10 Financial Statements of SBP BSC

Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30th June 2019, profit and loss account, statement of comprehensive income, statement of change in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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Chartered Accountants
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Independent Auditor's Report

To the Board of Directors and State Bank of Pakistan

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

Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2019, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

EY FORD RHODES
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

EY FORD RHODES
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

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

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

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

Dated: 24th October 2019

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2019

	Note	2019	2018
		------(Rupees in '000)------	
ASSETS			
Current account with the State Bank of Pakistan		**44,969,274**	50,042,724
Investments	5	**517,552**	521,419
Employee loans	6	**9,605,805**	9,152,123
Advances, deposits and prepayments	7	**60,410**	100,983
Medical and stationery consumables	8	**247,357**	190,334
Property and equipment	9	**833,556**	895,356
Total assets		**56,233,954**	60,902,939
LIABILITIES			
Deposits and other liabilities	10	**4,939,574**	5,074,430
Deferred liabilities - unfunded staff retirement benefits	11	**50,294,380**	54,828,509
Total liabilities		**55,233,954**	59,902,939
Net assets		**1,000,000**	1,000,000
REPRESENTED BY:			
Share capital	12	**1,000,000**	1,000,000
CONTINGENCIES AND COMMITMENTS	13		

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

Muhammad Ashraf Khan	**Shaukat Zaman**
Managing Director	Group Head

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		------(Rupees in '000)------	
Discount and interest earned	14	**45,295**	31,315
Net operating expenses	15	**14,548,477**	14,917,727
Reimbursable from the State Bank of Pakistan	15	**(8,060,641)**	(8,544,648)
Allocated to the State Bank of Pakistan:			
- Credit loss on employee loans	15 & 6.2	**(121)**	-
- Others	15	**(6,487,715)**	(6,373,079)
		-	-
Operating profit		**45,295**	31,315
Gain on disposal of property and equipment		**9,084**	4,504
Profit for the year		**54,379**	35,819

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		------(Rupees in '000)------	
Profit for the year		**54,379**	35,819
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Gain / (loss) on remeasurements of defined benefit plans	15.2.4.1	**6,038,910**	(2,961,549)
Allocated to the State Bank of Pakistan		**(6,038,910)**	2,961,549
		-	-
Total comprehensive income for the year		**54,379**	35,819

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2019

	Note	**Share capital**	**Unappropriated profit**	**Total**
		---------------	**(Rupees in '000)**	---------------
Balance as at July 1, 2017		1,000,000	-	1,000,000
Total comprehensive income for the year		-	35,819	35,819
Transaction with the owner				
Profit transferred to the State Bank of Pakistan		-	(35,819)	(35,819)
Balance as at June 30, 2018		1,000,000	-	1,000,000
Adjustment on initial application of IFRS 9	6.2	-	(248)	-
Impact on initial application of IFRS 9 transferred to State Bank of Pakistan		-	248	-
Restated balance as at July 1, 2018		1,000,000	-	1,000,000
Total comprehensive income for the year		-	54,379	54,379
Transaction with the owner				
Profit transferred to the State Bank of Pakistan		-	(54,379)	(54,379)
Balance as at June 30, 2019		**1,000,000**	**-**	**1,000,000**

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	**2019**	2018
		-------(Rupees in '000)-------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	16	**41,740**	26,588
Profit transferred to the State Bank of Pakistan		**(54,379)**	(35,819)
Income on Government securities received during the year		**40,689**	26,186
		28,050	16,955
Decrease / (Increase) in assets			
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		**724,092**	217,371
Medical and stationery consumables		**(57,023)**	(25,512)
Employee loans		**(454,051)**	329,771
Advances, deposits and prepayments		**39,955**	(51,402)
(Decrease) / Increase in liabilities			
Deposits and other liabilities		**(5,895)**	(183,116)
Net cash generated from operating activities		**275,128**	304,067
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		**(33,267)**	(10,700)
Capital expenditure		**(257,554)**	(303,013)
Proceeds from disposal of property and equipment		**15,693**	9,646
Net cash used in investing activities		**(275,128)**	(304,067)
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of the year		**-**	-
Cash and cash equivalents at the end of the year		**-**	-

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head

SBP BANKING SERVICES CORPORATION NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 Retirement benefits

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

3.3.2 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. Rates of depreciation are given in note 9.1.

3.3.3 Provision against obsolete medical and stationery consumables

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

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

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

Standards	**Effective date (annual periods beginning on or after)**
- IFRS 17 - 'Insurance contracts'	01 January 2021
- IFRS 16 - 'Leases'	01 January 2019

Amendments	**Effective date (annual periods beginning on or after)**
Amendments to IAS 28 - Long term interest in associates and joint ventures	01 January 2019
Amendments to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation	01 January 2019
Amendments to IFRS 3 - Definition of Business	01 January 2020
Amendments to IAS 19 - 'Employee Benefits'	01 January 2019
Amendments to IFRS 10 – *'Consolidated Financial Statements'* and IAS 28 – *'Investments in Associates and Joint Ventures'* regarding sale or contribution of assets between an investor and its associate or joint venture	Date yet to be finalized
Amendments to IAS 1 and IAS 18 - Definition of Material	01 January 2020
Interpretations	
IFRIC 23, 'Uncertainty over income tax'	01 January 2019
Improvements	
IFRS 3, '*Business Combination'* regarding previously held interest in a joint operation	01 January 2019
IFRS 11, '*Joint Arrangements'* regarding previously held interest in a joint operation.	01 January 2019
IAS 12, *'Income Taxes'* regarding income tax consequences of payments on financial instruments classified as equity.	01 January 2019

IAS 23, '*Borrowing Cost'* regarding borrowing cost eligible for capitalisation. 01 January 2019

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

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

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

3.5.1 IFRS 9 Financial Instruments

The Corporation has initially adopted IFRS 9 from 01 July 2018. Due to the transition method chosen by the Corporation in applying IFRS 9, comparative information throughout these financial statement have not generally been restated to reflect its requirements.

3.5.1.1 Changes to classification and measurement

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

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

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

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

3.5.1.2 Changes to the impairment calculation

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

3.5.2 IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures were updated and the Corporation has adopted it, together with IFRS 9, for the year beginning 1 July 2018. Changes include transition disclosures as shown in Note 3.5.3, 3.5.4 and 3.5.5.

Reconciliations from opening to closing ECL allowances are presented in Note 6.2.

3.5.3 Classification and measurement of financial instruments

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

	IAS 39		IFRS 9	
Financial Assets	**Measurement category**	**Carrying Amount**	**Measurement category**	**Carrying Amount**
	------------------------------	(Rupees in '000)--		
Current account with the State Bank of Pakistan	Loans and receivable	50,042,724	Amortised cost	50,042,724
Investments				
Market treasury bills	Held to maturity	521,419	Amortised cost	521,419
Employee Loans	Loans and receivable	9,152,123	Amortised cost	9,151,875
Advances and deposits	Loans and receivable	26,562	Amortised cost	26,562

	IAS 39		IFRS 9	
Financial liabilities	**Measurement category**	**Carrying Amount**	**Measurement category**	**Carrying Amount**
Other deposits and accounts	Amortised cost	1,018,844	Amortised cost	1,018,844

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

The Corporation performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 4 for more detailed information regarding the new classification requirements of IFRS 9.

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

	IAS 39		IFRS 9	
Financial Assets	**IFRS 9 carrying amount as at June 30, 2018**	**Reclassification**	**Remeasurements**	**IFRS 9 carrying amount as at July 1 , 2018**
	------------------------------	(Rupees in '000)--		
Amortised Cost				
Current account with the State Bank of Pakistan				
Transfer from loan and receivables under IAS 39	-	50,042,724	-	50,042,724
Closing balance under IFRS 9	-	-	-	**50,042,724**
Investment - local				
Transfer from held to maturity under IAS 39	-	521,419	-	521,419
Closing balance under IFRS 9	-	-	-	**521,419**
Employee Loans				

Transfer from loan and receivables under IAS 39	-	9,152,123	-	9,152,123
Remeasurement: ECL allowance	-	-	248	248
Closing balance under IFRS 9	-	-	-	**9,151,875**
Advances and deposits				
Transfer from loan and receivables under IAS 39	-	26,562	-	26,562
Closing balance under IFRS 9	-	-	-	**26,562**

3.5.5 Reconciliation of impairment allowance balances from IAS 39 to IFRS 9

The Corporation performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 4 for more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the prior period closing impairment allowance measured in accordance with IAS 39 incurred losses model to the new impairment allowance measured in accordance with IFRS 9 expected credit loss model applied from 01 July 2018.

The Corporation have adopted IFRS 9 stage 1 level for impairment allowance calculation against which remeasured impairment allowance is as follows:

Measurement Category	Loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurements	Loss allowance under IFRS 9
Amortised Cost				
Employee loans	7,715	-	248	7,963

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Financial assets and Financial Liabilities

4.1.1 Classification

All financial assets and liabilities are measured initially at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition or issue.

Financial instruments carried on the balance sheet include investments, employee loans, advances and deposit current account with State Bank of Pakistan, current accounts of Governments, deposits and other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

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

The financial assets are categorised as: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and financial assets held at amortized cost. The Corporation classifies its financial assets based on both a) the Corporation's business model for managing those financial assets and; b) the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless the Corporation were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

4.1.2 Financial assets at amortised cost

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

• The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

• The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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

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

4.1.3 Impairment of financial instruments

4.1.3.1 Overview of the ECL principles

As described in Note 3.5.1.2, the adoption of IFRS 9 has fundamentally changed the Corporation's loan loss impairment method by replacing IAS 39’s incurred loss approach with a forward-looking ECL approach. From 1 July 2018, the Corporation has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months’ expected credit loss (12mECL) as outlined in 4.1.3.2). The Corporation's policies for determining if there has been a significant increase in credit risk is set out in 18.1.5.

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

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Corporation has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument’s credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

- Stage 1: When loans are first recognised, the Corporation recognises an allowance based on 12mECLs. Stage 1 Loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Corporation records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

- Stage 3: Loans considered credit-impaired (as outlined in note 18.1.2). The Corporation records an allowance for the LTECLs.

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

4.1.3.2 The calculation of ECLs

The Corporation calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.
The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 18.1.3.
- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 18.1.4.

When estimating the ECLs, the Corporation considers three scenarios (a base case, a best case, and a worse case). Each of these is associated with different PDs, EADs and LGDs as set out in note 4.1.3.1. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received from selling the asset.

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

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

The mechanics of the ECL method are summarised below:

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

the Corporation estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

4.1.3.3 Forward looking information

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

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

a) Financial assets carried at amortised cost

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

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

b) Available-for-sale financial assets

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

4.1.5 Derecognition of financial assets and financial liabilities

a) Financial assets

The Corporation derecognises a financial asset, such as a loan, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Corporation records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

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

b) Financial liabilities

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

4.1.6 Fair value measurement principles

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

4.1.7 Offsetting of financial assets and financial liabilities

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

4.2 Employee loans

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

4.3 Medical and stationery consumables

Medical and stationery consumables are valued at lower of weighted average cost and the net realisable value.
Provision for obsolete items is determined based on the management's assessment regarding their future usability.
Net realisable value represents estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.4 Property and equipment

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

Depreciation on property and equipment is charged to profit and loss account by applying the straight-line method at the rates specified in note 9.1 to the financial statements, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation on additions is charged to the profit and loss account from the month in which the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

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

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

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

4.5 Impairment of non-financial assets

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

4.6 Compensated absences

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

4.7 Staff retirement benefits

The Corporation operates the following staff retirement benefit schemes for employees transferred from SBP (transferred employees) and other employees:

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

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

c) the following other staff retirement

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

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard has been carried out as at June 30, 2019. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur. The amount arising as a result of remeasurement is allocated to the State Bank of Pakistan, however, the liability is retained in the balance sheet of the Corporation.

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

4.8 Revenue recognition

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

4.9 Taxation

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

4.10 Provisions

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

4.11 Grants

Grants received on account of capital expenditure are recorded as deferred income and are amortized over the useful life of the relevant asset. The grants received on account of revenue expenditures are recorded as and when the expenditure is incurred.

	Note	**2019**	2018
		------(Rupees in '000)------	
5. INVESTMENTS			
Amortized cost			
Market Treasury Bills	*5.1 & 5.2*	**517,552**	521,419
		517,552	521,419

5.1 Market Treasury Bills carry mark-up at ranging between 11.00% to 12.68% per annum (2018: 5.90% to 6.26% per annum) and maturity dates ranging between August 1, 2019 to August 15, 2019 (2018: July 5, 2018 to August 16, 2018).

5.2 The fair value of these investments as at June 30, 2019 is Rs. 525.42 million (2018: Rs. 523.971 million). Market Treasury Bills have been revalued on the basis of yields published by Reuters (PKRV) for Government securities.

	Note	**2019**	2018
		------(Rupees in '000) ------	
6. EMPLOYEE LOANS			
Considered good		**9,605,805**	9,152,123
Considered doubtful		**7,131**	7,715
	6.1	**9,612,936**	9,159,838
Impairment loss allowance	*6.2*	**(7,131)**	(7,715)
		9,605,805	9,152,123

6.1 This represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 24.608 million (2018: Rs. 28.905 million) that carry mark up at 10% per annum (2018: 10% per annum). Maximum maturity of loans is upto year 2058 (2018: year 2056).

These loans have been given in respect of:-

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

	Note	**2019**	2018
		------(Rupees in '000)	------
6.2 Impairment loss allowance against employee loans			
Opening balance		**7,715**	7,737
Adjustment of initial application of IFRS 9		**248**	-
		7,963	7,737
Charge for the year		**121**	-
Reversals during the year		**(953)**	(22)
Closing balance		**7,131**	7,715

	Note	**2019**	2018
		------(Rupees in '000)------	
7. ADVANCES, DEPOSITS AND PREPAYMENTS			
Prepayments		**42,116**	74,421
Advances and deposits		**8,994**	17,818
Others		**9,300**	8,744
		60,410	100,983
8. MEDICAL AND STATIONERY CONSUMABLES			
Medicines		**128,531**	125,207
Stationery		**17,925**	15,548
Engineering		**38,386**	26,975
Others		**63,789**	31,108
		248,631	198,838
Provision against obsolete items		**(1,274)**	(8,504)
		247,357	190,334
9. PROPERTY AND EQUIPMENT			
Operating fixed assets	9.1	**833,556**	894,993
Capital work-in-progress		**-**	363
		833,556	895,356

9.1 Operating fixed assets
The following is a statement of operating fixed assets:

2019									
Cost				**Accumulated Depreciation**					
As at July 01, 2018	**Additions / (deletions)**	**Transferred from SBP**	**As at June 30, 2019**	**As at July 01, 2018**	**Charge for the year / (deletions)**	**Transferred from SBP**	**As at June 30, 2019**	**Net book value as at June 30, 2019**	**Annual rate of depreciation %**
----------				**(Rupees in '000)** ----------					

Furniture & Fixtures	**93,370**	**15,201** **(1,234)**	**-**	**107,337**	**48,655**	**8,291** **(1,234)**	**-**	**55,712**	**51,625**	**10**
Office equipment	**1,740,549**	**151,929** **(5,265)**	**-**	**1,887,213**	**1,080,743**	**210,742** **(5,265)**	**-**	**1,286,220**	**600,993**	**20**
EDP equipment	**568,739**	**1,020** **(3,881)**	**-**	**565,878**	**461,829**	**54,356** **(3,721)**	**-**	**512,464**	**53,414**	**33.33**
Motor	**214,523**	**87,749** **(18,830)**	**3,255**	**286,697**	**130,961**	**39,356** **(12,744)**	**1,600**	**159,173**	**127,524**	**20**
	2,617,181	**255,899** **(29,210)**	**3,255**	**2,847,125**	**1,722,188**	**312,745** **(22,964)**	**1,600**	**2,013,569**	**833,556**	

	2018									
	Cost				Accumulated Depreciation					
	As at July 01, 2017	Additions / (deletions)	Transferred from SBP	As at June 30, 2018	As at July 01, 2017	Charge for the year / (deletions)	Transferred from SBP	As at June 30, 2018	Net book value as at June 30, 2018	Annual rate of depreciation %
	------------------------------ (Rupees in '000)------------------------------									
Furniture & Fixtures	127,676	6,365 (40,671)	-	93,370	81,128	7,735 (40,208)	-	48,655	44,715	10
Office equipment	1,632,112	193,271 (84,834)	-	1,740,549	983,217	180,422 (82,896)	-	1,080,743	659,806	20
EDP equipment	530,262	90,794 (55,778)	3,461	568,739	453,624	62,761 (55,764)	1,208	461,829	106,910	33.33
Motor vehicles	210,069	9,967 (5,513)	-	214,523	101,673	32,074 (2,786)	-	130,961	83,562	20
	2,500,119	300,397 (186,796)	3,461	2,617,181	1,619,642	282,992 (181,654)	1,208	1,722,188	894,993	

10. DEPOSITS AND OTHER LIABILITIES

	Note		
Provision for employees' compensated absences	15.2.10	**3,927,242**	4,055,586
Deposits		**290,716**	270,743
Others		**721,616**	748,101
		4,939,574	5,074,430

11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS

Gratuity		**4,733**	3,966
Pension		**30,688,317**	37,044,817
Benevolent fund scheme		**745,023**	941,469
Post retirement medical benefits		**18,100,363**	16,056,121
Six months post retirement benefits		**135,210**	123,475
	15.2.4	**49,673,646**	54,169,848
Provident fund scheme		**620,734**	658,661
		50,294,380	54,828,509

12. SHARE CAPITAL

2019	2018		**2019**	2018
(Number of shares)			**---------(Rupees in '000)---------**	
		Authorised share capital		

1,000	1,000	Ordinary shares of Rs. 1,000,000 each	**1,000,000**	1,000,000
		Issued, subscribed and paid-up capital		
		Fully paid-up ordinary shares of Rs. 1,000,000 each		
509	509	- issued for cash	**509,000**	509,000
491	491	- issued against consideration in kind	**491,000**	491,000
1,000	1,000		**1,000,000**	1,000,000

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

	Note		
Claims against the Corporation not acknowledged as debts	13.1.1	**2,864**	2,962

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

	Note	**2019**	2018
		---------(Rupees in '000)--------	
13.2 Commitments			
Capital commitments	13.2.1	**235,684**	142,102

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

14. DISCOUNT AND INTEREST EARNED	**2019**	2018
	--------(Rupees in '000)---------	
Interest income on Government securities	**44,244**	30,913
Interest on employee loans	**1,051**	402
	45,295	31,315

15. NET OPERATING EXPENSES	Note	**2019**	2018
		----------(Rupees in '000)--------	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		**5,931,240**	6,513,590
Rent and taxes		**42,714**	39,591
Insurance		**17,905**	17,402
Electricity, gas and water		**391,813**	357,749
Repair and maintenance		**336,502**	268,492
Auditors' remuneration	15.1	**8,160**	7,700
Legal and professional		**15,188**	15,357
Travelling		**29,966**	24,146
Daily expenses		**50,058**	38,246
Passages / rest and recreational allowance		**293,380**	312,066
Fuel		**4,523**	3,688
Conveyance		**21,127**	19,368
Postages and telephone		**17,521**	14,643
Training		**100,411**	204,817
Remittance of treasure		**174,077**	147,329
Stationery		**33,462**	15,677
Books and newspapers		**2,565**	2,151
Advertisement		**19,391**	19,600

		2019	2018
Bank guards charges		**198,601**	174,231
Uniforms		**34,436**	32,626
Others		**337,601**	316,179
		8,060,641	8,544,648
Allocated to the State Bank of Pakistan			
Credit loss on employee loans		**121**	-
Others			
Retirement benefits and employees' compensated absences	15.2	**6,174,970**	6,090,087
Depreciation	9.1	**312,745**	282,992
		6,487,715	6,373,079
		14,548,477	14,917,727

15.1 Auditors' remuneration

	2019			2018		
	EY Ford Rhodes	**KPMG Taseer Hadi & Co.**	**Total**	EY Ford Rhodes	KPMG Taseer Hadi & Co.	Total
	(Rupees in '000)					
Audit fee	**2,915**	**2,915**	**5,830**	2,750	2,750	5,500
Out of pocket expenses	**1,165**	**1,165**	**2,330**	1,100	1,100	2,200
	4,080	**4,080**	**8,160**	3,850	3,850	7,700

15.2 Staff retirement benefits

15.2.1 Charge for the year in respect of defined contribution plan amounted to Rs. 96.336 million (2018: Rs. 108.907 million).

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

	2019	2018
- Discount rate for year end obligation	**14.25% p.a.**	9.00% p.a.
- Salary increase rate (where applicable)	**15% p.a.**	10% p.a.
- Pension increase rate (where applicable)	**8.5% p.a.**	7.5% p.a.
- Medical cost increase rate (where applicable)	**14.25% p.a.**	9% p.a.
- Petrol price increase rate (where applicable)	**15% p.a.**	10% p.a.
- Personnel turnover	**6.7% p.a.**	18% p.a.
- Normal retirement age	**60 Years**	60 Years

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

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

Discount rate risk

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

Salary increase / inflation risk

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

Mortality risk

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

Withdrawal risk

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

Pension Increase risk

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

15.2.4 Change in present value of defined benefit obligation

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	------- Rupees in '000 -------					
Present value of defined benefit obligation as on July 1, 2018	37,044,817	3,966	16,056,121	941,469	123,475	**54,169,848**
Current service cost	633,407	431	389,380	2,738	8,673	**1,034,629**
Interest cost on defined benefit obligation	3,171,769	357	1,423,598	80,020	11,113	**4,686,857**
Benefits paid	(3,605,868)	-	(476,742)	(104,712)	-	**(4,187,322)**
Liability transferred from SBP	-	-	6,919	178	1,447	**8,544**
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	(6,448,140)	(59)	522,780	(181,860)	(191)	**(6,107,470)**
Experience adjustments	(107,668)	38	178,307	7,190	(9,307)	**68,560**
Present value of defined benefit obligation as on June 30, 2019	**30,688,317**	**4,733**	**18,100,363**	**745,023**	**135,210**	**49,673,646**

	2018					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	------- Rupees in '000 -------					
Present value of defined benefit obligation as on July 1, 2017	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Benefits paid	(7,858,601)	-	(486,205)	(36,737)	(934)	(8,382,477)
Liability transferred from SBP	116,667	-	29,442	2,391	4,715	153,215
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(62,092)	-	(62,092)
Experience adjustments	2,697,663	598	585,645	(250,621)	(9,644)	3,023,641
Present value of defined benefit obligation as on June 30, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848

15.2.4.1 Amount recognised in the Statement of Comprehensive Income

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	------- Rupees in '000 -------					
- Actuarial (gain) from changes in financial assumptions	(6,448,140)	(59)	522,780	(181,860)	(191)	**(6,107,470)**
- Experience adjustments	(107,668)	38	178,307	7,190	(9,307)	**68,560**
						(6,038,910)

	2018					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	------- Rupees in '000 -------					

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
- Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(62,092)	-	(62,092)
- Experience adjustments	2,697,663	598	585,645	(250,621)	(9,644)	3,023,641
						2,961,549

15.2.5 Amount recognised in the Profit and Loss Account

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	----------			Rupees in '000----------		
Current service cost	633,407	431	389,380	2,738	8,673	**1,034,629**
Interest cost on defined benefit obligation	3,171,769	357	1,423,598	80,020	11,113	**4,686,857**
Contribution made by employees	-	-	-	(9,701)	-	**(9,701)**
	3,805,176	**788**	**1,812,978**	**73,057**	**19,786**	**5,711,785**

	2018					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
				Rupees in '000----------		
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Contribution made by employees	-	-	-	(7,913)	-	(7,913)
	3,432,583	553	1,435,549	85,937	16,178	4,970,800

15.2.6 Movement of present value of defined benefit obligation

	2019					
	Pension	**Gratuity Scheme**	**Post retirement medical benefits**	**Benevolent fund scheme**	**Six months post retirement facility**	**Total**
	----------			Rupees in '000----------		
Net recognised liabilities at July 1, 2018	37,044,817	3,966	16,056,121	941,469	123,475	**54,169,848**
Amount recognised in the profit and loss account	3,805,176	788	1,812,978	73,057	19,786	**5,711,785**
Remeasurements	(6,555,808)	(21)	701,087	(174,670)	(9,498)	**(6,038,910)**
Benefits paid during the year	(3,605,868)	-	(476,742)	(104,712)	-	**(4,187,322)**
Employees contribution	-	-	-	9,701	-	**9,701**
Liability transferred from SBP	-	-	6,919	178	1,447	**8,544**
Net recognised liabilities at June 30, 2019	**30,688,317**	**4,733**	**18,100,363**	**745,023**	**135,210**	**49,673,646**

	2018					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
				Rupees in '000----------		
Net recognised liabilities at July 1, 2017	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848
Amount recognised in the profit and loss account	3,432,583	553	1,435,549	85,937	16,178	4,970,800
Remeasurements	2,697,663	598	585,645	(312,713)	(9,644)	2,961,549
Benefits paid during the year	(7,858,601)	-	(486,205)	(36,737)	(934)	(8,382,477)
Employees contribution	-	-	-	7,913	-	7,913
Liability transferred from SBP	116,667	-	29,442	2,391	4,715	153,215
Net recognised liabilities at June 30, 2018	37,044,817	3,966	16,056,121	941,469	123,475	54,169,848

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

Impact on defined benefit obligation - Increase /

	Change in Assumption	Decrease: Increase in assumption	Decrease: Decrease in assumption
		--------(Rupees in '000)-------	
Pension			
Discount rate	1%	(1,585,123)	1,801,452
Salary increase rate	1%	693,189	(660,658)
Pension increase rate	1%	1,201,241	(1,045,254)
Expected mortality rates	1 Year	386,397	(384,033)
Gratuity Scheme			
Discount rate	1%	4,539	4,937
Salary increase rate	1%	4,933	4,539
Post retirement medical benefits			
Discount rate	1%	(2,504,307)	3,179,370
Medical cost increase rate	1%	30,220	(27,346)
Salary increase rate	1%	3,241,165	(2,585,333)
Expected mortality rates	1 Year	357,772	(353,565)
Benevolent fund scheme			
Discount rate	1%	(25,646)	27,940
Six months post retirement facility			
Discount rate	1%	(6,678)	7,464
Salary / petrol increase rate	1%	7,740	(7,055)

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

15.2.8 Duration of defined benefit obligation

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

15.2.9 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2020

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2020 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
			Rupees in '000--------------------------------------			
Current service cost	568,887	492	444,676	1,248	9,811	1,025,114
Interest cost on defined benefit obligation	4,373,085	674	2,579,302	106,166	19,267	7,078,494

Amount chargeable to profit and loss account	4,941,972	1,166	3,023,978	107,414	29,078	8,103,608

15.2.10 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 3,927.242 million (2018: Rs. 4,055.586 million). An amount of Rs. 366.919 million (2018: Rs. 1,010.38 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2020 would be Rs. 791.849 million. The benefits paid during the year amounted to Rs.502.214 million (2018: Rs. 1,453.36 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 163.845 million and Rs. 186.826 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 197.961 million and Rs. 177.475 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 4 years

16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS

	----- (Rupees in '000) -----	
Profit for the year	**54,379**	35,819
Adjustments for:		
Accrued interest income on Government securities	**(3,555)**	(4,727)
Gain on disposal of property and equipment	**(9,084)**	(4,504)
	(12,639)	(9,231)
	41,740	26,588

17. RELATED PARTY TRANSACTIONS

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

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

Transactions and balances with related parties are as follows:

	2019	**2018**
Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity	----- (Rupees in '000) -----	
Balances at the year end - transferred to the State Bank of Pakistan		
Payable against training programs	**9,503**	39,042
Transactions during the year - reimbursable from State Bank of Pakistan		
Training expense charged during the year	**72,176**	174,823

18. RISK MANAGEMENT POLICIES

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

18.1 Credit risk management

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

18.1.1 Impairment assessment (Policy applicable from 1 July 2018)

The references below show where the Corporation's impairment assessment and measurement approach is set out in these financial statements. It should be read in conjunction with the summary of significant accounting policies.

18.1.2 Definition of default

The Corporation defines a financial instrument as in default when the financial asset is credit - impaired and meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments are considered default by the Corporation.

Qualitative criteria

- a breach of contract, such as default or past-due event;
- the lenders of the counterparty have granted a concession to the counterparty for economic or contractual reasons relating to the counterparty’s financial difficulty that the lender would not otherwise consider;
- the likelihood or probability that the counterparty will enter bankruptcy or other financial reorganization; or
- the dissolution of an active market for that financial asset due to financial difficulties.

18.1.3 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client’s ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2 and Stage 3 the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Corporation's models.

18.1.4 Loss given default

Loss given default represents the Corporation's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

18.1.5 Significant increase in credit risk

The Corporation considers a financial asset to have experienced a significant increase in credit risk when:
- credit rating falls below investment grade in case of investments made in financial assets, or
- the contractual payments are 30 days past due.

18.2 Concentration of risk

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

18.2.1 Geographical analysis

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

18.2.2 Industrial analysis

	2019		
	Sovereign	**Others**	**Grand Total**

Financial assets	--------------------	**(Rupees in '000)**	--------------------
Current account with the State Bank of Pakistan	44,969,274	-	**44,969,274**
Investments	517,552	-	**517,552**
Employee loans	-	9,605,805	**9,605,805**
Advances and deposits	-	18,294	**18,294**
	45,486,826	9,624,099	**55,110,925**

	2018		
	Sovereign	Others	Grand Total
Financial assets	--------------------	(Rupees in '000)	--------------------
Current account with the State Bank of Pakistan	50,042,724	-	50,042,724
Investments	521,419	-	521,419
Employee loans	-	9,152,123	9,152,123
Advances and deposits	-	26,562	26,562
	50,564,143	9,178,685	59,742,828

18.2.3 Credit exposure by credit rating:

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

	2019		
	Sovereign (18.2.3.1)	**Unrated**	**Grand Total**
Financial Assets	----------------	**(Rupees in '000)**	---------------
Current account with the State Bank of Pakistan	44,969,274	-	**44,969,274**
Investments	517,552	-	**517,552**
Employee loans	-	9,605,805	**9,605,805**
Advances and deposits	-	18,294	**18,294**
	45,486,826	9,624,099	**55,110,925**

	2018		
	Sovereign (18.2.3.1)	Unrated	Grand Total
Financial Assets	---------------	(Rupees in '000)	---------------
Current account with the State Bank of Pakistan	50,042,724	-	50,042,724
Investments	521,419	-	521,419
Employee loans	-	9,152,123	9,152,123
Advances and deposits	-	26,562	26,562
	50,564,143	9,178,685	59,742,828

18.2.3.1 Government securities and balances are rated as sovereign. The international credit rating of Pakistan is B3 (as per Moody's).

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

	Gross amount		**Impairment / Provision**	
	2019	2018	**2019**	2018
	-----------	**(Rupees in '000)**	-----------------------	
Employee loans	**7,131**	7,715	**7,131**	7,715

18.4 Liquidity analysis with interest rate risk

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

	2019						
	Interest / mark-up bearing			**Non interest / mark-up bearing**			
	Maturity upto one year	**Maturity after one year**	**Sub total**	**Maturity upto one year**	**Maturity after one year**	**Sub total**	**Total**
	(Rupees in '000)						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	44,969,274	-	44,969,274	**44,969,274**
Investments	513,997	-	513,997	3,555	-	3,555	**517,552**
Employee loans	794	23,275	24,069	185,120	9,396,616	9,581,736	**9,605,805**
Advances and deposits	-	-	-	9,300	8,994	18,294	**18,294**
	514,791	23,275	538,066	45,167,249	9,405,610	54,572,859	**55,110,925**
Financial liabilities							
Deposits and other liabilities	-	-	-	1,012,332	-	1,012,332	**1,012,332**
On balance sheet gap	514,791	23,275	538,066	44,154,917	9,405,610	53,560,527	**54,098,593**
Capital Commitments	-	-	-	235,684	-	235,684	**235,684**
Off balance sheet gap	-	-	-	235,684	-	235,684	**235,684**
Total yield / interest risk sensitivity gap	514,791	23,275	538,066	43,919,233	9,405,610	53,324,843	**53,862,909**
Cumulative yield / interest risk sensitivity gap	514,791	538,066	1,076,132	44,995,365	54,400,975	107,725,818	**107,725,818**

	2018						
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total
	(Rupees in '000)						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	50,042,724	-	50,042,724	50,042,724
Investments	516,692	-	516,692	4,727	-	4,727	521,419
Employee loans	2,249	26,656	28,905	1,366,307	7,756,911	9,123,218	9,152,123
Advances and deposits	-	-	-	17,818	8,744	26,562	26,562
	518,941	26,656	545,597	51,431,576	7,765,655	59,197,231	59,742,828
Financial liabilities							
Deposits and other liabilities	-	-	-	1,018,844	-	1,018,844	1,018,844
On balance sheet gap	518,941	26,656	545,597	50,412,732	7,765,655	58,178,387	58,723,984
Capital Commitments	-	-	-	142,102	-	142,102	142,102
Off balance sheet gap	-	-	-	142,102	-	142,102	142,102
Total yield / interest risk sensitivity gap	518,941	26,656	545,597	50,270,630	7,765,655	58,036,285	58,581,882
Cumulative yield / interest risk sensitivity gap	518,941	545,597	1,091,194	51,361,824	59,127,479	117,163,764	117,163,764

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

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

18.6 Currency risk management

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

18.7 Liquidity risk management

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

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2019	
	Amortised Cost	**Total**
	---------(Rupees in '000)-----	
Financial assets		
Current account with the State Bank of Pakistan	44,969,274	**44,969,274**
Investments	517,552	**517,552**
Employee loans	9,605,805	**9,605,805**
Advances and deposits	18,294	**18,294**
	55,110,925	**55,110,925**

	2018	
	Amortised Cost	Total
	---------(Rupees in '000)----------	
Financial assets		
Current account with the State Bank of Pakistan	50,042,724	50,042,724
Investments	521,419	521,419
Employee loans	9,152,123	9,152,123
Advances and deposits	26,562	26,562
	59,742,828	59,742,828

	2019	2018

	--------(Rupees in '000)----------	
Financial liabilities - at amortised cost		
Deposits and other liabilities	**1,012,332**	1,018,844

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 12th October 2019 by the Board of Directors of the Corporation

22. CORRESPONDING FIGURES

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

23. GENERAL

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

Muhammad Ashraf Khan	**Shaukat Zaman**
Managing Director	Group Head