of adjustment in remeasurement of property, plant and equipment of associate - net of deferred tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*3,310,469*	3,310,469
Impact of adjustment of property, plant and equipment of associate - net of deferred tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(232,933)	(232,933)
Unrealised appreciation on gold reserves held by the Bank (note 36)	-	-	-	-	-	-	-	-	-	-	-		148,822,917			148,822,917
Remeasurements of staff retirement defined benefit plans (note 47.3.3.1 & 47.4.7)	-	-	-	-	-	-	-	-	-	-	-	(10,740,799)	-	-	-	(10,740,799)
	-	-	-	-	-	-	-	-	-	-	-	(10,740,799)	148,822,917	(7,073,637)	2,131,243	133,139,724
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	1,152,691,791	148,822,917	(7,073,637)	2,131,243	1,296,572,314
Appropriations																
Transfer to the reserve fund (note 35.1)	-	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	-	-	-	-	-	-	-	-	-	-	-	(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**	**20,976,129**	**67,673,343**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**(41,279,353)**	**124,134,119**	**159,739,454**	**613,003,558**	**61,416,969**	**95,821,802**	**1,054,215,902**
Profit after taxation	-	-	-	-	-	-	-	-	-	-	-	760,858,800	-	-	-	760,858,800
Other comprehensive income																
Unrealised appreciation on remeasurement of investments - local (note 14.7)	-	-	-	-	-	-	-	-	-	-	-	-	-	35,471,130	-	35,471,130
Unrealised diminution on gold reserves held by the Bank (note 36)	-	-	-	-	-	-	-	-	-	-	-	-	(40,223,613)	-	-	(40,223,613)
Remeasurements of staff retirement defined benefit plans (note 47.3.3.1 & 47.4.7)	-	-	-	-	-	-	-	-	-	-	-	(3,139,359)	-	-	-	(3,139,359)
	-	-	-	-	-	-	-	-	-		-	(3,139,359)	(40,223,613)	35,471,130	-	(7,891,842)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-	757,719,441	(40,223,613)	35,471,130	-	752,966,958
Appropriations																
Transfer to the reserve fund (note 35.1)	-	93,603,634	-	-	-	-	-	-	-	-	93,603,634	(93,603,634)	-	-	-	-
Transactions with owners																
Dividend	-	-	-	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	-	(650,541,510)	-	-	-	(650,541,510)
	-	-	-	-	-	-	-	-	-	-	-	(650,551,510)	-	-	-	(650,551,510)
Balance as at June 30, 2021	**100,000**	**114,579,763**	**67,673,343**	**65,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**(41,279,353)**	**217,737,753**	**173,303,751**	**572,779,945**	**96,888,099**	**95,821,802**	**1,156,631,350**

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		------ (Rupees in '000) -------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	50	**637,422,712**	1,043,589,818
Taxes (paid) / refunded		**(869,349)**	192,178
(Increase) / decrease in assets:			
Foreign currency accounts and investments		**(146,643,836)**	(287,009,962)
Gold reserves held by the Bank		**(84,814)**	(47,118)
Securities purchased under agreement to resell		**(875,412,452)**	(134,621,472)
Investments - local		**591,886,340**	484,849,258
Loans, advances and bills of exchange		**(431,933,474)**	(211,449,885)
Other assets		**268,555**	(5,900,031)
		(861,919,681)	(154,179,210)
		(225,366,318)	889,602,786
Increase / (decrease) in liabilities:			
Banknotes issued - net		**820,096,913**	1,173,737,602
Bills payable		**325,069**	579,688
Current accounts of Governments		**543,059,508**	(354,680,529)
Payable to Islamic Banking Institutions against Bai Muajjal transactions		**(19,512,958)**	(104,897,274)
Payable under bilateral currency swap agreement		**271,771,457**	(1,766,789)
Deposits of banks and financial institutions		**156,564,833**	(75,135,211)
Payment of retirement benefits and employees' compensated absences		**(10,185,520)**	1,640,105
Other deposits and accounts		**(464,964,114)**	(22,330,454)
Securities sold under agreement to repurchase		**135,051,390**	-
Other liabilities		**(17,331,478)**	(76,683,055)
Endowment fund		**7,787**	11,384
		1,414,882,887	540,475,467
Net cash generated from operating activities		**1,189,516,569**	1,430,078,253
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		**946,929**	1,913,514
Capital expenditure		**(3,727,434)**	(1,320,024)
Proceeds from sale of short term investments		**3,317,599**	522,000
Proceeds from disposal of property, plant and equipment		**28,177**	57,057
Contribution of initial capital in Deposit Protection Corporation		**-**	-
Net cash (used in) / generated from investing activities		**565,271**	1,172,547
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		**(650,541,510)**	(935,518,736)
Net change in balances pertaining to IMF		**(179,248,811)**	(114,594,748)
Dividend paid		**(10,000)**	(10,000)
Net cash used in financing activities		**(829,800,321)**	(1,050,123,484)
Increase in cash and cash equivalents during the year		**360,281,519**	381,127,316
Cash and cash equivalents at the beginning of the year		**1,936,187,120**	1,504,301,033
Effect of exchange gain / (loss) on cash and cash equivalents		**42,032,683**	50,758,771
Cash and cash equivalents at the end of the year	51	**2,338,501,322**	1,936,187,120

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

1 STATUS AND NATURE OF OPERATIONS

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

- SBP Banking Services Corporation (BSC);
- National Institute of Banking and Finance (Guarantee) Limited (NIBAF); and
- Pakistan Security Printing Corporation (Private) Limited (PSPC).

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

- formulating and implementing the monetary policy;
- facilitating free competition and stability in the financial system;
- licensing and supervision of banks including micro finance banks, development financial institutions and exchange companies;
- organising and managing the inter-bank settlement system and promoting smooth functioning of payment systems;
- providing of loans and advances to 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.

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

1.1.3 The subsidiaries and associates 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 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 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 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 was incorporated in Pakistan under the repealed Companies Ordinance, 1984 (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.

d) SICPA Inks Pakistan (Private) Limited (SICPA) - associate

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.

e) Security Papers Limited (SPL) - associate

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 PSPC of development (now economic PSPC 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.

2 STATEMENT OF COMPLIANCE

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

3 BASIS OF MEASUREMENT

3.1 These consolidated financial statements have been prepared under the historical cost convention, except that gold reserves, certain foreign currency accounts and investments, certain local investments, investment property and certain items of property, plant and equipment 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 consolidated financial statements are presented in Pakistani Rupees (PKR), which is the Group'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 There are certain 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 Group's operations and are, therefore, not detailed in these consolidated 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, 2023
- IAS 8, 'Accounting policies, changes in accounting estimates and errors' (amendments)	January 1, 2023
- IAS 16, 'Property, plant and equipment' (amendments)	January 1, 2022
- IAS 37, 'Provisions, contingent liabilities and contingent assets' (amendments)	January 1, 2022
- IFRS 9, 'Financial instruments' (amendments)	January 1, 2022
- IFRS 7, 'Financial instruments - disclosures (amendments)'	January 1, 2021
- IFRS 3, 'Business combinations' (amendments)	January 1, 2022

The management is in the process of assessing the impact of the above amendments on the consolidated 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, 2021, but are considered not to be relevant or will not have any significant effect on the Group's operations and are, therefore, not detailed in these consolidated financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are consistently applied from year to year, except as stated otherwise.

4.1 Basis of consolidation

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

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

4.2 Banknotes in circulation and local currency coins

The liability of the Group 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 consolidated 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 consolidated balance sheet.

The Group 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.

Financial assets and financial liabilities

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

Financial instruments – initial recognition

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

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

Classification and subsequent measurement of financial assets and liabilities

4.3.2 The Group classifies all of its financial assets other than equity instruments based on two criteria: a) the Group's business model for managing the assets; and b) whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI test'), The financial assets are measured at either:

- amortised cost, as explained in note 4.3.3;
- fair value through other comprehensive income (FVOCI), as explained in notes 4.3.4 and 4.3.5; or
- fair value through profit or loss (FVPL), as explained in note 4.3.6.

a) Business model assessment

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

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

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's board / board committees;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and

- the expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

b) The SPPI test

As a second step of its classification process, the Group assesses the contractual terms of financial 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 Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

The Group classifies and measures its derivative and trading portfolio at FVPL as explained in note 4.3.8. The Group may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in note 4.3.6.

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 4.3.6 and 4.3.7.

4.3.3 Financial assets at amortised cost

The Group 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).

4.3.4 Debt instruments at FVOCI

The Group 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 consolidated profit and loss account in the same manner as for financial assets measured at amortised cost as explained in note 4.3.3.

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

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

4.3.5 Equity instruments at FVOCI

At initial recognition, the Group may elect 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 consolidated profit and loss account. Dividends are recognised in consolidated profit and loss account as other operating income when the right of the payment has been established, (except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI). Equity instruments at FVOCI are not subject to an impairment assessment.

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

Financial assets and financial liabilities in this category are those that are 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 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 consolidated balance sheet at fair value. Changes in fair value are recorded in the consolidated 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.

4.3.7 Financial liabilities at amortised cost

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits of banks and financial institutions, other deposits and accounts, securities sold under agreement to repurchase, payable under bilateral currency swap agreement, current accounts of governments, payable to Islamic banking institutions against Bai Muajjal transactions, payable to the IMF, banknotes in circulation, bills payable and certain other liabilities.

4.3.8 Derivative financial instruments

The Group uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivatives are re-measured to fair value on subsequent reporting dates. The resultant gains or losses from derivatives are included in the consolidated profit and loss account. Forwards, futures and swaps are shown under commitments in note 37.2.

4.3.9 Reclassification of financial assets and liabilities

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

4.3.10 Derecognition of financial asset and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.3.11 Impairment of financial assets

4.3.11.1 Overview of the expected credit losses (ECL) principles

The Group 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 4.3.11.2. The Group's policies for determining if there has been a significant increase in credit risk are set out in note 53.1.7.

The 12mECL is the portion of 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 Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 53.1.7.

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

- stage 1: when loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from stage
- stage 2: when a loan has shown a significant increase in credit risk since origination, the Group 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 53.1.3). The Group records an allowance for the LTECL.

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

4.3.11.2 The calculation of ECL

The Group 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 The *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 53.1.5.

- PD The *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

- LGD The *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 53.1.6.

When estimating the ECL, the Group considers three scenarios (a base case, a best case and a worst 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 Group 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 Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.

- stage 2: when a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

- stage 3: for loans considered credit-impaired (as defined in note 53.1.3), the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for stage 2 assets, with the PD set at 100%.

- financial guarantee contracts: the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated profit and loss account, and the ECL provision. For this purpose, the Group 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.

4.3.11.3 Forward looking information

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

4.3.11.4 Credit enhancements: collateral valuation and financial guarantees

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

4.3.11.5 Offsetting of financial assets and financial liabilities

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

4.4 Collateralised borrowings / lending

4.4.1 Repurchase and reverse repurchase agreements

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

4.4.2 Payable under bilateral currency swap agreement

Bilateral currency swap agreements with counterpart central banks involve the purchase / sale and subsequent resale / repurchase of local currencies of counterpart central banks against PKR at the applicable exchange rate (determined in accordance with the terms of the agreement). The actual use of facility by the Group / counterpart central bank in the agreement is recorded as borrowing / lending in books of the Group and interest is charged / earned at agreed rates to the consolidated 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 37.2.7.

4.4.3 Payable to Islamic banking institutions against Bai Muajjal transactions

The Group 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 the consolidated 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).

4.5 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 State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No.42(vi). Appreciation or diminution, if any, on revaluation is taken to equity under the head "unrealised appreciation on gold reserves". Appreciation / diminution realised on disposal of gold is taken to the consolidated profit and loss account. Unrealised appreciation / diminution on gold reserves held with the Reserve Bank of India is not recognised in the consolidated statement of changes in equity pending transfer of these assets to the Group subject to final settlement between the Governments of Pakistan and India. Instead it is shown in other liabilities as provision for other doubtful assets.

4.6 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 Group establishes fair value using valuation techniques. These include the use of recent arms length transaction, discounted cash flow analysis and other revaluation techniques commonly used by market participants. Investments in securities for which the fair value cannot be determined reliably are carried at cost.

4.7 Cash and cash equivalents

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

4.8 Property, plant and equipment

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

Depreciation on property, plant and equipment is charged to the consolidated 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 19.1 to these consolidated 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.

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 consolidated 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 consolidated profit and loss account.

4.8.1 Leasing arrangements

At inception of a contract, the Group 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 Group'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 Group under residual value guarantees, the exercise price of a purchase option (if the Group 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 Group 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 Group 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 consolidated profit and loss 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.

4.9 Investment property

Investment property is the property which is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in the consolidated profit and loss account.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs, if any.

Where an entity determines that the fair value of an investment property under construction is not reliably measurable but expects the fair value of the property to be reliably measurable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably measurable or construction is completed (whichever is earlier).

The fair value of investment property, at each year end, is determined by external, independent property valuer having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

A gain or loss arising from a change in the fair value of investment property shall be recognised in the consolidated profit and loss account for the period in which it arises.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

The Group assesses at each reporting date whether there is any indication that investment property may be impaired .If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amounts, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in consolidated profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The gain or loss on disposal of investment property, represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as income or expense in the consolidated profit and loss account.

4.10 Intangible assets

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

4.11 Impairment of non-financial assets

The carrying amounts of the Group'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 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 consolidated 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.

4.12 Stores and spares

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

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

4.13 Stock-in-trade

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

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

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

4.14 Stock of stationery and consumables

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

4.15 Medical and stationery consumables

Medical and stationery consumables are valued at weighted average cost. Provision for obsolete items is determined based on the management's assessment regarding their future usability. Net realisable value represents estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.16 Provisions, contingent liabilities and contingent assets

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

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.

4.17 Transactions and balances with the International Monetary Fund

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

- the Government’s contribution for quota with the IMF is recorded by the Group as depository of the Government. Exchange differences arising on these balances are transferred to the Government of Pakistan account.

- exchange gains or losses arising on revaluation of borrowings from the IMF are recognised in the consolidated profit and loss account.

- the cumulative allocation of Special Drawing Rights (SDRs) by the IMF is recorded as a liability and is translated at closing exchange rate for SDRs prevailing at the balance sheet date. Exchange differences on translation of SDRs is recognised in the consolidated profit and loss account.

- service charge is recognised in the consolidated profit and loss account at the time of receipt of the IMF tranches.

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

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

4.18 Staff retirement benefits

4.18.1 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 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
- 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 consolidated 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 consolidated 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.

4.18.2 The BSC operates the following staff retirement benefit schemes for employees:

The Corporation operates the following staff retirement benefit schemes for employees transferred from SBP (transferred employees) and other employees:

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

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

c) the following other staff retirement benefit schemes:

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

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected unit credit method". The most recent valuation in this regard has been carried out as at June 30, 2021. The amount arising as a result of remeasurements are recognised in the consolidated balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur.

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

The Corporation operates an approved defined benefit funded pension scheme for all its permanent employees under the Pakistan Security Printing Corporation (Private) Limited - Employees (Pension and Gratuity) Regulations, 1993 (the Regulations). During the year ended June 30, 2017, as a result of business reorganisation, employees relating to National Security Printing Company (Private) Limited (NSPC) were transferred to NSPC and as per the business transfer agreement dated May 19, 2017, the costs of gratuity or pension are to be borne by transferee company i.e. NSPC, accordingly, the pension fund has become a multi-employer fund. Contribution to the pension fund is made based on the actuarial valuation carried out on an annual basis using Projected Unit Credit method. All actuarial gains and losses are recognised in other comprehensive income as they occur. Under the scheme, the employees who have completed the prescribed qualifying period of more than ten years of service and opt for the scheme are entitled to post retirement pension benefit.

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

4.18.5 Annual provisions are made by the Group to cover the obligations arising under defined benefit schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard was carried out as at June 30, 2021. The amount arising as a result of remeasurements are recognised in the consolidated balance sheet immediately, with a charge or credit to the consolidated other comprehensive income in the periods in which they occur.

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

4.19 Compensated absences

The Group makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates. The liability is estimated using the projected unit credit method.

4.20 Endowment Fund - deferred grant

The Group has established an Endowment fund under NIBAF effective from July 1, 2011 for utilisation of the amount received. The terms of references / rules and regulations of the Endowment fund have been formulated. The aims and objective of NIBAF Endowment Fund are as under:

a) Capacity building of the Group as well as other banking professionals in realms of Rural Finance, Microfinance, Agriculture and SMEs etc.

b) To encourage, promote, support and undertake academic and scientific investigations, innovative research, inventions and developments in various Banking and Finance related areas.

c) To provide assistance in such activities as field surveys, experiments, collection and dissemination of information, seminars, conferences and trainings etc. aimed at increasing awareness, introducing improvements and enhancing efficiency in areas related to Banking and Finance in general and Rural Finance in particular.

d) To conduct research and trainings to increase awareness of commercial banks regarding possibilities, prospects and risks, to develop demand driven products and services, instituting enhanced portfolio management capability and installing systems and procedures for reducing costs etc.

e) To promote gathering of information on rural finance by collecting and analysing data, conducting survey thereby working as a main training hub.

f) To create linkages with national and international organisations for the strengthening of Rural finance related

g) For any other purpose which the NIBAF's Board of Directors may consider fit for the overall benefit of the NIBAF and its stakeholders.

4.21 Trade and other payables

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

4.22 Mark-up bearing borrowings and borrowing costs

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

Mark-up bearing borrowings are recognised initially at fair value, less attributable transaction cost. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognised in consolidated profit and loss account over the period of borrowings on an effective interest method basis.

Borrowing costs are recognised as an expense in the period in which these are incurred, except to the extent that they are directly attributable to the acquisition or construction of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) in which case these are capitalised as part of cost of that asset.

4.23 Deferred income - Grant

Grants received on account of capital expenditure are recorded as deferred income and are amortised over the useful life of the relevant asset. The grants received on account of revenue expenditures are recorded as and when the expenditure is incurred.

4.24 Revenue recognition

- Discount, interest / mark-up and / or return on loans and advances and investments are recorded on time proportion basis that takes into account the effective yield on the asset. However, income on balances with Bangladesh (former East Pakistan), doubtful loans and advances and overdue return on investments are recognised as income on receipt basis.
- Revenue from sale of goods is recognised when or as performance obligations are satisfied by transferring control (i.e. at the time of transfer of physical possession) of promised goods, and control either transfers over time or at a point in time. Revenue is measured at fair value of the consideration received or receivable, excluding discounts, rebates and government levies.
- Commission income is recognised when related services are rendered.
- Dividend income is recognised when the Group's right to receive dividend is established.
- Gains / losses on disposal of securities are recognised in the consolidated profit and loss account at trade date.
- Unrealised gains and losses arising on revaluation of securities designated at fair value through profit or loss are included in consolidated profit and loss account in the period in which they arise.
- Unrealised gains and losses arising on revaluation of securities classified as fair value through other comprehensive income are included in consolidated other comprehensive income in the period in which they arise.

- Fee from training, education and hostel services are recognised on accrual basis.
- Rental income from property is accrued on time proportion basis at agreed rates.
- Return on Group's deposits are recognised on accrual basis taking into account the effective yield.
- Scrap sales and miscellaneous income are recognised on receipt basis.
- All other revenues are recognised on a time proportion basis.

4.25 Finances under profit and loss sharing arrangements

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

4.26 Foreign currency translation

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

Exchange gains and losses are taken to the consolidated profit and loss account except for certain exchange differences on balances with the International Monetary Fund, referred to in note 4.17, which are transferred to the Government of Pakistan account.

Commitments for outstanding foreign exchange forward and swap contracts disclosed in note 37.2 to these consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the reporting date.

4.27 Investment in associates

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

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

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

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

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

4.28 Taxation

The income of the Bank and the SBP Banking Services Corporation is exempt from tax under section 49 of the State Bank of Pakistan Act, 1956 and clause 66(xx) of Part I of second schedule to the Income Tax Ordinance, 2001. However, in case of NIBAF, NIBAF is claiming hundred percent (100%) tax credit for the tax year 2015 and onwards under clause (d) of sub-section 2 of section 100C of the Income Tax Ordinance, 2001, introduced under the Finance Act, 2015. The income of PSPC is subject to tax at applicable rates.

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the consolidated profit and loss account or consolidated statement of comprehensive income to which it relates.

4.28.1 Current

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

4.28.2 Deferred

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

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

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

5 USE OF ESTIMATES AND JUDGMENTS

The preparation of consolidated 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 IFRS and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

5.1 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 consolidated 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 4.6 to these consolidated financial statements.

5.2 Effective interest rate (EIR) method

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

5.3 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 53.1.2 to these consolidated financial statements.

5.4 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in notes 47.3.1 and 47.4.1 to these consolidated financial statements.

5.5 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.

		Note	2021	2020
6	**CASH AND BANK BALANCES**		---------(Rupees in '000)--------	
	With banks in current accounts	6.1	**465,891**	200,285
	Cash in hand		**35,693**	12,540
			501,584	212,825

6.1 This includes remunerative accounts carrying mark-up ranging from 3.71% to 6.90% (2020: 3.74% to 7.08%) per annun

		Note	2021	2020	2021	2020
7	**GOLD RESERVES HELD BY THE BANK**		Net content in troy ounces		----------(Rupees in '000)----------	
	Opening balance		**2,078,197**	2,078,037	**617,495,037**	468,625,002
	Additions during the year		**320**	160	**84,814**	47,118
	(Diminution) / appreciation for the year due to revaluation	36	**-**	-	**(40,223,613)**	148,822,917
		24.1	**2,078,517**	2,078,197	**577,356,238**	617,495,037

7.1 During the year the Bank has recognised a diminution / appreciation of Rs. 40,223 million (2020: Rs. 148,822 million) based on the closing market rate (USD 1768.10) of the fine gold content fixed by the London Bullion Market

		Note	2021	2020
8	**LOCAL CURRENCY - COINS**		----------(Rupees in '000)----------	
	Banknotes held by the Banking department		**149,598**	172,707
	Coins held as an asset of the Issue department	8.1 & 24.1	**417,574**	1,028,584
			567,172	1,201,291
	Less: banknotes held by the Banking department	24	**(149,598)**	(172,707)
			417,574	1,028,584

8.1 As mentioned in note 4.2, 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 Group, the details of which are as follows:

	Note	2021	2020
		----------(Rupees in '000)----------	
At fair value through profit and loss:			
- investments	9.3	**1,024,175,981**	500,826,405
- unrealised gain on derivative financial instruments		**536,285**	499,147
- unrealised (loss) on derivative financial instruments		**(113,124)**	(149,270)
	9.4	**423,161**	349,877
		1,024,599,142	501,176,282
At amortised cost:			
- deposit accounts		**375,065,876**	594,390,455
- current accounts		**1,296,989**	1,338,337
- securities purchased under agreement to resell	9.5	**423,792,553**	891,609,264
- money market placements	9.6	**1,034,106,813**	218,472,005
		1,834,262,231	1,705,810,061
Less: credit loss allowance	9.2	**(16,561)**	(88)
		2,858,844,812	2,206,986,255

	Note	2021	2020
		(Rupees in '000)	
The above foreign currency accounts and investments are held as follows:			
Issue department	24.1	**1,034,070,392**	218,465,780
Banking department		**1,824,774,420**	1,988,520,475
		2,858,844,812	2,206,986,255

9.1 The following table sets out information about the credit quality of foreign currency accounts and investments of the Group measured at amortised cost and maximum exposure to credit risk as at reporting date. Details of the Group's internal grading system are explained in note 53.1.4.

	Note	Stage 1	2021	2020
		(Rupees in '000)		
Deposit accounts				
High rating		**375,065,876**	**375,065,876**	594,390,455
		375,065,876	**375,065,876**	594,390,455
Current accounts				
High rating		**1,296,948**	**1,296,948**	1,329,030
Standard rating		**41**	**41**	9,307
		1,296,989	**1,296,989**	1,338,337
Securities purchased under agreement to resell				
High rating	9.5	**423,792,553**	**423,792,553**	891,609,264
		423,792,553	**423,792,553**	891,609,264
Money market placements				
High rating	9.6	**1,034,106,813**	**1,034,106,813**	218,472,005
		1,034,106,813	**1,034,106,813**	218,472,005
		1,834,262,231	**1,834,262,231**	1,705,810,061

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

	2021		
	Nostros	**Money market placements**	**Total**
Stage 1	(Rupees in '000)		
Opening balance as of June 30, 2020	88	-	**88**
Charge of allowance	2,693	13,780	**16,473**
Balance as of June 30, 2021	2,781	13,780	**16,561**

	2020		
	Nostros	Money market placements	Total
Stage 1	(Rupees in '000)		
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**

9.3 This includes investments made by the Group in international markets and balances maintained, on behalf of the Group, 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, 2021 amounts to Rs. 207,081 million (USD 1314.5 million [2020: Rs. 173,698 million (USD 1033.60 million). These carry interest ranging from 0.13% to 3.75% per annum in USD (2020: 0.175% to 0.5% per annum) and 2.12% to 2.48% per annum in CNY (2020: 0% to 3.56% 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 Group) entered into with various counterparties.

9.5 These represent lending under repurchase agreements which carry mark-up in USD at the rate of 0.05% per annum (2020: 0.00% per annum) and these are due to mature on July 1, 2021 (2020: July 01, 2020).

9.6 These represent money market placements carrying interest ranging from 0.10% to 0.16% per annum in USD and 3.28% per annum in CNY (2020: 0.10% to 0.16% per annum in USD and Nil in CNY) having maturities ranging from July 3, 2021 to August 7, 2021 in USD and July 2, 2021 in CNY (2020: July 3, 2020 to August 7, 2020 and Nil in CNY).

10 EARMARKED FOREIGN CURRENCY BALANCES

This represents foreign currency cash balances translated at the exchange rate prevailing at the reporting date, held by the Group to meet foreign currency commitments of the Group.

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 Group as at the reporting date. Interest is credited by the IMF on the SDR holding of the Group at weekly interest rates on daily products of SDRs held during each quarter.

	Note	2021	2020
SDRs are held as follows:		(Rupees in '000)	
- by the Issue department	24.1	-	11,601,465
- by the Banking department		60,771,006	17,935,662
		60,771,006	29,537,127

12 RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

	2021	2020
Quota allocated by the International Monetary Fund	455,738,808	469,862,627
Liability under quota arrangements	(455,712,081)	(469,835,072)
	26,727	27,555

13 SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

This represents collateralised lending made to various financial institutions under resell arrangement carrying mark-up ranging from 7.06% to 7.10% per annum (2020: 7.03% to 12.33% per annum) and are due to mature on July 2, 2021 (2020: July 3, 2020). The fair value of securities collateralised as on June 30, 2021 amounted to Rs. 1,852,618 million (2020: Rs. 1,001,208 million). The collaterals held by the Group 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	2021	Stage 1	2020
	(Rupees in '000)			
High rating	1,792,952,125	1,792,952,125	917,539,654	917,539,654
Standard rating	-	-	-	-
Less: credit loss allowance	(6)	(6)	(7)	(7)
	1,792,952,119	1,792,952,119	917,539,647	917,539,647

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

	Stage 1	2021	Stage 1	2020
			(Rupees in '000)	
Opening balance	7	7	27	27
Reversal during the year	(1)	(1)	(20)	(20)
Closing balance	6	6	7	7

	Note	2021	2020
		----------(Rupees in '000)----------	
14 INVESTMENTS - LOCAL			
At amortised cost			
Government securities			
Pakistan investment bonds (PIBs)		**6,676,448,550**	7,270,563,969
Federal government scrips		**2,740,000**	2,740,000
Market Treasury Bills		**6,220,788**	2,869,963
	14.2	**6,685,409,338**	7,276,173,932
Term Deposit Receipts	14.3	**1,200,000**	1,072,000
Zarai Taraqiati Bank Limited (ZTBL) preference shares - unlisted	14.4	**54,679,114**	54,539,302
Term finance certificates		**28,243**	56,483
Certificates of deposits		**11,235**	22,470
		39,478	78,953
Less: credit loss allowance	14.5	**(39,478)**	(78,953)
		6,741,288,452	7,331,785,234
At fair value through other comprehensive income			
Investments in banks and other financial institutions			
Ordinary shares			
- Listed		**58,506,359**	44,235,735
- Unlisted		**56,302,176**	35,101,670
	14.6	**114,808,535**	79,337,405
At fair value through profit or loss			
Units of open ended mutual funds	14.8	**1,315,236**	1,200,488
		6,857,412,223	7,412,323,127
The above investments are held as follows:			
Issue department	24.1	**5,655,896,964**	5,598,401,783
Banking department / subsidiaries		**1,201,515,259**	1,813,921,344
		6,857,412,223	7,412,323,127

14.1 The following table sets out information about the credit quality of local investments of the Group measured at amortised cost as at June 30, 2021.

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	---------- (Rupees in '000) ----------			
High rating	**6,741,288,452**	-	-	**6,741,288,452**
Rating below standard	**-**	-	**39,478**	**39,478**
	6,741,288,452	**-**	**39,478**	**6,741,327,930**
Less: credit loss allowance	-	-	**(39,478)**	**(39,478)**
	6,741,288,452	**-**	**-**	**6,741,288,452**

	2020			
	Stage 1	Stage 2	Stage 3	Total
	---------- (Rupees in '000) ----------			
High rating	7,331,785,234	-	-	7,331,785,234
Rating below standard	-	-	78,953	78,953
	7,331,785,234	-	78,953	7,331,864,187
Less: credit loss allowance	-	-	(78,953)	(78,953)
	7,331,785,234	-	-	7,331,785,234

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

	2021	2020
	% per annum	
Pakistan investment bonds	**7.92 to 13.88**	8.23 to 14.02
Federal Government scrips	**3**	3
Market Treasury Bills	**7.29 to 7.65**	7.48 to 12.82

PIBs are created for one to ten years under the instructions of the Federal Government while Federal Government scrips are of perpetual nature.

The Federal Government issued PIBs on June 30, 2019 with maturity of one year to ten years amounting to Rs. 7,187,000 million. During the year, PIB's having face value of Rs. 569,000 million have been matured.

Market Treasury Bills have maturities ranging from September 09, 2021 to December 16, 2021 (2020: September 25, 2020 to March 11, 2021).

14.3 These represent Term Deposit Receipts maturing upto 12 months with various banks bearing mark-up ranging from 6.50% to 14.00% (2020: 5.35% to 14.00%) per annum. Term Deposit Receipt of Rs. 22 million (2020: Rs. 22 million) with Faysal Bank Limited is marked under lien against bank guarantee (note 37.2.6).

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

14.5 Credit loss allowance

	2021	2020
	(Rupees in '000)	
Opening balance	**78,953**	78,953
Charge for the year	**-**	
Reversal of credit loss allowance during the year	**(39,475)**	-
Closing balance	**39,478**	78,953

14.6 Investments in banks and other financial institutions

	Note	**2021**			
		Percentage holding	**Cost**	**Unrealised appreciation / (diminution) (Note 14.7)**	**Total**
		%	**(Rupees in '000)**		
Listed					
- National Bank of Pakistan		**75.20**	**1,100,805**	**57,405,554**	**58,506,359**
Unlisted					
More than 50% Shareholding					
- Zarai Taraqiati Bank Limited		**76.23**	**10,199,621**	**(4,125,100)**	**6,074,521**
- House Building Finance Company Limited		**90.31**	**1,482,304**	**506,693**	**1,988,997**
- Deposit Protection Corporation	14.6.2	**100**	**500,000**	**(500,000)**	**-**
Less than or equal to 50% Shareholding					
Other investments			**4,637,706**	**43,600,952**	**48,238,658**
			16,819,631	**39,482,545**	**56,302,176**
			17,920,436	**96,888,099**	**114,808,535**

	Note	2020			
		Percentage holding	Cost	Unrealised appreciation / (diminution) (Note 14.7)	Total
		%	(Rupees in '000)		
Listed					
- National Bank of Pakistan		75.20	1,100,805	43,134,930	44,235,735
Unlisted					
More than 50% Shareholding					
- Zarai Taraqiati Bank Limited		76.23	10,199,621	(3,082,178)	7,117,443
- House Building Finance Company Limited		90.31	1,482,304	606,150	2,088,454
- Deposit Protection Corporation	14.6.2	100	500,000	(500,000)	-
Less than or equal to 50% Shareholding					
Other investments			4,637,706	21,258,067	25,895,773
			16,819,631	18,282,039	35,101,670
			17,920,436	61,416,969	79,337,405

14.6.1 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 Group 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.

14.6.2 During the year 2018-19, in accordance with section 9 of the Deposit Protection Corporation Act, 2016 (DPC Act), the Group 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 Group 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 consolidated financial statements. Considering the substance of this transaction, the capital injection in the DPC was fully provided.

14.7 Unrealised appreciation / (diminution) on remeasurement of investments

	2021	2020
	(Rupees in '000)	
Opening balance	**61,416,969**	68,490,606
Appreciation / (diminution) during the year - net	**35,471,130**	(7,073,637)
Closing balance	**96,888,099**	61,416,969

14.8 Investments in mutual funds designated at fair value through profit or loss:

2021	2020	**Name of investee**	**2021**	**2020**
Number of units			(Rupees in '000)	
2,242,821	2,242,821	Al Hamra Islamic Stock Fund	**25,321**	19,445
875,093	827,202	MCB Cash Management Optimizer	**88,349**	83,407
7,065,637	7,065,637	Meezan Islamic Fund	**447,792**	329,869
857,780	812,392	MCB DCF Income Fund	**91,827**	86,897
6,246,615	6,175,498	ABL Islamic Stock Fund	**101,348**	75,344
151,618	143,453	Atlas Money Market Fund	**76,700**	72,480
7,902,935	7,902,935	NAFA Islamic Asset Allocation Fund	**-**	112,104
17,924,451	17,735,243	NAFA Islamic Stock Fund	**228,268**	167,834
1,810	1,716	NAFA Money Market Fund	**18**	17
421,152	421,152	Al-Ameen Shariah Stock Fund	**-**	50,353
2,752,499	2,752,499	Meezan Strategic Allocation Fund - Plan I	**128,298**	101,491
2,752,039	2,752,039	Meezan Strategic Allocation Fund - Plan II	**127,315**	101,247
49,194,450	48,832,587		**1,315,236**	1,200,488

15	INVESTMENTS IN ASSOCIATES	Note	2021	2020	2021	2020
			Percentage holding		---------- (Rupees in '000) ----------	
			%	%		
	Investments in associates under equity method of accounting:					
	Security Papers Limited (SPL)	15.1	**40.03**	40.03	**6,387,246**	5,996,873
	SICPA Inks Pakistan (Private) Limited (SICPA)	15.2	**47**	47	**996,490**	491,205
					7,383,736	6,488,078

15.1	Security Papers Limited - SPL	Note	2021	2020
			---------- (Rupees in '000) ----------	
	Cost		**1,613,357**	1,613,357
	Share of post acquisition after tax profits	15.1.1	**1,732,523**	1,131,012
	Effect of first time application of IFRS 9 on after tax profits		**(100,561)**	(100,561)
	Share in other comprehensive income	15.1.2	**(64,553)**	(66,912)
	Effect of restatement due revaluation of land and Building of SPL		**3,894,669**	3,894,669
	Effect of first time application of IFRS 9 on other comprehensive income		**100,561**	100,561
	Dividend received		**(788,750)**	(575,253)
			6,387,246	5,996,873

15.1.1 The movement in share of post acquisition after tax profit for SPL is as follows:

Opening balance		**1,131,012**	648,961
Share of after tax profit from associate for the year ended June 30	15.1.2	**583,816**	510,882
Depreciation on revaluation of building		**(996)**	(996)
Effect of restatement on after tax profits		**-**	(2,099)
Unrealised gain / (loss) on transactions	15.1.3	**18,691**	(25,736)
		601,511	482,051
Closing balance		**1,732,523**	1,131,012

15.1.2 These amounts are based on audited annual financial statements of SPL as at and for the year ended June 30, 2021.

15.1.3 This represents the effect of elimination of unrealised gain / loss on transactions between the associate to the extent of its interest in the associate (40.03%).

15.2	SICPA Inks Pakistan (Private) Limited - (SICPA)	Note	2021	2020
			---------- (Rupees in '000) ----------	
	Cost		**497,655**	497,655
	Share of post acquisition after tax profits	15.2.1	**1,604,481**	868,131
	Effect of first time application of IFRS 9 on after tax profits		**3,554**	3,554
	Share in other comprehensive income	15.2.2	**5,359**	2,992
	Effect of first time application of IFRS 9 on other comprehensive income		**(3,554)**	(3,554)
	Dividend received		**(1,111,005)**	(877,573)
			996,490	491,205

15.2.1 The movement in share of post acquisition after tax profit for SICPA is as follows:

Opening balance		**868,131**	770,274
Share of after tax profit from associate for the year ended June 30	15.2.2	**613,556**	419,080
Effect of restatement on after tax profits		**-**	(139,339)
Effect of restatement on other comprehensive income		**-**	3,181
Unrealised gain / (loss) on transactions		**122,794**	(185,065)
		736,350	97,857
Closing balance		**1,604,481**	868,131

15.2.2 These amounts are based on annual audited financial statements of SICPA as at and for the year ended December 31, 2020 which have been adjusted using the unaudited interim financial statements for the half year ended June 30, 2020 and June 30, 2021.

15.3 The following is the summarised financial information of the associates as at June 30, 2021 and June 30, 2020 based on their financial information prepared in accordance with the accounting and reporting standards as applicable in Pakistan.

	Security Papers		SICPA Inks Pakistan	
	June 30, 2021	June 30, 2020	**June 30, 2021**	June 30, 2020
	(Rupees in '000)			
Assets	**8,137,349**	6,983,974	**4,264,067**	3,244,399
Liabilities	**1,416,649**	1,194,308	**1,450,428**	1,244,567
	Year ended June 30, 2021	Year ended June 30, 2020	**Year ended June 30, 2021**	Year ended March 31, 2020
	(Rupees in '000)			
Revenue	**5,001,692**	4,901,284	**7,322,367**	6,383,381
Profit after tax	**1,458,730**	1,209,469	**1,305,436**	667,501
Other comprehensive income	**5,893**	4,926	**2,367**	3,966

15.4 The market value of SPL as at June 30, 2021 is Rs 144.57 per share (2020: Rs 141.95 per share) i.e. an aggregate amount of Rs 3,429.452 million (2020: Rs. 3,367.301 million). The breakup value based on net assets of SICPA as per latest unaudited financial statements as on June 30, 2021 is Rs 493.62 per share (June 30, 2020: Rs 350.84 per share) i.e. an aggregate amount of Rs 1,322.410 million (June 30, 2020: Rs 939.921 million).

		Note	2021	2020
16	**LOANS, ADVANCES AND BILLS OF EXCHANGE**		(Rupees in '000)	
	Government owned / controlled financial institutions	16.3	**122,531,854**	85,114,788
	Private sector financial institutions	16.4	**1,045,642,491**	700,781,998
			1,168,174,345	785,896,786
	Employees		**24,972,693**	21,048,761
			1,193,147,038	806,945,547
	Less: credit loss allowance	16.7	**(2,151,911)**	(2,192,861)
			1,190,995,127	804,752,686

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	(Rupees in '000)			
Government owned / controlled financial institutions				
High rating	104,636,530	-	-	**104,636,530**
Rating below standard	-	-	1,780,301	**1,780,301**
	104,636,530	**-**	**1,780,301**	**106,416,831**
Private sector financial institutions				
High rating	1,053,613,043	-	-	**1,053,613,043**
Standard rating	7,077,274	-	-	**7,077,274**
Rating below standard	-	-	1,067,197	**1,067,197**
	1,060,690,317	**-**	**1,067,197**	**1,061,757,514**
Employees				
Performing loans	24,965,931	-	-	**24,965,931**
Non performing loans	-	-	6,762	**6,762**
	24,965,931	**-**	**6,762**	**24,972,693**
	1,190,292,778	**-**	**2,854,260**	**1,193,147,038**
Less: credit loss allowance	**(14,942)**	-	**(2,136,969)**	**(2,151,911)**
	1,190,277,836	**-**	**717,291**	**1,190,995,127**

	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
	83,334,487	-	1,780,301	85,114,788
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
	699,714,801	-	1,067,197	700,781,998
Employees				
Performing loans	21,041,999	-	-	21,041,999
Non performing loans	-	-	6,762	6,762
	21,041,999	-	6,762	21,048,761
	804,091,287	-	2,854,260	806,945,547
Less: credit loss allowance	(55,892)	-	(2,136,969)	(2,192,861)
	804,035,395	-	717,291	804,752,686

16.2 An analysis of changes in the ECL in relation to loans and advances of the Group measured at amortised cost is as follows:

	2021			
	Government owned / controlled financial institutions	**Private sector financial institutions**	**Employees**	**Total**
	(Rupees in '000)			
Stage 1				
Opening balance as of July 01, 2020	**46,061**	**9,095**	**736**	**55,892**
Reversal of allowance	**(42,345)**	**942**	**453**	**(40,950)**
Balance as of June 30, 2021	**3,716**	**10,037**	**1,189**	**14,942**
Stage 3				
Opening balance as of July 01, 2020	**1,066,606**	**1,063,630**	**6,733**	**2,136,969**
Charge / (reversal) of allowance	**-**	**-**	**-**	**-**
Balance as of June 30, 2021	**1,066,606**	**1,063,630**	**6,733**	**2,136,969**
	1,070,322	**1,073,667**	**7,922**	**2,151,911**

	2020			
	Government owned / controlled financial institutions	Private sector financial institutions	Employees	Total
	(Rupees in '000)			
Stage 1				
Opening balance as of July 01, 2019	46,061	26,987	763	73,811
Charge / (reversal) of allowance	-	(17,892)	(27)	(17,919)
Balance as of June 30, 2020	46,061	9,095	736	55,892
Stage 3				
Opening balance as of July 01, 2019	1,066,606	1,063,630	6,762	2,136,998
Adjustments on initial recognition of IFRS 9	-	-	(29)	(29)
Balance as of June 30, 2020	1,066,606	1,063,630	6,733	2,136,969
	1,112,667	1,072,725	7,469	2,192,861

16.3 Loans and advances to government owned / controlled financial institutions

	Note	Scheduled banks		Other financial institutions		Total	
		2021	2020	**2021**	2020	**2021**	2020
		(Rupees in '000)					
Agricultural sector		**917,643**	435,707	**-**	-	**917,643**	435,707
Industrial sector	16.3.1	**42,448,747**	28,071,472	**-**	-	**42,448,747**	28,071,472
Export sector		**62,589,078**	54,060,479	**-**	-	**62,589,078**	54,060,479
Housing sector		**-**	-	**10,456**	-	**10,456**	-
Others	16.3.2	**15,777,412**	1,748,668	**788,518**	798,462	**16,565,930**	2,547,130
		121,732,880	84,316,326	**798,974**	798,462	**122,531,854**	85,114,788

16.3.1 This includes exposure to Industrial Development Bank Limited (IDBL) under locally manufactured machinery (LMM) credit line amounting to Rs. 1,054 million (2020: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 340.78 million (2020: 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.

16.3.2 These balances include Rs. 327.949 million (2020: 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.

16.4 Loans and advances to private sector financial institutions

	Note	Scheduled banks		Other financial institutions		Total	
		2021	2020	**2021**	2020	**2021**	2020
		(Rupees in '000)					
Agricultural sector		**2,962,701**	1,548,967	**241,635**	214,819	**3,204,336**	1,763,786
Industrial sector		**331,950,497**	185,912,309	**20,688,134**	14,477,862	**352,638,631**	200,390,171
Export sector	16.4.1	**526,048,365**	452,884,058	**-**	-	**526,048,365**	452,884,058
Others	16.4.2 & 16.4.3	**155,962,278**	36,581,037	**7,788,881**	9,162,946	**163,751,159**	45,743,983
		1,016,923,841	676,926,371	**28,718,650**	23,855,627	**1,045,642,491**	700,781,998

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

16.4.2 In the year 2015, the Group 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 Modaraba 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 Group, the 10 year financing facility had been recognised at fair value on initial recognition. The amortised cost as of June 30, 2021 is Rs. 3,523 million (2020: 3,222 million).

16.4.3 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.

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

	Note	**2021**	2020
		(% per annum)	
Government owned / controlled and private sector financial institutions		**0 to 9.7**	0 to 14.49
Employees loans (where applicable)		**0 to 10.00**	0 to 10.00

16.6 Fair valuation adjustment on COVID loans - net

	2021	2020
	(Rupees in '000)	
Unwinding of income in respect of fair valuation adjustment on COVID-19 loans	**12,686,574**	-
Fair valuation loss adjustment on COVID-19 loans on initial recognition	**(58,418,557)**	(4,193,815)
	(45,731,983)	(4,193,815)

The Group 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); and
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.299,540 million (2020: Rs.38,244 million) and were interest free or at lower rates. These facilities have been recorded at fair value and a net loss for fair valuation amounting to Rs.45,732 million (2020: Rs.4,194 million) has been recorded in the consolidated profit and loss account.

		Note	2021	2020
16.7	**Credit loss allowance**		-------- (Rupees in '000) -------	
	Opening balance		**2,192,861**	2,210,809
	Reversal of charge during the year		**(40,950)**	(17,948)
	Closing balance		**2,151,911**	2,192,861
17	**ASSETS HELD WITH THE RESERVE BANK OF INDIA**			
	Gold reserves			
	- opening balance		**9,978,954**	7,573,743
	- (diminution) / appreciation for the year due to revaluation	32.3.1.1	**(650,097)**	2,405,211
			9,328,857	**9,978,954**
	Sterling securities		**720,349**	682,421
	Government of India securities		**302,599**	318,125
	Rupee coins		**6,159**	6,464
		17.1	**10,357,964**	10,985,964
	Indian notes representing assets receivable from the Reserve Bank of India	17.2	**910,485**	957,200
		24.1	**11,268,449**	11,943,164

17.1 These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 32.3.1).

17.2 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 32.3.1).

		Note	2021	2020
18	**BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH**		-------- (Rupees in '000) -------	
	India			
	Advance against printing of notes		**39,616**	39,616
	Receivable from the Reserve Bank of India		**837**	837
			40,453	40,453
	Bangladesh			
	Inter office balances		**819,924**	819,924
	Loans, advances and commercial papers	18.1	**13,227,497**	12,280,787
			14,047,421	13,100,711
		18.2	**14,087,874**	13,141,164

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

18.2 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Governments of Bangladesh and India (also refer notes 32.1 and 32.3.1).

		Note	2021	2020
19	**PROPERTY, PLANT AND EQUIPMENT**		-------- (Rupees in '000) -------	
	Operating fixed assets	19.1	**136,621,502**	135,278,631
	Capital work-in-progress	19.4	**1,725,827**	1,886,415
			138,347,329	137,165,046

19.1 Operating fixed assets

	2021										
	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	Right-of-use assets	Total
	(Rupees in '000)										
As at July 01, 2020											
Cost / revalued amount	68,540,532	55,717,637	2,830,021	5,108,055	10,217,595	273,369	2,694,535	2,942,064	1,023,352	56,813	149,403,973
Accumulated depreciation	-	954,871	160,845	288,740	7,451,162	166,198	1,879,847	2,628,670	553,922	41,087	14,125,342
Net book value	68,540,532	54,762,766	2,669,176	4,819,315	2,766,433	107,171	814,688	313,394	469,430	15,726	135,278,631
Year ended June 30, 2021											
Opening net book value	68,540,532	54,762,766	2,669,176	4,819,315	2,766,433	107,171	814,688	313,394	469,430	15,726	135,278,631
Additions	115,551	-	9,160	-	53,329	24,229	193,126	247,591	229,611	-	872,597
Transfers from capital work in progress	-	-	21,018	56,584	1,039,390	-	1,814,357	-	-	-	2,931,349
	115,551	-	30,178	56,584	1,092,719	24,229	2,007,483	247,591	229,611	-	3,803,946
Disposals											
Cost	-	-	-	-	-	(654)	(32,216)	(54,337)	(118,550)	-	(205,757)
Accumulated depreciation	-	-	-	-	-	560	32,216	50,926	99,475	-	183,177
	-	-	-	-	-	(94)	-	(3,411)	(19,075)	-	(22,580)
Adjustments **	-	-	-	-	-	-	-	-	873	(873)	-
Depreciation charge	-	945,252	161,339	293,290	329,723	19,985	311,716	200,916	169,630	6,644	2,438,495
Net book value	68,656,083	53,817,514	2,538,015	4,582,609	3,529,429	111,321	2,510,455	356,658	511,209	8,209	136,621,502
As at June 30, 2021											
Cost / revalued amount	68,656,083	55,717,637	2,860,199	5,164,639	11,310,314	296,944	4,669,802	3,135,318	1,135,286	55,940	153,002,162
Accumulated depreciation	-	1,900,123	322,184	582,030	7,780,885	185,623	2,159,347	2,778,660	624,077	47,731	16,380,660
Net book value	**68,656,083**	**53,817,514**	**2,538,015**	**4,582,609**	**3,529,429**	**111,321**	**2,510,455**	**356,658**	**511,209**	**8,209**	136,621,502
Useful life / rate of depreciation	-	90-99 years	20 years	20 years	10%-20%	10%-20%	10%-33%	33.33%	20%	20%	

	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	Right-of-use assets	Total
	(Rupees in '000)										
As at July 01, 2019											
Cost / revalued amount	71,154,434	54,121,144	3,070,398	4,620,726	8,792,692	244,162	2,424,128	2,682,786	992,379	56,769	148,159,618
Accumulated depreciation	-	-	-	-	7,231,776	148,042	1,741,394	2,470,747	589,300	31,272	12,212,531
Net book value	71,154,434	54,121,144	3,070,398	4,620,726	1,560,916	96,120	682,734	212,039	403,079	25,497	135,947,087
Year ended June 30, 2020											
Opening net book value	71,154,434	54,121,144	3,070,398	4,620,726	1,560,916	96,120	682,734	212,039	403,079	25,497	135,947,087
Transfer to right-of-use assets	-	-	-	-	-	-	-	-	(25,497)	-	(25,497)
Additions	606	-	17,486	-	13,956	31,132	136,039	332,702	266,059	44	798,024
Transfers from capital work in progress	-	8,593	16,833	133,041	1,478,233	-	201,685	-	-	-	1,838,385
	606	8,593	34,319	133,041	1,492,189	31,132	337,724	332,702	266,059	44	2,636,409
Disposals											
Cost	-	-	(723)	-	(67,286)	(1,925)	(67,316)	(73,423)	(179,484)	-	(390,157)
Accumulated depreciation	-	-	-	-	52,039	923	62,989	52,858	167,002	-	335,811
	-	-	(723)	-	(15,247)	(1,002)	(4,327)	(20,565)	(12,482)	-	(54,346)
Reversal on reclassification of freehold land to investment property	(946,293)	-	-	-	-	-	-	-	-	-	(946,293)
Adjustments **	(1,668,215)	1,587,900	(273,973)	354,288	-	-	-	-	-	-	-
Depreciation charge	-	954,871	160,845	288,740	271,425	19,079	201,443	210,782	161,729	9,815	2,278,729
Net book value	68,540,532	54,762,766	2,669,176	4,819,315	2,766,433	107,171	814,688	313,394	469,430	15,726	135,278,631
As at June 30, 2020											
Cost / revalued amount	68,540,532	55,717,637	2,830,021	5,108,055	10,217,595	273,369	2,694,536	2,942,065	1,053,457	56,813	149,434,080
Accumulated depreciation	-	954,871	160,845	288,740	7,451,162	166,198	1,879,848	2,628,671	584,027	41,087	14,155,449
Net book value	68,540,532	54,762,766	2,669,176	4,819,315	2,766,433	107,171	814,688	313,394	469,429	15,726	135,278,631
Useful life / rate of depreciation	-	90-99 years	20 years	20 years	10%-20%	10%-20%	10%-33%	33.33%	20%	20%	

* These represents revalued assets

** Adjustments include reclassification within different categories of assets

19.2 Land and buildings of the Group are carried at revalued amount. The latest revaluation was carried out on June 30, 2019 by an external expert 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:

	Note	**2021**	2020
		---------- (Rupees in '000) ----------	
Freehold land		**42,446**	42,446
Leasehold land		**176,058**	179,380
Buildings on freehold land		**491,359**	408,076
Buildings on leasehold land		**752,976**	736,022
		1,462,839	1,365,924

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

General administrative and other expenses	47	**2,162,158**	2,069,415
Banknotes' and prize bonds printing charges	45	**264,180**	197,596
Charged to NSPC		**12,157**	11,718
		2,438,495	2,278,729

19.4 Capital work-in-progress

Buildings on freehold land	**252,684**	46,029
Buildings on leasehold land	**581,866**	447,044
Office equipment	**342,909**	321,299
Electronic data processing equipment	**195**	195
Plant and machinery	**548,173**	1,071,848
	1,725,827	1,886,415

20 INVESTMENT PROPERTY

Balance as at 1 July	**978,608**	-
Fair value gain recognised during the year	**5,239**	978,608
Balance as at 30 June	**983,847**	**978,608**

21 INTANGIBLE ASSETS

Software	21.1	**69,873**	103,280
Capital work-in-progress		**28,314**	3,064
		98,187	106,344

21.1 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	**2021**	**1,018,108**	**58,826**	**1,076,934**	**914,828**	**92,233**	**1,007,061**	**69,873**	**20 - 33.33**
Software	2020	995,000	23,108	1,018,108	796,242	118,586	914,828	103,280	20 - 33.33

		Note	2021	2020
			---------- (Rupees in '000) ----------	
21.2	**Amortisation charge for the year has been allocated to:**			
	General, administrative and other expenses	47	**92,233**	118,586

22 DEFERRED TAXATION

	Deductible temporary differences		
	Stores and spares	**(20,335)**	(19,139)
	Stock-in-trade	**(15,444)**	(15,514)
	Loans and advances	**(1,611)**	(1,611)
	Investments- local	**-**	(34,700)
	Other receivables	**(24,394)**	(8,552)
	Lease liabilities	**(3,277)**	(826)
	Deferred liabilities - pension payable	**(625,651)**	(743,863)
		(690,712)	(824,205)
	Taxable temporary differences		
	Property, plant and equipment	**300,195**	205,875
	Investment in associates	**1,102,786**	978,718
	Investments - local	**52,814**	-
	Surplus on revaluation of property, plant and equipment	**189,721**	199,968
		1,645,516	1,384,561
	Deferred tax liability	**954,804**	560,356

23 OTHER ASSETS

Commission receivable and others	**4,678,483**	4,420,266
Stock-in-trade	**4,328,214**	4,102,386
Unrealised gain on local currency derivatives	**16,438,901**	467,045
Advances, deposits and prepayments	**9,537,000**	9,900,893
Stores and spares	**976,883**	903,257
Medical, stationery consumables and stamps on hand	**315,953**	311,241
	36,275,434	20,105,088

24 BANKNOTES IN CIRCULATION

Total banknotes issued	24.1	**7,279,009,617**	6,458,935,813
Banknotes held with the Banking department	8	**(149,598)**	(172,707)
Notes in circulation		**7,278,860,019**	6,458,763,106

24.1 The liability for banknotes issued by the Issue department is recorded at its face value in the consolidated 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	2021	2020
		---------- (Rupees in '000) ----------	
Gold reserves held by the Bank	7	**577,356,238**	617,495,037
Local currency - coins	8	**417,574**	1,028,584
Foreign currency accounts and investments	9	**1,034,070,392**	218,465,780
Special drawing rights of the International Monetary Fund	11	**-**	11,601,465
Investments - local	14	**5,655,896,964**	5,598,401,783
Assets held with the Reserve Bank of India	17	**11,268,449**	11,943,164
		7,279,009,617	6,458,935,813

		Note	2021	2020
			---------- (Rupees in '000) ----------	
25	**CURRENT ACCOUNTS OF GOVERNMENTS**			
25.1	**Current accounts of governments - payable balances**			
	Federal Government	25.3	**909,557,319**	530,892,360
	Provincial governments			
	- Punjab	25.4	**207,526,221**	81,724,341
	- Sindh	25.5	**74,033,535**	65,497,762
	- Khyber Pakhtunkhwa	25.6	**31,830,135**	11,159,840
	- Baluchistan	25.7	**39,604,640**	40,926,370
	Government of Azad Jammu and Kashmir	25.8	**12,368,089**	5,046,863
	Gilgit - Baltistan Administration Authority	25.9	**20,566,495**	13,542,566
			385,929,115	217,897,742
			1,295,486,434	748,790,102
25.2	**Current accounts of governments - receivable balance**			
	Railways account	25.10	**33,793,930**	30,157,106
25.3	**Federal Government**			
	Non-food account		**888,797,230**	508,391,267
	Zakat fund accounts		**6,190,294**	7,929,167
	Other accounts		**14,569,795**	14,571,926
			909,557,319	530,892,360
25.4	**Provincial Government - Punjab**			
	Non-food account		**197,273,388**	76,274,341
	Zakat fund account		**422,545**	154,335
	Other accounts		**9,830,288**	5,295,665
			207,526,221	81,724,341
25.5	**Provincial Government - Sindh**			
	Non-food account		**68,353,578**	59,101,115
	Zakat fund account		**3,134,220**	1,757,082
	Other accounts		**2,545,737**	4,639,565
			74,033,535	65,497,762
25.6	**Provincial Government - Khyber Pakhtunkhwa**			
	Non-food account		**23,431,227**	97,619
	Zakat fund account		**8,109,074**	8,223,742
	Other accounts		**289,834**	2,838,479
			31,830,135	11,159,840
25.7	**Provincial Government - Baluchistan**			
	Non-food account		**36,886,295**	38,330,273
	Zakat fund account		**2,297,977**	1,821,076
	Other accounts		**420,368**	775,021
			39,604,640	40,926,370
25.8	**Government of Azad Jammu and Kashmir**		**12,368,089**	5,046,863
25.9	**Gilgit - Baltistan Administration Authority**		**20,566,495**	13,542,566

25.10 These balances carry mark-up from 6.95% to 7.63% per annum (2020: 8.41% to 13.80% per annum).

26 PAYABLE TO ISLAMIC BANKING INSTITUTIONS AGAINST BAI MUAJJAL TRANSACTIONS

This represents amount payable to various Islamic Banking Institutions against purchases of Government of Pakistan (GoP) Ijara Sukuks by the Bank on Bai Muajjal basis (deferred payment basis). During the year, all such instruments have been matured.

27 PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

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

A bilateral currency swap agreement (CSA) was entered between the Bank and the PBoC on December 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 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 had purchased and utilised CNY 20,000 million against PKR during the year ended June 30, 2020, with the maturity buckets of three months to 1 year. During the year, the overall limit of CNY 20,000 million has been further extended to CNY 30,000 million for a period of three years against PKR with the maturity buckets of three months to 1 year. These purchases have been fully utilised as at June 30, 2021. Interest is charged on outstanding balance at agreed rates.

	Note	2021	2020
28 DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS		---------- (Rupees in '000) ----------	
Foreign currency			
Scheduled banks		**37,511,130**	39,655,440
Held under cash reserve requirement	28.1	**197,280,327**	197,323,325
		234,791,457	236,978,765
Local currency			
Scheduled banks	28.1	**1,073,141,877**	919,385,365
Financial institutions		**19,503,643**	14,653,730
Others		**231,415**	85,699
		1,092,876,935	934,124,794
		1,327,668,392	1,171,103,559

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

	Note	2021	2020
29 OTHER DEPOSITS AND ACCOUNTS		---------- (Rupees in '000) ----------	
Foreign currency			
Foreign central banks		**70,925,695**	75,676,791
International organisations		**357,838,470**	382,488,753
Foreign government		**-**	512,412,169
Others		**13,384,118**	13,029,732
	29.1 & 29.2	**442,148,283**	983,607,445
Local currency			
Special debt repayment	29.3	**24,243,841**	24,243,841
Government	29.4	**17,850,348**	17,850,348
Foreign central banks		**1,725**	2,226
International organisations		**6,006,609**	6,343,946
Others		**138,779,110**	61,946,224
		186,881,633	110,386,585
		629,029,916	1,093,994,030

29.1 This includes FCY deposits equivalent to Rs. 630,174 million (based on exchange rate as of June 30, 2021) (2020: Rs. 504,152 million (based on exchange rate as of June 30, 2020)), carrying interest at twelve month LIBOR + 1.00% (2020: LIBOR + 1.00%), 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.

		2021	2020
29.2	The interest rate profile of the interest bearing deposits is as follows:	**(% per annum)**	
	Foreign central banks	**0.32 to 0.55**	0.51 to 2.61
	International organisations	**1.96 to 3.00**	3.00 to 4.53
	Foreign government	**-**	3
	Others	**-**	0.17 to 2.40

29.3 These are interest free and represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan.

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

		Note	2021	2020
30	**PAYABLE TO THE INTERNATIONAL MONETARY FUND**		**---------- (Rupees in '000) ----------**	
	Borrowings under:			
	- fund facilities	30.1 & 30.3	**622,012,301**	816,542,992
	- allocation of SDRs	30.2	**223,346,298**	229,401,334
			845,358,599	1,045,944,326
	Current account for administrative charges		**52**	52
			845,358,651	1,045,944,378

30.1 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 756 million (2020: SDR 540 million) in 24 different tranches (2020: 16 tranches).

30.2 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.

		Note	2021	2020
30.3	Interest profile of amount payable to the IMF is as under:		**(% per annum)**	
	Fund facilities	30.3.1	**1.05 to 1.13**	1.05 to 2.03

30.3.1 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.

31 SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents collateralised borrowing made from a financial institution under repurchase arrangement carrying a mark-up of 6.95% per annum (2020: Nil) and is due to mature on July 2, 2021 (2020: Nil).

		Note	2021	2020
32	**OTHER LIABILITIES**		**---------- (Rupees in '000) ----------**	
	Provision against overdue mark-up	32.1	**12,833,396**	11,886,685
	Special reserve provision under FIIP		**10,794,159**	10,245,290
	Remittance clearance account		**2,251,010**	4,096,502
	Exchange loss payable under exchange risk coverage scheme		**437,703**	477,713
	Dividend payable	32.2	**10,000**	10,000
	Unrealised loss on derivative financial instruments - net		**4,007,806**	22,298,736
	Other accruals and provisions	32.3	**42,485,821**	47,489,287
	Others	32.4	**9,623,467**	8,714,672
			82,443,362	105,218,885

32.1 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.

32.2 This represent dividend payable on shares held by the Government of Pakistan and government controlled entities amounting to Rs. 10 million (2020: Rs. 10 million).

	Note	2021	2020
		---------- (Rupees in '000) ----------	
32.3 Other accruals and provisions			
Agency commission		**13,971,245**	15,505,814
Provision for employees' compensated absences	47.3.9	**10,287,632**	9,862,249
Provision for other doubtful assets	32.3.1	**12,850,914**	13,525,632
Trade and other payables		**941,320**	3,215,376
Other provisions	32.3.2	**2,862,034**	2,845,378
Others		**1,572,676**	2,534,838
		42,485,821	47,489,287

32.3.1 Provision for other doubtful assets

Provision against assets held with / receivable from the Government of India and the Reserve Bank of India			
- Issue department		**11,268,457**	11,943,175
- Banking department		**40,483**	40,483
		11,308,940	11,983,658
Provision against assets receivable from the Government of Bangladesh			
- Issue department		**-**	-
- Banking department		**1,541,974**	1,541,974
		1,541,974	1,541,974
	32.3.1.1	**12,850,914**	13,525,632

32.3.1.1 Movement of provisions for other doubtful assets

Opening balance	**13,525,632**	11,162,564
Reversal of credit loss allowance	**(24,621)**	(42,143)
Appreciation relating to gold reserves held by the Reserve Bank of India	**(650,097)**	2,405,211
Closing balance	**12,850,914**	13,525,632

32.3.2 This represent provision against home remittance amounting to Rs. 260.363 million (2020: Rs. 260.363 million), specific claims pertaining to provision made against claims under arbitration amounting to Rs. 1,600 million (2020: Rs. 1,600 million) and other provisions made in respect of various litigations and claims against the Bank amounting to Rs. 1,001.67 million (2020: Rs. 985.02 million).

32.4 This includes liability maintained against balances due from the Government of Bangladesh amounting to Rs. 778.399 million (2020: Rs. 778.399 million).

	Note	2021	2020
33 DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS		---------- (Rupees in '000) ----------	
Unfunded staff retirement benefits			
Pension		**61,250,137**	58,584,132
Gratuity scheme		**140,720**	97,912
Post retirement medical benefits		**31,731,805**	29,879,378
Benevolent fund scheme		**1,183,375**	1,273,383
Six months post retirement facility		**952,536**	821,779
	47.3.3	**95,258,573**	90,656,584
Provident fund scheme		**694,328**	738,111
		95,952,901	91,394,695
Funded staff retirement benefits			
Pension	47.4.3	**5,027,214**	4,975,816
		100,980,115	96,370,511

34 SHARE CAPITAL

2021	2020		2021	2020
---- (Number of shares) --			---------- (Rupees in '000) ----------	
Issued, subscribed and paid-up capital				
1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	**100,000**	100,000
Authorised share capital				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	**100,000**	100,000

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

35 RESERVES

35.1 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. During the year, the Board of Directors has approved appropriation of Rs. 93.6 billion to reserve fund.

35.2 The reserves for acquisition of PSPC

This represents reserves against the Group's exposure in PSPC.

35.3 Other funds

These represent appropriations made out of the surplus profits of the State Bank of Pakistan for certain specified purposes in accordance with the provisions of the State Bank of Pakistan Act, 1956.

36 UNREALISED (DIMINUTION) / APPRECIATION ON GOLD RESERVES HELD BY THE BANK

	Note	2021	2020
		---------- (Rupees in '000) ----------	
Opening balance		**613,003,558**	464,180,641
(Diminution) / appreciation for the year due to revaluation	7	**(40,223,613)**	148,822,917
		572,779,945	613,003,558

37 CONTINGENCIES AND COMMITMENTS

37.1 Contingencies

37.1.1 State Bank of Pakistan (the Bank)

a) Contingent liability in respect of guarantees given on behalf of:			
Federal Government	37.1.1.1	**9,424,007**	13,459,912
Federal Government owned / controlled bodies and authorities		**6,308,328**	8,150,080
		15,732,335	21,609,992
b) Other claims against the Bank not acknowledged as debts	37.1.1.2	**15,363**	181,583

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 consolidated financial statements.

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

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

37.1.2 National Institute of Banking and Finance (Guarantee) Limited (NIBAF)

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

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

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

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

During the year 2017, NIBAF filed an appeal before the Commissioner Inland Revenue Appeals II (CIRA) challenging the compulsory registration of the NIBAF done by the department vide its order dated February 19, 2016. This appeal was disposed off by the CIRA on February 9, 2017 because it was not maintainable under the law (as it was outside its jurisdiction) and the case could now be taken to the Honourable Islamabad High Court. Consequently, NIBAF filed writ petition against the above orders before the Honourable Islamabad High Court (IHC).

IHC passed an order dated January 29, 2018 and directed CIRA to decide the representation of NIBAF expeditiously (preferably within 7 days) after affording an opportunity of being heard. NIBAF filed applications to CIRA for compliance with IHC order. On March 12, 2018, representatives of NIBAF attended a hearing before the tax department and made oral and written submission. On April 02, 2018, Deputy commissioner Inland Revenue passed an order rejecting NIBAF's application for de-registration and passed an order for compulsory registration of NIBAF.

On June 06, 2020, NIBAF received notice from "Office of the Commissioner Inland Revenue, Zone-III, Corporate Regional Tax office, Karachi " for payment of penalty for non / late filing of monthly sales tax returns. NIBAF submitted its response on June 26, 2020 in which the suspension of NIBAF without any legal notice and imposition of penalty was contested; thus citing non-filing of returns beyond the reasonable control of NIBAF. Further, it was requested for activation of NIBAF's account with taxation authorities for submission of sales tax returns.

NIBAF is also in contact with tax authorities on above matter through the Bank, and no further notices have been received in this regard from tax authorities. Therefore, no provision has been recognised in these consolidated financial statements.

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

37.1.2.2 In year 2018, NIBAF received a show cause notice for Rs. 8 million from the tax authorities against alleged non-deduction of tax on various payments relating to tax year 2017. NIBAF has submitted the necessary information and thereafter, tax authorities have not proceeded to pass any order. The management is confident of favourable outcome and accordingly no provision has been recognised in these consolidated financial statements.

37.1.2.3 During the year, NIBAF received notice under section 177(1) of the Income Tax Ordinance, 2001 for provision of information / documentation relating to tax year 2017 for the purposes of the tax audit of the said year under section 214(C) of the Income Tax Ordinance, 2001. NIBAF submitted its response and no further notice and / or assessment / order to this effect has been received so far from the taxation authorities.

37.1.3 Pakistan Security Printing Corporation (Private) Limited- (PSPC)

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

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

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

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

Being aggrieved, PSPC has filed appeals before the ATIR for tax years 2013 to 2017 which are pending for adjudication, while appeal for tax year 2018 shall be filed in due course. PSPC has also filed application to the Deputy Commissioner Inland Revenue (DCIR) for giving appeal effect of the aforementioned CIR(A) order.

The management, based on the advice of tax experts, expects a favourable outcome of the aforementioned matters and therefore no provision has been made in these consolidated financial statements.

37.1.4 Contingencies of the associate - Security Papers Limited

There is aggregate tax contingencies as at June 30, 2021 amounting to Rs 8.903 million in respect of various matters of sales tax and income tax whereby SPL is contesting before various authorities and associated company, expects a favourable outcome of the matters and therefore no provision has been made in these consolidated financial statements.

		Note	2021	2020
			---------- (Rupees in '000) ----------	
37.2	**Commitments**			
37.2.1	Foreign currency forward and swap contracts - sale		**865,057,133**	1,134,906,714
37.2.2	Foreign currency forward and swap contracts - purchase		**98,341,540**	177,598,187
37.2.3	Futures - sale		**14,096,256**	9,323,533
37.2.4	Futures - purchase		**13,678,234**	9,056,126
37.2.5	Capital commitments	37.2.5.1	**2,694,087**	2,685,478

37.2.5.1 This represent amounts committed by the Group to purchase assets from successful bidders.

37.2.6	Letter of guarantee / credit		**527,596**	465,549

37.2.7 The Bank has a commitment to extend equivalent PKR of CNY 30,000 million (Rs. 731,730 million) (2020: PKR of CNY 20,000 million (Rs. 475,138 million)) to Peoples Bank of China under bilateral currency swap agreement as disclosed in note 27.1 to these consolidated financial statements.

37.2.8 The Bank has made commitments to extend advance under ways and means limits to the 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, 2021 amounted to Rs. 7,500 million (2020: Rs. 7,500 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.

37.2.9 Commitment of the associate - Security Papers Limited

The SPL has car ijarah facility from the Meezan Bank Limited amounting to Rs. 50 million (2020: Rs. 50 million) out of which Rs. 2.472 million (2020: Rs. 1.131 million) were utilised. The ownership of the cars are with Meezan Bank Limited during the tenor of the facility of each vehicle.

37.2.10 Import letter of credit (sight / usance)

The SPL has facilities from the National Bank of Pakistan relating to import letters of credit (sight/ usance) amounting to Rs. 100 million (2020: Rs. 100 million). The arrangement from National Bank of Pakistan is secured by lien on documents of title of goods drawn under letter of credit. The SPL has utilised Rs. Nil as at June 30, 2021.

The SPL has facilities from the Bank Al Habib Limited (BAHL) relating to import letters of credit (sight /usance) amounting to Rs. 100 million (2020: Rs. 100 million). Besides, Rs 100 million (2020: Rs. Nil) may also be used for import letter of credit as sub limit of running finance facility. The arrangement from BAHL is secured by lien over T-Bills and PIBs of Rs. 400 million, import documents consigned in favour of BAHL and counter guarantees. Associate has utilised Rs. 39.743 million as at June 30, 2021.

The Musharka facility from Meezan Bank Limited is available which can also be used for import letter of credit (sight / usance) amounting to Rs. 200 million. This arrangement is secured by lien over import documents. The associate has utilised Rs.34.536 million as at June 30, 2021.

37.2.11 Letter of Guarantee Facility

As at June 30, 2021, the associate has facilities from commercial banks amounting to Rs. 120 million out of which Rs. 55.82 million was utilised by the associate relating to letters of guarantee.

	Note	2021	2020
38 DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED ON FINANCIAL ASSETS		---------- (Rupees in '000) ----------	
At amortised cost			
Discount, interest / mark-up on government transactions:			
- Government securities	38.1	**637,110,146**	1,048,156,785
- Federal Government scrips		**82,200**	82,200
- Loans and advances to and current accounts of governments	38.2	**160,968**	534,618
Securities purchased under agreement to resale		**90,251,465**	128,764,269
Interest income on preference shares		**4,224,427**	4,224,784
Return on loans and advances to financial institutions		**17,891,910**	12,837,164
Foreign currency deposits		**5,520,016**	13,603,153
Profit on Sukuks purchased under Bai Muajjal agreement		**-**	14,398
Others		**346,454**	403,930
		755,587,586	1,208,621,301
Fair value through profit or loss			
Foreign currency securities		**12,790,878**	10,058,650

38.1 This represents income earned on Market Treasury Bills and Pakistan Investment Bonds.

		2021	2020
		(% per annum)	
38.2	Interest profile on loans and advances to facilities are as under:		
	Mark-up on facility	**6.95 to 7.63**	8.41 to 13.80
	Additional mark-up (where ways and means facility limit is exceeded)	**4**	4

		Note	2021	2020
			(Rupees in '000)	
39	**INTEREST / MARK-UP EXPENSE**			
	Deposits		**16,511,666**	29,581,779
	Interest on bilateral currency swap		**26,106,579**	20,560,492
	Interest on special drawing rights		**7,832,939**	13,718,133
	Securities sold under agreement to repurchase		**692,576**	1,499,607
	Profit on Sukuks purchased under Bai Muajjal agreement		**1,379,185**	6,728,246
	Charges on allocation of special drawing rights of the IMF		**170,572**	1,255,045
	Others		**1,853**	2,983
			52,695,370	73,346,285
40	**COMMISSION INCOME**			
	Market Treasury Bills	40.1	**2,631,619**	2,503,164
	Management of public debts	40.1	**2,049,433**	1,594,705
	Prize bonds and national saving certificates	40.1	**560,242**	543,056
	Draft / payment orders		**3,395**	6,793
	Others		**64**	70
			5,244,753	4,647,788

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

		2021	2020
		(Rupees in '000)	
41	**EXCHANGE GAIN - NET**		
	Gain / (loss) on:		
	- foreign currency placements, deposits, securities and other accounts - net	**107,397,198**	83,567,128
	- IMF fund facilities	**21,336,916**	(10,474,773)
	- Special drawing rights of the IMF	**6,615,053**	(6,682,595)
	Others	**(21,394)**	(7,230)
		135,327,773	66,402,530
42	**SHARE OF PROFIT FROM ASSOCIATES**		
	Security Papers Limited	**601,511**	482,051
	SICPA Inks Pakistan (Private) Limited	**736,350**	97,857
		1,337,861	579,908
43	**OTHER OPERATING INCOME - NET**		
	Penalties levied on banks and financial institutions	**2,063,128**	3,933,387
	License / credit Information Bureau fee recovered	**1,103,429**	1,682,274
	Gain / (loss) on disposal of investment - net:		
	- local - at fair value through profit or loss	**44,525**	246,596
	- foreign - at fair value through profit or loss	**1,214,874**	673,692
		1,259,399	920,288
	Gain on remeasurement of securities at fair value through profit or loss	**(2,194,993)**	1,233,884
	Gain on sale of Prize Bonds to Government of Pakistan	**1,104,512**	530,652
	Others	**336,379**	303,500
		3,671,854	8,603,985

		Note	2021	2020
			---------- (Rupees in '000) ----------	
44	**OTHER INCOME - NET**			
	Gain / loss on disposal of property, plant and equipment		**5,596**	2,711
	Liabilities and provisions written back - net		**31,269**	208,967
	Grant income under foreign assistance program		**58,870**	173,726
	Fair value gain on investment property	20	**5,239**	978,607
	Others	44.1	**294,548**	60,790
			395,522	1,424,801

44.1 These include service charges at the rate of 0.12% of the total value of re-issuable cash deposited by various banks with BSC field offices and National Bank of Pakistan's chest branches.

		Note	2021	2020
			---------- (Rupees in '000) ----------	
45	**BANKNOTES' AND PRIZE BOND PRINTING CHARGES**			
	Raw material			
	Opening stock		**1,548,374**	660,010
	Purchases including in transit		**13,193,548**	11,705,655
	Closing stock		**(1,249,825)**	(1,548,374)
			13,492,097	10,817,291
	Salaries, wages and other benefits		**795,566**	820,376
	Pension		**304,228**	419,733
	Outsourced services		**326,030**	287,835
	Training		**317**	1,395
	Stores and spares		**827,271**	752,325
	Fuel and power		**142,302**	135,611
	Insurance		**28,943**	20,799
	Rent, rates and taxes		**-**	40,511
	Depreciation	19.3	**264,180**	197,596
	Provision for obsolete stores and spares - net		**4,128**	29,062
	Provision for slow moving and obsolete stock-in-trade - net		**-**	2,269
	Amortisation of packing boxes		**33,984**	35,635
	Repairs and maintenance		**62,050**	26,263
	Others		**5,168**	3,571
			2,794,167	2,772,981
	Manufacturing cost		**16,286,264**	13,590,272
	Opening work-in-process		**2,604,545**	2,328,955
	Closing work-in-process		**(2,391,605)**	(2,604,545)
			212,940	(275,590)
	Cost of goods manufactured		**16,499,204**	13,314,682
	Opening stock of finished goods		**2,963**	13,494
	Closing stock of finished goods		**(740,038)**	(2,963)
			(737,075)	10,531
			15,762,129	13,325,213

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

		Note	2021	2020
47	**GENERAL ADMINISTRATIVE AND OTHER EXPENSES**		---------- (Rupees in '000) ----------	
	Salaries and other benefits		**11,277,110**	11,447,819
	Retirement benefits and employees' compensated absences	47.1	**11,217,594**	16,938,583
	Contribution to Employee Staff Welfare Fund		**11,254**	177,970
	Rent and taxes		**115,174**	98,559
	Insurance		**89,722**	83,646
	Electricity, gas and water		**520,802**	510,507
	Depreciation	19.3	**2,162,158**	2,069,415
	Amortisation	21.2	**92,233**	118,586
	Repairs and maintenance		**946,077**	851,679
	Directors' fee		**4,252**	2,141
	Auditors' remuneration	47.2	**25,441**	23,408
	Legal and professional		**73,567**	239,616
	Fund managers / custodian expenses		**310,172**	298,246
	Travelling expenses		**81,031**	157,137
	Daily expenses		**59,689**	99,845
	Fuel		**48,113**	44,634
	Conveyance		**311,440**	337,346
	Postages, telegram / telex and telephone		**258,907**	262,914
	Training		**2,331**	82,851
	Stationery		**61,867**	41,928
	Remittance of treasure		**216,223**	180,119
	Books and newspapers		**45,330**	45,317
	Advertisement		**21,673**	25,134
	Uniforms		**32,626**	35,086
	Board / Board committee expenses		**8,944**	11,541
	Recruitment charges		**11,589**	4,924
	Others		**1,315,222**	979,290
			29,320,541	35,168,241

47.1 This includes an amount relating to defined contribution plan aggregating Rs. 487.099 million (2020: Rs. 409.02 million) and employee compensated absences amounting to Rs. 1,224.003 million (2020: Rs. 4,986.563 million).

47.2 Auditors' remuneration

	2021			2020		
	KPMG	**A. F. Ferguson**	**Total**	KPMG	A. F. Ferguson	Total
	---------- (Rupees in '000) ----------					
State Bank of Pakistan						
Audit fee	**4,649**	**4,649**	**9,298**	**4,285**	**4,285**	**8,570**
Out of pocket expenses	**776**	**776**	**1,552**	**715**	**715**	**1,430**
Sindh Sales Tax on services	**434**	**434**	**868**	**400**	**400**	**800**
	5,859	**5,859**	**11,718**	5,400	5,400	10,800
SBP Banking Services Corporation						
Audit fee	**3,873**	**3,873**	**7,746**	3,570	3,570	7,140
Out of pocket expenses	**1,552**	**1,552**	**3,104**	1,430	1,430	2,860
Sindh Sales Tax on services	**434**	**434**	**868**	400	400	800
	5,859	**5,859**	**11,718**	5,400	5,400	10,800
National Institute of Banking and Finance						
Audit fee	**431**	**-**	**431**	**431**	**-**	**431**
Out of pocket expenses	**46**	**-**	**46**	**46**	**-**	**46**
ICT Sales Tax on services	**38**	**-**	**38**	**38**	**-**	**38**
	515	**-**	**515**	**515**	**-**	**515**
Pakistan Security Printing Corporation						
Audit fee	**1,148**	**-**	**1,148**	**980**	**-**	**980**
Out of pocket expenses	**232**	**-**	**232**	**217**	**-**	**217**
Sindh Sales Tax on services	**110**	**-**	**110**	**96**	**-**	**96**
	1,490	-	**1,490**	1,293	-	1,293
	13,723	**11,718**	**25,441**	12,608	10,800	23,408

47.3 Staff retirement benefits-unfunded (Bank and BSC)

47.3.1 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:

	2021	2020
- discount rate for year end obligation	**10.00% p.a**	9.25% p.a
- salary increase rate (where applicable)	**14.75% p.a**	14.00% p.a
- pension indexation rate (where applicable)	**8.00% p.a**	7.25% p.a
- medical cost increase rate	**10.00% p.a**	9.25% p.a
- petrol price increase rate (where applicable)	**14.75% p.a**	14.00% p.a
- personnel turnover		
SBP	**4.36% p.a**	6.51% p.a
SBP-BSC	**6.99% p.a**	6.81 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.

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

Discount rate risk

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

Salary increase / inflation risk

The risk that the actual salary increase 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 lower 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.

47.3.3 Change in present value of defined benefit obligation

	2021					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
Present value of defined benefit obligation July 01, 2020	**58,584,132**	**107,503**	**29,879,378**	**1,273,383**	**821,779**	**90,666,175**
Current service cost	**843,186**	**13,835**	**585,838**	**7,461**	**56,515**	**1,506,835**
Interest cost on defined benefit obligation	**5,102,687**	**9,046**	**2,701,999**	**113,560**	**72,365**	**7,999,657**
	5,945,873	**22,881**	**3,287,837**	**121,021**	**128,880**	**9,506,492**
Benefits paid	**(6,839,888)**	**(232)**	**(1,337,163)**	**(91,406)**	**(78,906)**	**(8,347,595)**
Remeasurements:						
actuarial (gains) / losses from changes in financial assumptions	**-**	**-**	**-**	**-**	**-**	**-**
experience adjustments	**3,560,020**	**10,568**	**(98,247)**	**(119,623)**	**80,783**	**3,433,501**
	3,560,020	**10,568**	**(98,247)**	**(119,623)**	**80,783**	**3,433,501**
Present value of defined benefit obligation as on June 30, 2021	**61,250,137**	**140,720**	**31,731,805**	**1,183,375**	**952,536**	**95,258,573**

	2020					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	(Rupees in '000)					
Present value of defined benefit obligation July 01, 2019	49,924,084	65,700	27,152,937	1,030,938	678,200	78,851,859
Current service cost	842,543	9,137	633,542	3,037	48,373	1,536,632
Interest cost on defined benefit obligation	6,445,351	9,136	3,779,496	136,744	89,829	10,460,556
	7,287,894	18,273	4,413,038	139,781	138,202	11,997,188
Benefits paid	(9,387,103)	(3,168)	(1,260,328)	(142,656)	(95,637)	(10,888,892)
Remeasurements:						-
actuarial (gains) / losses from changes in financial assumptions	-	-	-	-	-	-
experience adjustments	10,759,257	17,107	(426,269)	245,320	101,014	10,696,429
	10,759,257	17,107	(426,269)	245,320	101,014	10,696,429
Present value of defined benefit obligation as on June 30, 2020	58,584,132	97,912	29,879,378	1,273,383	821,779	90,656,584

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

Remeasurements recognised in the other comprehensive income

	2021					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
- Actuarial gains / (losses) from changes in financial assumptions	**-**	**-**	**-**	**-**	**-**	**-**
- Experience adjustments	**3,560,020**	**10,568**	**(98,247)**	**(119,623)**	**80,783**	**3,433,501**
	3,560,020	**10,568**	**(98,247)**	**(119,623)**	**80,783**	**3,433,501**

	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	10,759,257	17,107	(426,269)	245,320	101,014	10,696,429
	10,759,257	17,107	(426,269)	245,320	101,014	10,696,429

47.3.4 Amount recognised in the consolidated profit and loss account

	2021					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
Current service cost	**843,186**	**13,835**	**585,838**	**7,461**	**56,515**	**1,506,835**
Interest cost on defined benefit obligation	**5,102,687**	**9,046**	**2,701,999**	**113,560**	**72,365**	**7,999,657**
	5,945,873	**22,881**	**3,287,837**	**121,021**	**128,880**	**9,506,492**

	2020					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	(Rupees in '000)					
Current service cost	842,543	9,137	633,542	3,037	48,373	1,536,632
Interest cost on defined benefit obligation	6,445,351	9,136	3,779,496	136,744	89,829	10,460,556
	7,287,894	18,273	4,413,038	139,781	138,202	11,997,188

47.3.5 Movement of present value of defined benefit obligation

	2021					
	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, 2020	**58,584,132**	**107,503**	**29,879,378**	**1,273,383**	**821,779**	**90,666,175**
Amount recognised in the consolidated profit and loss account	**5,945,873**	**22,881**	**3,287,837**	**121,021**	**128,880**	**9,506,492**
Remeasurements	**3,560,020**	**10,568**	**(98,247)**	**(119,623)**	**80,783**	**3,433,501**
Benefits paid during the year	**(6,839,888)**	**(232)**	**(1,337,163)**	**(91,406)**	**(78,906)**	**(8,347,595)**
Net recognised liabilities at June 30, 2021	**61,250,137**	**140,720**	**31,731,805**	**1,183,375**	**952,536**	**95,258,573**

	2020					
	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, 2019	49,924,084	65,700	27,152,937	1,030,938	678,200	78,851,859
Amount recognised in the consolidated profit and loss account	7,287,894	18,273	4,413,038	139,781	138,202	11,997,188
Remeasurements	10,759,257	17,107	(426,269)	245,320	101,014	10,696,429
Benefits paid during the year	(9,387,103)	(3,168)	(1,260,328)	(142,656)	(95,637)	(10,888,892)
Net recognised liabilities at June 30, 2020	58,584,132	97,912	29,879,378	1,273,383	821,779	90,656,584

47.3.6 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%	(4,284,008)	4,957,887
Future salary increase	1%	1,369,908	(1,280,198)
Future pension increase	1%	3,538,807	(3,054,094)
Expected mortality rates	1 Year	1,628,265	(1,477,449)
Gratuity			
Discount rate	1%	(9,709)	10,993
Future salary increase	1%	10,983	(9,891)
Post retirement medical benefit scheme			
Discount rate	1%	(3,505,915)	4,319,637
Future post-retirement medical cost increase	1%	4,259,093	(3,490,009)
Expected mortality rates	1 Year	1,258,226	(1,130,489)
Benevolent			
Discount rate	1%	(50,321)	55,775
Six months post retirement facility			
Discount rate	1%	(60,337)	67,382
Future salary increase	1%	68,100	(62,186)

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 consolidated balance sheet.

47.3.7 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	**7 Years**	**1-8 Years**	**12-13 Years**	**4-6 Years**	**4-7 Years**

47.3.8 Estimated expenses to be charged to the consolidated profit and loss account for the year ending June 30, 2022

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2022 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	908,426	25,985	617,445	7,200	59,057	1,618,113
Interest cost on defined benefit obligation	4,553,107	24,102	1,681,557	116,368	90,750	6,465,884
Amount chargeable to the consolidated profit and loss account	5,461,533	50,087	2,299,002	123,568	149,807	8,083,997

47.3.9 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected unit credit method amounted to Rs. 10,287.632 million (2020: Rs. 9,862.249 million). An amount of Rs. 1,224.003 million (2020: Rs. 4,339.457 million) has been charged to the consolidated profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2022 would be Rs 1,630.235 million. The benefits paid during the year amounted to Rs. 798.62 million (2020: Rs 1,423.58 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 503.528 million and Rs. 559.505 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. 576.601 million and Rs. 529.760 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 4-6 years.

47.4 Staff retirement benefits-funded (PSPC)

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

	2021	2020
- Discount rate	**10.25% p.a**	9.25% p.a
- Salary increase rate	**9.25% p.a**	8.25% p.a
- Pension increase rate	**4.75% p.a**	4.75% p.a

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

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

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

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

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

		2021	2020
47.4.3	**Amounts recognised in the consolidated balance sheet are determined as follows:**	**-------(Rupees in '000)-------**	
	Present value of defined benefit obligation	**6,270,768**	6,262,360
	Fair value of plan assets	**(1,243,554)**	(1,286,544)
		5,027,214	4,975,816

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

Movement in defined benefit obligation		
Present value at reporting date	**6,262,360**	5,785,717
Current service cost	**56,393**	56,393
Interest cost of defined benefit obligation	**565,526**	816,214
Benefits paid during the year	**(297,140)**	(313,314)
Past service cost	**13,937**	-
Actuarial remeasurement loss	**(330,308)**	(82,650)
Present value as at June 30, 2021	**6,270,768**	6,262,360
Movement in fair value of plan assets		
Fair value as reporting date	**1,286,544**	1,473,873
Expected return on plan assets	**108,426**	196,778
Contribution made by employer	**68,404**	79,753
Benefits paid during the year	**(297,140)**	(313,314)
Actuarial remeasurement gain / (loss)	**77,320**	(150,546)
Fair value as reporting date	**1,243,554**	1,286,544

		2021		2020	
47.4.5	**Plan assets consist of the following:**	**(Rupees in '000**	**%**	(Rupees in '000)	**%**
	Equity instruments	**583,718**	**36.17**	73,853	4.41
	Debt instruments	**979,853**	**60.70**	1,144,487	68.41
	Cash and cash equivalent	**50,453**	**3.13**	454,666	27.18
		1,614,024	**100.00**	1,673,006	100.00
	Less: Pertaining to NSPC (being the multi employer fund)	**(370,470)**		(386,462)	
		1,243,554		1,286,544	

		2021	2020
47.4.6	**Amount recognised in the consolidated profit and loss account**	**-------(Rupees in '000)-------**	
	Current service cost	**56,393**	56,393
	Past service cost	**13,937**	-
	Net interest cost on defined benefit obligation	**457,100**	619,436
		527,430	675,829

47.4.7 Amount recognised in "other comprehensive income"

Remeasurement gain on obligation		
Actuarial gains from changes in financial assumptions	**(330,308)**	(82,650)
Remeasurement (gain) / loss on plan assets		
Actual net (gain) / loss on plan assets	**(77,320)**	150,546
	(407,628)	67,896
Share of other comprehensive income of associate	**(4,726)**	(3,836)

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

		Impact on defined benefit obligation - increase / (decrease)	
	Change in assumption	Increase in assumption	Decrease in assumption
		---------(Rupees in '000)--------	
Pension			
Discount rate	1%	(585,941)	700,544
Salary growth rate	1%	167,535	(155,266)
Pension indexation rate	1%	561,268	(482,032)

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

47.4.9 Duration of defined benefit obligation

	Pension
Weighted average duration of defined benefit obligation	**11 Years**

47.4.10 Estimated expenses to be charged to consolidated profit and loss account for the year ending June 30, 2022

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2022 would be Rs. 571.028 million.

48 REVERSAL OF CREDIT LOSS ALLOWANCE ON FINANCIAL INSTRUMENTS - NET

The following table reconciles the expected credit losses allowance for the year ended June 30, 2021 by classes of financial instruments:

	2021					
	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, 2020	88	78,953	2,192,861	-	7	2,271,909
(Reversal) / charge during the year	16,473	(39,475)	(40,950)	-	(1)	(63,953)
As at June 30, 2021	**16,561**	**39,478**	**2,151,911**	**-**	**6**	**2,207,956**

	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	2,210,809	-	27	2,302,784
Reversals during the year	(12,907)	-	(17,948)	-	(20)	(30,875)
As at June 30, 2020	88	78,953	2,192,861	-	7	2,271,909

49 TAXATION

	2021	2020
	--------(Rupees in '000)------	
Current - for the year	**994,193**	653,406
Current - prior year	**56,446**	(42,794)
Deferred	**264,085**	127,248
	1,314,724	737,860

50	PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS	Note	2021	2020
			---------- (Rupees in '000) ----------	
	Profit before taxation		**762,173,524**	1,164,170,450
	Adjustments for:			
	Depreciation	19.3	**2,438,495**	2,278,729
	Amortisation	21.2	**92,233**	118,586
	Reversal of charge of credit loss on financial instruments		**(24,497)**	(30,875)
	Provision / (reversal) for / write-off:			
	- retirement benefits and employees' compensated absences		**11,217,594**	16,938,583
	- other doubtful assets	32.3.1.1	**(24,621)**	(42,143)
	- others		**1,111**	-
	Gain on disposal of property, plant and equipment	44	**(5,596)**	(2,711)
	Gain on disposal of financial assets	43	**(1,259,399)**	(920,288)
	(Loss) / gain on remeasurement of securities		**2,195,821**	(1,234,440)
	Dividend income		**(520,498)**	(460,688)
	Effect of exchange gain on assets and liabilities		**(137,523,594)**	(136,645,477)
	Profit from associate and other non-cash adjustments		**(1,337,861)**	(579,908)
			637,422,712	1,043,589,818

51 CASH AND CASH EQUIVALENTS

Cash and bank balances	6	**501,584**	212,825
Local currency - coins	8	**417,574**	1,028,584
Foreign currency accounts and investments having maturity of less than 3 months	9	**2,256,103,258**	1,843,398,267
Earmarked foreign currency balances	10	**20,707,900**	62,010,317
Special Drawing Rights of the International Monetary Fund	11	**60,771,006**	29,537,127
		2,338,501,322	1,936,187,120

52 RELATED PARTY TRANSACTIONS

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

52.1 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 consolidated financial statements. Balances outstanding from and transactions with the Federal and Provincial Governments and related entities not disclosed elsewhere in the consolidated financial statements are given below:

Transactions during the year	2021	2020
	---------- Rupees in '000 ----------	
- Retirement of PIBs	**569,000,000**	-
- Retirement / rollover of MRTBs	**-**	569,000,000

- Commission income from sale of Market Treasury Bills, issuance of prize bonds, National Saving Certificates and management of public debt (refer note 40.1)

52.2 Remuneration to key management personnel

Key management personnel of the Group include members of the Board of Directors of the Bank, Governor of the Bank, Deputy Governors of the Group and other executives of the Group 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 Group are as follows:

	2021	2020
	---------- (Rupees in '000) ----------	
Short-term employee benefit	**1,185,106**	1,259,810
Post-employment benefit	**199,451**	108,307
Loans disbursed during the year	**74,768**	44,174
Loans repaid during the year	**115,298**	120,645
Disposal of vehicle during the year	**1,699**	-
Directors' fees	**13,417**	13,857
Number of key management personnel*	**122**	104

* This includes 95 (2020: 84) key management personnel pertaining to subsidiaries of the Group.

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

52.3 Associated undertakings of the Group

52.3.1 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.

52.3.2 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 PSPC of development (now economic PSPC 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.

53 RISK MANAGEMENT POLICIES

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

53.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Group's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by government guarantees or by demand promissory notes. Equity 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 Group's exposure to credit risk associated with foreign investments is managed by monitoring compliance with investment limits for counterparties. The Group's credit risk mainly lies with exposure towards government sector and financial institutions.

53.1.1 Derivative financial instruments

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

53.1.2 Impairment assessment

The references below show where the Group’s impairment assessment and measurement approach is set out in these consolidated financial statements. It should be read in conjunction with the summary of significant accounting policies.

53.1.3 Definition of default

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

Quantitative criteria

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

Qualitative criteria

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

53.1.4 Credit rating and PD estimation process

The Group 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	2021	2020	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%	

53.1.5 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a stage 1 financial instruments, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For stage 2 and stage 3 the exposure at default is considered for events over the lifetime of the instruments. The Group determines 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 Group's models.

53.1.6 Loss given default

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

53.1.7 Significant increase in credit risk

The Group considers a financial asset to have experienced a significant increase in credit risk when:
- credit rating falls below investment grade in case of investments made in financial assets, or
- the contractual payments are 30 days past due.

53.1.8 Collateral and other credit enhancements

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

53.2 Concentrations of risk

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

53.2.1 Geographical analysis

	2021						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand total
	(Rupees in '000)						
Financial assets							
Cash and bank balances	501,584	-	-	-	-	-	**501,584**
Local currency - coins	417,574	-	-	-	-	-	**417,574**
Foreign currency accounts and investments	-	1,481,590,684	530,135,244	847,112,678	6,206	-	**2,858,844,812**
Earmarked foreign currency balance	20,707,900	-	-	-	-	-	**20,707,900**
Special drawing rights of International Monetary Fund	-	-	60,771,006	-	-	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	26,727	-	-	-	**26,727**
Securities purchased under agreement to resell	1,792,952,119	-	-	-	-	-	**1,792,952,119**
Current accounts of governments	33,793,930	-	-	-	-	-	**33,793,930**
Investments - local	6,857,412,223	-	-	-	-	-	**6,857,412,223**
Loans, advances and bills of exchange	1,190,157,295	837,832	-	-	-	-	**1,190,995,127**
Assets held with the Reserve Bank of India	-	1,939,592	-	-	-	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	14,087,874	-	-	-	-	**14,087,874**
Other assets	20,983,757	9,115,950	5,122		-	-	**30,104,829**
Total financial assets	9,916,926,382	1,507,571,932	590,938,099	847,112,678	6,206	-	12,862,555,297

	2020						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand total
	(Rupees in '000)						
Financial assets							
Cash and bank balances held by subsidiaries	212,825	-	-	-	-	-	212,825
Local currency - coins	1,028,584	-	-	-	-	-	1,028,584
Foreign currency accounts and investments	-	771,653,490	991,293,185	420,350,082	9,994,287	13,695,211	2,206,986,255
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	7,412,323,127	-	-	-	-	-	7,412,323,127
Loans, advances and bills of exchange	804,424,737	327,949	-	-	-	-	804,752,686
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	7,231,994	7,283,358	3,305	-	-	-	14,518,657
Total financial assets	9,234,928,337	794,370,171	1,020,861,172	420,350,082	9,994,287	13,695,211	11,494,199,260

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".

53.2.2 Industrial analysis

	2021						
	Sovereign	Supra-national	Public sector entities	Corporate	Banks & financial institutions	Others	Grand total
	(Rupees in '000)						
Financial assets							
Cash and bank balances held by subsidiaries	35,693	-	-	-	465,891	-	**501,584**
Local currency - coins	417,574	-	-	-	-	-	**417,574**
Foreign currency accounts and investments	1,241,132,015	1,039,686,758	-	-	578,026,039	-	**2,858,844,812**
Earmarked foreign currency balance	20,707,900	-	-	-	-	-	**20,707,900**
Special drawing rights of International Monetary Fund	-	60,771,006	-	-	-	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	26,727	-	-	-	-	**26,727**
Securities purchased under agreement to resell	-	-	-	-	1,792,952,119	-	**1,792,952,119**
Current accounts of governments	33,793,930	-	-	-	-	-	**33,793,930**
Investments - local	6,685,409,338	-	130,487,113	-	41,515,772	-	**6,857,412,223**
Loans, advances and bills of exchange	837,832	-	104,524,714	-	1,060,667,763	24,964,818	**1,190,995,127**
Assets held with the Reserve Bank of India	1,939,592	-	-	-	-	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	14,087,874	-	-	-	-	-	**14,087,874**
Other assets	11,732,516	5,122	66,745	-	17,486,469	813,977	**30,104,829**
Total financial assets	**8,010,094,264**	**1,100,489,613**	**235,078,572**	**-**	**3,491,114,053**	**25,778,795**	**12,862,555,297**

	2020						
	Sovereign	Supra-national	Public sector entities	Corporate	Banks & financial institutions	Others	Grand total
	(Rupees in '000)						
Financial assets							
Cash and bank balances held by subsidiaries	12,540	-	-	-	200,285	-	212,825
Local currency - coins	1,028,584	-	-	-	-	-	1,028,584
Foreign currency accounts and investments	1,269,465,668	385,876,467	-	-	551,644,120	-	2,206,986,255
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	7,276,173,932	-	107,980,934	-	28,168,261	-	7,412,323,127
Loans, advances and bills of exchange	327,949	-	85,686,655	-	697,696,790	21,041,292	804,752,686
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	11,471,931	9,531	53,625	-	1,035,583	1,947,987	14,518,657
Total financial assets	8,665,753,401	415,450,680	193,721,214	-	2,196,284,686	22,989,279	11,494,199,260

53.3 CREDIT EXPOSURE BY CREDIT RATING

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

	2021							
	Sovereign (52.3.1)	**AAA**	**AA**	**A**	**BBB**	**Lower than BBB**	**Unrated**	**Grand Total**
	(Rupees in 000')							
Financial assets								
Cash and bank balances	-	-	-	-	-	-	501,584	**501,584**
Local currency - coins	417,574	-	-	-	-	-	-	**417,574**
Foreign currency accounts and investments	817,417,290	711,324,703	534,009,055	794,972,705	40	-	1,121,019	**2,858,844,812**
Earmarked foreign currency balance	20,707,900	-	-	-	-	-	-	**20,707,900**
Special drawing rights of International Monetary Fund	-	-	-	-	-	-	60,771,006	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	26,727	**26,727**
Securities purchased under agreement to resell	-	458,638,765	1,173,120,210	158,354,424	-	-	2,838,720	**1,792,952,119**
Current accounts of governments	33,793,930	-	-	-	-	-	-	**33,793,930**
Investments - local	6,679,188,550	162,581,159	4,912,797	10,729,717	-	-	-	**6,857,412,223**
Loans, advances and bills of exchange	-	335,813,959	807,975,738	13,160,083			34,045,347	**1,190,995,127**
Assets held with the Reserve Bank of India	-	-	-	-	1,939,592	-	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	14,047,421	-	**14,087,874**
Other assets	11,756,023	678,144	6,596,198	9,161,106	-	-	1,913,358	**30,104,829**
Total financial assets	**7,563,281,267**	**1,669,036,730**	**2,526,613,998**	**986,378,035**	**1,980,085**	**14,047,421**	**101,217,761**	**12,862,555,297**

	2020							
	Sovereign (52.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in 000')							
Financial assets								
Cash and bank balances held by subsidiari	-	-	-	-	-	-	212,825	212,825
Local currency - coins	1,028,584	-	-	-	-	-	-	1,028,584
Foreign currency accounts and investments	1,269,406,931	398,541,244	108,447,702	425,450,285	5,140,093	-	-	2,206,986,255
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	7,332,985,723	68,120,503	9,128,446	2,088,455	-	-	-	7,412,323,127
Loans, advances and bills of exchange	274,836	310,103,108	431,490,408	31,988,290	141,068	115,223	30,639,753	804,752,686
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	12,392,461	-	460,820	-	-	-	1,665,376	14,518,657
Total financial assets	8,708,255,958	1,021,439,655	1,014,011,088	658,752,994	14,132,287	15,524,642	62,082,636	114,941,992,60

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

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

53.4 LIQUIDITY ANALYSIS WITH INTEREST / MARK-UP RATE RISK

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

	2021						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-derivative assets:							
Cash and bank balances	-	-	-	501,584	-	501,584	**501,584**
Local currency - coins				417,574	-	417,574	**417,574**
Foreign currency accounts and investments	1,733,758,096	125,159,778	1,858,917,874	999,223,627	280,150	999,503,777	**2,858,421,651**
Earmarked foreign currency balance	-	-	-	20,707,900	-	20,707,900	**20,707,900**
Special drawing rights of International Monetary Fund	60,771,006	-	60,771,006	-	-	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	26,727	-	26,727	**26,727**
Securities purchased under agreement to resell	1,790,871,426	-	1,790,871,426	2,080,693	-	2,080,693	**1,792,952,119**
Current accounts of governments	33,793,930	-	33,793,930	-	-	-	**33,793,930**
Investments - local	590,911,683	6,150,376,769	6,741,288,452	-	116,123,771	116,123,771	**6,857,412,223**
Loans, advances and bills of exchange	500,406,454	334,842,005	835,248,459	264,883,857	90,862,811	355,746,668	**1,190,995,127**
Assets held with the Reserve Bank of India	-	-	-	1,939,592	-	1,939,592	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	-	-	14,087,874	-	14,087,874	**14,087,874**
Other assets	-	-	-	13,646,875	19,054	13,665,929	**13,665,929**
	4,710,512,595	6,610,378,552	11,320,891,147	1,317,516,303	207,285,786	1,524,802,089	**12,845,693,236**
Derivative assets							
Foreign currency accounts and investments			-	423,161	-	423,161	**423,161**
Other assets				16,438,900	-	16,438,900	**16,438,900**
	-	-	-	16,862,061	-	16,862,061	**16,862,061**
Grand total	**4,710,512,595**	**6,610,378,552**	**11,320,891,147**	**1,334,378,364**	**207,285,786**	**1,541,664,150**	**12,862,555,297**
Financial liabilities							
Banknotes in circulation	-	-	-	7,278,860,019	-	7,278,860,019	**7,278,860,019**
Bills payable	-	-	-	2,051,417	-	2,051,417	**2,051,417**
Current accounts of the governments*	-	-	-	1,295,486,434		1,295,486,434	**1,295,486,434**
Payable to Islamic banking institutions against Bai Muajjal transactions	-	-	-	-	-	-	**-**
Payable under bilateral currency swaps agreements	731,730,000	-	731,730,000	16,764,053	-	16,764,053	**748,494,053**
Deposits of banks and financial institutions	121,524,435	-	121,524,435	1,206,143,957	-	1,206,143,957	**1,327,668,392**
Other deposits and accounts	425,367,990	-	425,367,990	203,661,926	-	203,661,926	**629,029,916**
Payable to the International Monetary Fund	157,560,118	686,639,654	844,199,772	1,158,879	-	1,158,879	**845,358,651**
Securities sold under agreement to repurchase	135,000,000	-	135,000,000	51,390	-	51,390	**135,051,390**
Other liabilities	-	10,794,160	10,794,160	34,813,381	-	34,813,381	**45,607,541**
Endowment Fund	-	-	-	-	128,771	128,771	**128,771**
	1,571,182,543	697,433,814	2,268,616,357	10,038,991,456	128,771	10,039,120,227	**12,307,736,584**
Derivative liabilities							
Other liabilities		-	-	4,007,806		4,007,806	**4,007,806**
	1,571,182,543	697,433,814	2,268,616,357	10,042,999,262	128,771	10,043,128,033	**12,311,744,390**
On balance sheet gap (a)	**3,139,330,052**	**5,912,944,738**	**9,052,274,790**	**(8,708,620,898)**	**207,157,015**	**(8,501,463,883)**	**550,810,907**
Foreign currency forward and swap contracts - sale	-	-	-	865,057,133	-	865,057,133	**865,057,133**
Foreign currency forward and swap contracts - purchase	-	-	-	98,341,540	-	98,341,540	**98,341,540**
Futures - sale	-	-	-	14,096,256	-	14,096,256	**14,096,256**
Futures - purchase	-	-	-	13,678,234	-	13,678,234	**13,678,234**
Capital commitments	-	-	-	2,694,087	-	2,694,087	**2,694,087**
Contingent liabilities in respect of guarantees given	-	-	-	-	527,596	527,596	**527,596**
Off balance sheet gap (b)	-	-	-	993,867,250	527,596	994,394,846	**994,394,846**
Total yield / interest risk sensitivity gap (a+b)	**3,139,330,052**	**5,912,944,738**	**9,052,274,790**	**(9,702,488,148)**	**206,629,419**	**(9,495,858,729)**	**(443,583,939)**
Cumulative yield / interest risk sensitivity gap	**3,139,330,052**	**9,052,274,790**	**18,104,549,580**				

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

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

	2020						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-derivatives assets:							
Cash and bank balances held by subsidiaries	-	-	-	212,825	-	212,825	212,825
Local currency - coins	-	-	-	1,028,584	-	1,028,584	**1,028,584**
Foreign currency accounts and investments	1,509,080,333	130,627,178	1,639,707,511	566,621,706	307,161	566,928,867	**2,206,636,378**
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	5,999,580,653	1,331,043,759	7,330,624,412	32,002,965	49,695,750	81,698,715	**7,412,323,127**
Loans, advances and bills of exchange	544,693,616	200,078,470	744,772,086	19,920,863	40,059,737	59,980,600	**804,752,686**
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	-	-	-	14,056,808	1,029	14,057,837	**14,057,837**
	9,003,120,543	**1,661,749,407**	**10,664,869,950**	**738,454,936**	**90,063,677**	**828,518,613**	**11,493,388,563**
Derivatives assets							
Foreign currency accounts and investments	-	-	-	362,728	(12,851)	349,877	**349,877**
Other assets				467,045	-	3,630,968	**3,630,968**
Grand total	**9,003,120,543**	**1,661,749,407**	**10,664,869,950**	**738,817,664**	**90,050,826**	**828,868,490**	**11,493,738,440**
Financial liabilities							
Banknotes in circulation	-	-	-	6,458,763,106	-	6,458,763,106	**6,458,763,106**
Bills payable	-	-	-	1,726,348	-	1,726,348	**1,726,348**
Current accounts of the Governments*	-	-	-	748,790,102	-	748,790,102	**748,790,102**
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	136,105,610	-	136,105,610	**1,093,994,030**
Payable to 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	28,105,496	-	28,105,496	**38,350,786**
Endowment Fund	-	-	-	-	120,984	120,984	**120,984**
	1,805,991,650	825,275,343	2,631,266,993	8,423,640,870	120,984	8,423,761,854	**11,055,028,847**
Derivative liabilities							
Other liabilities	-	-	-	22,298,736	-	22,298,736	**22,298,736**
	1,805,991,650	825,275,343	2,631,266,993	8,445,939,606	120,984	8,446,060,590	**11,077,327,583**
On balance sheet gap (a)	**7,197,128,893**	**836,474,064**	**8,033,602,957**	**(7,707,121,942)**	**89,929,842**	**(7,617,192,100)**	**416,410,857**
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	-	-	-	2,685,478	-	2,685,478	**2,685,478**
Contingent liabilities in respect of guarantees given	-	-	-	-	465,549	465,549	**465,549**
Off balance sheet gap (b)	-	-	-	1,333,570,038	465,549	1,334,035,587	**1,334,035,587**
Total yield / interest risk sensitivity gap (a+b)	**7,197,128,893**	**836,474,064**	**8,033,602,957**	**(9,040,691,980)**	**89,464,293**	**(8,951,227,687)**	**(917,624,730)**
Cumulative yield / interest risk sensitivity gap	**7,197,128,893**	**8,033,602,957**	**16,067,205,914**				

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

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

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

53.5 Interest rate risk

53.5.1 Cash flow interest rate risk

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

If interest rates had been 10 basis points higher / lower and all other variables were held constant, the Group's profit for the year ended June 30, 2021 would increase / decrease by Rs 3,796 million (2020: Rs. 3,344.02 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments.

53.5.2 Fair value interest rate risk

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

The Group is exposed to fair value interest rate risk on its fixed income securities, classified as financial assets at fair value through profit or loss 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 53.9 to these consolidated financial statements.

As at June 30, 2021, 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 1,024.176 million (2020: Rs 500.826 million) or decrease by Rs 1,024.176 million (2020: Rs 500.826 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 or loss.

53.6 Currency risk management

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

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

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

The sensitivity analysis calculates the effect of reasonably possible movement of the currency rate against Pak Rupee, with all other variables held constant, on the consolidated profit and loss account and equity. If the Rupee had weakened / strengthened 1 percent against the principal currencies to which the Group had significant exposure as at June 30, 2021 with all other variables constant profit for the year would have been Rs. 691,370 million higher / lower (2020: Rs. 436,061 million). Net foreign currency exposure of the Group is as follows:

	2021	2020
	---------- (Rupees in '000) ----------	
US Dollar	**779,444,523**	(295,354,414)
Pound Sterling	**(67,777,983)**	(77,327,599)
Chinese Yuan	**298,159,124**	279,547,027
Euro	**(260,716,491)**	(306,242,263)
Japanese Yen	**(58,202,274)**	(37,738,016)
United Arab Emirates Dirham	**90,450**	709,707
Australian Dollar	**6,607**	10,799
Canadian Dollar	**5,418**	1,805
Others	**360,221**	332,068
	691,369,595	(436,060,886)

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

The composition of the Group's financial instruments and the correlation thereof to different variables is expected to change over time. Accordingly, the sensitivity analyses in note 53.6 and 53.7 prepared as of the reporting date are not necessarily indicative of the effects on the Group's consolidated profit and loss of future movements in different

53.7 Price Risk

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

The Group is exposed to equity securities price risk because of investment in listed equity securities and mutual fund units by the Group classified as at fair value through other comprehensive income and fair value through profit or loss respectively. The investments in equity securities 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 cannot be managed by the Group.

In case of 5% increase or decrease in KSE 100 index on June 30, 2021, total comprehensive income would increase or decrease by Rs. 5,805 million (2020: Rs. 4,027 million) and equity of the Group would increase or decrease by the same amount as a result of gains / (losses).

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the Group's equity instruments move according to the historical correlation with the index. This represents management's best estimate of a reasonable possible shift in the KSE 100 index. The composition of the Group's investment portfolio and the correlation thereof to the KSE index is expected to change over time. Accordingly, the sensitivity analysis prepared as of June 30, 2021 is not necessarily indicative of the effect on the Group's equity instruments of future movements in the level of KSE 100 index.

53.8 Liquidity risk management

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

The risk arising out of the Group's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations. The maturity profile of Group's financial assets and financial liabilities is given in note 53.4.1 to these consolidated financial statements.

53.9 Portfolio risk management

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

54 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following tables summarises the carrying amounts and fair values of financial assets and liabilities:

	Carrying value		Fair value	
	2021	2020	**2021**	2020
	----------(Rupees in '000)----------			
Financial assets				
Cash and bank balances held by subsidiaries	**501,584**	212,825	**501,584**	212,825
Local currency - coins	**417,574**	1,028,584	**417,574**	1,028,584
Foreign currency accounts and investments	**2,858,844,812**	2,206,980,030	**2,858,844,812**	2,206,980,030
Earmarked foreign currency balances	**20,707,900**	62,010,317	**20,707,900**	62,010,317
Special drawing rights of the International Monetary Fund	**60,771,006**	29,537,127	**60,771,006**	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	**26,727**	27,555	**26,727**	27,555
Securities purchased under agreement to resell	**1,792,952,119**	917,539,647	**1,792,952,119**	917,539,647
Current accounts of governments	**33,793,930**	30,157,106	**33,793,930**	30,157,106
Investments - local	**6,857,412,223**	7,412,323,127	**6,922,869,323**	7,557,938,734
Loans, advances and bills of exchange	**1,190,995,127**	804,752,686	**1,190,995,127**	804,752,686
Assets held with the Reserve Bank of India	**1,939,592**	1,964,210	**1,939,592**	1,964,210
Balances due from the Governments of India and Bangladesh	**14,087,874**	13,141,164	**14,087,874**	13,141,164
Other assets	**30,104,829**	14,524,882	**30,104,829**	14,524,882
Financial liabilities				
Banknotes in circulation	**7,278,860,019**	6,458,763,106	**7,278,860,019**	6,458,763,106
Bills payable	**2,051,417**	1,726,348	**2,051,417**	1,726,348
Current accounts of Governments	**1,295,486,434**	748,790,102	**1,295,486,434**	748,790,102
Payable to Islamic banking institutions against Bai Muajjal transactions	**-**	19,512,958	**-**	19,512,958
Payable under bilateral currency swap agreement	**748,494,053**	476,722,596	**748,494,053**	476,722,596
Deposits of banks and financial institutions	**1,327,668,392**	1,171,103,559	**1,327,668,392**	1,171,103,559
Other deposits and accounts	**629,029,916**	1,093,994,030	**629,029,916**	1,093,994,030
Payable to the International Monetary Fund	**845,358,651**	1,045,944,378	**845,358,651**	1,045,944,378
Securities sold under agreement to repurchase	**135,051,390**	-	**135,051,390**	-
Other liabilities	**49,615,347**	60,649,522	**49,615,347**	60,649,522
Endowment Fund	**128,771**	120,984	**128,771**	120,984

54.1 The table below analyses financial and non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs e.g. estimated future cash flows) (Level 3).

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements	----------(Rupees in '000)----------			
On balance sheet financial assets				
Foreign currency accounts and investments	-	1,024,599,142	-	**1,024,599,142**
Investments - local	58,506,359	1,315,236	56,302,176	**116,123,771**
Unrealised gain on local currency derivatives	-	16,438,901	-	**16,438,901**
Non - recurring fair value measurements				
On balance sheet non-financial assets				
Operating fixed assets (land and buildings)	-	-	129,594,221	**129,594,221**
Investment property	-	-	983,847	**983,847**
Gold reserves held by the Bank	577,356,238	-	-	**577,356,238**
	635,862,597	**1,042,353,279**	**186,880,244**	**1,865,096,120**
Recurring fair value measurements				
Off balance sheet financial asset and liabilities				
Foreign currency forward and swap contracts - sale	**-**	**877,406,718**	**-**	**877,406,718**
Foreign currency forward and swap contracts - purchase	**-**	**97,744,919**	**-**	**97,744,919**
Futures - sale	**14,182,045**	**-**	**-**	**14,182,045**
Futures - purchase	**13,671,650**	**-**	**-**	**13,671,650**

	2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	(Rupees in '000)			
On balance sheet financial assets				
Foreign currency accounts and investments -	-	501,176,282	-	501,176,282
Investments - local	44,235,735	1,200,488	35,101,670	80,537,893
Unrealised gain on local currency derivatives	-	467,045	-	467,045
Non - recurring fair value measurements				
On balance sheet non-financial assets				
Operating fixed assets (land and buildings)	-	-	130,791,789	130,791,789
Investment property	-	-	978,608	978,608
Gold reserves held by the Bank	617,495,037	-	-	617,495,037
	661,730,772	1,667,533	166,872,067	1,331,446,654
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	-	1,135,377,863	-	1,135,377,863
Futures - sale	9,374,673	-	-	9,374,673
Futures - purchase	9,061,924	-	-	9,061,924

The Group'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 Group 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.

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

Item	Valuation approach and input used
Forward foreign exchange contract	The valuation has been determined by interpolating the mid rates announced by Bank.
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 19.1 highlighting the
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
Investment Property	These are measured at revalued amount based on the highest and best use concept.

The valuations, mentioned above, are conducted by the valuation experts appointed by the Group 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 Group'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 consolidated financial statements.

55 CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2021			
	At fair value through profit or loss	**Amortised cost**	**At fair value through other comprehensive income**	**Total**
	(Rupees in '000)			
Financial assets				
Cash and bank balances held by subsidiaries	-	501,584	-	**501,584**
Local currency - coins	-	417,574	-	**417,574**
Foreign currency accounts and investments	1,024,599,142	1,834,245,670	-	**2,858,844,812**
Earmarked foreign currency balances	-	20,707,900	-	**20,707,900**
Special drawing rights of the International Monetary Fund	-	60,771,006	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	26,727	-	**26,727**
Securities purchased under agreement to resell	-	1,792,952,119	-	**1,792,952,119**
Current accounts of governments	-	33,793,930	-	**33,793,930**
Investments - local	1,315,236	6,741,288,452	114,808,535	**6,857,412,223**
Loans, advances and bills of exchange	-	1,190,995,127	-	**1,190,995,127**
Assets held with the Reserve Bank of India	-	1,939,592	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	14,087,874	-	**14,087,874**
Other assets	-	30,104,829	-	**30,104,829**

	2020			
	At fair value through profit or loss	Amortised cost	At fair value through other comprehensive income	Total
	(Rupees in '000)			
Financial assets				
Cash and bank balances held by subsidiaries	-	212,825	-	212,825
Local currency - coins	-	1,028,584	-	1,028,584
Foreign currency accounts and investments	501,176,282	1,705,809,973	-	2,206,986,255
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	1,200,488	7,331,785,234	79,337,405	7,412,323,127
Loans, advances and bills of exchange	-	804,752,686	-	804,752,686
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	-	14,518,657	-	14,518,657

	2021		
	Amortised cost	**At fair value through profit or loss**	**Total**
	(Rupees in '000)		
Financial liabilities			
Banknotes in circulation	7,278,860,019	-	**7,278,860,019**
Bills payable	2,051,417	-	**2,051,417**
Current accounts of governments	1,295,486,434	-	**1,295,486,434**
Payable to Islamic banking institutions against Bai Muajjal transactions	-	-	**-**
Payable under bilateral currency swap agreement	748,494,053	-	**748,494,053**
Deposits of banks and financial institutions	1,327,668,392	-	**1,327,668,392**
Other deposits and accounts	629,029,916	-	**629,029,916**
Payable to the International Monetary Fund	845,358,651	-	**845,358,651**
Securities sold under agreement to repurchase	135,051,390	-	**135,051,390**
Other liabilities	45,607,541	4,007,806	**49,615,347**
Endowment Fund	128,771	-	**128,771**

	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	1,726,348	-	1,726,348
Current accounts of Governments	748,790,102	-	748,790,102
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	1,093,994,030	-	1,093,994,030
Payable to the International Monetary Fund	1,045,944,378	-	1,045,944,378
Other liabilities	38,350,786	22,298,736	60,649,522
Endowment Fund	120,984	-	120,984

56 NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 26, 2021 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 consolidated financial statements of the Group for the year ended June 30, 2021 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 consolidated financial statements of the Group for the year ending June 30, 2022.

57 DATE OF AUTHORISATION

These consolidated financial statements were authorised for issue on October 26, 2021 by the Board of Directors.

58 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison and better presentation. No significant rearrangements or reclassifications have been made in these consolidated financial statements during the current year.

59 GENERAL

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

10 Unconsolidated Financial Statements of SBP

A. F. FERGUSON & CO.
Chartered Accountants
State Life Building No. 1-C
I.I Chundrigar Road
P.O. Box 4716
Karachi – 74000

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of 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, 2021, 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, 2021, 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
1	**Foreign currency accounts and investments** (Refer note 8 of the annexed unconsolidated financial statements)	
	The Bank maintained certain foreign currency accounts and investments which aggregated to Rs 2,859 billion as at June 30, 2021. This includes balances aggregating to Rs 207.081 billion which were placed through appointed fund managers by the Bank under the supervision of a custodian. 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.	Our audit procedures, among others, included the following: ▪ 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. Further, in respect of the investment made through fund managers: ▪ We obtained Type-2 report from Custodian and Fund Managers 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 Custodian's statements, and re-performance of valuations on the basis of observable data at the year end. We also evaluated the adequacy of the overall disclosures in the unconsolidated financial statements in respect of the investment portfolio in accordance with the requirements of applicable financial reporting framework.
2	**Impact of COVID-19** (Refer note 14.6 of the annexed unconsolidated financial statements)	

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Chartered Accountants

	Key Audit Matter	How the matter was addressed in our audit
	During the year, the Bank in response to COVID-19 pandemic has extended new financing facility schemes and disbursed Rs 299.540 billion. These facilities have been recorded at their fair value resulting in a net fair valuation adjustment of Rs 58.419 billion. 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.	Our audit procedures, among others, included the following: ▪ 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

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.

A. F. FERGUSON & CO.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

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.

- 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

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Chartered Accountants

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.

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

A. F. FERGUSON & CO.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Dated: **October 29, 2021**

Karachi

STATE BANK OF PAKISTAN
UNCONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2021

	Note	2021	2020
		----------(Rupees in '000)----------	
ASSETS			
Gold reserves held by the Bank	6	**577,356,238**	617,495,037
Local currency - coins	7	**417,574**	1,028,584
Foreign currency accounts and investments	8	**2,858,844,812**	2,206,986,255
Earmarked foreign currency balances	9	**20,707,900**	62,010,317
Special drawing rights of the International Monetary Fund	10	**60,771,006**	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	11	**26,727**	27,555
Securities purchased under agreement to resell	12	**1,792,952,119**	917,539,647
Current accounts of governments	21.2	**33,793,930**	30,157,106
Investments - local	13	**6,949,849,646**	7,508,358,936
Loans, advances and bills of exchange	14	**1,179,961,654**	795,578,146
Assets held with the Reserve Bank of India	15	**11,268,449**	11,943,164
Balances due from the Governments of India and Bangladesh	16	**14,087,874**	13,141,164
Property, plant and equipment	17	**78,345,944**	79,009,653
Intangible assets	18	**98,187**	106,342
Other assets	19	**29,975,170**	14,686,206
Total assets		**13,608,457,230**	12,287,605,239
LIABILITIES			
Banknotes in circulation	20	**7,278,860,019**	6,458,763,106
Bills payable		**1,795,764**	1,226,036
Current accounts of governments	21.1	**1,295,486,434**	748,790,102
Current account with SBP Banking Services Corporation - a subsidiary		**51,241,327**	52,124,619
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		**202,002**	186,607
Payable to Islamic banking institutions against Bai Muajjal transactions	22	**-**	19,512,958
Payable under bilateral currency swap agreement	23	**748,494,053**	476,722,596
Deposits of banks and financial institutions	24	**1,327,525,331**	1,171,103,559
Other deposits and accounts	25	**629,053,127**	1,093,622,482
Payable to the International Monetary Fund	26	**845,358,651**	1,045,944,378
Securities sold under agreement to repurchase	27	**135,051,390**	-
Other liabilities	28	**75,071,011**	99,530,744
Deferred liability - unfunded staff retirement benefits	29	**36,697,486**	34,736,075
Total liabilities		**12,424,836,595**	11,202,263,262
Net assets		**1,183,620,635**	1,085,341,977
REPRESENTED BY			
Share capital	30	**100,000**	100,000
Reserves	31	**260,992,739**	167,389,105
Unappropriated profit		**161,973,830**	152,541,510
Unrealised appreciation on gold reserves held by the Bank	32	**572,779,945**	613,003,558
Unrealised appreciation on remeasurement of investments - local	13.6	**96,883,286**	61,416,969
Surplus on revaluation of property, plant and equipment		**90,890,835**	90,890,835
Total equity		**1,183,620,635**	1,085,341,977
CONTINGENCIES AND COMMITMENTS	33		

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 which have been detailed in note 20.1 to these unconsolidated financial statements.

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		----------(Rupees in '000)----------	
Discount, interest / mark-up and / or profit earned on financial assets measured at;			
- amortised cost	34	**755,229,349**	1,208,313,253
- fair value through profit or loss	34	**12,790,878**	10,058,650
Interest / mark-up expense	35	**(52,693,517)**	(73,343,302)
		715,326,710	1,145,028,601
Fair valuation adjustment on COVID loans - net	14.6	**(45,731,983)**	**(4,193,815)**
Commission income	36	**5,244,753**	4,647,788
Exchange gain - net	37	**135,349,167**	66,409,760
Dividend income		**500,000**	400,000
Other operating income - net	38	**2,198,903**	7,905,169
Other income - net	39	**397,309**	382,194
		143,690,132	79,744,911
		813,284,859	**1,220,579,697**
Less: operating expenses			
- banknotes' printing charges	40	**18,573,224**	15,991,886
- agency commission	41	**9,280,641**	10,668,548
- general administrative and other expenses	42	**28,498,650**	34,061,404
Reversal of provision against:			
- other doubtful assets	28.3.1.1	**(24,621)**	(42,143)
Reversal of credit loss allowance on financial instruments - net	43	**(64,000)**	(30,846)
		(88,621)	(72,989)
		56,263,894	**60,648,849**
Profit for the year		**757,020,965**	**1,159,930,848**

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		----------(Rupees in '000)----------	
Profit for the year		**757,020,965**	1,159,930,848
Other comprehensive income			
Items that may be reclassified subsequently to the profit and loss account:			
Unrealised (diminution) / appreciation on gold reserves held by the Bank	6	**(40,223,613)**	148,822,917
Items that will not be reclassified subsequently to the profit and loss account:			
Unrealised appreciation / (diminution) on remeasurement of investments - local	13.6	**35,466,317**	**(7,073,702)**
Remeasurements of staff retirement defined benefit plans	42.7.3.1	**(1,091,012)**	**(4,398,637)**
Remeasurements of staff retirement defined benefit plans - allocated by SBP Banking Services Corporation - a subsidiary	42.7.3.1	**(2,342,489)**	**(6,297,792)**
		32,032,816	(17,770,131)
Total comprehensive income for the year		**748,830,168**	1,290,983,634

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

Dr. Reza Baqir Governor	**Murtaza Syed** Deputy Governor	**Saleemullah** Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2021

	Share capital	(Reserves) Reserve fund (note 31.1)	Reserve for building up share capital	Reserve for acquisition of PSPC (note 31.2)	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Subtotal	Unappropriated profit	Unrealised appreciation on gold reserves held by the Bank (note 32)	Unrealised appreciation on remeasurement of investments - local (note 13.6)	Surplus on revaluation of property and equipment	Total
	(Rupees in '000)														
Balance as at July 1, 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
Other comprehensive income															
Unrealised diminution on remeasurement of investments - local (note 13.6)	-	-	-	-	-	-	-	-	-	-	-	-	(7,073,702)	-	(7,073,702)
Unrealised appreciation on gold reserves held by the Bank (note 31)	-	-	-	-	-	-	-	-	-	-	-	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	-	-	-	-	-	-	-	-	-	-	(13,000,000)	-	-	-	(13,000,000)
	-	(12,990,434)	67,673,343	-	-	-	-	-	-	54,682,909	(67,682,909)	-	-	-	(13,000,000)
Transaction 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**
Profit for the year	-	-	-	-	-	-	-	-	-	-	757,020,965	-	-	-	757,020,965
Other comprehensive income															
Unrealised diminution on remeasurement of investments - local (note 13.6)	-	-	-	-	-	-	-	-	-	-	-	-	35,466,317	-	35,466,317
Unrealised appreciation on gold reserves held by the Bank (note 31)	-	-	-	-	-	-	-	-	-	-	-	(40,223,613)	-	-	(40,223,613)
Remeasurements of staff retirement defined benefit plans - SBP (note 42.7.3.1)	-	-	-	-	-	-	-	-	-	-	(1,091,012)	-	-	-	(1,091,012)
Remeasurements of staff retirement defined benefit plans - allocated by SBP Banking Services Corporation - a subsidiary (note 42.7.3.1)	-	-	-	-	-	-	-	-	-	-	(2,342,489)	-	-	-	(2,342,489)
	-	-	-	-	-	-	-	-	-	-	(3,433,501)	(40,223,613)	35,466,317	-	(8,190,797)
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	753,587,464	(40,223,613)	35,466,317	-	748,830,168
Appropriations															
Transfer to the reserve fund (note 31.1)	-	93,603,634	-	-	-	-	-	-	-	93,603,634	(93,603,634)	-	-	-	-
Transactions with owners															
Dividend	-	-	-	-	-	-	-	-	-	-	(10,000)	-	-	-	(10,000)
Profit transferred to the Government of Pakistan	-	-	-	-	-	-	-	-	-	-	(650,541,510)	-	-	-	(650,541,510)
	-	-	-	-	-	-	-	-	-	-	(650,551,510)	-	-	-	(650,551,510)
Balance as at June 30, 2021	**100,000**	**114,555,396**	**67,673,343**	**67,464,000**	**2,600,000**	**1,600,000**	**1,500,000**	**900,000**	**4,700,000**	**260,992,739**	**161,973,830**	**572,779,945**	**96,883,286**	**90,890,835**	**1,183,620,635**

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		----------(Rupees in '000)----------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	44	**635,973,894**	1,041,365,411
(Increase) / decrease in assets:			
Foreign currency accounts and investments		**(146,643,836)**	(286,135,672)
Gold reserves held by the Bank		**(84,814)**	(47,118)
Securities purchased under agreement to resell		**(875,412,471)**	(134,621,472)
Investments - local		**593,975,607**	488,204,462
Loans, advances and bills of exchange		**(430,074,494)**	(212,109,838)
Other assets		**1,149,937**	(4,671,923)
		(857,090,071)	(149,381,561)
		(221,116,177)	891,983,850
Increase / (decrease) in liabilities:			
Banknotes issued - net		**820,096,913**	1,173,737,602
Bills payable		**569,728**	79,376
Current accounts of Governments		**543,059,508**	(354,680,529)
Current account with SBP Banking Services Corporation - a subsidiary		**(883,292)**	7,155,345
Current account National Institute of Banking and Finance (Guarantee) Limited - a subsidiary		**15,395**	81,372
Payable to Islamic Banking Institutions against Bai Muajjal transactions		**(19,512,958)**	(104,897,274)
Payable under bilateral currency swap agreement		**271,771,457**	(1,766,789)
Deposits of banks and financial institutions		**156,421,772**	(75,135,211)
Payment of retirement benefits and employees' compensated absences		**(3,223,258)**	(5,343,737)
Other deposits and accounts		**(464,569,355)**	(22,411,286)
Securities sold under agreement to repurchase		**135,051,390**	-
Other liabilities		**(28,442,918)**	(76,706,662)
		1,410,354,382	540,112,207
Net cash generated from operating activities		**1,189,238,205**	1,432,096,057
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		**500,000**	400,000
Capital expenditure		**(1,167,130)**	(1,186,047)
Proceeds from disposal of property, plant and equipment		**22,005**	32,597
Net cash used in investing activities		**(645,125)**	(753,450)
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		**(650,541,510)**	(935,518,736)
Net change in balances pertaining to IMF		**(179,248,811)**	(114,594,748)
Dividend paid		**(10,000)**	(10,000)
Net cash used in financing activities		**(829,800,321)**	(1,050,123,484)
Increase in cash and cash equivalents during the year		**358,792,759**	381,219,123
Cash and cash equivalents at the beginning of the year		**1,935,974,295**	1,503,996,401
Effect of exchange gain on cash and cash equivalents		**42,032,683**	50,758,771
Cash and cash equivalents at the end of the year	45	**2,336,799,737**	1,935,974,295

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

Dr. Reza Baqir	**Murtaza Syed**	**Saleemullah**
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
NOTES TO AND FORMING PART OF THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021

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

There are certain new or 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, 2023
- IAS 8, 'Accounting policies, changes in accounting estimates and errors' (amendments)	January 1, 2023
- IAS 16, 'Property, plant and equipment' (amendments)	January 1, 2022
- IAS 37, 'Provisions, contingent liabilities and contingent assets' (amendments)	January 1, 2022
- IFRS 9, 'Financial instruments' (amendments)	January 1, 2022
- IFRS 7, 'Financial instruments - disclosures (amendments)'	January 1, 2021
- IFRS 3, 'Business combinations' (amendments)	January 1, 2022

The management is in the process of assessing the impact of the above amendments on the 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, 2021, 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 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.

4.1 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.

4.2 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 agreement to re-purchase and re-sell 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.

4.2.1 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.

4.2.2 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 4.2.3;
- fair value through other comprehensive income (FVOCI), as explained in note 4.2.4; or
- fair value through profit and loss (FVPL), as explained in note 4.2.6.

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 4.2.8. The Bank may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies, as explained in note 4.2.6.

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 4.2.6 and 4.2.7.

4.2.3 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).

4.2.4 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 4.11.

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.

4.2.5 Equity instruments at FVOCI

At initial recognition, the Bank may elect 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.

4.2.6 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.

4.2.7 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.

4.2.8 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.

4.2.9 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.

4.2.10 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.

4.2.11 Impairment of financial assets

4.2.11.1 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 4.2.11.2. The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 47.1.2.5.

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 47.1.2.1). 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.

4.2.11.2 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 47.1.2.3.

- 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 47.1.2.2.

- 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 47.1.2.4.

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), 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.

4.2.11.3 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.

4.2.11.4 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.

4.2.12 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.

4.3 Collateralised borrowings / lending

4.3.1 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.

4.3.2 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.

4.3.3 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).

4.4 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 of the fine gold content fixed by the London Bullion Market Association on the last working day of the year which is also the requirement of section 30 (2) 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.

4.5 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 17.1 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 due to revaluation 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.

4.5.1 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.

4.6 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.

4.7 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.

4.8 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.

4.9 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.

4.10 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.

4.11 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.

4.12 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.

4.13 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.

4.14 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 4.15, 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.

4.15 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.

4.16 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of 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 reporting 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.

4.17 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.

4.18 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.

5 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:

5.1 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 4.18 to these unconsolidated financial statements.

5.2 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.

5.3 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.

5.4 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.

5.5 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.

6 GOLD RESERVES HELD BY THE BANK

	Note	2021	2020	2021	2020
		Net content in troy ounces		----------(Rupees in '000)----------	
Opening balance		**2,078,197**	2,078,037	**617,495,037**	468,625,002
Additions during the year		**320**	160	**84,814**	47,118
(Diminution) / appreciation for the year due to revaluation	32	**-**	-	**(40,223,613)**	148,822,917
Closing balance	20.1	**2,078,517**	2,078,197	**577,356,238**	617,495,037

6.1 During the year the Bank has recognised a diminution / appreciation of Rs 40,223 million (2020: Rs 148,822 million) based on the closing market rate (USD 1768.10) of the fine gold content fixed by the London Bullion Market Association.

7 LOCAL CURRENCY - COINS

	Note	2021	2020
		----------(Rupees in '000)----------	
Banknotes held by the banking department		**149,598**	172,707
Coins held as an asset of the issue department	7.1 & 20.1	**417,574**	1,028,584
		567,172	1,201,291
Less: banknotes held by the banking department	20	**(149,598)**	(172,707)
		417,574	**1,028,584**

7.1 As mentioned in note 4.1, 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.

8 FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2021	2020
		----------(Rupees in '000)----------	
At fair value through profit or loss:			
- investments	8.3	**1,024,175,981**	500,826,405
- unrealised gain on derivative financial instruments		**536,285**	499,147
- unrealised (loss) on derivative financial instruments		**(113,124)**	(149,270)
	8.4	**423,161**	349,877
		1,024,599,142	501,176,282
At amortised cost:			
- deposit accounts		**375,065,876**	594,390,455
- current accounts		**1,296,989**	1,338,337
- securities purchased under agreement to resell	8.5	**423,792,553**	891,609,264
- money market placements	8.6	**1,034,106,813**	218,472,005
		1,834,262,231	1,705,810,061
Credit loss allowance	8.2	**(16,561)**	(88)
		2,858,844,812	2,206,986,255

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

Issue department	20.1	**1,034,070,392**	218,465,780
Banking department		**1,824,774,420**	1,988,520,475
		2,858,844,812	2,206,986,255

8.1 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 47.1.2.2.

	Note	Stage 1	2021	2020
		----------(Rupees in '000)----------		
Deposit accounts				
High rating		**375,065,876**	**375,065,876**	594,390,455
		375,065,876	**375,065,876**	594,390,455
Current accounts				
High rating		**1,296,948**	**1,296,948**	1,329,030
Standard rating		**41**	**41**	9,307
		1,296,989	**1,296,989**	1,338,337
Securities purchased under agreement to resell				
High rating	8.5	**423,792,553**	**423,792,553**	891,609,264
		423,792,553	**423,792,553**	891,609,264
Money market placements				
High rating	8.6	**1,034,106,813**	**1,034,106,813**	218,472,005
		1,034,106,813	**1,034,106,813**	218,472,005
		1,834,262,231	**1,834,262,231**	1,705,810,061

8.2 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:

	2021		
	Nostros	**Money market placements**	**Total**
Stage 1	----------(Rupees in '000)----------		
Opening balance as of June 30, 2020	88	-	**88**
Charge of allowance	2,693	13,780	**16,473**
Balance as of June 30, 2021	2,781	13,780	**16,561**

	2020		
	Nostros	Money market placements	Total
Stage 1	----------(Rupees in '000)----------		
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

8.3 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, 2021 amounts to Rs. 207,081 million (USD 1314.5 million [2020: Rs. 173,698 million (USD 1033.60 million). These carry interest ranging from 0.13% to 3.75% per annum in USD (2020: 0.175% to 0.5% per annum), and 2.12% to 2.48% per annum in CNY (2020: 0% to 3.56% per annum).

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

8.5 These represent lending under repurchase agreements which carry mark-up in USD at the rate of 0.05% per annum (2020: 0.00% per annum) and these are due to mature on July 1, 2021 (2020: July 01, 2020).

8.6 These represent money market placements carrying interest ranging from 0.10% to 0.16% per annum in USD and 3.28% per annum in CNY (2020: 0.10% to 0.16% per annum in USD and Nil in CNY) having maturities ranging from July 3, 2021 to August 7, 2021 in USD and July 2, 2021 in CNY (2020: July 3, 2020 to August 7, 2020 and Nil in CNY).

9 EARMARKED FOREIGN CURRENCY BALANCES

This represents foreign currency cash balances translated at the exchange rate prevailing at the reporting date, held by the Bank to meet foreign currency commitments of the Bank.

10 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	**2021**	2020
SDRs are held as follows:		**----------(Rupees in '000)----------**	
- by the issue department	20.1	**-**	11,601,465
- by the banking department		**60,771,006**	17,935,662
		60,771,006	29,537,127

11 RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS

Quota allocated by the International Monetary Fund	**455,738,808**	469,862,627
Liability under quota arrangements	**(455,712,081)**	(469,835,072)
	26,727	27,555

12 SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

This represents collateralised lending made to various financial institutions under resell arrangement carrying mark-up ranging from 7.06% to 7.10% per annum (2020: 7.03% to 12.33% per annum) and are due to mature on July 2, 2021 (2020: July 3, 2020). The fair value of securities collateralised as on June 30, 2021 amounted to Rs. 1,852,618 million (2020: Rs. 1,001,208 million). The collaterals held by the Bank consist of Pakistan investment bonds and market treasury bills.

12.1 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	**2021**	Stage 1	2020
	----------(Rupees in '000)----------		----------(Rupees in '000)----------	
High rating	**1,792,952,125**	**1,792,952,125**	917,539,654	917,539,654
Less: credit loss allowance	**(6)**	**(6)**	(7)	(7)
	1,792,952,119	**1,792,952,119**	917,539,647	917,539,647

12.2 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	**2021**
	----------(Rupees in '000)----------	
Opening balance as of June 30, 2020	**7**	**7**
Reversal during the year	**(1)**	**(1)**
Balance as of June 30, 2021	**6**	**6**

	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	7	7

		Note	2021	2020
13	**INVESTMENTS - LOCAL**		----------(Rupees in '000)----------	
	At amortised cost			
	Government securities			
	Pakistan investment bonds (PIBs)		**6,676,448,550**	7,270,563,969
	Federal government scrips		**2,740,000**	2,740,000
		13.2	**6,679,188,550**	7,273,303,969
	Debt securities			
	Zarai Taraqiati Bank Limited (ZTBL) preference shares - unlisted	13.3	**54,679,114**	54,539,302
	Term finance certificates		**28,243**	56,483
	Certificates of deposits		**11,235**	22,470
			39,478	78,953
	Credit loss allowance	13.5	**(39,478)**	(78,953)
			54,679,114	54,539,302
			6,733,867,664	7,327,843,271
	At fair value through other comprehensive income			
	Investments in banks and other financial institutions			
	Ordinary shares			
	- Listed		**58,506,359**	44,235,735
	- Unlisted		**56,297,363**	35,101,670
		13.4	**114,803,722**	79,337,405
			6,848,671,386	7,407,180,676
	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
			6,949,849,646	7,508,358,936
	The above investments are held as follows:			
	Issue department	20.1	**5,655,896,964**	5,598,401,783
	Banking department		**1,293,952,682**	1,909,957,153
			6,949,849,646	7,508,358,936

13.1

The following table sets out information about the credit quality of local investments of the Bank measured at amortised cost.

	Note	2021			
		Stage 1	**Stage 2**	**Stage 3**	**Total**
		----------(Rupees in '000)----------			
High rating		**6,733,867,664**	-	-	**6,733,867,664**
Rating below standard		**-**	-	**39,478**	**39,478**
		6,733,867,664	**-**	**39,478**	**6,733,907,142**
Less: credit loss allowance	13.5	-	-	**(39,478)**	**(39,478)**
		6,733,867,664	**-**	**-**	**6,733,867,664**

		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	13.5	-	-	(78,953)	(78,953)
		7,327,843,271	-	-	7,327,843,271

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

	2021	2020
	% per annum	
Pakistan investment bonds	**7.92 to 13.88**	8.23 to 14.02
Federal government scrips	**3**	3

PIBs are created for one to ten years under the instructions of the Federal Government while Federal Government scrips are of perpetual nature.

The Federal Government issued PIBs on June 30, 2019 with maturity of one year to ten years amounting to Rs. 7,187,000 million. During the year, PIBs having face value of Rs. 569,000 million have been matured.

13.3 This represents 5,446.153 million preference shares of Rs. 10 each carrying mark-up at the rate of 7.50% per annum payable semi-annually, issued by Zarai Taraqiati Bank Limited. These preference shares are redeemable on March 7, 2027.

13.4 Investments in shares of banks and other financial institutions

	Note	**2021**			
		Percentage holding	**Cost**	**Unrealised appreciation / (diminution) (Refer note 13.6)**	**Total**
		%	**(Rupees in '000)**		
Listed					
- National Bank of Pakistan		**75.20**	**1,100,805**	**57,405,554**	**58,506,359**
Unlisted					
More than 50% Shareholding					
- Zarai Taraqiati Bank Limited		**76.23**	**10,199,621**	**(4,135,949)**	**6,063,672**
- House Building Finance Company Limited		**90.31**	**1,482,304**	**511,389**	**1,993,693**
- Deposit Protection Corporation of Pakistan	13.4.2	**100**	**500,000**	**(500,000)**	**-**
Less than or equal to 50% Shareholding					
Other investments			**4,637,706**	**43,602,292**	**48,239,998**
			16,819,631	**39,477,732**	**56,297,363**
			17,920,436	**96,883,286**	**114,803,722**

		2020			
		Percentage holding	Cost	Unrealised (diminution) / appreciation (Refer note 13.6)	Total
		%	(Rupees in '000)		
Listed					
- National Bank of Pakistan		75.20	1,100,805	43,134,930	44,235,735
Unlisted					
More than 50% Shareholding					
- Zarai Taraqiati Bank Limited		76.23	10,199,621	(3,082,178)	7,117,443
- House Building Finance Company Limited		90.31	1,482,304	606,150	2,088,454
- Deposit Protection Corporation of Pakistan	13.4.2	100	500,000	(500,000)	-
Less than or equal to 50% Shareholding					
Other investments			4,637,706	21,258,067	25,895,773
			16,819,631	18,282,039	35,101,670
			17,920,436	61,416,969	79,337,405

13.4.1 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.

13.4.2 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	2021	2020
13.5	**Credit loss allowance**		----------(Rupees in '000)----------	
	Opening balance		**78,953**	78,953
	Reversal of credit loss allowance during the year		**(39,475)**	-
	Closing balance		**39,478**	78,953
13.6	**Unrealised appreciation / (diminution) on remeasurement of investments**			
	Opening balance		**61,416,969**	68,490,671
	Appreciation / (diminution) during the year - net		**35,466,317**	(7,073,702)
	Closing balance		**96,883,286**	61,416,969
14	**LOANS, ADVANCES AND BILLS OF EXCHANGE**			
	Government owned / controlled financial institutions	14.3	**122,531,854**	85,114,788
	Private sector financial institutions	14.4	**1,045,642,491**	700,781,998
			1,168,174,345	785,896,786
	Employees		**13,932,071**	11,867,119
			1,182,106,416	797,763,905
	Credit loss allowance	14.7	**(2,144,762)**	(2,185,759)
			1,179,961,654	795,578,146

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	----------(Rupees in '000)----------			
Government owned / controlled financial institutions				
High rating	120,751,553	-	-	**120,751,553**
Rating below standard	-	-	1,780,301	**1,780,301**
	120,751,553	**-**	**1,780,301**	**122,531,854**
Private sector financial institutions				
High rating	1,037,498,020	-	-	**1,037,498,020**
Standard rating	7,077,274	-	-	**7,077,274**
Rating below standard	-	-	1,067,197	**1,067,197**
	1,044,575,294	**-**	**1,067,197**	**1,045,642,491**
Employees				
Performing loans	13,932,071	-	-	**13,932,071**
	13,932,071	**-**	**-**	**13,932,071**
	1,179,258,918	**-**	**2,847,498**	**1,182,106,416**
Less: credit loss allowance	**(14,525)**	-	**(2,130,237)**	**(2,144,762)**
	1,179,244,393	**-**	**717,261**	**1,179,961,654**

	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
	83,334,487	-	1,780,301	85,114,788
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
	699,714,801	-	1,067,197	700,781,998
Employees				
Performing loans	11,867,119	-	-	11,867,119
	11,867,119	-	-	11,867,119
	794,916,407	-	2,847,498	797,763,905
Less: credit loss allowance	(55,522)	-	(2,130,237)	(2,185,759)
	794,860,885	-	717,261	795,578,146

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

	2021			
	Government owned / controlled financial institutions	**Private sector financial institutions**	**Employees**	**Total**
	(Rupees in '000)			
Stage 1				
Opening balance as of June 30, 2020	46,061	9,095	367	**55,523**
(Reversal) / charge of allowance	(42,345)	942	406	**(40,997)**
Balance as of June 30, 2021	**3,716**	**10,037**	**773**	**14,526**
Stage 3				
Opening balance as of June 30, 2020	**1,066,606**	**1,063,630**	**-**	**2,130,236**
Charge / (reversal) of allowance	-	-	-	-
Balance as of June 30, 2021	**1,066,606**	**1,063,630**	**-**	**2,130,236**
	1,070,322	**1,073,667**	**773**	**2,144,762**

	2020			
	Government owned / controlled financial institutions	Private sector financial institutions	Employees	Total
	(Rupees in '000)			
Stage 1				
Opening balance as of June 30, 2019	46,061	26,987	394	73,442
Reversal of allowance	-	(17,892)	(27)	(17,919)
Balance as of June 30, 2020	46,061	9,095	367	55,523
Stage 3				
Opening balance as of June 30, 2019	1,066,606	1,063,630	-	2,130,236
Charge / (reversal) of allowance	-	-	-	-
Balance as of June 30, 2020	1,066,606	1,063,630	-	2,130,236
	1,112,667	1,072,725	367	2,185,759

	Note	Scheduled banks		Other financial institutions		Total	
		2021	2020	**2021**	2020	**2021**	2020
		----------(Rupees in '000)----------					
Agricultural sector		**917,643**	435,707	**-**	-	**917,643**	435,707
Industrial sector	14.3.1	**42,448,747**	28,071,472	**-**	-	**42,448,747**	28,071,472
Export sector		**62,589,078**	54,060,479	**-**	-	**62,589,078**	54,060,479
Housing sector		**-**	-	**10,456**	-	**10,456**	-
Others	14.3.2	**15,777,412**	1,748,668	**788,518**	798,462	**16,565,930**	2,547,130
		121,732,880	84,316,326	**798,974**	798,462	**122,531,854**	85,114,788

14.3.1 This includes exposure to Industrial Development Bank Limited (IDBL) under locally manufactured machinery (LMM) credit line amounting to Rs. 1,054 million (2020: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 340.78 million (2020: 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.

14.3.2 These balances include Rs. 327.949 million (2020: 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.

14.4 Loans and advances to private sector financial institutions

	Note	Scheduled banks		Other financial institutions		Total	
		2021	2020	**2021**	2020	**2021**	2020
		----------(Rupees in '000)----------					
Agricultural sector		**2,962,701**	1,548,967	**241,635**	214,819	**3,204,336**	1,763,786
Industrial sector		**331,950,497**	185,912,309	**20,688,134**	14,477,862	**352,638,631**	200,390,171
Export sector	14.4.1	**526,048,365**	452,884,058	**-**	-	**526,048,365**	452,884,058
Others	14.4.2 & 14.4.3	**155,962,278**	36,581,037	**7,788,881**	9,162,946	**163,751,159**	45,743,983
		1,016,923,841	676,926,371	**28,718,650**	23,855,627	**1,045,642,491**	700,781,998

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

14.4.2 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 Modaraba 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 recognised at fair value on initial recognition. The amortized cost as of June 30, 2021 is Rs. 3,523 million (2020: Rs. 3,220 million).

14.4.3 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.

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

	2021	2020
	(% per annum)	
Government owned / controlled and private sector financial institutions	**0 to 9.7**	0 to 14.49
Employees loans (where applicable)	**0 to 10.00**	0 to 10.00

14.6 Fair valuation adjustment on COVID loans - net	**2021**	2020
	----------(Rupees in '000)--------	
Unwinding of income in respect of fair valuation adjustment on COVID-19 loans	**12,686,574**	-
Fair valuation loss adjustment on COVID-19 loans on initial recognition	**(58,418,557)**	(4,193,815)
	(45,731,983)	(4,193,815)

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); and
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. 299,540 million (2020: Rs. 38,244 million) and were interest free or at lower rates. These facilities have been recorded at fair value and a net loss for fair valuation amounting to Rs. 45,731 million (2020: Rs. 4,194 million) has been recorded in the unconsolidated profit and loss account.

		Note	2021	2020
14.7	**Credit loss allowance**		**--------- (Rupees in '000) -------**	
	Opening balance		**2,185,759**	2,203,678
	Reversal of credit loss allowance during the year		**(40,997)**	(17,919)
	Closing balance		**2,144,762**	2,185,759

15	**ASSETS HELD WITH THE RESERVE BANK OF INDIA**			
	Gold reserves			
	- opening balance		**9,978,954**	7,573,743
	- (diminution) / appreciation for the year due to revaluation	28.3.1.1	**(650,097)**	2,405,211
			9,328,857	9,978,954
	Sterling securities		**720,349**	682,421
	Government of India securities		**302,599**	318,125
	Rupee coins		**6,159**	6,464
		15.1	**10,357,964**	10,985,964
	Indian notes representing assets receivable from the Reserve Bank of India	15.2	**910,485**	957,200
		20.1	**11,268,449**	11,943,164

15.1 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).

15.2 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	2021	2020
16	**BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH**		**--------- (Rupees in '000) -------**	
	India			
	Advance against printing of notes		**39,616**	39,616
	Receivable from the Reserve Bank of India		**837**	837
			40,453	40,453
	Bangladesh			
	Inter office balances		**819,924**	819,924
	Loans, advances and commercial papers	16.1	**13,227,497**	12,280,787
			14,047,421	13,100,711
		16.2	**14,087,874**	13,141,164

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

16.2 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Governments of Bangladesh and India (also refer notes 28.1 and 28.3.1).

		Note	2021	2020
17	**PROPERTY, PLANT AND EQUIPMENT**		**--------- (Rupees in '000) -------**	
	Operating fixed assets	17.1	**77,304,894**	78,452,596
	Capital work-in-progress	17.3	**1,041,050**	557,057
			78,345,944	79,009,653

17.1 Operating fixed assets

	2021									
	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, 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
Year ended June 30, 2021										
Opening 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
Additions	115,551	-	1,257	-	5,598	1,037	12,242	179,641	182,239	497,565
Transfers from capital work in progress	-	-	21,018	56,584	23,894	-	-	-	-	101,496
	115,551	-	22,275	56,584	29,492	1,037	12,242	179,641	182,239	599,061
Disposals										
Cost	-	-	-	-	-	-	(717)	(23,684)	(100,192)	(124,593)
Accumulated depreciation	-	-	-	-	-	-	717	20,273	82,403	103,393
	-	-	-	-	-	-	-	(3,411)	(17,789)	(21,200)
Less: depreciation charge	-	945,253	114,583	293,290	88,978	1,832	13,414	157,056	111,157	1,725,563
Net book value	16,024,946	53,817,513	1,783,207	4,582,609	387,340	8,283	36,625	289,920	374,451	77,304,894
As at June 30, 2021										
Cost / revalued amount	16,024,946	55,717,637	2,012,854	5,164,639	1,252,559	52,814	246,655	2,511,552	703,467	83,687,123
Less: accumulated depreciation	-	1,900,124	229,647	582,030	865,219	44,531	210,030	2,221,632	329,016	6,382,229
Net book value	**16,024,946**	**53,817,513**	**1,783,207**	**4,582,609**	**387,340**	**8,283**	**36,625**	**289,920**	**374,451**	**77,304,894**
Useful life / rate of depreciation	-	90-99 years	20 years	20 years	10%	10%	20%	33.33%	20%	

	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	-	-	-	-	-	-
Less: 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
Less: 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%	

* These represents revalued assets
** Adjustments include reclassification within different categories of assets

17.2 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:

	Note	2021	2020
		---------- (Rupees in '000) ----------	
Freehold land		**39,205**	39,205
Leasehold land		**176,058**	179,380
Buildings on freehold land		**380,616**	398,373
Buildings on leasehold land		**752,976**	736,022
		1,348,855	1,352,980

17.3 Capital work-in-progress

Buildings on freehold land		**252,684**	46,029
Buildings on leasehold land		**271,567**	300,455
Office equipment		**43,568**	43,568
Electronic data processing equipment		**195**	195
Plant and machinery		**473,036**	166,810
		1,041,050	557,057

18 INTANGIBLE ASSETS

Software	18.1	**69,873**	103,278
Capital work-in-progress		**28,314**	3,064
		98,187	106,342

18.1 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	**2021**	**997,575**	**58,826**	**1,056,401**	**894,297**	**92,231**	**986,528**	**69,873**	**33.33**
Software	2020	974,467	23,108	997,575	775,713	118,584	894,297	103,278	33.33

	Note	2021	2020
19 OTHER ASSETS		----------(Rupees in '000)----------	
Commission receivable and others		**4,212,023**	3,555,857
Unrealised gain on local currency derivatives		**16,438,901**	467,045
Other advances, deposits and prepayments	19.1	**9,324,246**	10,663,304
		29,975,170	14,686,206

19.1 This includes Rs. 50.095 million receivable from SBP banking services corporation in lieu of training obtained from the institute which is not part of the current account with SBP banking services corporation.

	Note	2021	2020
20 BANKNOTES IN CIRCULATION		----------(Rupees in '000)----------	
Total banknotes issued	20.1	**7,279,009,617**	6,458,935,813
Banknotes held with the banking department	7	**(149,598)**	(172,707)
Notes in circulation		**7,278,860,019**	6,458,763,106

20.1 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	2021	2020
		----------(Rupees in '000)----------	
Gold reserves held by the Bank	6	**577,356,238**	617,495,037
Local currency - coins	7	**417,574**	1,028,584
Foreign currency accounts and investments	8	**1,034,070,392**	218,465,780
Special drawing rights of the International Monetary Fund	10	**-**	11,601,465
Investments - local	13	**5,655,896,964**	5,598,401,783
Assets held with the Reserve Bank of India	15	**11,268,449**	11,943,164
		7,279,009,617	6,458,935,813

		Note	2021	2020
			----------(Rupees in '000)----------	
21	**CURRENT ACCOUNTS OF GOVERNMENTS**			
21.1	**Current accounts of governments - payable balances**			
	Federal Government	21.3	**909,557,319**	530,892,360
	Provincial governments			
	- Punjab	21.4	**207,526,221**	81,724,341
	- Sindh	21.5	**74,033,535**	65,497,762
	- Khyber Pakhtunkhwa	21.6	**31,830,135**	11,159,840
	- Baluchistan	21.7	**39,604,640**	40,926,370
	Government of Azad Jammu and Kashmir	21.8	**12,368,089**	5,046,863
	Gilgit - Baltistan Administration Authority	21.9	**20,566,495**	13,542,566
			385,929,115	217,897,742
			1,295,486,434	748,790,102
21.2	**Current accounts of governments - receivable balance**			
	Railways account	21.10	**33,793,930**	30,157,106
21.3	**Federal Government**			
	Non-food account		**888,797,230**	508,391,267
	Zakat fund accounts		**6,190,294**	7,929,167
	Other accounts		**14,569,795**	14,571,926
			909,557,319	530,892,360
21.4	**Provincial Government - Punjab**			
	Non-food account		**197,273,388**	76,274,341
	Zakat fund account		**422,545**	154,335
	Other accounts		**9,830,288**	5,295,665
			207,526,221	81,724,341
21.5	**Provincial Government - Sindh**			
	Non-food account		**68,353,578**	59,101,115
	Zakat fund account		**3,134,220**	1,757,082
	Other accounts		**2,545,737**	4,639,565
			74,033,535	65,497,762
21.6	**Provincial Government - Khyber Pakhtunkhwa**			
	Non-food account		**23,431,227**	97,619
	Zakat fund account		**8,109,074**	8,223,742
	Other accounts		**289,834**	2,838,479
			31,830,135	11,159,840
21.7	**Provincial Government - Balochistan**			
	Non-food account		**36,886,295**	38,330,273
	Zakat fund account		**2,297,977**	1,821,076
	Other accounts		**420,368**	775,021
			39,604,640	40,926,370
21.8	**Government of Azad Jammu and Kashmir**		**12,368,089**	5,046,863
21.9	**Gilgit - Baltistan Administration Authority**		**20,566,495**	13,542,566

21.10 These balances carry mark-up ranging from 6.95% to 7.63% per annum (2020: 8.41% to 13.80% per annum).

22 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). During the year, all such instruments have been matured.

23 PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

23.1 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 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 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 had purchased and utilised CNY 20,000 million against PKR during the year ended June 30, 2020, with the maturity buckets of three months to 1 year. During the year, the overall limit of CNY 20,000 million has been further extended to CNY 30,000 million for a period of three years against PKR with the maturity buckets of three months to 1 year. These purchases have been fully utilised as at June 30, 2021. Interest is charged on outstanding balance at agreed rates.

	Note	2021	2020
24 DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS		----------(Rupees in '000)----------	
Foreign currency			
Scheduled banks		**37,511,130**	39,655,440
Held under cash reserve requirement	24.1	**197,280,327**	197,323,325
		234,791,457	236,978,765
Local currency			
Scheduled banks	24.1	**1,073,141,877**	919,385,365
Financial institutions		**19,503,643**	14,653,730
Others		**88,354**	85,699
		1,092,733,874	934,124,794
		1,327,525,331	1,171,103,559

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

	Note	2021	2020
25 OTHER DEPOSITS AND ACCOUNTS		----------(Rupees in '000)----------	
Foreign currency			
Foreign central banks		**70,925,695**	75,676,791
International organisations		**357,838,470**	382,488,753
Foreign government		**-**	512,412,169
Others		**13,384,118**	13,029,732
	25.1 & 25.2	**442,148,283**	983,607,445
Local currency			
Special debt repayment	25.3	**24,243,841**	24,243,841
Government	25.4	**17,850,348**	17,850,348
Foreign central banks		**1,725**	2,226
International organisations		**6,006,609**	6,343,946
Others		**138,802,321**	61,574,676
		186,904,844	110,015,037
		629,053,127	1,093,622,482

25.1 This includes FCY deposits equivalent to Rs. 630,174 million (based on exchange rate as of June 30, 2021) (2020: Rs. 504,152 million (based on exchange rate as of June 30, 2020)), carrying interest at twelve month LIBOR + 1.00% (2020: LIBOR + 1.00%), 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.

		2021	2020
25.2	The interest rate profile of the interest bearing deposits is as follows:	**(% per annum)**	
	Foreign central banks	**0.32 to 0.55**	0.51 to 2.61
	International organisations	**1.96 to 3.00**	3.00 to 4.53
	Foreign government	**-**	3.00
	Others	**-**	0.17 to 2.40

25.3 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.

25.4 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.

		Note	2021	2020
26	**PAYABLE TO THE INTERNATIONAL MONETARY FUND**		**----------(Rupees in '000)----------**	
	Borrowings under:			
	- fund facilities	26.1 & 26.3	**622,012,301**	816,542,992
	- allocation of SDRs	26.2	**223,346,298**	229,401,334
			845,358,599	1,045,944,326
	Current account for administrative charges		**52**	52
			845,358,651	1,045,944,378

26.1 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 756 million (2020: SDR 540 million) in 24 different tranches (2020: 16 tranches).

26.2 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.

		Note	2021	2020
26.3	Interest profile of amount payable to the IMF is as under:		**(% per annum) in SDR**	
	Fund facilities	26.3.1	**1.05 to 1.13**	1.05 to 2.03

26.3.1 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.

27 SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

This represents collateralised borrowing made from a financial institution under repurchase arrangement carrying a mark-up of 6.95% per annum (2020: Nil) and is due to mature on July 2, 2021 (2020: Nil).

		Note	2021	2020
28	**OTHER LIABILITIES**		**----------(Rupees in '000)----------**	
	Provision against overdue mark-up	28.1	**12,833,396**	11,886,685
	Special reserve provision under FIIP		**10,794,159**	10,245,290
	Remittance clearance account		**2,251,010**	4,096,502
	Exchange loss payable under exchange risk coverage scheme		**437,703**	477,713
	Dividend payable	28.2	**10,000**	10,000
	Unrealised loss on local currency derivative		**4,007,806**	22,298,736
	Other accruals and provisions	28.3	**36,325,226**	41,018,769
	Others		**8,411,711**	9,497,049
			75,071,011	99,530,744

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 represents dividend payable on shares held by the Government of Pakistan and government controlled entities amounting to Rs. 10 million (2020: Rs. 10 million).

	Note	2021	2020
		----------(Rupees in '000)----------	
28.3 Other accruals and provisions			
Agency commission		**13,971,245**	15,505,814
Provision for employees' compensated absences	42.7.9	**5,910,610**	5,321,424
Provision for other doubtful assets	28.3.1	**12,850,914**	13,525,632
Other provisions	28.3.2	**2,862,034**	2,845,378
Others		**730,423**	3,820,521
		36,325,226	41,018,769

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		**11,268,457**	11,943,175
- banking department		**40,483**	40,483
		11,308,940	11,983,658
Provision against assets receivable from the Government of Bangladesh			
- issue department		**-**	-
- banking department	28.4	**1,541,974**	1,541,974
		1,541,974	1,541,974
	28.3.1.1	**12,850,914**	13,525,632

28.3.1.1 Movement of provisions for other doubtful assets

Opening balance		**13,525,632**	11,162,564
Reversal of charge during the year		**(24,621)**	(42,143)
(Diminution) / appreciation relating to gold reserves held by the Reserve Bank of India	15	**(650,097)**	2,405,211
Closing balance		**12,850,914**	13,525,632

28.3.2 This represent provision against home remittance amounting to Rs. 260.363 million (2020: Rs. 260.363 million), specific claims pertaining to provision made against claims under arbitration amounting to Rs. 1,600 million (2020: Rs. 1,600 million) and other provision made in respect of various litigations and claims against the Bank amounting to Rs. 1,001.67 million (2020: Rs. 985.02 million).

28.4 This includes liability maintained against balances due from the Government of Bangladesh amounting to Rs. 778.399 million (2020: Rs. 778.399 million).

	Note	2021	2020
		----------(Rupees in '000)----------	
29 DEFERRED LIABILITY - UNFUNDED STAFF RETIREMENT BENEFITS			
Pension fund		**25,087,199**	23,868,103
Gratuity scheme		**121,599**	90,324
Benevolent fund scheme		**330,714**	393,081
Post retirement medical benefits		**10,151,736**	9,506,824
Six months post retirement facility		**801,551**	694,630
	42.7.3	**36,492,799**	34,552,962
Provident fund scheme		**204,687**	183,113
		36,697,486	34,736,075

30 SHARE CAPITAL

2021	2020		2021	2020
----(Number of shares)---			----------(Rupees in '000)----------	
Issued, subscribed and paid-up capital				
1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	**100,000**	100,000
Authorised share capital				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	**100,000**	100,000

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

31 RESERVES

31.1 Reserve fund

This includes 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. During the year, the Board of Directors has approved appropriation of 93.6 billion to reserve fund.

31.2 The reserves for acquisition of PSPC

This represents reserves against the Bank's exposure in PSPC.

31.3 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	2021	2020
		----------(Rupees in '000)----------	
Opening balance		**613,003,558**	464,180,641
(Diminution) / appreciation for the year due to revaluation	6	**(40,223,613)**	148,822,917
Closing balance		**572,779,945**	613,003,558

33 CONTINGENCIES AND COMMITMENTS

33.1 Contingencies

a) Contingent liability in respect of guarantees given on behalf of:			
Federal Government	33.1.1	**9,424,007**	13,459,912
Federal Government owned / controlled bodies and authorities		**6,308,328**	8,150,080
		15,732,335	21,609,992
b) Other claims against the Bank not acknowledged as debts	33.1.2	**15,363**	20,202

c) In addition to the above claims, there are several other lawsuits / investigations filed by various parties as a result of the regulatory actions / investigations taken by the Bank in its capacity as regulator and banker to the government, which the Bank is currently contesting in various courts of laws / forums. The management of the Bank believes that the Bank has reasonable position in respect of these litigations and accordingly no provision for any liability may be needed in 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	2021	2020
			----------(Rupees in '000)----------	
33.2	**Commitments**			
33.2.1	Foreign currency forward and swap contracts - sale		**865,057,133**	1,134,906,714
33.2.2	Foreign currency forward and swap contracts - purchase		**98,341,540**	177,598,187
33.2.3	Futures - sale		**14,096,256**	9,323,533
33.2.4	Futures - purchase		**13,678,234**	9,056,126
33.2.5	Capital Commitments	33.2.5.1	**1,233,359**	484,591

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 30,000 million (Rs. 731,730 million) (2020: PKR of CNY 20,000 million (Rs. 475,138 million)) to People's Bank of China under bilateral currency swap agreement as disclosed in note 23.1 to these unconsolidated financial statements.

		Note	2021	2020
			----------(Rupees in '000)----------	
34	**DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED ON FINANCIAL ASSETS**			
	At amortised cost			
	Discount, interest / mark-up on government transactions:			
	- Government securities		**636,848,808**	1,047,999,770
	- Federal Government scrips		**82,200**	82,200
	- Loans and advances to and current accounts of governments	34.1	**160,968**	534,618
	Securities purchased under agreement to resale		**90,251,465**	128,764,269
	Interest income on preference shares		**4,224,427**	4,224,784
	Return on loans and advances to financial institutions		**17,891,910**	12,837,164
	Foreign currency deposits		**5,520,016**	13,603,153
	Profit on Sukuks purchased under Bai Muajjal agreement		**-**	14,398
	Others		**249,555**	252,897
			755,229,349	1,208,313,253
	Fair value through profit or loss			
	Foreign currency securities		**12,790,878**	10,058,650

		2021	2020
		(% per annum)	
34.1	Interest profile on loans and advances to facilities are as under:		
	Mark-up on facility	**6.95 to 7.63**	8.41 to 13.80
	Additional mark-up (where ways and means facility limit is exceeded)	**4**	4

		Note	2021	2020
35	**INTEREST / MARK-UP EXPENSE**		----------(Rupees in '000)----------	
	Deposits		**16,511,666**	29,581,779
	Interest on bilateral currency swap		**26,106,579**	20,560,492
	Interest on special drawing rights		**7,832,939**	13,718,133
	Securities sold under agreement to repurchase		**692,576**	1,499,607
	Profit on Sukuks purchased under Bai Muajjal agreement		**1,379,185**	6,728,246
	Charges on allocation of special drawing rights of the IMF		**170,572**	1,255,045
			52,693,517	73,343,302
36	**COMMISSION INCOME**			
	Market treasury bills	36.1	**2,631,619**	2,503,164
	Management of public debts	36.1	**2,049,433**	1,594,705
	Prize bonds and national saving certificates	36.1	**560,242**	543,056
	Draft / payment orders		**3,395**	6,793
	Others		**64**	70
			5,244,753	4,647,788

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

		Note	2021	2020
37	**EXCHANGE GAIN - NET**		---------- (Rupees in '000) ----------	
	Gain / (loss) on:			
	- foreign currency placements, deposits, securities and other accounts - net		**107,397,198**	83,567,128
	- IMF fund facilities		**21,336,916**	(10,474,773)
	- Special drawing rights of the IMF		**6,615,053**	(6,682,595)
			135,349,167	66,409,760
38	**OTHER OPERATING INCOME - NET**			
	Penalties levied on banks and financial institutions		**2,063,128**	3,933,387
	License / credit information bureau fee recovered		**1,103,429**	1,682,274
	Gain / (loss) on disposal of investments - net:			
	- local - at fair value through profit or loss		**-**	246,596
	- foreign - at fair value through profit or loss		**1,214,874**	673,692
			1,214,874	920,288
	(Loss) / gain on remeasurement of securities at fair value through profit or loss		**(2,454,774)**	1,223,141
	Others		**272,246**	146,079
			2,198,903	7,905,169
39	**OTHER INCOME - NET**			
	Gain / (loss) on disposal of property, plant and equipment		**805**	(376)
	Liabilities and provisions written back - net		**31,027**	25,946
	Grant income under foreign assistance program		**58,870**	173,726
	Income from subsidiary	39.1	**50,474**	69,340
	Others		**256,133**	113,558
			397,309	382,194

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.

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	2021	2020
		---------- (Rupees in '000) ----------	
42 GENERAL ADMINISTRATIVE AND OTHER EXPENSES			
Salaries and other benefits		**4,663,944**	4,812,226
Charge against retirement benefits and employees' compensated absences	42.1 & 42.7.4	**4,726,027**	7,208,632
Rent and taxes		**57,821**	49,990
Insurance		**56,014**	56,241
Electricity, gas and water		**73,434**	57,211
Depreciation	17.1	**1,725,563**	1,727,442
Amortisation	18.1	**92,231**	118,584
Repairs and maintenance		**465,067**	475,907
Auditors' remuneration	42.6	**11,718**	10,800
Legal and professional		**54,839**	186,413
Fund managers / custodian expenses		**310,172**	298,246
Travelling expenses		**46,902**	94,124
Daily expenses		**31,037**	60,805
Postages, telegram / telex and telephone		**223,586**	238,157
Training	42.2	**306,278**	224,904
Stationery		**28,300**	12,139
Books and newspapers		**42,795**	43,315
Advertisement		**7,199**	6,098
Board committee expenses		**8,944**	11,541
Recruitment charges		**11,589**	4,924
Others		**204,918**	250,054
		13,148,378	15,947,753
Expenses allocated by:			
SBP Banking Services Corporation - a subsidiary	42.3	**7,067,545**	9,864,384
		7,067,545	9,864,384
Expenses to be reimbursed:			
SBP Banking Services Corporation - a subsidiary	42.4	**8,282,727**	8,249,267
		8,282,727	8,249,267
		28,498,650	34,061,404

42.1 This includes an amount relating to defined contribution plan aggregating Rs. 340.83 million (2020: Rs. 310.36 million) and employee compensated absences amounting to Rs. 740.606 million (2020: Rs. 2,627.653 million).

42.2 This includes Rs 300.373 million relating to the Institute representing reimbursement of training expenses relating to employees of the Bank.

	2021	2020
	---------- (Rupees in '000) ----------	
42.3 Expenses allocated by SBP Banking Services Corporation - a subsidiary		
Retirement benefits and employees' compensated absences	**6,702,850**	9,598,953
Depreciation	**364,648**	265,460
Credit loss allowance	**47**	(29)
	7,067,545	9,864,384

42.4 Expenses reimbursed to SBP Banking Services Corporation - a subsidiary	Note	2021	2020
		------(Rupees in '000)------	
Salaries and other benefits		**5,949,884**	6,017,811
Rent and taxes		**56,128**	48,569
Insurance		**25,707**	21,761
Electricity, gas and water		**418,655**	424,156
Repairs and maintenance		**414,298**	319,596
Auditors' remuneration	42.6	**11,718**	10,800
Legal and professional		**9,048**	9,027
Travelling expenses		**10,702**	22,091
Daily expenses		**28,652**	39,040
Passages, rent and recreation allowance		**291,162**	318,520
Fuel		**5,376**	5,730
Conveyance		**19,260**	18,826
Postage and telephone		**21,028**	17,359
Training		**6,181**	14,670
Remittance of treasure		**216,223**	180,119
Stationery		**29,764**	24,692
Books and newspapers		**2,415**	1,862
Advertisement		**10,811**	14,908
Bank guards' charges		**230,218**	209,879
Uniforms		**32,626**	35,086
Expenses to be reimbursed to the Institute		**130,639**	201,008
Others		**362,232**	293,757
		8,282,727	8,249,267

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, 2021, as mentioned in note 39.1 to these unconsolidated financial statements, has also been transferred to the Bank.

42.6 Auditors' remuneration

	2021			2020		
	KPMG	**A. F. Ferguson & Co.**	**Total**	KPMG	A. F. Ferguson & Co.	Total
	---------- (Rupees in '000) ----------					
State Bank of Pakistan						
Audit fee	**4,649**	**4,649**	**9,298**	4,285	4,285	8,570
Out of pocket expenses	**776**	**776**	**1,552**	715	715	1,430
Sindh Sales Tax on services	**434**	**434**	**868**	400	400	800
	5,859	**5,859**	**11,718**	5,400	5,400	10,800
SBP Banking Services Corporation						
Audit fee	**3,873**	**3,873**	**7,746**	3,570	3,570	7,141
Out of pocket expenses	**1,552**	**1,552**	**3,104**	1,430	1,430	2,859
Sindh Sales Tax on services	**434**	**434**	**868**	400	400	800
	5,859	**5,859**	**11,718**	5,400	5,400	10,800
	11,718	**11,718**	**23,436**	10,800	10,800	21,600

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:

	2021	2020
- discount rate for year end obligation	**10.00% p.a**	9.25% p.a
- salary increase rate	**14.75% p.a**	14.00% p.a
- pension indexation rate	**8.00% p.a**	7.25% p.a
- medical cost increase rate	**10.00% p.a**	9.25% p.a
- petrol price increase rate (where applicable)	**14.75% p.a**	14.00% p.a
- personnel turnover	**4.36% p.a**	6.51% 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 lower 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

	2021					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
Present value of defined benefit obligation July 01, 2020	**23,868,103**	**90,324**	**9,506,824**	**393,081**	**694,630**	**34,552,962**
Current service cost	**309,085**	**13,127**	**204,749**	**5,181**	**43,985**	**576,127**
Interest cost on defined benefit obligation	**2,113,269**	**8,344**	**848,883**	**34,566**	**63,398**	**3,068,460**
	2,422,354	**21,471**	**1,053,632**	**39,747**	**107,383**	**3,644,587**
Benefits paid	**(2,043,900)**	**(232)**	**(659,429)**	**(38,781)**	**(18,494)**	**(2,760,836)**
Liability transferred to SBP Banking Service Corporation - a subsidiary	**(26,019)**	**-**	**(7,450)**	**(472)**	**(985)**	**(34,926)**
Remeasurements:						
actuarial (gains) / losses from changes in financial assumptions	**-**	**-**	**-**	**-**	**-**	**-**
experience adjustments	**866,661**	**10,036**	**258,159**	**(62,861)**	**19,017**	**1,091,012**
	866,661	**10,036**	**258,159**	**(62,861)**	**19,017**	**1,091,012**
Present value of defined benefit obligation as on June 30, 2021	**25,087,199**	**121,599**	**10,151,736**	**330,714**	**801,551**	**36,492,799**

	2020					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	(Rupees in '000)					
Present value of defined benefit obligation July 01, 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

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

Remeasurements recognised in the unconsolidated statement of comprehensive income

	2021					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
- Actuarial gains / (losses) from changes in financial assumptions	**-**	**-**	**-**	**-**	**-**	**-**
- Experience adjustments	**(866,661)**	**(10,036)**	**(258,159)**	**62,861**	**(19,017)**	**(1,091,012)**
	(866,661)	**(10,036)**	**(258,159)**	**62,861**	**(19,017)**	**(1,091,012)**
Allocated by SBP Banking Services Corporation - a subsidiary*	**(2,693,359)**	**(532)**	**356,406**	**56,762**	**(61,766)**	**(2,342,489)**

	2020					
	Pension fund	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 assumptio	-	-	-	-	-	-
- 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)
Allocated by SBP Banking Services Corporation - a subsidiary*	(6,194,573)	(1,689)	67,163	(126,747)	(41,946)	(6,297,792)

*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

	2021					
	Pension	**Gratuity scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	(Rupees in '000)					
Current service cost	**309,085**	**13,127**	**204,749**	**5,181**	**43,985**	**576,127**
Interest cost on defined benefit obligation	**2,113,269**	**8,344**	**848,883**	**34,566**	**63,398**	**3,068,460**
	2,422,354	**21,471**	**1,053,632**	**39,747**	**107,383**	**3,644,587**

	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	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

42.7.5 Movement of present value of defined benefit obligation

	2021					
	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, 2020	**23,868,103**	**90,324**	**9,506,824**	**393,081**	**694,630**	**34,552,962**
Amount recognised in the unconsolidated profit and loss account	**2,422,354**	**21,471**	**1,053,632**	**39,747**	**107,383**	**3,644,587**
Remeasurements	**866,661**	**10,036**	**258,159**	**(62,861)**	**19,017**	**1,091,012**
Benefits paid during the year	**(2,043,900)**	**(232)**	**(659,429)**	**(38,781)**	**(18,494)**	**(2,760,836)**
Liability Transferred to SBP Banking Service Corporation - a subsidiary	**(26,019)**	**-**	**(7,450)**	**(472)**	**(985)**	**(34,926)**
Net recognised liabilities at June 30, 2021	**25,087,199**	**121,599**	**10,151,736**	**330,714**	**801,551**	**36,492,799**

	2020					
	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, 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	-	-	-	-	-	-
Employees contribution / amount transferred	-	-	-	-	-	-
Net recognised liabilities at June 30, 2020	23,868,103	90,324	9,506,824	393,081	694,630	34,552,962

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%	(1,727,956)	1,999,372
Future salary increase	1%	427,773	(400,005)
Future pension increase	1%	1,582,709	(1,384,255)
Expected mortality rates	1 Year	880,151	(795,361)
Gratuity			
Discount rate	1%	(9,569)	10,849
Future salary increase	1%	10,805	(9,715)
Post retirement medicabenefit scheme			
Discount rate	1%	(1,063,704)	1,317,223
Future Pre-Retirement medical cost increase	1%	34,274	(29,192)
Future Post-Retirement medical cost increase	1%	1,259,281	(1,022,775)
Expected mortality rates	1 Year	424,811	(380,774)
Benevolent			
Discount rate	1%	(17,758)	19,925
Six months post retirement facility			
Discount rate	1%	(54,516)	61,049
Future salary increase	1%	61,455	(55,957)

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	7 Years	8 Years	12 Years	6 Years	7 Years

42.7.8 Estimated expenses to be charged to the unconsolidated profit and loss account for the year ending June 30, 2022

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2022 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	309,622	18,320	185,468	4,979	50,215	568,604
Interest cost on defined benefit obligation	2,508,720	12,130	1,015,174	31,102	76,970	3,644,096
Amount chargeable to the unconsolidated profit and loss account	2,818,342	30,450	1,200,642	36,081	127,185	4,212,700

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. 5,910.610 million (2020: Rs. 5,321.424 million). An amount of Rs. 740.606 million (2020: Rs. 2,627.653 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, 2022 would be Rs. 1,023.731 million. The benefits paid during the year amounted to Rs. 143.162 million (2020: Rs. 325.359 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 355.386 million and Rs. 398.502 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. 404.685 million and Rs. 368.302 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 6 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, 2021 by classes of financial instruments:

	2021					
	Foreign currency accounts and investments (note 8)	Investments - local (note 13)	Loans, advances and bills of exchange (note 14)	Current accounts of governments	Securities purchased under agreement to resell (note 12)	Total
	(Rupees in '000)					
As at June 30, 2020	88	78,953	2,185,759	-	7	**2,264,807**
Charge / (reversal) during the year	16,473	(39,475)	(40,997)	-	(1)	**(64,000)**
As at June 30, 2021	**16,561**	**39,478**	**2,144,762**	**-**	**6**	**2,200,807**

	2020					
	Foreign currency accounts and investments (note 8)	Investments - Local (note 13)	Loans, advances and bills of exchange (note 14)	Current accounts of governments	Securities purchased under agreement to resell (note 12)	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	88	78,953	2,185,759	-	7	2,264,807

44	PROFIT FOR THE YEAR AFTER NON-CASH ITEMS AND OTHER ITEMS	Note	2021	2020
			---------- (Rupees in '000) ----------	
	Profit for the year		**757,020,965**	1,159,930,848
	Adjustments for:			
	Depreciation	17.1 & 42.3	**2,090,211**	1,992,902
	Amortisation	18.1	**92,231**	118,584
	Reversal of credit loss allowance		**(24,525)**	(30,846)
	Provision / (reversal) for / write-off:			
	- retirement benefits and employees' compensated absences		**11,428,877**	16,807,585
	- other doubtful assets	28.3.1.1	**(24,621)**	(42,143)
	(Gain) / loss on disposal of property, plant and equipment	39	**(805)**	376
	(Gain) / loss on disposal of financial assets		**(1,214,874)**	(673,316)
	(Loss) / gain on remeasurement of securities		**2,455,602**	(1,223,697)
	Dividend income		**(500,000)**	(400,000)
	Effect of exchange (gain) / loss on assets and liabilities		**(135,349,167)**	(135,114,882)
			635,973,894	1,041,365,411

45 CASH AND CASH EQUIVALENTS

Local currency - coins	7	**417,574**	1,028,584
Foreign currency accounts and investments having maturity of less than 3 months	8	**2,254,903,258**	1,843,398,267
Earmarked foreign currency balances	9	**20,707,899**	62,010,317
Special Drawing Rights of the International Monetary Fund	10	**60,771,006**	29,537,127
		2,336,799,737	1,935,974,295

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)

	2021	2020
	---------- Rupees in '000 ----------	
Balances at the year end		
Current account with the Institute	**202,002**	186,607
Transactions during the year		
Training expense	**431,012**	211,455
Payments made during the year	**(415,617)**	74,759

46.2 Pakistan Security Printing Corporation (Private) Limited

Balances at the year end		
Payable against printing charges	**237,871**	1,811,854
Receivable against salaries	**29,857**	10,822
Transactions during the year		
Banknotes printing charges	**18,573,224**	15,991,886
Payment made against printing charges	**20,147,207**	15,442,647

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	2021	2020
	---------- Rupees in '000 ----------	
- Retirement of PIBs	**569,000,000**	-
- Retirement / rollover of MRTBs	**-**	569,000,000

- 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:

	2021	2020
	(Rupees in '000)	
Salaries and other benefits	614,015	510,914
Retirement benefits and employees' compensated absences	174,969	363,087
Loans disbursed during the year	74,768	44,174
Loans repaid during the year	115,298	120,645
Disposal of vehicle during the year	1,699	-
Directors' fees	9,305	11,780
Number of key management personnel	27	27

Salaries and other benefits include medical benefits and free use of the Bank maintained cars in accordance with their entitlements. Retirement benefits include gratuity, pension, benevolent fund, post retirement medical benefits, six months post retirement facility and contributory provident funds.

46.5 Subsidiaries of the Bank

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

46.6 Associated undertakings of the Bank

46.6.1 SICPA Inks Pakistan (Private) Limited (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 47.7 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.

47.1.2.1 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.

47.1.2.2 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	2021 12 month PD	2020 12 month PD	External rating
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%	

47.1.2.3 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a stage 1 financial instruments, the Bank assesses the possible default events within 12 months for the calculation of the 12 months ECL. 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.

47.1.2.4 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.

47.1.2.5 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.

47.1.2.6 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.

47.1.3 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:

47.1.3.1 Geographical analysis

	2021						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand total
	(Rupees in '000)						
Financial assets							
Local currency - coins	417,574	-	-	-	-	-	**417,574**
Foreign currency accounts and investments	-	1,481,590,684	530,135,244	847,112,678	6,206	-	**2,858,844,812**
Earmarked foreign currency balance	20,707,900	-		-	-	-	**20,707,900**
Special drawing rights of International Monetary Fund	-	-	60,771,006	-	-	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	26,727	-	-	-	**26,727**
Securities purchased under agreement to resell	1,792,952,119	-		-	-	-	**1,792,952,119**
Current accounts of governments	33,793,930	-	-	-	-	-	**33,793,930**
Investments - local	6,848,671,386	-	-	-	-	-	**6,848,671,386**
Loans, advances and bills of exchange	1,179,957,105	4,549	-	-	-	-	**1,179,961,654**
Assets held with the Reserve Bank of India	-	1,939,592	-	-	-	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	14,087,874	-	-	-	-	**14,087,874**
Other assets	20,402,251	9,115,950	5,122	-	-	-	**29,523,323**
Total financial assets	9,896,902,265	1,506,738,649	590,938,099	847,112,678	6,206	-	**12,841,697,897**

	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	420,350,082	9,994,287	13,695,211	2,206,986,255
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	8,154,476	3,305	6,225	-	-	14,416,659
Total financial assets	9,219,419,180	795,241,289	1,020,861,172	420,356,307	9,994,287	13,695,211	11,479,567,446

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".

47.1.3.2 Industrial analysis

	2021						
	Sovereign	**Supra-national**	**Public sector entities**	**Corporate**	**Banks & financial institutions**	**Others**	**Grand total**
	(Rupees in '000)						
Financial assets							
Local currency - coins	417,574	-	-	-	-	-	**417,574**
Foreign currency accounts and investments	1,240,905,022	659,293,707	-	-	958,646,083	-	**2,858,844,812**
Earmarked foreign currency balance	20,707,900	-	-	-	-	-	**20,707,900**
Special drawing rights of International Monetary Fund	-	60,771,006	-	-	-	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	26,727	-	-	-	-	**26,727**
Securities purchased under agreement to resell	-	-	55,373,353	-	1,737,578,766	-	**1,792,952,119**
Current accounts of governments	33,793,930	-	-	-	-	-	**33,793,930**
Investments - local	6,679,188,550	-	121,242,838	-	48,239,998	-	**6,848,671,386**
Loans, advances and bills of exchange	4,549	-	122,628,133	-	1,043,397,674	13,931,298	**1,179,961,654**
Assets held with the Reserve Bank of India	1,939,592	-	-	-	-	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	14,087,874	-	-	-	-	-	**14,087,874**
Other assets	11,732,516	5,122	66,745	-	17,486,469	232,471	**29,523,323**
Total financial assets	**8,002,777,507**	**720,096,562**	**299,311,069**	**-**	**3,805,348,990**	**14,163,769**	**12,841,697,897**

	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	1,269,471,893	385,876,467	-	-	551,637,895	-	2,206,986,255
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	12,343,049	9,531	53,625	-	1,041,808	968,646	14,416,659
Total financial assets	8,663,748,241	415,450,680	193,721,214	-	2,193,811,913	12,835,398	11,479,567,446

47.1.4 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.

	2021							
	Sovereign (47.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in 000')							
Financial assets								
Local currency - coins	417,574	-	-	-	-	-	-	**417,574**
Foreign currency accounts and investments	817,417,290	711,324,703	534,009,055	794,972,705	40	-	1,121,019	**2,858,844,812**
Earmarked foreign currency balance	20,707,900	-	-	-	-	-	-	**20,707,900**
Special drawing rights of International Monetary Fund	-	-	-	-	-	-	60,771,006	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	26,727	**26,727**
Securities purchased under agreement to resell	-	458,638,765	1,173,120,210	158,354,424	-	-	2,838,720	**1,792,952,119**
Current accounts of governments	33,793,930	-	-	-	-	-	-	**33,793,930**
Investments - local	6,679,188,550	162,576,346	4,912,797	1,993,693	-	-	-	**6,848,671,386**
Loans, advances and bills of exchange	-	335,813,959	807,975,738	13,160,083	-	-	23,011,874	**1,179,961,654**
Assets held with the Reserve Bank of India	-	-	-	-	1,939,592	-	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	14,047,421	-	**14,087,874**
Other assets	11,732,516	669,614	6,601,115	9,179,159	-	-	1,340,919	**29,523,323**
Total financial assets	**7,563,257,760**	**1,669,023,387**	**2,526,618,915**	**977,660,064**	**1,980,085**	**14,047,421**	**89,110,265**	**12,841,697,897**

	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	1,269,413,156	398,541,244	108,441,477	425,450,285	5,140,093	-	-	2,206,986,255
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 exchange	-	310,103,108	431,490,408	31,988,290	141,068	115,223	21,740,049	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	12,343,049	-	467,045	-	-	-	1,606,565	14,416,659
Total financial assets	8,702,795,484	1,021,439,655	1,014,011,088	658,752,994	14,132,287	15,524,642	52,911,296	11,479,567,446

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

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

47.2 LIQUIDITY ANALYSIS WITH INTEREST / MARK-UP RATE RISK

47.2.1 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.

	2021						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-derivative assets:							
Local currency - coins	-	-	-	417,574	-	417,574	**417,574**
Foreign currency accounts and investments	1,733,758,096	125,159,778	1,858,917,874	999,223,627	280,150	999,503,777	**2,858,421,651**
Earmarked foreign currency balance	-	-	-	20,707,900	-	20,707,900	**20,707,900**
Special drawing rights of International Monetary Fund	60,771,006	-	60,771,006	-	-	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	26,727	-	26,727	**26,727**
Securities purchased under agreement to resell	1,790,871,426	-	1,790,871,426	2,080,693	-	2,080,693	**1,792,952,119**
Current accounts of governments	33,793,930	-	33,793,930	-	-	-	**33,793,930**
Investments - local	569,000,000	6,164,867,664	6,733,867,664	-	114,803,722	114,803,722	**6,848,671,386**
Loans, advances and bills of exchange	500,375,614	334,610,680	834,986,294	263,623,385	81,351,975	344,975,360	**1,179,961,654**
Assets held with the Reserve Bank of India	-	-	-	1,939,592	-	1,939,592	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	-	-	14,087,874	-	14,087,874	**14,087,874**
Other assets	-	-	-	13,084,422	-	13,084,422	**13,084,422**
	4,688,570,072	6,624,638,122	11,313,208,194	1,315,191,794	196,435,847	1,511,627,641	**12,824,835,835**
Derivative assets							
Foreign currency accounts and investments - net	-	-	-	423,161	-	423,161	**423,161**
Other assets	-	-	-	16,438,901	-	16,438,901	**16,438,901**
	-	-	-	16,862,062	-	16,862,062	**16,862,062**
Grand total	**4,688,570,072**	**6,624,638,122**	**11,313,208,194**	**1,332,053,856**	**196,435,847**	**1,528,489,703**	**12,841,697,897**
Financial liabilities							
Banknotes in circulation	-	-	-	7,278,860,019	-	7,278,860,019	**7,278,860,019**
Bills payable	-	-	-	1,795,764	-	1,795,764	**1,795,764**
Current accounts of the governments*	-	-	-	1,295,486,434		1,295,486,434	**1,295,486,434**
Current account with SBP Banking Services Corporation - a subsidiary	-	-	-	51,241,327	-	51,241,327	**51,241,327**
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	-	-	-	202,002	-	202,002	**202,002**
Payable to Islamic banking institutions against Bai Muajjal transactions	-	-	-	-	-	-	**-**
Payable under bilateral currency swaps agreements	731,730,000	-	731,730,000	16,764,053	-	16,764,053	**748,494,053**
Deposits of banks and financial institutions	121,524,435	-	121,524,435	1,206,000,896	-	1,206,000,896	**1,327,525,331**
Other deposits and accounts	425,604,697	-	425,604,697	203,448,430	-	203,448,430	**629,053,127**
Payable to the International Monetary Fund	157,560,118	686,639,654	844,199,772	1,158,879	-	1,158,879	**845,358,651**
Securities sold under agreement to repurchase	135,000,000	-	135,000,000	51,390	-	51,390	**135,051,390**
Other liabilities	-	10,794,160	10,794,160	28,425,919	-	28,425,919	**39,220,079**
	1,571,419,250	697,433,814	2,268,853,064	10,083,435,113	-	10,083,435,113	**12,352,288,177**
Derivative liabilities							
Other liabilities		-	-	4,007,806	-	4,007,806	**4,007,806**
	1,571,419,250	697,433,814	2,268,853,064	10,087,442,919	-	10,087,442,919	**12,356,295,983**
On balance sheet gap (a)	**3,117,150,822**	**5,927,204,308**	**9,044,355,130**	**(8,755,389,063)**	**196,435,847**	**(8,558,953,216)**	**485,401,914**
Foreign currency forward and swap contracts - sale	-	-	-	865,057,133	-	865,057,133	**865,057,133**
Foreign currency forward and swap contracts - purchase	-	-	-	98,341,540	-	98,341,540	**98,341,540**
Futures - sale	-	-	-	14,096,256	-	14,096,256	**14,096,256**
Futures - purchase	-	-	-	13,678,234	-	13,678,234	**13,678,234**
Capital commitments	-	-	-	1,233,359	-	1,233,359	**1,233,359**
Contingent liabilities in respect of guarantees given	-	-	-	-	15,732,335	15,732,335	**15,732,335**
Off balance sheet gap (b)	-	-	-	992,406,522	15,732,335	1,008,138,857	**1,008,138,857**
Total yield / interest risk sensitivity gap (a+b)	**3,117,150,822**	**5,927,204,308**	**9,044,355,130**	**(9,747,795,585)**	**180,703,512**	**(9,567,092,073)**	**(522,736,943)**
Cumulative yield / interest risk sensitivity gap	**3,117,150,822**	**9,044,355,130**	**18,088,710,260**				

(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

	2020						
	Interest / mark-up bearing			Non interest / mark-up bearing			Grand total
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	
	(Rupees in '000)						
Financial assets							
Non-derivative assets:							
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	566,627,931	307,161	566,935,092	**2,206,636,378**
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	30,157,106	-	30,157,106	-	-	-	**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	-	-	-	13,948,585	1,029	13,949,614	**13,949,614**
	9,028,116,433	1,660,255,830	10,688,372,263	709,122,143	81,256,118	790,378,261	**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**
	-	-	-	829,773	(12,851)	816,922	**816,922**
Grand total	**9,028,116,433**	**1,660,255,830**	**10,688,372,263**	**709,951,916**	**81,243,267**	**791,195,183**	**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**
	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**
	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)	**7,222,124,783**	**834,980,487**	**8,057,105,270**	**(7,786,027,422)**	**81,243,267**	**(7,704,784,155)**	**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	**1,352,979,143**
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.

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

47.3 Interest rate risk

47.3.1 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 reporting date.

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, 2021 would increase / decrease by Rs. 3,796 million (2020: Rs. 3,344.02 million). This is mainly attributable to the Bank's exposure to interest rates on its variable rate instruments.

47.3.2 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 debt 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, 2021, 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. 1,024.176 million (2020: Rs. 500.826 million) or decrease by Rs. 1,024.176 million (2020: Rs. 500.826 million) mainly as a result of a increase or decrease in the fair value of financial assets classified as financial asset at fair value through profit or loss.

47.4 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, 2021 with all other variables constant profit for the year would have been Rs. 6,913.695 million higher / lower (2020: Rs. Rs. 4,360.609 million). Net foreign currency exposure of the Bank is as follows:

	2021	2020
	---------- (Rupees in '000) ----------	
US Dollar	**779,444,523**	(295,354,414)
Pound Sterling	**(67,777,983)**	(77,327,599)
Chinese Yuan	**298,159,124**	279,547,027
Euro	**(260,716,491)**	(306,242,263)
Japanese Yen	**(58,202,274)**	(37,738,016)
United Arab Emirates Dirham	**90,450**	709,707
Australian Dollar	**6,607**	10,799
Canadian Dollar	**5,418**	1,805
Others	**360,221**	332,068
	691,369,595	(436,060,886)

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 is discussed in notes 47.4 and 47.5 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.

47.5 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. The investments in equity securities 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, 2021, other comprehensive income would increase or decrease by Rs. 636.160 million (2020: Rs. 644.941 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.

47.6 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 47.2.1 to these unconsolidated financial statements.

47.7 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	
	2021	2020	**2021**	2020
	----------(Rupees in '000)----------			
Financial assets				
Local currency - coins	**417,574**	1,028,584	**417,574**	1,028,584
Foreign currency accounts and investments	**2,858,844,812**	2,206,980,030	**2,858,844,812**	2,206,980,030
Earmarked foreign currency balances	**20,707,900**	62,010,317	**20,707,900**	62,010,317
Special drawing rights of the International Monetary Fund	**60,771,006**	29,537,127	**60,771,006**	29,537,127
Reserve tranche with the International Monetary Fund under quota arrangements	**26,727**	27,555	**26,727**	27,555
Securities purchased under agreement to resell	**1,792,952,119**	917,539,647	**1,792,952,119**	917,539,647
Current accounts of governments	**33,793,930**	30,157,106	**33,793,930**	30,157,106
Investments - local	**6,848,671,386**	7,407,180,676	**6,914,620,426**	7,552,796,283
Loans, advances and bills of exchange	**1,179,961,654**	795,578,146	**1,179,961,654**	795,578,146
Assets held with the Reserve Bank of India	**1,939,592**	1,964,210	**1,939,592**	1,964,210
Balances due from the Governments of India and Bangladesh	**14,087,874**	13,141,164	**14,087,874**	13,141,164
Other assets	**29,523,323**	14,422,884	**29,523,323**	14,422,884
Financial liabilities				
Banknotes in circulation	**7,278,860,019**	6,458,763,106	**7,278,860,019**	6,458,763,106
Bills payable	**1,795,764**	1,226,036	**1,795,764**	1,226,036
Current accounts of Governments	**1,295,486,434**	748,790,102	**1,295,486,434**	748,790,102
Current account with SBP Banking Services Corporation - a subsidiary	**51,241,327**	52,124,619	**51,241,327**	52,124,619
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	**202,002**	186,607	**202,002**	186,607
Payable to Islamic banking institutions against Bai Muajjal transactions	**-**	19,512,958	**-**	19,512,958
Payable under bilateral currency swap agreement	**748,494,053**	476,722,596	**748,494,053**	476,722,596
Deposits of banks and financial institutions	**1,327,525,331**	1,171,103,559	**1,327,525,331**	1,171,103,559
Other deposits and accounts	**629,053,127**	1,093,622,482	**629,053,127**	1,093,622,482
Payable to the International Monetary Fund	**845,358,651**	1,045,944,378	**845,358,651**	1,045,944,378
Securities sold under agreement to repurchase	**135,051,390**	-	**135,051,390**	-
Other liabilities	**43,227,885**	36,951,152	**43,227,885**	36,951,152

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).

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements	----------(Rupees in '000)----------			
On balance sheet financial assets				
Foreign currency accounts and investments	-	1,024,599,142	-	**1,024,599,142**
Investments - local	58,506,359	-	56,297,363	**114,803,722**
Unrealised gain on local currency derivatives	-	16,438,901	-	**16,438,901**
Non - recurring fair value measurements				
On balance sheet non-financial assets				
Operating fixed assets (land and buildings)	-	-	76,208,275	**76,208,275**
Gold reserves held by the Bank	577,356,238	-	-	**577,356,238**
	635,862,597	**1,041,038,043**	**132,505,638**	**1,809,406,278**
Recurring fair value measurements				
Off balance sheet financial asset and liabilities				
Foreign currency forward and swap contracts - sale	**-**	**877,089,431**	**-**	**877,089,431**
Foreign currency forward and swap contracts - purchase	**-**	**98,017,709**	**-**	**98,017,709**
Futures - sale	**14,182,045**	**-**	**-**	**14,182,045**
Futures - purchase	**13,671,650**	**-**	**-**	**13,671,650**

	2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	----------(Rupees in '000)----------			
On balance sheet financial assets				
Foreign currency accounts and investments	-	501,176,282	-	501,176,282
Investments - local	44,235,735	-	35,101,670	79,337,405
Unrealised gain on local currency derivatives	-	467,045	-	467,045
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
	661,730,772	535,928,075	77,366,991	1,275,025,838
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

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

	2021			
	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	-	417,574	-	**417,574**
Foreign currency accounts and investments	1,024,599,142	1,834,245,670	-	**2,858,844,812**
Earmarked foreign currency balances	-	20,707,900	-	**20,707,900**
Special drawing rights of the International Monetary Fund	-	60,771,006	-	**60,771,006**
Reserve tranche with the International Monetary Fund under quota arrangements	-	26,727	-	**26,727**
Securities purchased under agreement to resell	-	1,792,952,119	-	**1,792,952,119**
Current accounts of governments	-	33,793,930	-	**33,793,930**
Investments - local	-	6,733,867,664	114,803,722	**6,848,671,386**
Loans, advances and bills of exchange	-	1,179,961,654	-	**1,179,961,654**
Assets held with the Reserve Bank of India	-	1,939,592	-	**1,939,592**
Balances due from the Governments of India and Bangladesh	-	14,087,874	-	**14,087,874**
Other assets	16,438,901	13,084,422	-	**29,523,323**

	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	467,045	13,949,614	-	14,422,884

	2021		
	Amortised cost	At fair value through profit or loss	Total
	(Rupees in '000)		
Financial liabilities			
Banknotes in circulation	7,278,860,019	-	**7,278,860,019**
Bills payable	1,795,764	-	**1,795,764**
Current accounts of governments	1,295,486,434	-	**1,295,486,434**
Current account with SBP Banking Services Corporation - a subsidiary	51,241,327	-	**51,241,327**
Current account with National Institute of Banking and Finance (Guarantee) Limited - a subsidiary	202,002	-	**202,002**
Payable to Islamic banking institutions against Bai Muajjal transactions	-	-	**-**
Payable under bilateral currency swap agreement	748,494,053	-	**748,494,053**
Deposits of banks and financial institutions	1,327,525,331	-	**1,327,525,331**
Other deposits and accounts	629,053,127	-	**629,053,127**
Payable to the International Monetary Fund	845,358,651	-	**845,358,651**
Securities sold under agreement to repurchase	-	-	-
Other liabilities	35,212,273	4,007,806	**39,220,079**

	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

50 NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on October 26, 2021 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, 2021 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, 2022.

51 DATE OF AUTHORISATION

These financial statements were authorised for issue on October 26, 2021 by the Board of the Bank.

52 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison and better presentation. No significant rearrangements or reclassifications have been made in these unconsolidated financial statements during the current year.

53 GENERAL

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

Dr. Reza Baqir Governor	**Murtaza Syed** Deputy Governor	**Saleemullah** Executive Director

A Chronology of Important Policy Announcements

A-1 Banking Policy & Supervision Group

Service Standards for Roshan Digital Accounts for Non-Resident Pakistanis (NRPs): SBP issued Service Standards to be followed by Banks participating in the Roshan Digital Accounts (RDA) for Non-Resident Pakistanis (NRPs). (***PSD Circular No. 05 dated September 09, 2020***)

Enhancing Digitization Initiatives in Banks/MFBs*:** SBP issued instructions in light of SBP's vision to promote digitization in the banking sector and encourage use of digital channels. (PSD Circular No. 01 dated March 10, 2021)***

Outsourcing to Cloud Service Providers (CSPs): SBP issued instructions to enhance scope of outsourcing to Cloud Service Providers (CSPs) for Banks/DFIs/Microfinance Banks, wherein Section 4.4.2 of 'Enterprise Technology Governance and Risk Management Framework for Financial Institutions (FIs)' has been substituted. (***BPRD Circular No. 04 dated September 28, 2020)***

Anti-Money Laundering, Combating the Financing of Terrorism & Countering Proliferation Financing (AML/CFT/CPF) Regulations*:** SBP issued revised regulations of Anti-Money Laundering, Combating the Financing of Terrorism & Countering Proliferation Financing. (AML/CFT/CPF) (BPRD Circular No. 05 dated September 30, 2020)***

A-2 Development Finance Group

Revision In Prudential Regulations For Microfinance Banks: R-5: Maximum Loan Size And Eligibility Of Borrowers & R-6 - Maximum Exposure Of A Borrower From MFBs/MFIs/Other Financial Institutions: In order to serve financing needs of the low-income segments SBP revised Regulation R-5 - Maximum Loan Size and Eligibility of Borrowers and R-6 - Maximum Exposure of a Borrower from MFBs/MFIs/Other Financial Institutions. ***(AC&MFD Circular No. 02 of 2020 dated August 10, 2020)***

Mandatory Targets for Housing and Construction Finance*:* SBP issued circular to Commercial Banks to ensure mandatory targets for housing and construction finance ***(IH&SMEFD Circular No. 10 of July15, 2020)***

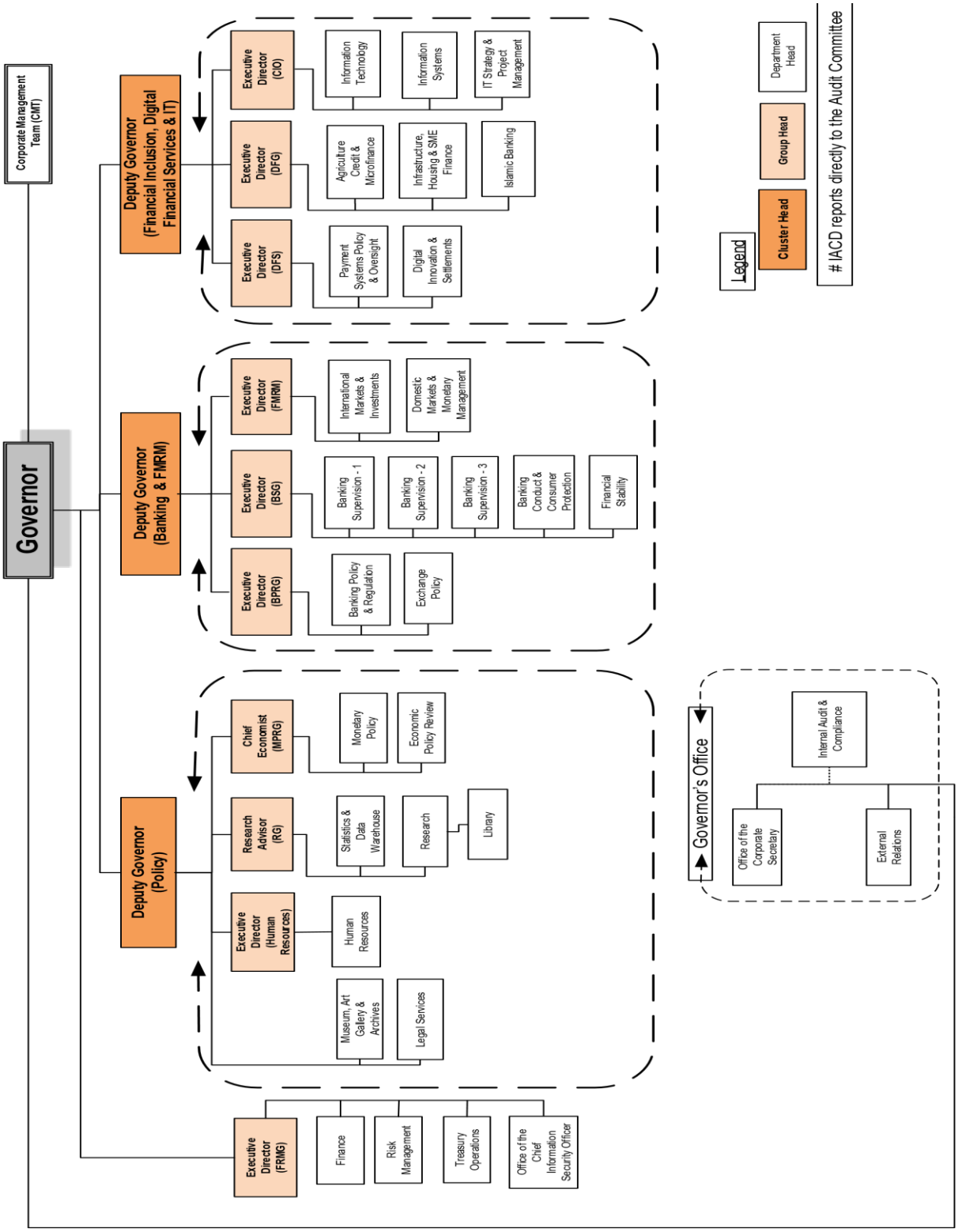
Markup Subsidy for Housing Finance: SBP issued the circular on behalf of Government of Pakistan to provide relief on Markup Subsidy for Housing Finance to customers. ***(IH&SMEFD Circular No. 11 dated October 12, 2020).***

Revised Instructions on Islamic Banking Windows (IBWs) Operations**:* SBP has issued Revised Instructions on Islamic Banking Windows (IBWs) Operations with a view to increase the share and outreach of Islamic banking in the country. ***(IBD Circular No. 02 dated July 29, 2020)

Guidelines and Criteria for Establishing Islamic Banking Institutions (IBIs) and Commencement of Shariah Compliant Business and Operations by Development Finance Institutions (DFIs): SBP has issued guidelines and criteria for Establishing Islamic Banking Institutions (IBIs) and commencement of Shariah compliant business and operations by Development Finance Institutions (DFIs). ***(IBD Circular No. 04 dated October 02, 2020)***

Shari'ah Non-Compliance Risk Management: SBP has issued instructions to Islamic Banking Institutions (IBIs) to align their existing risk management framework by September 30, 2021. **(IBD *Circular No. 01 dated June 14, 2021)***

B Organizational Chart



C Management Directory

Name	Designation	Email	Phone
Governor/Deputy Governor			
Dr. Reza Baqir	Governor	governor.office@sbp.org.pk	021-99212447-8
Mr. Jameel Ahmad[18]	Deputy Governor (Banking & FMRM)	jameel.ahmad@sbp.org.pk	021-99212451-2
Mr. Murtaza Syed	Deputy Governor (Policy)	murtaza.syed@sbp.org.pk	021-99221535
Ms. Sima Kamil	Deputy Governor (FI, DFS & IT)	Sima.Kamil@sbp.org.pk	021-99221455-6
Executive Directors/Chief Economist			
Mr. Arshad Mahmood Bhatti	ED - BP&RG	arshad.bhatti@sbp.org.pk	021-99221216
Dr. Inayat Hussain	ED - BSG	inayat.hussain@sbp.org.pk	021-99221496
Mr. Muhammad Ali Choudhary	Research Advisor	ali.choudhary@sbp.org.pk	021-99221137
Mr. Muhammad Ali Malik	ED - FMRM	muhammad.alimalik@sbp.org.pk	021-99221960
Mr. Muhammad Amin	ED/CIO	amin@sbp.org.pk	021-99221551
Mr. Qasim Nawaz	ED - HR	qasim.nawaz@sbp.org.pk	021-99221499
Mr. Saleemullah	ED - FRM	saleem.ullah@sbp.org.pk	021-99221481
Syed Samar Hasnain	ED - DFG	samar.hasnain@sbp.org.pk	021-99221606
Syed Sohail Javaad	ED – DFSG	sohail.javaad@sbp.org.pk	021-99221169
Managing Directors of SBP Subsidiaries			
Mr. Muhammad Ashraf Khan	MD - SBP BSC	ashraf.khan@sbp.org.pk	021-99221349
Mr. Muhammad Haroon Rasheed	MD - PSPC	haroon.rasheed@sbp.org.pk	021-99248683
Mr. Riaz Nazar Ali Chunara	MD - NIBAF	riaz.chunara@sbp.org.pk	051-9269833
Syed Irfan Ali	MD - DPC	syed.irfan@sbp.org.pk	021-99217224
Directors			
Mr. Abid Qamar	Director - ERD/Chief Spokesman	abid.qamar@sbp.org.pk	021-99221979
Mr. Amjad Ali	Director - ITD	amjad.ali@sbp.org.pk	021-99221880
Mr. Aniq Aziz	Director - IMID	aniq.aziz@sbp.org.pk	021-99221962
Vacant	Director - EPD	-	-
Mr. Asif Mahmood	Director - BC & CPD	asif.mahmood@sbp.org.pk	021-99221432
Mr. Asim Iqbal	Director - ITS & PMD	asim.iqbal@sbp.org.pk	021-99221249
Dr. Asma Ibrahim	Director – MA & AGD	asma.ibrahim@sbp.org.pk	021-99221011
Vacant	Director - S & DWD	-	-
Dr. Farooq Arby	Director - RD	farooq.arby@sbp.org.pk	021-99221161
Mr. Fazal Mahmood	Director - BSD 2	fazal.mahmood@sbp.org.pk	021- 99221878
Mr. Ghulam Muhammad Abbasi	Director - IBD	ghulam.muhammad@sbp.org.pk	021-99221414
Dr. Mahmood ul Hasan Khan	Director - DMMD	mahmood.khan@sbp.org.pk	021-99221865

[18] Mr. Jameel Ahmad completed his term as Deputy Governor State Bank of Pakistan on October 24, 2021.

Name	Designation	Email	Phone
Vacant	Director - MPD	-	-
Mr. Maraj Mahmood	Director - IACD	maraj.mahmood@sbp.org.pk	021-99221519
Mian Farooq Haq	Director - IH & SMEFD	mian.farooq@sbp.org.pk	021-99221547
Mr. Mohammad Mansoor Ali	Director - OCS / Corporate Secretary	mansoor.ali@sbp.org.pk	021-99221522
Mr. Muhammad Akhtar Javed	Director - BPRD	akhtar.javed@sbp.org.pk	021-99221680
Mr. Muhammad Akmal	Director - SPD	akmal.bhatti@sbp.org.pk	021-99221130
Mr. Muhammad Amin Khan Lodhi	Director – Governor Office	amin.lodhi@sbp.org.pk	021-99221947
Mr. Muhammad Javaid Ismail	Director - FSD	javaid.ismail@sbp.org.pk	021-99221504
Mr. Nasser Jahangir Khan	Chief Information Security Officer	nasser.khan@sbp.org.pk	021-99221145
Mr. Noor Ahmed	Director - AC & MFD	noor.ahmed@sbp.org.pk	021-99221579
Dr. Omar Farooq Saqib	Director - EPRD	omar.farooq@sbp.org.pk	021-99221533
Mr. Qader Bakhsh	Director - FD	qader.bakhsh@sbp.org.pk	021-99221110
Mr. Rahat Saeed	Director - ISD	rahat.saeed@sbp.org.pk	021-99221245
Mr. Raza Mohsin Qizilbash	Director - LSD	Raza.Mohsin@sbp.org.pk	021-99221390
Ms. Sahar Z. Babar	Director - HRD	sahar.babar@sbp.org.pk	021-99221871
Mr. Shaukat Ali	Director - BSD 3	shaukat.ali@sbp.org.pk	021-99221132
Syed Ali Raza	Director - TOD	ali.raza2@sbp.org.pk	021-99221133
Syed Mansoor Ali	Director - RMD	syed.mansoor@sbp.org.pk	021-99221253
Syed Jahangir Shah	Director - BSD 1	syed.jahangir@sbp.org.pk	021- 99221965
Vacant	Director – PSP & O	-	-
Vacant	Director – DI & S	-	-

** Above list is in alphabetical order as of October 28, 2020*

D List of Abbreviations

A

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AD	Authorized Dealer
AMA	Asaan Mobile Account
AML	Anti-Money Laundering
ADCs	Alternate Delivery Channels
ATS	Automated Transfer System

B

BACES	Biometric Access Control and E-attendance System
BB	Branchless Banking
BCBS	Basel Committee on Banking Supervision
BCO	Banking Companies Ordinance, 1962
BCP	Business Continuity Planning
BCPs	Basel Core Principles
BIS	Bank for International Settlements
BISP	Benazir Income Support Programme
BMP	Banking Mohtasib Pakistan
BMS	Biometric system
BoR	Board of Revenue
BMR	Balancing, Modernization and Replacement
BPRD	Banking Policy and Regulations Department
BPM	Business Process Management

C

CAF	Conduct Assessment Framework
CDNS	Central Directorate of National Savings
CFT	Combating the Financing of Terrorism
CGS	Credit Guarantee Scheme
CLIS	Crop Loan Insurance Scheme
COO	Chief Operating Officer
CPEC	China-Pakistan Economic Corridor
CSP	Country Support Program
CY	Calendar Year
CRC	Corporate Restructuring Company
CMC	Collateral Management Companies
CAB	Current Account Balance
CPI	Consumer Price Index

D

DFIs	Development Finance Institutions
DFID	Department for International Development
DPC	Deposit Protection Corporation
DRP	Draft Recovery Plan
DSGE	Dynamic Stochastic General Equilibrium Model
D-SIBs	Domestic Systemically Important Banks
DWH	Data Warehouse
DFS	Digital Financial Services
DAP	Data Acquisition Portal
DTAs	Digital Transactional Accounts

E

EA	External Auditor
EFS	Export Finance Scheme
EIF	Electronic Import Form
ERM	Enterprise Risk Management
ESRM	Environmental and Social Risk Management
EMIs	Electronic Money Institutions
ECM	Enterprise Content Management
EWT	Employees Welfare Trust
ERD	External Relations Department

F

FBR	Federal Board of Revenue
FCY	Foreign Currency
FDI	Foreign Direct Investment
FDR	Financing to Deposit Ratio
FE	Foreign Exchange
FERA	Foreign Exchange Regulation Act
FIs	Financial Institutions
FIIP	Financial Inclusion and Infrastructure Project
FIP	Financial Inclusion Programme
FISF	Financial Inclusion Support Framework
FIT	Flexible Inflation Targeting
FLRC	Financial Law Reform Committee
FPAS	Forecasting and Policy Analysis System
FSB	Financial Stability Board
FSD	Financial Stability Department
FSEC	Financial Stability Executive Committee
FSIs	Financial Soundness Indicators
FSR	Financial Stability Review

FTC	Fair Treatment of Customers
FY	Financial Year
FPT	Fitness and Propriety
FATF	Financial Action Task Force

G

G2P	Government-to-Person
GBGs	Green Banking Guidelines
GCF	Green Climate Fund
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GLP	Gross Loan Portfolio
GoPb	Government of Punjab
GOP	Government of Pakistan

H

HBFCL	House Building Finance Company Limited
HGO	Hajj Group Organizers
HP	Hodrick-Prescott
HR	Human Resources
HRA	Home Remittance Account
HEC	Higher Education Commission
HRI	House Rent Index

I

IAS	International Accounting Standards
IB	Islamic Banking
IBI	Islamic Banking Industry
IBIs	Islamic Banking Institutions
IBP	Institute of Bankers Pakistan
IC	Implementation Committee
ICAP	Institute of Chartered Accountants of Pakistan
IRC	Interest Rate Corridor
ICT	Information and Communication Technology
IFB	Invitation for Bids
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IIFM	International Islamic Financial Market
IILM	International Islamic Liquidity Management
IMF	International Monetary Fund
IMS	Inspection management system

IRTI	Islamic Research & Training Institute
ISD	Information Systems Department
IT	Information Technology
IVR	Interactive Voice Response
ISIF	Information Systems Inspection Framework
IMS	Inspection Management System
ICF	Innovation Challenge Facility
IERS	Islamic Export Refinance Scheme
IBWs	Islamic Banking Windows
IBD	Islamic Banking Department
IACD	Internal Audit and Compliance Department
IIA	Institute of Internal Auditors
ISACA	Information Systems Audit and Control Association

K

KM	Knowledge Management
KYC	Know Your Customer
KIBOR	Karachi Interbank Offered Rate
KRI	Key Risk Indicator
KMSC	Knowledge Management Steering Committee

L

LACIP	Loans for Agriculture Commercial and Industrial Purposes Act
LLIS	Livestock Loan Insurance Scheme
LNA	Learning Needs Assessment
LOLR	Lender of Last Resort
LOU	Letter of Understanding
LSM	Large Scale Manufacturing
LTFF	Long Term Financing Facility
LEAs	Law Enforcement Agencies
LEAP	Leading Efficiency through Automation Prowess
LOC	Line of Credit

M

MCR	Minimum Capital Requirement
MFB	Microfinance Bank
MFI	Microfinance Institution
MoF	Ministry of Finance
MoNFS&R	Ministry of National Food Security & Research
MOPS	Management and Organizational Practices Survey
MoRA	Ministry of Religious Affairs & Interfaith Harmony
MOU	Memorandum of Understanding
MPC	Monetary Policy Committee

MPS	Monetary Policy Statement
MSME	Micro, Small and Medium Enterprises
MER	Mutual Evaluation Report
MVTS	Money or Value Transfer Services
ML	Money Laundering
MST	Macro Stress Testing
MPRG	Monetary Policy and Research Group
MPMG	Government Mera Pakistan Mera Ghar

N

NADRA	National Database and Registration Authority
NBFIs	Non-Bank Financial Institutions
NBP	National Bank of Pakistan
NCCPL	National Clearing Company of Pakistan Limited
NFIS	National Financial Inclusion Strategy
NFLP	National Financial Literacy Program
NFSC	National Financial Stability Council
NIFT	National Institutional Facilitation Technologies
NPF	Non-Performing Financing
NPL	Non Performing Loan
NRA	Noted Risk Assessment
NRSP	National Rural Support Programme
NFAS	Non-Financial Advisory Services
NIBAF	National Institute of Banking and Finance
NRP	Non-Resident Pakistani
NPAs	Non-Performing Assets
NPSS	National Payment Systems Strategy
NPC	Naya Pakistan Certificate

O

OSR	Office Site Surveillance Report
OTC	Over the Counter
OMOs	Open Market Operations

P

PAR	Pakistan Agriculture Research
PBA	Pakistan Banks' Association
PDFL	Pakistan Development Fund Ltd
PIB	Pakistan Infrastructure Bank
PKR	Pakistan Rupee
PLS	Profit & loss Sharing
PMIC	Pakistan Microfinance Investment Company
PMRC	Pakistan Mortgage Refinance Company

PMYBL	Prime Minister Youth Business Loan
POS	Point of Sale
PRI	Pakistan Remittance Initiative
PRISM	Pakistan Real-time Interbank Settlement Mechanism
PSCG	Payment Systems Consultative Group
PSOs	Payment System Operators
PSPs	Payment Service Providers
PTA	Pakistan Telecommunication Authority
PF	Proliferation Financing
PRMC	Pakistan Credit Guarantee Company Limited
PSCC	Payment Systems Consultative Council

Q

QR	Quick Response

R

RACER	Risk Assessment and Control Evaluation Regime
RCG Asia	Regional Consultative Group of Asia
RE-EE	Renewable Energy and Energy Efficiency
RMD	Risk Management Department
ROA	Return on Assets
ROE	Return on Equality
RTGS	Real Time Gross Settlement System
RWA	Risk Weighted Assets
RBS	Risk Based Supervision
RFCC	Refinance Facility for Combating COVID-19
RDA	Roshan Digital Account
RTOB	Real Time Online Banking

S

SAA	Strategic Asset Allocation
SAARC	South Asian Association for Regional Cooperation
SBP	State Bank of Pakistan
SECP	Securities & Exchange Commission of Pakistan
SG	Strategic Goal
SIFI	Systemically Important Financial Institution
SME	Small & Medium Enterprise
SPD	Strategic Planning Department
SPSC	Strategic Planning Steering Committee
STP	Straight Through Processing
STR	Secured Transactions Registry
SGF	Shariah Governance Framework

SRA	Strategic Risk Assessment
SOP	Standard Operating Procedure

T

TMS	Transaction Management System
TO	Tactical Objective
TPSP	Third Party Service Provider
TBML	Trade Based Money Laundering
TF	Terrorist Financing
TERF	Temporary Economic Refinance Scheme

U

UBL	United Bank Ltd
UN	United Nation
USSD	Unified Unstructured Supplementary Service Data
UBL	United Bank Ltd

W

WEBOC	Web Based One Customs
WHRF	Warehouse Receipt Financing

Y

YoY	Year on Year

Z

ZTBL	Zarai Taraqiati Bank Ltd