REGISTERED No. M - 302 / L.-7646

The Gazette of Pakistan

EXTRAORDINARY
PUBLISHED BY AUTHORITY

ISLAMABAD, MONDAY, AUGUST 17, 2020

PART II

Statutory Notifications (S. R. O.)

GOVERNMENT OF PAKISTAN

FINANCE DIVISION

(Internal Finance Wing)

NOTIFICATION

Islamabad, the 9th January, 2020

S. R.O. 738 (I)/2020.—In terms of Section 40(2) of the State Bank of Pakistan (SBP) Act, 1956, the Federal Government *vide* Cabinet Decision taken in case No. 1058/48/2019 dated 31-12-2019 has approved Publication of Financial Statements of SBP and its subsidiaries for the year ended June 30, 2018 in the official Gazette of Pakistan. Copies of the said Finanical Statements meant for publication are enclosed.

No.1 (8) Bkg-I/2017.

SUHBAT ALI TALPUR,
Deputy Secretary.

1687 (1 —169)

Price : Rs. 250.00

[5896(2020)/Ex. Gaz.]

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Chartered Accountants
Sheikh Sultan Trust, Building No.
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State Bank of Pakistan
Consolidated Financial Statements
For the year ended June 30, 2018

EY FORD RHODES
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Progressive Plaza
Beaumont Road
Karachi-75530

KPMG TASEER HADI & CO.
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Independent Auditor's Report

To the Board of Directors of State Bank of Pakistan

Opinion

We have audited the consolidated financial statements of the State Bank of Pakistan (the Bank) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at June 30, 2018, 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, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in our audit
Accuracy of the Liability for "Bank notes in circulation"	
As disclosed in notes 4.2 and 22 to the accompanying consolidated financial statements, bank notes in circulation represent the liability of the Group towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 (the Act) which comprise of 64% of the total liabilities of the Group. In view of the significance of liability in relation to the consolidated financial statements of the Group and complexities in the underlying processes relating to issuance of new notes, expansion and	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls related to process for new notes, expansion and contraction of bank notes in circulation and cancellation of bank notes. We analysed the changes in the liability for bank notes in circulation during the year together with the underlying reports of banking and issue department.

contraction of bank notes in circulation and cancellation of bank notes, we have considered the existence and completeness of liability as a key audit matter.

We considered the completeness of the liability by inspecting the year end statement of affairs of the Issue Circles. Further, we performed cut-off procedures on expansion and contraction of bank notes to assess the completeness of the year end balances of the liability.

We considered the requirements of the Act with regard to underlying assets backing the bank notes in circulation and tested its compliance with the relevant information provided by the Group.

"Foreign currency accounts and investments" and "Investments-local"

As disclosed in note 8 and 13 to the accompanying consolidated financial statements of the Group, "foreign currency accounts and investments" and "Investments-local" represent 17% and 49% respectively of the total assets of the Group as at the year end.

Furthermore, out of the total "foreign currency accounts and investments" of Rs. 1,334 billion at the year end, balance of Rs. 378.4 billion are invested through Fund Managers that are overseen by a Custodian.

In addition, "investments-local" includes Market Related Treasury Bills (MRTBs) amounting to Rs. 3,668 billion that are issued under instructions of Federal Government.

In view of the significance of these investments in relation to the total assets, the variation in type of investments and their management (involvement of Fund Managers, Custodian and in-house team) we have considered "foreign currency accounts and investments" and "Investments-local" as key audit matter.

Our key procedures included the following:

- We obtained understanding of the processes, assessed the design and implementation and tested effectiveness of key controls throughout the year over recognition, derecognition and valuation of investments and related revenue.
- Sent direct confirmations to counter-parties to confirm the balances of investment holdings and where relevant, performed physical verification of other investments.

Further, in respect of the investment made through fund managers:

- We obtained Type-2 report from Custodian to assess that controls were suitably designed by custodian and operated effectively in respect of its activities.
- We obtained the monthly statement of changes in net assets provided by the Custodian used by management for recognizing income in respect of foreign currency securities and traced with the accounting records of the Group to assess that they are accurately recorded.
- We performed substantive audit procedures on year-end balance of portfolio including evaluation of Fund Managers' and Custodian's statements, and re-performance of valuations on the basis of observable data at the year end.

In respect of financial instruments not carried at fair value, we evaluated the Group's assessment whether objective evidence of impairment exists for individual investments.

We also evaluated the adequacy of the overall disclosures in the financial statements in respect of the investment portfolio in accordance with the requirements of applicable financial reporting framework.

IT systems and controls over financial reporting

We identified IT systems and IT general controls over financial reporting as a key audit matter because of the pervasive nature and complexity of the IT environment, the extensive volume of transactions processed daily and the reliance of the Bank's financial accounting and reporting process on IT systems and controls.

Our audit approach relies on automated controls and therefore procedures were designed to test access and control over IT systems and changes to such systems. Given the specialized nature of this area of audit, we involved our specialist IT team to assist with our audit procedures. We:

- Obtained an understanding of the IT governance over the Bank's IT organization;
- Assessed relevant controls over data migration in relation to the upgrade of the core banking system during the reporting period;
- Identified the key IT Systems and application controls which were integral to the Bank's financial reporting;
- Evaluated the design, implementation and operating effectiveness of IT general controls covering change management, access management and IT operations over in-scope systems and significant accounts-related IT automated controls which were critical to financial reporting; and
- We tested the accuracy and completeness of key computer generated reports used in our audit.

Other Matter

The consolidated financial statements of the Group for the year ended June 30, 2017 were audited by A.F. Ferguson & Co. and EY Ford Rhodes who had expressed an unmodified opinion thereon vide their report dated October 27, 2017.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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.

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

EY Ford Rhodes

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

KPMG T— H

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

Dated: 30 October 2018

Karachi

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STATE BANK OF PAKISTAN
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2018

	Note	2018	2017
		(Rupees in '000)	
ASSETS			
Cash and bank balances held by subsidiaries	5	586,651	2,190,657
Gold reserves held by the Bank	6	315,610,772	270,361,202
Local currency - coins	7	989,497	861,860
Foreign currency accounts and investments	8	1,333,820,287	1,782,539,188
Earmarked foreign currency balances	9	12,277,462	10,319,532
Special Drawing Rights of the International Monetary Fund	10	59,272,776	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	11	20,362	17,382
Securities purchased under agreement to resell	12	1,562,309,789	1,533,373,313
Current accounts of Governments	23.2	33,104,114	36,797,935
Investments - local	13	3,824,128,547	2,694,286,076
Long term investment in associates	14	2,345,584	2,134,590
Loans, advances and bills of exchange	15	453,500,448	362,703,790
Taxation - net		505,899	398,414
Assets held with the Reserve Bank of India	16	6,652,678	5,758,914
Balances due from the Governments of India and Bangladesh	17	10,674,303	9,917,256
Property, plant and equipment	18	109,583,229	111,142,903
Intangible assets	19	309,238	107,554
Deferred taxation	20	243,999	193,274
Other assets	21	7,052,906	8,657,388
Total assets		7,732,988,541	6,895,418,547
LIABILITIES			
Bank notes in circulation	22	4,635,146,711	4,167,135,807
Bills payable		644,452	630,547
Current accounts of Governments	23.1	89,828,633	208,120,653
Payable to Islamic Banking Institutions against Bai Muajjal transactions	24	-	25,137,230
Payable under bilateral currency swap agreement	25	370,409,071	155,550,410
Deposits of banks and financial institutions	26	813,948,915	669,337,539
Other deposits and accounts	27	200,428,200	164,665,074
Payable to the International Monetary Fund	28	912,585,032	787,381,266
Other liabilities	29	84,506,219	57,515,443
Deferred liability - staff retirement benefits	30	90,107,820	89,806,875
Endowment fund		102,793	98,421
Total liabilities		7,197,707,846	6,325,379,265
Net assets		535,280,695	570,039,282
REPRESENTED BY			
Share capital	31	100,000	100,000
Reserves	32	69,435,670	100,664,452
Unappropriated profit		14,324,252	44,154,941
Unrealised appreciation on gold reserves held by the Bank	33	311,313,769	266,327,601
Unrealised appreciation on remeasurement of investments - local	13.6	74,622,824	93,302,881
Surplus on revaluation of property, plant and equipment		65,484,180	65,489,407
Total equity		535,280,695	570,039,282
CONTINGENCIES AND COMMITMENTS	34		

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 22.1 to these consolidated financial statements.

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

Tariq Bajwa Governor	Jameel Ahmad Deputy Governor	Saleemullah Executive Director

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STATE BANK OF PAKISTAN
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		------- (Rupees in '000) -------	
Discount, interest / mark-up and / or profit earned	35	321,606,845	260,870,627
Less: interest / mark-up expense	36	(31,842,388)	(21,368,844)
		289,764,457	239,501,783
Commission income	37	4,083,398	2,591,194
Exchange (loss) / gain - net	38	(72,280,199)	24,569,636
Dividend income		415,000	12,248,843
Share of profit from associates	39	691,417	26,196
Other operating income - net	40	1,298,090	574,355
Other income - net	41	796,526	302,049
		224,768,689	279,814,058
Less: Operating expenses			
- Cost of printing bank notes and Prize Bonds	42	9,362,218	9,127,971
- Agency commission	43	10,945,396	9,679,298
- General administrative and other expenses	44	27,703,661	22,941,749
Provision for / (reversal of provision against)			
- loans and advances - net	15.4	(22)	(6,139)
- diminution in value of investments - local - net	13.5	(39,475)	-
- other doubtful assets	29.3.1.1	76,145	16,842
- others		-	(14,674)
		36,648	(3,971)
		48,047,923	41,745,047
Profit before taxation		176,720,766	238,069,011
Taxation	45	1,048,115	5,414
Profit after taxation		175,672,651	238,063,597

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

Tariq Bajwa	Jameel Ahmad	Saleemullah
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		------- (Rupees in '000) -------	
Profit after taxation		175,672,651	238,083,597
Other comprehensive income			
Items that will be reclassified subsequently to the profit and loss account when specific conditions are met:			
Unrealised (diminution) / appreciation on remeasurement of investments			
- Investments - local	13.6	(18,625,464)	1,918,895
- Share of associates of other comprehensive loss - net of deferred tax		(54,593)	(2,290)
		(18,680,057)	1,916,605
Unrealised appreciation / (diminution) on gold reserves held by the Group	6	44,986,168	(17,015,000)
		26,306,111	(15,098,395)
Items that will not be reclassified subsequently to the consolidated profit and loss account:			
Remeasurements of staff retirement defined benefit plans - net of deferred tax	44.3.4 & 44.4.7	(3,540,720)	(3,805,653)
Total comprehensive income for the year		198,438,042	219,159,549

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

Tariq Bajwa
Governor

Jameel Ahmad
Deputy Governor

Saleemullah
Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2018

	Share capital	Reserves: Reserve for acquisition of PSPC	Reserve fund	Rural credit fund	Industrial credit fund	Export credit fund	Loans guarantee fund	Housing credit fund	Reserve created as a result of acquisition of PSPC	Unappropriated profit	Unrealised appreciation on gold reserves held by the Bank	Unrealised appreciation on remeasurement of investments - local	Surplus on revaluation of property, plant and equipment	Total
	(Rupees in '000)													
Balance as at July 1, 2016	100,000	-	164,644,238	2,600,000	1,600,000	1,500,000	900,000	4,700,000	-	3,712,651	283,342,601	91,386,276	65,489,407	619,974,573
Total comprehensive income for the year														
Profit after taxation for the year	-	-	-	-	-	-	-	-	-	238,063,597	-	-	-	238,063,597
Transfer to the reserve fund	-	-	1,999,567	-	-	-	-	-	-	(1,999,567)	-	-	-	-
Transfer from the reserve fund	-	65,464,000	(65,464,000)	-	-	-	-	-	-	-	-	-	-	-
Reserve created as a result of acquisition of PSPC	-	-	-	-	-	-	-	-	(41,279,353)	-	-	-	-	(41,279,353)
Other comprehensive income														
Share of associates of other comprehensive loss - net of deferred tax	-	-	-	-	-	-	-	-	-	-	-	(2,290)	-	(2,290)
Unrealised appreciation on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	-	-	1,918,895	-	1,918,895
Unrealised diminution on gold reserves held by the Bank	-	-	-	-	-	-	-	-	-	-	(17,015,000)	-	-	(17,015,000)
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	-	-	(3,805,653)	-	-	-	(3,805,653)
	-	65,464,000	(63,464,433)	-	-	-	-	-	(41,279,353)	232,258,377	(17,015,000)	1,916,605	-	177,880,196
Transactions with owners														
Dividend	-	-	-	-	-	-	-	-	-	(15,000)	-	-	-	(15,000)
Profit transferred to the Government of Pakistan	-	-	(36,000,000)	-	-	-	-	-	-	(191,800,487)	-	-	-	(227,800,487)
	-	-	(36,000,000)	-	-	-	-	-	-	(191,815,487)	-	-	-	(227,815,487)
Balance as at June 30, 2017	100,000	65,464,000	65,179,805	2,600,000	1,600,000	1,500,000	900,000	4,700,000	(41,279,353)	44,154,941	266,327,601	93,302,881	65,489,407	570,039,282
Total comprehensive income for the year														
Profit after taxation for the year	-	-	-	-	-	-	-	-	-	175,672,651	-	-	-	175,672,651
Transfer to the reserve fund	-	-	13,771,218	-	-	-	-	-	-	(13,771,218)	-	-	-	-
Transfer from the reserve fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income														
Share of associates of other comprehensive loss - net of deferred tax	-	-	-	-	-	-	-	-	-	-	-	(54,593)	-	(54,593)
Unrealised diminution on remeasurement of investments - local	-	-	-	-	-	-	-	-	-	-	-	(18,625,464)	-	(18,625,464)
Unrealised appreciation on gold reserves held by the Bank	-	-	-	-	-	-	-	-	-	-	44,986,168	-	-	44,986,168
Surplus realised on disposal of property, plant and equipment	-	-	-	-	-	-	-	-	-	5,227	-	-	(5,227)	-
Remeasurements of staff retirement defined benefit plans	-	-	-	-	-	-	-	-	-	(3,540,720)	-	-	-	(3,540,720)
	-	-	13,771,218	-	-	-	-	-	-	158,365,940	44,986,168	(18,680,057)	(5,227)	198,438,042
Transactions with owners														
Dividend	-	-	-	-	-	-	-	-	-	(15,000)	-	-	-	(15,000)
Profit transferred to the Government of Pakistan	-	-	(45,000,000)	-	-	-	-	-	-	(188,181,629)	-	-	-	(233,181,629)
	-	-	(45,000,000)	-	-	-	-	-	-	(188,196,629)	-	-	-	(233,196,629)
Balance as at June 30, 2018	100,000	65,464,000	33,951,023	2,600,000	1,600,000	1,500,000	900,000	4,700,000	(41,279,353)	14,324,252	311,313,769	74,622,824	65,484,180	535,280,695

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

Tariq Bajwa	Jameel Ahmad	Saleemullah
Governor	Deputy Governor	Executive Director

STATE BANK OF PAKISTAN
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		------- (Rupees in '000) -------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year after non-cash and other items	46	299,421,468	234,134,201
Taxes (paid) / received		(1,206,325)	20,102
(Increase) / decrease in assets:			
Foreign currency accounts and investments		(4,078,052)	(98,569,273)
Reserve tranche with the International Monetary Fund under quota arrangements		(2,980)	73
Securities purchased under agreement to resell		(28,936,476)	200,846
Investments - local		(1,148,428,460)	(471,377,545)
Loans, advances and bills of exchange		(90,796,636)	(74,538,445)
Assets held with the Reserve Bank of India and balances due from Governments of India and Bangladesh		(1,650,811)	(724,717)
Other assets		1,604,482	1,230,399
		(1,272,288,933)	(643,778,662)
		(974,073,770)	(409,624,359)
(Decrease) / increase in liabilities:			
Bank notes issued - net		468,010,904	612,213,750
Bills payable		13,905	32,405
Current accounts of Governments		(114,861,601)	(434,585,465)
Payable to Islamic Banking Institutions against Bai Muajjal transactions		(25,137,230)	(19,815,708)
Payable under bilateral currency swap agreement		214,858,661	(2,957,221)
Deposits of banks and financial institutions		144,611,376	277,577,070
Other deposits and accounts		35,763,126	3,112,076
Payment of retirement benefits and employees' compensated absences		(13,091,110)	(7,609,727)
Other liabilities		27,022,999	766,651
Endowment fund		4,372	4,214
		737,195,402	428,738,045
Net cash (used in) / generated from operating activities		(236,878,368)	19,113,686
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		840,830	12,248,843
Payment for acquisition of Pakistan Security Printing Corporation - net of cash acquired		-	(98,649,872)
Capital expenditure		(1,221,192)	(1,274,978)
Proceeds from disposal of property, plant and equipment		61,931	46,074
Net cash used in investing activities		(318,431)	(87,629,933)
CASH FLOWS FROM FINANCING ACTIVITIES			
Profit paid to the Federal Government of Pakistan		(233,186,629)	(227,805,487)
Net change in balances pertaining to IMF		125,203,766	8,641,761
Dividend paid		(10,000)	(10,000)
Net cash used in financing activities		(107,992,863)	(219,173,726)
Decrease in cash and cash equivalents during the year		(345,189,662)	(287,685,973)
Cash and cash equivalents at the beginning of the year		1,521,768,557	1,811,145,674
Effect of exchange loss on cash and cash equivalents		(111,510,273)	(1,687,144)
Cash and cash equivalents at the end of the year	47	1,065,068,622	1,521,768,557

The annexed notes from 1 to 55 form an integral part of these consolidated financial statements.

Tariq Bajwa	Jameel Ahmad	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, 2018

1. **STATUS AND NATURE OF OPERATIONS**

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

- SBP Banking Services Corporation
- National Institute of Banking and Finance (Guarantee) Limited
- Pakistan Security Printing Corporation (Private) Limited
- Deposit Protection Corporation

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

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

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

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

a) **SBP Banking Services Corporation - wholly owned subsidiary**

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

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

b) **National Institute of Banking and Finance (Guarantee) Limited - wholly owned subsidiary**

National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated in Pakistan under the repealed Companies Ordinance, 1984 as a company limited by guarantee having share capital. It is engaged in providing education and training in the field of banking, finance and allied areas.

The head office of the Institute is situated at Pitras Bukhari Road Islamabad, Pakistan.

c) **Pakistan Security Printing Corporation (Private) Limited - wholly owned subsidiary**

Pakistan Security Printing Corporation (Private) Limited ("the PSPC") was incorporated in Pakistan under the repealed Companies ordinance, 1984 (the Ordinance) and is a wholly owned subsidiary of State Bank of Pakistan. The PSPC is principally engaged in the printing of currency notes and national prize bonds.

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

d) **Deposit Protection Corporation**

Deposit Protection Corporation ("the DPC") has been incorporated as a wholly owned subsidiary of the Bank and is established under the Deposit Protection Corporation Act, 2016 ("the Act"). It has been 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 appointment of Board of Directors of DPC was notified in April 2018, with Deputy Governor SBP as its Chairman. The DPC has formally commenced its business from June 1, 2018. The share capital of DPC was contributed by the Bank on July 03, 2018.

The registered office of the DPC is situated at State Bank of Pakistan Building, Bolton Market, M.A. Jinnah Road, Karachi, in the province of Sindh, Pakistan.

2 STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 *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 4.5 to these consolidated financial statements.

3.3.2 *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, by nature, requires an element of estimation 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.

3.3.3 *Impairment against loans and advances*

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

3.3.4 *Impairment of available-for-sale investments*

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

3.3.5 ***Retirement benefits***

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 44.3.1 and 44.4.1 to these consolidated financial statements.

3.3.6 ***Useful life and residual value of property and equipment***

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

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

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

Standards	**Effective date (annual periods beginning on or after)**
- IFRS 9, 'Financial instruments'	January 1, 2018
- IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
- IFRS 16, 'Leases'	January 1, 2019 Early adoption is permitted only if IFRS 15 is adopted at the same
- IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments	
- Amendments to IFRS 2 - 'Share based payments' on clarifying how to account for certain types of share-based payment transactions	January 1, 2018
- Amendments to IFRS 4 - 'Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments'	January 1, 2018
- Amendments to IAS 28 - Long term interest in Associates and joint Ventures	January 1, 2019
- Amendment to IAS 40 - '*Investment property*' relating to transfers of investment propert	January 1, 2018
- 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 19 - 'Employee Benefits' relating to plan amendment, curtailment or settlement	January 1, 2019
Interpretations	
- IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
- IFRIC 23, 'Uncertainty over income tax treatment'	January 1, 2019
Improvements	
- IFRS 1, '*First-time adoption of IFRS*', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10	January 1, 2018
- IFRS 3, 'Business Combination' regarding previously held interest in a joint operation.	January 1, 2019
- IFRS 11, 'Joint Arrangements' regarding previously held interest in a joint operation.	January 1, 2019
- IAS 12, 'Income Taxes' regarding income tax consequences of payments on financial instruments classified as equity.	January 1, 2019
- IAS 23, 'Borrowing Cost' regarding borrowing cost eligible for capitalisation.	January 1, 2019
- IAS 28, '*Investments in associates and joint ventures*' regarding measuring an associate or joint venture at fair value	January 1, 2018

The Group expects that the adoption of the above standards, amendments, interpretations and improvements will not have any material impact on the Group's financial statements in the period of initial application other than the initial application of IFRS 9, 'Financial instruments' as described below:

- In July 2014, the IASB issued the final version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).

  IFRS 9 eliminates the existing financial asset categories and adopts a principles-based approach to the classification of financial assets, which is driven by a financial instrument's cash-flow characteristics and the business model in which it is held.

  IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss (FVTPL). The model has three stages:

  (i) on initial recognition, 12-month expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset;

  (ii) if credit risk increases significantly from initial recognition, lifetime expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset; and

  (iii) when a financial asset is considered credit-impaired, interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

  IFRS 9 also includes a new hedge accounting model, together with corresponding disclosures about risk management activities for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant changes apply to those entities that hedge non-financial risk.

  The Group has made a preliminary assessment based on certain premises regarding its exposure to Sovereigns and their Central banks and expects that transition to IFRS 9 is not likely to impact significantly the Group's financial statements except reclassifications and measurements of certain financial instruments.

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

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2017 but are considered not to be relevant or do not have any significant effect on the Group's operations and are, therefore, not disclosed in these consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Basis of consolidation

Subsidiaries are entities controlled by the Bank. The Bank controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to effect these returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

The consolidated financial statements include collectively the financial statements of the State Bank of Pakistan and its subsidiaries. Financial statements of the subsidiaries have been consolidated on a line-by-line basis.

All material inter group balances and transactions have been eliminated.

4.2 Bank notes in circulation and local currency - coins

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

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

4.3 Financial assets and financial liabilities

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

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. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in note 4.5 is recognised in the consolidated profit and loss account.

The management determines the appropriate classification of its financial instruments at the time of initial recognition in the following categories:

4.3.1 *Financial assets and financial liabilities at 'fair value through profit or loss' / 'held for trading'*

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purposes of selling in the short term. These assets and liabilities are either acquired / assumed for generating a profit from short term fluctuations in market price, interest rate movements, dealer's margin or securities included in a portfolio in which a pattern of short term profit making exists. These are initially recognised at fair value and transaction costs associated with the instrument are taken directly to the consolidated profit and loss account. These instruments are subsequently re-measured at fair value. All related realised and unrealised gains and losses are recognised in the consolidated profit and loss account directly. Derivatives are also categorised as financial assets and financial liabilities at 'fair value through profit or loss'.

4.3.2 *Held to maturity investments*

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

4.3.3 *Loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, these assets are carried at amortised cost less impairment losses, if any, and premiums and / or discounts are accounted for using the effective interest method.

All loans and receivables are recognized when cash is advanced to borrowers. When a loan becomes uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited in the consolidated profit and loss account.

4.3.4 *Available-for-sale financial assets*

These are the non derivative financial assets which are either designated in this category or which do not fall in any of the other categories. Subsequent to initial recognition, these securities are measured at fair value, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost. Gain or loss on changes in fair value is taken to and kept in equity until the investments are sold or disposed off, or until the investments are determined to be impaired. At that time, cumulative gain or loss previously recognised in equity is re-classified to the consolidated profit and loss account.

4.3.5 *Long term investment in associates*

Entities in which the Group has significant influence but not control and which are neither its subsidiaries nor joint ventures are classified as associates and are accounted for by using the equity method of accounting.

Those investments are initially recognised at cost, thereafter the carrying amount is increased or decreased to recognise the Group share of profit or loss of associates. Share of post acquisition profit and loss of associates is accounted for in the consolidated profit and loss account. Distribution received from investee reduces the carrying amount of investment. The Group's share of associates' other comprehensive income is recognised in consolidated other comprehensive income of the Group.

The carrying amount of the investment is tested for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount and loss, if any is recognised in the consolidated profit and loss account.

Unrealised gains / losses arising from transactions with associated companies are eliminated against the investment in the associates to the extent of Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

The Group accounts for its share of comprehensive income from associates as at year end on the basis of latest available financial statement of associates but not older than three months.

4.3.6 *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 International Monetary Fund, bank notes in circulation, bills payable and other liabilities.

4.4 **Derecognition of financial asset and financial liabilities**

a) Financial assets

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

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

b) **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another financial liability 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.

4.5 **Fair value measurement principles**

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

4.6 **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.

4.7 Derivative financial instruments

The Group uses derivative financial instruments which include forwards, futures and swaps. Derivatives are initially recorded at fair value and are re-measured to fair value on subsequent reporting dates. Forwards, futures and swaps are shown under commitments in note 34.2. The resultant gains or losses from derivatives are included in the profit and loss account.

4.8 Collateralised borrowing / lending

4.8.1 *Reverse repurchase and 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 recognized 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.

4.8.2 *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 notes 25 & 34.2.7.

4.9 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 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).

4.10 Gold reserves held by the Bank

Gold is recorded at the cost, which is the prevailing market rate, at initial recognition. Subsequent to initial measurement, it is revalued at the closing market rate fixed by the London Bullion Market Association on the last working day of the year which is also the requirement of State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulation No.42(vi). Appreciation or diminution, if any, on revaluation is taken to equity under the head "Unrealised appreciation on gold reserves held by the Bank". 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.

4.11 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances of subsidiary company, foreign currency accounts and investments (other than held to maturity investments), 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.

4.12 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 18.1 to these consolidated financial statements. The useful life of assets is reviewed and adjusted, if appropriate, at each balance sheet date.

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

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

increase in carrying amount arising on revaluation of land and buildings is recognised in consolidated other comprehensive income and credited to Surplus on revaluation of property, plant and equipment in equity. 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 unappropriated 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.

4.13 Leased Assets

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements net of financial charges allocable to future periods are shown in other liabilities.

4.14 Investment property

Investment properties are measured initially at cost, including related transaction costs. These properties are carried at cost less accumulated depreciation subsequent to initial recognition.

Additions to investment properties consists of cost of capital nature. The profit on disposal is determined as a difference between sales proceeds and the carrying amount of the assets at the commencement of the accounting period plus capital expenditure in the period.

4.15 Intangibles

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

Intangible assets are amortised using straight-line method over the period specified in note 19.1 to these consolidated financial statements. Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

4.16 Accounts receivables and other receivables

Accounts receivables and other receivables are carried at invoice amount less an allowance for any uncollectible amounts. Known bad debts are written off when identified.

4.17 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred 'loss event') and that loss event (or events) has an impact on estimated future cash flows, of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indication that the borrower or group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payment and where observable data indicates that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults, if any.

a) Financial assets carried at amortised cost

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

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

b) Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each balance sheet date whether there is an objective evidence that an investment is 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 is considered in determining whether the assets are impaired. If any such evidence exist 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 consolidated profit and loss account, is reclassified from consolidated other comprehensive income and recognised in the consolidated profit and loss account. Impairment losses recognised in the consolidated profit and loss account on equity instruments are not reversed through the income statement till the time the investments are sold or disposed off.

4.18 Impairment of non-financial assets

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

4.19 Stores and spares

Stores and spares held by PSPC are valued at the lower of cost determined on weighted average method and net realisable value. Stores and spares in transit are valued at cost incurred upto the balance sheet 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.

4.20 Stock-in-trade

Raw materials are valued at lower of cost determined on weighted average basis and net realisable value except for items in transit which are stated at cost incurred upto the balance sheet 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.

4.21 Stationery and other consumables

Stationery and other consumables are valued at the lower of cost and net realisable value. Cost comprises of cost of purchases and other 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. Provision is made for items which are not used for a considerable period of time.

4.22 Provisions

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

4.23 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.

4.24 Staff retirement benefits

4.24.1 *The Bank operates:*

a) an unfunded contributory provident fund (old scheme) for those employees who joined the Bank prior to 1975 and opted to remain under the old scheme. Under this scheme, contribution is made both by the Bank and employee at the rate of 6% of the monetized salary. The Bank provided an option to employees covered under old scheme to join the funded Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from June 1, 2007. Under this scheme, contribution is made both by the Bank and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Bank service after June 1, 2007 are covered under the new scheme;

b) an unfunded General Provident Fund (GPF) scheme for all those employees who joined the Bank after 1975 and those employees who had joined prior to 1975 but opted for this scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary;

c) an unfunded gratuity scheme (old scheme) for all employees other than those who opted for the new general provident fund scheme, or joined the Bank after 1975 and are entitled only to pension scheme benefits;

d) 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 for pension scheme or unfunded gratuity scheme (old scheme);

e) an unfunded pension scheme for those employees who joined the Bank after 1975 and before the introduction of EGF which is effective from June 1, 2007;

f) an unfunded benevolent fund scheme;

g) an unfunded post retirement medical benefit scheme; and

h) six months post retirement benefit facility.

4.24.2 *The Corporation operates the following staff retirement benefit schemes for employees:*

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

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

c) 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;

d) 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);

e) an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of EGF which is effective from July 1, 2010;

f) an unfunded benevolent fund scheme;

g) an unfunded post retirement medical benefit scheme; and

h) six months post retirement benefit facility.

4.24.3 *The PSPC operates following staff retirement benefits scheme for employees:*

An approved funded 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). As a result of business reorganisation, employees relating to National Security Printing Corporation (Private) Limited (NSPC) were transferred to NSPC and as per the business transfer agreement dated May 19, 2017 the cost of gratuity or pension are to be borne by transferee company i.e. NSPC, accordingly, the pension fund has become a multi-employer fund. Under the scheme, the employees are entitled to the following:

a) employees who have completed the prescribed qualifying period of more than ten years of service and opt for the scheme are entitled to post retirement pension benefit; and

b) gratuity for employees who have opted for gratuity instead of pension or those who have completed five years of service but have not yet completed ten years of service.

4.24.4 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.

4.24.5 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, 2018. The amount arising as a result of remeasurements are recognised in the consolidated balance sheet immediately, with a charge or credit to consolidated other comprehensive income in the period in which they occur.

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

4.25 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.

4.26 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.

4.27 Borrowing costs

Borrowing costs relating to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which these are incurred.

4.28 Leases

Liabilities against assets subject to finance lease are accounted for at the net present value of minimum payments under the lease arrangements. Financial charges under lease arrangements are allocated to periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

4.29 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.

4.30 Revenue recognition

- Discount, interest / mark-up and / or profit 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, doubtful loans and advances and overdue return on investments is recognised on receipt basis.
- Revenue from sale of goods is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. The Group records revenue from sale of goods on dispatch of goods to its customers.
- Commission income is recognised when related services are rendered.
- Dividend income is recognised when the Group's right to receive the dividend is established.
- Gains / losses on disposal of securities are recognised in the consolidated profit and loss account at the trade date.
- Training, education and hostel services are recognised on accrual basis.
- Rental income from property is accrued on time proportion basis at agreed rates.
- Return on bank deposits is recognised on accrual basis taking into account the effective yield.
- Scrap sales and miscellaneous income are recognised on receipt basis.
- All other revenues are recognised on a time proportion basis.

4.31 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.

4.32 Foreign currency translation

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

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

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

Commitments for outstanding foreign exchange forward, future and swap contracts disclosed in note 34.2 to these consolidated financial statements are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in PKR terms at the closing rate of exchange prevailing at the balance sheet date.

4.33 Taxation

The income of the Bank and the SBP Banking Services Corporation are exempt from tax under applicable laws. However, in case of the Institute, the Institute is eligible for hundred percent (100%) tax credit on taxes payable by the Institute under clause (d) of sub-section 2 of section 100C of the Income Tax Ordinance, 2001, introduced under the Finance Act, 2015.The income of PSPC is subject to tax at applicable rates.

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the consolidated profit and loss account or statement of comprehensive income to which it relates. Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

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.

Deferred

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for the temporary differences relating to initial recognition of goodwill, initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

		Note	2018	2017
5.	CASH AND BANK BALANCES HELD BY SUBSIDIARIES		---------(Rupees in '000)--------	
	With banks in current accounts	5.1	570,846	2,184,161
	Cash in hand		15,805	6,496
			586,651	2,190,657

5.1 This includes remunerative accounts carrying mark-up ranging from 4.50% to 6.25% (2017: 3.75% to 6.20%) per annum.

		Note	Net content in troy	2018	2017
6.	GOLD RESERVES HELD BY THE BANK			---------(Rupees in '000)--------	
	Opening balance		2,074,634	270,361,202	287,170,323
	Additions during the year		1,763	263,402	205,879
	Appreciation / (diminution) for the year due to revaluation	33		44,986,168	(17,015,000)
		22.1	2,076,397	315,610,772	270,361,202

		Note	2018	2017
7.	LOCAL CURRENCY - COINS		------------ (Rupees in '000) -----------	
	Bank notes held by the Banking Department		191,541	111,406
	Coins held as an asset of the Issue Department		989,497	861,860
			1,181,038	973,266
	Less: bank notes held by the Banking Department	22	(191,541)	(111,406)
		7.1 & 22.1	989,497	861,860

7.1 As mentioned in note 4.2, the Bank is responsible for issuing coins of various denominations on behalf of the Government. This balance represents the face value of coins held by the Group at the year end (also refer note 22.1).

8. FOREIGN CURRENCY ACCOUNTS AND INVESTMENTS

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

	Note	2018	2017
		------------(Rupees in '000)------------	
At fair value through profit or loss - held-for-trading			
- Investments	8.1	568,776,731	379,452,397
- Unrealised gain / (loss) on derivative financial instruments - net	8.2	2,085,749	2,688,587
Held to maturity investment	8.3	341,082,293	337,120,388
Loans and receivables			
- Deposit accounts		29,509,408	90,760,872
- Current accounts		35,107,134	20,926,003
- Securities purchased under agreement to resell	8.4	349,903,518	178,482,457
- Money market placements	8.5	7,355,454	773,108,484
		1,333,820,287	1,782,539,188

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

	Note	2018	2017
Issue Department	22.1	723,362,840	1,495,115,694
Banking Department		610,457,447	287,423,494
		1,333,820,287	1,782,539,188

8.1 These represent investments made (by the Bank) in foreign sukuks, investments made in international markets and balances maintained (on behalf of the Bank) through reputable Fund Managers. The activities of the Fund Managers are being monitored through a Custodian. Furthermore, the foreign sukuks purchased by the Bank are also held with the Custodian. The market value of the investments and carrying amount of deposit accounts as on June 30, 2018 cumulatively amounts to USD 4,723.5 million (2017: USD 4,103.57 million).

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

8.3 This represents investments in sovereign bonds of foreign countries carrying yield ranging from 2.34% to 3.69% per annum and having maturities from July 1, 2018 to September 24, 2018 (2017: 0.82% to 4.11% per annum and having maturities from July 6, 2017 to September 24, 2018).

8.4 These represent lending under repurchase agreements and carry mark-up in USD ranging from 0.016% to 2.12% per annum (2017: 0.02% to 1.16% per annum) and these will mature on July 2, 2018 (2017: July 3, 2017).

8.5 These represents money market placements carrying interest of 2.17% per annum in USD (2017: 0.85% to 1.52% per annum) and 0.4% per annum in GBP (2017: 0.10% to 0.20% per annum), maturing on July 3, 2018 (2017: having maturities from July 3, 2017 to September 22, 2017).

9. EARMARKED FOREIGN CURRENCY BALANCES

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

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 Group as at June 30, 2018. 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	2018	2017
SDRs are held as follows:		------------ (Rupees in '000) ------------	
- By the Issue Department	22.1	25,618,350	51,051,350
- By the Banking Department		33,654,426	12,605,969
		59,272,776	63,657,319

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	2018	2017
	---(Rupees in '000)---	
11. RESERVE TRANCHE WITH THE INTERNATIONAL MONETARY FUND UNDER QUOTA ARRANGEMENTS		
Quota allocated by the International Monetary Fund	347,210,944	296,398,560
Liability under quota arrangements	(347,190,582)	(296,381,178)
	20,362	17,382

12. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

This represents collaterised lendings made to various financial institutions under repurchase arrangement carrying markup ranging from 6.53% to 7% per annum (2017: 5.77% to 6.25% per annum) and are due to mature from on July 3, 2018 to July 6, 2018 (2017: July 4, 2017 to July 7, 2017). The fair value of securities collateralised as on June 30, 2018 amounts to Rs. 1,562,577 million (2017: Rs. 1,534,782 million). The collaterals held by the Group consist of Pakistan Investment Bonds and Market Treasury Bills.

13. INVESTMENTS - LOCAL	Note	2018	2017
		--- (Rupees in '000) ---	
Loans and receivables			
Government securities			
- Market Related Treasury Bills (MRTBs)		3,667,618,454	2,518,817,198
- Federal Government scrips		2,740,000	2,740,000
	13.1	3,670,358,454	2,521,557,198
Others			
- Term Deposit Receipt	13.2	6,122,000	6,207,070
		3,676,480,454	2,527,764,268
Held to maturity			
Government securities			
- Pakistan Investment Bonds		-	105,118
- Market Treasury Bills	13.1	655,367	659,000
		655,367	764,118
- Zarai Taraqiati Bank Limited (ZTBL) preference shares - unlisted	13.3	54,274,670	54,160,348
		54,930,037	54,924,466
Fair value through profit and loss			
- Mutual Funds		1,328,263	1,582,086
Available-for-sale investments			
- Mutual funds		23,904	27,164
Investments in banks and other financial institutions			
Ordinary shares			
- Listed		75,784,692	94,406,896
- Unlisted		16,319,632	16,319,632
	13.4	92,104,324	110,726,528
Term Finance Certificates		56,483	84,722
Certificates of Deposits		22,470	33,705
		92,207,181	110,872,119
Provision against diminution in value of investments	13.5	(817,388)	(856,863)
		91,389,793	110,015,256
		3,824,128,547	2,694,286,076
The above investments are held as follows:			
Issue Department - MRTBs	22.1	3,563,104,115	2,344,098,193
Banking Department / subsidiaries		261,024,432	350,187,883
		3,824,128,547	2,694,286,076

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

	2018	2017
	---------(% per annum)---------	
Market Related Treasury Bills	**6.01 to 6.35**	5.90 to 6.01
Federal Government scrips	**3**	3
Pakistan Investment Bonds	-	11.25
Market Treasury Bills	**5.91 to 6.49**	5.91 to 6.11

- MRTBs are created for a period of six months while Federal Government Scrips are of perpetual nature.
- Market treasury bills held by the subsidiaries have maturities upto August, 2018 (2017: December 2017)

13.2 This represents term deposit receipts maturing upto 12 months with various banks bearing mark-up at rates ranging from 5.35% to 7% (2017: 5.6% to 7.6%) per annum. Term Deposit Receipt of Rs 22 million (2017: Rs 22 million) is marked under lien against bank guarantee.

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

13.4 **Investments in shares of banks and other financial institutions**

	Note	2018	2017	2018	2017
		------% of holding-------		-------- (Rupees in '000) --------	
Listed					
- National Bank of Pakistan	13.4.2	**75.20**	75.20	**75,784,692**	94,406,896
Unlisted - at cost					
More than 50% Shareholding					
- Zarai Taraqiati Bank Limited		**76.23**	76.23	**10,199,622**	10,199,622
- House Building Finance Company Limited (HBFCL)		**90.31**	90.31	**1,482,304**	1,482,304
Less than or equal to 50% Shareholding					
Other investments				**4,637,706**	4,637,706
				16,319,632	16,319,632
				92,104,324	110,726,528

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 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.

13.4.2 Cost of the Group's investment in the shares of National Bank of Pakistan at June 30, 2018 amounted to Rs. 1,100.8 million (2017: Rs. 1,100.8 million).

13.5 **Provision against diminution in value of investments**

	2018	2017
	-------- (Rupees in '000) --------	
Opening balance	**856,863**	856,863
Reversal during the year	**(39,475)**	-
Closing balance	**817,388**	856,863

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		2018	2017
		(Rupees in '000)	
13.6	**Unrealised appreciation on remeasurement of investments**		
	Opening balance	93,302,881	91,386,276
	(Diminution) / appreciation during the year	(18,625,464)	1,918,895
	Share in loss of associates relating to "Available for sale investment"	(54,593)	(2,290)
	Closing balance	74,622,824	93,302,881

		2018	2017	2018	2017
		Percentage holding		(Rupees in '000)	
14.	**LONG TERM INVESTMENTS IN ASSOCIATES**	%	%		
	Investments in associates are accounted for using equity method of accounting:				
	Security Papers Limited (SPL)	40.03	40.03	1,741,299	1,624,763
	SICPA Inks Pakistan (Private) Limited (SICPA)	47	47	604,285	509,827
				2,345,584	2,134,590

14.1 Summarised financial statements of the associates are as follows:

	Security Papers Limited		SICPA Inks Pakistan (Private) Limited	
	(audited)		(unaudited)	
	June 30, 2018	June 30, 2017	March 31, 2018	March 31, 2017
	Rupees '000			
Total assets of the Company	5,891,505	5,675,207	2,152,650	1,982,402
Total liabilities of the Company	1,078,750	1,078,750	774,307	510,972
	Year ended June 30, 2018	Year ended June 30, 2017	Year ended March 31, 2018	Year ended March 31, 2017
	Rupees '000			
Total revenue of the Company	3,466,918	2,842,085	3,469,552	2,519,454
Profit after tax of the Company	738,412	937,653	683,726	554,503
Total other comprehensive (loss) / income of the Company	(159,270)	(142,285)	3,231	1,509

14.2 The market value of SPL as at June 30, 2018 is Rs 121.02 per share (2017: Rs 145.95 per share) i.e. an aggregate amount of Rs 2,870.805 million (2017: Rs 3,462.188 million). The breakup value based on net assets of SICPA as per latest unaudited financial statements as on March 31, 2018 is Rs 241.81 per share (March 31, 2017: Rs 258.150 per share) i.e. an aggregate amount of Rs 647.821 million (March 31, 2017: Rs 691.572 million).

		Note	2018	2017
			(Rupees in '000)	
15.	**LOANS, ADVANCES AND BILLS OF EXCHANGE**			
	Government owned / controlled financial institutions	15.1	56,453,942	47,796,089
	Private sector financial institutions	15.2	379,101,059	297,555,950
			435,555,001	345,352,039
	Employees	15.3	20,083,398	19,489,724
			455,638,399	364,841,763
	Provision against doubtful balances	15.4	(2,137,951)	(2,137,973)
			453,500,448	362,703,790

15.1 Loans and advances to Government owned / controlled financial institutions

	Scheduled banks		Other financial institutions		Total	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Agricultural sector	364,758	439,900	-	-	364,768	439,900
Industrial sector (15.1.1)	13,086,096	8,063,316	-	-	13,086,096	8,063,316
Export sector (15.2.1)	29,333,293	25,554,323	3,567	3,567	29,336,860	25,557,890
Housing sector (15.2.2)	-	-	2,035	-	2,035	-
Others (15.1.1 & 15.1.2)	13,664,183	13,734,983	-	-	13,664,183	13,734,983
	56,448,340	47,792,522	5,602	3,567	56,453,942	47,796,089

15.1.1 This includes exposure to the Industrial Development Bank Limited (IDBL) under Locally Manufactured Machinery (LMM) credit line amounting to Rs. 1,054 million (2017: Rs. 1,054 million). Furthermore, loans and advances also include loans amounting to Rs. 13,000 million and Rs. 340.78 million (2017: Rs. 13,000 million and Rs. 340.78 million) to IDBL which are secured by the Government guarantee and other Government securities respectively. The Federal Government vide its vesting order dated November 13, 2012 had transferred and vested all assets and liabilities of IDBP into the IDBL with effect from November 13, 2012. The Cabinet Committee on Privatisation, in its meeting held on May 07, 2016 approved the inclusion of IDBL in the 'Privatisation Program For Early Implementation'.

15.1.2 These balances include Rs. 327.9 million (2017: Rs. 417.7 million) which are recoverable from various financial institutions operating in Bangladesh. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh.

15.2 Loans and advances to private sector financial institutions

	Scheduled banks		Other financial institutions		Total	
	2018	2017	2018	2017	2018	2017
	(Rupees in '000)					
Agricultural sector	704,043	744,204	363,682	420,901	1,067,725	1,165,105
Industrial sector (15.2.1)	101,492,447	72,186,912	10,640,707	8,892,963	112,133,154	81,079,875
Export sector (15.2.1)	263,202,036	212,825,188	-	-	263,202,036	212,825,188
Others (15.2.2)	2,698,144	2,485,782	-	-	2,698,144	2,485,782
	368,096,670	288,242,086	11,004,389	9,313,864	379,101,059	297,555,950

15.2.1 Export sector loans of scheduled banks are fully secured against demand promissory notes.

15.2.2 In the year 2015, the Bank in continuation of a scheme of amalgamation of two commercial banks duly sanctioned by the Federal Government under Section 47 of the Banking Companies Ordinance 1962 and under Section 17 of the State Bank of Pakistan Act 1956, extended a 10-year financing facility of Rs.5,000 million with a bullet payment of markup and principal at maturity to an Islamic Commercial Bank (ICB) which is secured against Government of Pakistan Ijara Sukuk. The 10-year facility was provided on the basis of Mudaraba to be remunerated at profit sharing ratio declared by the ICB on its remunerative current accounts on monthly basis (the last declared rate in this respect is 0.01% per annum). In accordance with the requirements of accounting framework of the Bank the 10-year financing facility had been recognized at fair value on initial recognition. The amortized cost as of June 30, 2018 is Rs. 2,895 million (2017: Rs. 2,465 million). The principal amount (Rs. 5,000 million) of the facility along with the profit will be recovered at its maturity.

15.3 The interest / mark-up rate profile of the interest / mark-up bearing loans and advances is as follows:

	2018	2017
	(% per annum)	
Government owned / controlled and private sector financial institutions	0 to 9.75	0 to 9.75
Employees loans (where applicable)	0 to 10	0 to 10

15.4 **Provision against doubtful assets**

	2018	2017
	(Rupees in '000)	
Opening balance	2,137,973	5,348,435
Charge for the year	-	127
Reversal during the year on:		-
- issuance of preference shares of Zarai Taraqiati Bank Limited	-	(3,204,323)
- cash recovery	(22)	(6,266)
Closing balance	2,137,951	2,137,973

	Note	2018	2017
		(Rupees in '000)	
16. ASSETS HELD WITH THE RESERVE BANK OF INDIA			
Gold reserves			
- Opening balance		4,374,538	4,650,103
- Appreciation / (diminution) for the year due to revaluation	29.3.1.1	727,819	(275,565)
		5,102,357	4,374,538
Sterling securities		528,510	450,221
Government of India securities		253,591	231,832
Rupee coins		5,196	4,769
	16.1	5,889,654	5,061,360
Indian notes representing assets receivable from the Reserve Bank of India	16.2	763,024	697,554
	22.1	6,652,678	5,758,914

16.1 These assets were allocated to the Government of Pakistan as its share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Group is subject to final settlement between the Governments of Pakistan and India (also refer note 29.3.1).

16.2 These represent Pak Rupee equivalent of Indian rupee notes which were in circulation in Pakistan until retirement from circulation under the Pakistan (Monetary System and Reserve Bank) Order, 1947. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India (also refer note 29.3.1).

	Note	2018	2017
		(Rupees in '000)	
17. BALANCES DUE FROM THE GOVERNMENTS OF INDIA AND BANGLADESH			
India			
Advance against printing of notes		39,616	39,616
Receivable from the Reserve Bank of India		837	837
		40,453	40,453
Bangladesh			
Inter office balances		819,924	819,924
Loans, advances and commercial papers	17.1	9,813,926	9,056,879
		10,633,850	9,876,803
	17.2	10,674,303	9,917,256

17.1 These represent interest bearing loans and advances (including commercial papers) provided to the Government of Bangladesh.

17.2 The realisability of the above balances is subject to final settlement between the Government of Pakistan and Government of Bangladesh and India (also refer notes 29.1 and 29.3.1).

	Note	2018	2017
		(Rupees in '000)	
18. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	18.1	109,008,109	110,679,814
Capital work-in-progress	18.5	575,120	463,089
		109,583,229	111,142,903

18.1 Operating fixed assets

	2018							
	Cost / revalued amount at July 1, 2017	Additions / Adjustments** / (deletions) during the year	Cost / revalued amount at June 30, 2018	Accumulated depreciation at July 1, 2017	Depreciation for the year / Adjustments** / (deletions)	Accumulated depreciation at June 30, 2018	Net book value at June 30, 2018	Useful life / Rate of depreciation
	(Rupees in '000)							
Freehold land *	64,166,840	- (53,000) ** (5,881)	64,107,959	-	-	-	64,107,959	-
Leasehold land *	38,492,209	13,876 (563) **	38,505,082	1,226,621	1,363,840	2,590,461	35,915,221	30-99 years
Buildings on freehold land *	2,944,038	28,082 348 **	2,973,420	148,885	122,904	271,789	2,701,631	20 years
Buildings on leasehold land *	4,303,486	20,007 4,818 ** (8)	4,328,303	287,594	213,740 (8)	501,326	3,826,977	20 years
Plant and machinery	7,817,504	76,926 16,095 **	7,910,525	6,830,358	150,705	7,081,063	829,462	10%-20%
Furniture and fixtures	298,252	15,557 (64,287)	279,522	220,948	14,727 (43,824)	191,852	78,670	10%-20%
Office equipment	2,120,930	225,700 (87,374)	2,259,321	1,406,365	203,681 (85,445)	1,524,601	734,724	10%-33%
EDP equipment	2,436,079	382,482 6,271 ** (104,472)	2,682,340	2,054,636	286,194 1,740 ** (83,642)	2,256,928	433,412	33.33%
Motor vehicles	784,289	104,899 (53,374)	885,814	410,425	139,711 (44,375)	505,761	380,053	20%
	123,365,747	899,578 (26,039) ** (305,396)	123,933,890	12,686,933	2,455,402 1,740 ** (257,294)	14,926,781	109,008,109	

	2017									
	Cost / revalued amount at July 1, 2016	Asset transferred from PSPC	Additions / Adjustments** / (deletions) during the year	Cost / revalued amount at June 30, 2017	Accumulated depreciation at July 1, 2016	Accumulated depreciation transferred from PSPC	Depreciation for the year / Adjustments** / (deletions)	Accumulated depreciation at June 30, 2017	Net book value at June 30, 2017	Useful life / Rate of depreciation
	(Rupees in '000)									
Freehold land *	13,041,840	51,072,000	53,000	64,166,840	-	-	-	-	64,166,840	-
Leasehold land *	38,491,700	-	563	38,492,209	-	-	1,226,621	1,226,621	37,265,648	30-99 years
Buildings on freehold land *	2,301,474	735,132	63,068 (155,576) **	2,944,038		2,686	149,526 (3,227)	148,985	2,795,113	20 years
Buildings on leasehold land *	4,509,573	-	146,403 (352,550) **	4,303,486			292,527 (4,933)	287,594	4,015,892	20 years
Plant and machinery	-	6,676,201	30,155 1,110,647 ** (1,486)	7,817,504	-	6,352,013	70,414 407,759 (828)	6,830,358	987,146	10%-20%
Furniture and fixtures	268,768	44,044	16,376 (30,936)	298,252	200,182	34,618	13,866 (30,715)	220,950	77,302	10%-20%
Office equipment	1,979,570	103,651	583,208 (602,515) ** (33,004)	2,120,930	1,629,247	157,668	146,500 (494,566) (32,454)	1,406,365	714,565	10%-33%
EDP equipment	2,381,280	-	172,848 (118,049)	2,436,079	1,912,107	-	256,440 (113,911)	2,054,636	383,443	33.33%
Motor vehicles	676,031	59,872	129,563 (81,178)	784,290	297,164	44,486	122,047 (53,272)	410,425	373,865	20%
	63,650,232	58,782,900	1,185,330 (263,714)	123,365,748	4,041,700	6,602,271	2,276,030 (230,980)	12,686,934	110,679,814	

* These represent revalued assets

**Adjustments include reclassifications within different categories of assets

Buildings on Leasehold land include investment property having nil book value. The fair value of the investment property was assessed to be Rs 32.315 million as at March 31, 2017 as a result of revaluation exercise carried out by an independant valuer

18.2 Land and buildings of the Group are carried at revalued amount. The latest revaluation of assets of the Bank was carried out on June 30, 2016 by M/S M.J Surveyors (Pvt.) Ltd which resulted in a surplus of Rs. 33,870 million. The revaluation was carried out based on the market value assessment being the fair value of the land and buildings. The carring value of these assets as at June 30, 2018 amounts to Rs. 54,752 million. Had there been no revaluation, the carrying value of the revalued assets would have been as follows:

	2018	2017
	(Rupees in '000)	
Freehold land	39,205	92,858
Leasehold land	163,442	157,415
Buildings on freehold land	330,772	327,372
Buildings on leasehold land	698,915	710,875
	1,232,334	1,288,520

18.3 Land and buildings of the PSPC have been recorded based on their revalued amount as appearing in the financial statements of the PSPC as at June 30, 2018. These assets were revalued on April 1, 2017 by M/s Iqbal A. Nanjee & Co. (Private) Limited based on the market value assessment being the fair value of the land and buildings. Their carrying value as at June 30, 2018 amounts to Rs. 51,799 million. Had there been no revaluation of these assets, their carrying value would have been as follows:

	2018	2017
	(Rupees in '000)	
Freehold land	3,241	3,241
Building on leasehold land	106,464	107,928
	109,705	111,169

18.4 Depreciation charge for the year has been allocated as follows:

		2018	2017
General administrative and other expenses	44	2,421,512	2,273,363
Cost of printing bank notes and Prize Bonds	42	72,378	4,667
Others		1,512	-
		2,495,402	2,278,030

18.5 **Capital work-in-progress**

	2018	2017
Buildings on freehold land	66,473	63,536
Buildings on leasehold land	334,491	229,031
Furniture and fixtures	-	50,637
Office equipment	46,190	23,008
EDP equipment	39,544	92,329
Plant and machinery	88,422	4,488
	575,120	463,089

19. **INTANGIBLE ASSETS**

		2018	2017
Software	19.1	141,700	4,732
Capital work-in-progress		167,538	102,822
		309,238	107,554

19.1 Intangible assets

	Cost at July 1	Asset transferred from PSPC	Additions during the year	Cost at June 30	Accumulated amortisation at July 1	Accumulated amortisation transferred from PSPC	Amortisation for the year	Accumulated amortisation at June 30	Net book value at June 30	Annual rate of amortisation %
	(Rupees in '000)									
Software 2018	637,950	-	172,646	810,596	633,218	-	35,678	668,896	141,700	20 - 33.33
Software 2017	613,585	20,533	4,027	638,145	609,752	20,430	3,231	633,413	4,732	20 - 33.33

19.2 Amortisation charge for the year has been allocated as follows:

		2018	2017
		(Rupees in '000)	
General administrative and other expenses	44	35,590	3,231
Cost of printing bank notes and Prize Bonds	42	88	-
		35,678	3,231

20 DEFERRED TAXATION

	2018	2017
	(Rupees in '000)	
Deductible temporary differences		
Property, plant and equipment	12,823	408
Stores and spares - net	7,911	8,176
Stock-in-trade - net	12,989	15,321
Loans and advances and bills of exchange	1,389	1,657
Investments - local	1,476	-
Other advances, deposits and prepayments	7,411	8,846
Other liabilities - others	9,383	5,053
Deferred liabilities - funded staff retirement benefits	692,911	626,542
	746,273	666,073
Taxable temporary differences		
Long term investment in associates	(347,064)	(252,849)
Investments - local	-	(22,782)
Surplus on revaluation of property, plant and equipment	(155,210)	(197,168)
	(502,274)	(472,799)
Deferred taxation asset	243,999	193,274

21 OTHER ASSETS

	Note	2018	2017
		(Rupees in '000)	
Commission receivable and others		3,337,813	4,999,400
Stock-in-trade - net		2,321,705	2,073,947
Other advances, deposits and prepayments		907,617	864,338
Stores and spares - net		293,041	248,608
Medical, stationery consumables and stamps on hand		192,730	166,013
Unrealised gain on derivative financial instruments - net		-	506,076
		7,052,906	8,657,388

22. BANK NOTES IN CIRCULATION

	Note	2018	2017
Total bank notes issued	22.1	4,635,338,252	4,167,247,213
Bank notes held by the Banking Department		(191,541)	(111,406)
Bank notes in circulation		4,635,146,711	4,167,135,807

22.1 The liability for bank notes issued by the Issue Department is recorded at its face value in the consolidated balance sheet. In accordance with section 26 (1) of SBP Act 1956, this liability is supported by the following assets of the Issue Department.

	Note	2018	2017
		(Rupees in '000)	
Gold reserves held by the Bank	6	315,640,772	270,361,202
Local currency - coins	7	989,497	861,860
Foreign currency accounts and investments	8	723,362,640	1,496,115,894
Special Drawing Rights of the International Monetary Fund	10	25,818,350	51,051,350
Investments - local	13	3,563,104,115	2,344,098,193
Assets held with the Reserve Bank of India	16	6,652,678	5,758,914
		4,635,338,252	4,167,247,213

23. CURRENT ACCOUNTS OF GOVERNMENTS

23.1 Current accounts of Governments - payable balances

	Note	2018	2017
Federal Government	23.3	24,853,643	105,597,218
Provincial Governments			
- Punjab	23.4	6,207,539	38,898,196
- Sindh	23.5	11,180,750	20,398,680
- Khyber Pakhtunkhwa	23.6	25,367,613	31,526,641
- Baluchistan	23.7	6,331,168	2,459,725
Gilgit - Baltistan Administration Authority	23.8	15,887,920	9,239,193
		64,974,990	102,523,435
		89,828,633	208,120,653

		Note	2018	2017
			(Rupees in '000)	
23.2	**Current accounts of Governments - receivable balances**			
	Government of Azad Jammu and Kashmir		5,515,438	7,279,247
	Railways accounts		27,588,676	29,518,688
		23.9	33,104,114	36,797,935
23.3	**Federal Government**			
	Non-food account		2,566,586	40,002
	Zakat fund accounts		7,715,414	80,317,636
	Other accounts		14,571,643	25,239,520
			24,853,643	105,597,218
23.4	**Provincial Government - Punjab**			
	Non-food account		(26,818,268)	24,344,157
	Zakat fund account		1,093,706	753,583
	Other accounts		31,932,101	13,801,456
			6,207,539	38,899,196
23.5	**Provincial Government - Sindh**			
	Non-food account		8,296,644	18,180,177
	Zakat fund account		1,728,036	1,694,383
	Other accounts		1,156,070	524,120
			11,180,750	20,398,680
23.6	**Provincial Government - Khyber Pakhtunkhwa**			
	Non-food account		20,946,678	29,771,904
	Zakat fund account		1,422,771	1,281,569
	Other accounts		2,998,164	473,168
			25,367,613	31,526,641
23.7	**Provincial Government - Baluchistan**			
	Non-food account		5,220,576	1,183,617
	Zakat fund account		1,002,334	999,379
	Other accounts		108,258	276,729
			6,331,168	2,459,725
23.8	**Gilgit - Baltistan Administration Authority**		15,887,920	9,239,193

23.9 These balances carry mark-up at rates ranging from 6.01% to 6.83% per annum (2017: 5.89% to 6.01 % per annum).

24 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).

25. PAYABLE UNDER BILATERAL CURRENCY SWAP AGREEMENT

A bilateral currency swap agreement (CSA) was entered between the Bank and the People's Bank of China on December 23, 2011 in order to promote bilateral trade, finance direct investment, provide short term liquidity support and for any other purpose mutually agreed between the two central banks. The original agreement was renewed on 23rd December, 2014 for a period of three years with overall limit of CNY 10,000 million and equivalent PKR. The bilateral CSA has been further extended on May 23, 2018 for a period of three years, with amounts increasing from CNY 10,000 million to CNY 20,000 million and equivalent PKR. The Bank has purchased and utilized CNY 20,000 million against PKR during the year with the maturity buckets of three months to 1 year (2017: CNY 10,000 million with maturity bucket of three months and six months). These purchases have been fully utilized as on June 30, 2018 and the same amounts are outstanding as on June 30, 2018. Interest is charged on outstanding balance at agreed rates.

	Note	2018	2017
		-----------(Rupees in '000)---------	
26. DEPOSITS OF BANKS AND FINANCIAL INSTITUTIONS			
Foreign currency			
Scheduled banks		21,073,426	7,619,462
Held under Cash Reserve Requirement	26.1	179,222,542	137,166,870
		200,295,968	144,786,332
Local currency			
Scheduled banks	26.1	598,605,138	516,209,260
Financial institutions		14,968,288	8,264,427
Others		79,521	77,520
		613,652,947	524,551,207
		813,948,915	669,337,539

26.1 This includes cash deposited with the State Bank of Pakistan by the scheduled banks under regulatory requirements

	Note	2018	2017
27. OTHER DEPOSITS AND ACCOUNTS		-----------(Rupees in '000)---------	
Foreign currency			
Foreign central banks		54,830,309	47,257,038
International organisations		30,825,771	26,533,361
Others		35,566,507	18,013,438
	27.1	121,222,587	91,803,837
Local currency			
Special debt repayment	27.3	24,243,841	24,243,841
Government	27.4	17,850,348	17,850,348
Foreign central banks		2,115	2,059
International organisations		6,574,820	6,302,580
Others		30,534,489	24,462,409
		79,205,613	72,861,237
	27.2	200,428,200	164,665,074

27.1 This includes FCY deposits equivalent to Rs.121,497.2 million (based on exchange rate as of June 30, 2018), carrying interest at six month LIBOR plus 100 bps, payable semi-annually. These deposits have been set off against the Rupee counterpart receivable from the Federal Government and have been covered under Ministry of Finance (MoF) Guarantee whereby the MoF has agreed to assume all liabilities and risks arising from these deposits.

27.2 The interest rate profile of the interest bearing deposits is as follows:	2018	2017
	---------(% per annum)---------	
Foreign central banks	1.10 to 2.39	0.59 to 1.49
International organisations	3.09 to 3.74	2.62 to 3.09
Others	1.15 to 1.92	0.38 to 1.00

27.3 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.

27.4 These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

		Note	2018	2017
			(Rupees in '000)	
28.	**PAYABLE TO THE INTERNATIONAL MONETARY FUND**			
	Borrowings under:			
	- Fund facilities	28.1 & 28.3	743,484,251	643,054,775
	- Allocation of SDRs	28.2	169,100,741	144,326,457
			912,584,992	787,381,232
	Current account for administrative charges		40	34
			912,585,032	787,381,266

28.1 IMF provides financing to its member countries from General Resources Account (GRA) held in its General Department. GRA credit is normally governed by the IMF's general lending policies (also known as "credit tranche" policies, which provide financing for Balance of Payments [BoP] needs).

Under GRA financing, IMF granted Extended Fund Facility (EFF) amounting to SDR 4,393 million in FY 2013-14, having repayment period of 4½–10 years, with repayments in twelve equal semi-annual installments. A total amount of SDR 4,393 million has been disbursed under twelve (12) tranches of EFF. The repayment under this facility has started from March 2018 and will continue till September 2026.

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

		Note	2018	2017
			(% per annum)	
28.3	Interest profile of amount payable to the IMF is as under:			
	Fund facilities	28.3.1	1.53 to 1.99	1.05 to 1.63

28.3.1 The IMF levies a basic rate of interest (charges) on loans based on the SDR interest rate and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding. Interest rates are determined by the IMF on weekly basis. Charges are, however, payable on quarterly basis.

		Note	2018	2017
			(Rupees in '000)	
29.	**OTHER LIABILITIES**			
	Local currency			
	Provision against overdue mark-up	29.1	9,419,825	8,662,726
	Remittance clearance account		1,432,952	2,216,098
	Exchange loss payable under exchange risk coverage scheme		346,177	239,068
	Dividend payable	29.2	10,000	10,000
	Unrealised loss on derivatives - net		27,277,082	-
	Other accruals and provisions	29.3	34,608,659	32,044,308
	Payable to National Security Printing Company (NSPC)		905,862	5,774,651
	Others	29.4	10,505,662	8,569,602
			84,506,219	57,515,443

29.1 This represents suspended mark-up which is recoverable from Government of Bangladesh subject to the final settlement between the Governments of Pakistan and Bangladesh.

29.2 This includes dividend payable on shares held by the Government of Pakistan and Government controlled entities amounting to 9.99 million (2017: Rs. 9.99 million).

		Note	2018	2017
			(Rupees in '000)	
29.3	Other accruals and provisions			
	Agency commission		14,041,953	12,451,275
	Provision for employees' compensated absences	44.5	6,990,016	7,098,384
	Provision for other doubtful assets	29.3.1	7,456,737	6,652,772
	Trade and other payables		2,010,967	2,208,535
	Other provisions	29.3.2	2,848,701	2,848,701
	Others		1,260,285	784,641
			34,608,659	32,044,308

		Note	2018	2017
29.3.1	**Provision for other doubtful assets**		----------(Rupees in '000)----------	
	Provision against assets held with / receivable from Government of India and the Reserve Bank of India			
	- Issue Department		6,652,678	5,758,914
	- Banking Department		40,483	40,483
			6,693,161	5,799,397
	Provision against assets receivable from Government of Bangladesh			
	- Issue Department		-	-
	- Banking Department		763,575	853,375
			763,575	853,375
		29.3.1.1	7,456,736	6,652,772

		2018	2017
29.3.1.1	**Movement of provisions for other doubtful assets**		
	Opening balance	6,652,772	6,911,495
	Charge / (reversal) for the year - net	76,145	16,842
	(Diminution) / appreciation relating to gold reserves held by the Reserve Bank of India	727,819	(275,565)
	Closing balance	7,456,736	6,652,772

29.3.2 This represent provision against Home Remittance amounting to Rs. 260.363 million (2017: Rs. 260.363 million), Specific claims pertaining to provision made against claims under arbitration amounting to Rs. 1,600 million (2017: Rs. 1,600 million) and other provision made in respect of various litigations and claims against the Bank amounting to Rs. 988.34 million (2017: Rs. 988.34 million).

29.4 This includes liability maintained against balances due from Government of Bangladesh amounting to Rs. 778.399 million (2017: Rs. 778.399 million).

		Note	2018	2017
30.	**DEFERRED LIABILITY - STAFF RETIREMENT BENEFITS**		----------(Rupees in '000)----------	
	Unfunded staff retirement benefits			
	Pension		59,531,106	61,733,525
	Gratuity scheme		56,885	46,799
	Post retirement medical benefits		16,440,593	21,789,331
	Benevolent fund scheme		8,489,555	1,602,183
	Six months post retirement facility		616,609	527,426
		44.3.3	85,134,748	85,701,264
	Provident fund scheme		874,695	959,344
			86,009,443	86,660,608
	Funded staff retirement benefits			
	Pension	44.4.2	4,098,377	3,146,267
	Total		90,107,820	89,806,875

31. **SHARE CAPITAL**

2018	2017		2018	2017
-----(Number of shares)-----			--------(Rupees in '000)--------	
Authorised share capital				
1,000,000	1,000,000	Ordinary shares of Rs. 100 each	100,000	100,000
Issued, subscribed and paid-up capital				
1,000,000	1,000,000	Fully paid-up ordinary shares of Rs. 100 each	100,000	100,000

The shares of the Bank are held by the Government of Pakistan and certain Government controlled entities except for 200 shares held by the Central Bank of India (held by Deputy Custodian Enemy Property, Banking Policy and Regulations Department, State Bank of Pakistan) and 500 shares held by the State of Hyderabad.

32. RESERVES

32.1 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.

32.2 Reserve for acquisition of PSPC

The Board of Directors of the Bank in its meeting held on June 29, 2017 approved the creation of a special reserve fund by the name of "The Reserve for Aquisition of PSPC" and appropriated an amount of Rs. 65,464 million from "Reserve Fund" to "The Reserve for Acquisition of PSPC".

32.3 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.

33. UNREALISED APPRECIATION ON GOLD RESERVES HELD BY THE BANK	Note	2018	2017
		(Rupees in '000)	
Opening balance		266,327,601	283,342,601
Appreciation / (diminution) for the year due to revaluation	6	44,986,168	(17,015,000)
		311,313,769	266,327,601

34. CONTINGENCIES AND COMMITMENTS

34.1 Contingencies

34.1.1 State Bank of Pakistan

a) Contingent liability in respect of guarantees given on behalf of:		
Federal Government	14,697,951	16,889,529
Federal Government owned / controlled bodies and authorities	7,552,403	7,103,733
	22,250,354	23,993,262

b) Certain employees of the Bank who had retired under the Early Retirement Incentive Scheme (ERIS) introduced in the year 2000 had filed a case against the Bank in the Federal Services Tribunal (FST) for the enhancement of their entitlement paid under the above scheme amounting to Rs. 157 million approximately. The Tribunal has decided the case in favour of these employees and has directed that the entitlement under the above scheme should include the effect of subsequent increases in certain staff retirement and other benefits. The Bank, in response to the above decision of the Tribunal filed a civil petition for leave to appeal in the Supreme Court of Pakistan. In prior years, the Honorable Bench of the Supreme Court of Pakistan set aside the judgment of FST and allowed employees to avail proper forum. The employees have filed an appeal in the Honorable Lahore High Court, Rawalpindi Bench, the decision of which is pending. The management is confident that the Bank would not have to bear any additional expenditure on this account and, accordingly, no provision has been made in this respect.

c) In addition to these claims, there are several other investigations / lawsuits filed by various parties as a result of the regulatory actions / investigations taken by the Bank in its capacity as regulator and banker to the government, which the Bank is currently contesting in various courts of laws / forums. The management of the Bank, believes that the Bank has reasonable position in respect of these litigations and accordingly no provision for any liability may be needed in the consolidated financial statements.

	Note	2018	2017
		(Rupees in '000)	
d) Other claims against the Bank not acknowledged as debts	34.1.1.1	333,265	353,153

34.1.1.1 These represent various claims filed against the Bank's role as a regulator and certain other cases.

34.1.2 National Institute of Banking and Finance (Guarantee) Limited

The Finance Act 2015 extended the scope of services covered under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (ICTO) and some new services were brought within the purview of sales tax which are detailed in schedule to the ICTO. During the year 2016, the Institute received a notice from the tax department dated January 20, 2016 claiming that the services provided by the Institute fall within the purview of serial numbers 13, 19 and 38 of schedule to the ICTO and accordingly the Institute should get itself registered for sales tax, obtain Sales Tax Registration number (STRN), file returns for six months from July 2015 to December 31, 2015 and settle the outstanding liability in respect of sales tax for those six months. The management believes that the Institute does not fall under the purview of serial numbers 13, 19 and 38 of schedule to the ICTO mainly on the ground that NIBAF is a training institute and is not liable to be registered under sales tax on services. A reply was sent from the Institute's management to the Assistant Commissioner Inland Revenue (ACIR) justifying the non-applicability of serial numbers 13, 19 and 38 of schedule to the ICTO to the Institute. However, the ACIR maintained the tax department's view and ordered the compulsory registration of the Institute with immediate effect through its order dated February 19, 2016.

Moreover, the Institute received a show cause notice on 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:

a) Imposition of sales tax amounting to Rs.13,675,649; and

b) Imposition of a penalty under section 33(1) of the Sales Tax Act, 1990 for non-filing amounting to Rs.35,000 along with default surcharge and penalty under section 33(5) of the Sales Tax Act, 1990.

The Institute challenged the above order passed by the ACIR before the Commissioner Inland Revenue Appeals II (CIRA). However, the matter was decided against the Institute.

The Institute, based on the advice of its legal counsel, is of the view that the Institute has valid grounds and there are fair chances of success before the Honorable Islamabad High Court. Accordingly, no provision has been recognized in these consolidated financial statements.

34.1.3 **Pakistan Security Printing Corporation (Private) Limited**

a) The Corporation is defending certain cases filed by its ex-employees on account of their reinstatement in the Corporation and compensation for loss of their jobs. Management considers that the probability of any significant liability arising from such cases is remote.

b) In the previous years the tax authorities initiated proceedings for amendment of deemed assessments for tax years 2004 to 2009 by issuing notices under sections 122 (5A) read with 122(9) of the Income Tax Ordinance, 2001. The amended orders were passed and certain demands were raised for which the Corporation subsequently filed rectification application as a result of which the demands were rectified to Rs 34.9 million. The Corporation, having paid the aforesaid net demand of Rs 34.9 million, had filed appeals before the Commissioner of Inland Revenue - Appeals (CIR(A)) which were decided against the Corporation. The Corporation, further filed appeal before the Appellate Tribunal Inland Revenue (ATIR) which vide order dated June 29, 2015 partially upheld the action of the Additional Commissioner Inland Revenue for amending the aforesaid assessments.

Further, the Corporation's miscellaneous application before ATIR on the matter of allocation of expenses has been dismissed. A reference before the High Court of Sindh has been filed by the Corporation, the adjudication of which is pending to date. The management, however, is continuing with its view that the net demand will eventually be revoked and the amount paid be refunded / adjusted in favour of the Corporation.

		Note	2018	2017
34.2	**Commitments**		----------(Rupees in '000)----------	
34.2.1	Foreign currency forward and swap contracts - sale		1,112,127,341	935,079,726
34.2.2	Foreign currency forward and swap contracts - purchase		248,969,098	498,678,723
34.2.3	Futures - sale		41,585,759	43,038,829
34.2.4	Futures - purchase		26,130,491	35,430,566
34.2.5	Capital commitments	34.2.5.1	295,241	272,021

34.2.5.1 This represents amounts committed by the Group to purchase assets from successful bidders.

34.2.6	Letter of guarantee / credit		1,617,255	4,701,000

34.2.7 The Bank has a commitment to extend PKR equivalent to CNY 20,000 million to People's Bank of China under bilateral currency swap agreement as disclosed under note 25 to these consolidated financial statements.

34.2.8 The Bank has made commitments to extend advance under ways and means limits to the Provincial Governments of Pakistan, Government of Azad Jammu and Kashmir and Gilgit-Baltistan Administration Authority in the normal course of its operations. The unutilised limits as on June 30, 2018 amounted to Rs. 44,566 million (2017: Rs. 67,325 million).

In case the Governments exceed their respective ways and means limits, the Bank charges a penal rate of 4% over and above the normal rate of return on the amount exceeding the ways and means limit.

35. DISCOUNT, INTEREST / MARK-UP AND / OR PROFIT EARNED	Note	2018	2017
		----------(Rupees in '000)----------	
Discount, interest / mark-up on Government transactions			
- Government securities	35.1	209,210,293	171,399,674
- Federal Government Scrips		82,707	82,769
- Loans and advances to and current accounts of Governments	35.2	802,946	442,256
Securities purchased under agreement to resell		74,134,857	63,193,756
Interest income on preference shares		4,198,938	1,333,659
Return on loans and advances to financial institutions		10,231,755	6,400,591
Foreign currency loan and advance including deposits		11,435,150	9,034,732
Foreign currency securities		11,505,756	8,970,869
Profit on Sukuks purchased under Bai Muajjal agreement		-	11,412
Others		4,443	909
		321,606,845	260,870,627

35.1 This represents income earned on Market Related Treasury Bills, Market Treasury Bills and Pakistan Investment Bonds.

35.2 Interest profile on loans and advances to facilities are as under:	2018	2017
	-----(% per annum)-----	
Mark-up on facility	6.01 to 6.83	5.89 to 6.01
Additional mark-up (where ways and means facility limit is exceeded)	4	4

36. INTEREST / MARK-UP EXPENSE	Note	2018	2017
		----------(Rupees in '000)----------	
Deposits		28,337,573	19,087,345
Securities sold under agreement to repurchase		1,148,589	152,737
Return on Sukuks purchased under Bai Muajjal agreement		1,168,403	1,735,682
Charges on allocation of Special Drawing Rights of the IMF		1,185,141	388,071
Others		2,682	5,009
		31,842,388	21,368,844

37. COMMISSION INCOME	Note	2018	2017
Market Treasury Bills	37.1	2,763,675	1,163,377
Management of public debts	37.1	818,072	959,936
Prize Bonds and National Saving Certificates	37.1	494,238	459,422
Draft / payment orders		7,278	8,408
Others		135	51
		4,083,398	2,591,194

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

38. EXCHANGE (LOSS) / GAIN - NET	Note	2018	2017
		----------(Rupees in '000)----------	
Gain / (loss) on:			
- Foreign Currency placements, deposits, securities and other accounts - net		51,992,338	21,802,161
- Forward covers under Exchange Risk Coverage Scheme		(2,690)	(109)
- IMF Fund Facilities		(109,358,935)	2,642,689
- Special Drawing Rights of the IMF		(14,945,566)	80,160
		(72,314,853)	24,524,901
Others		(2,293)	446
Exchange risk fee income		36,947	44,291
		(72,280,199)	24,569,638

39. SHARE OF PROFIT FROM ASSOCIATES	2018	2017
Security Papers Limited	370,066	14,058
SICPA Inks Pakistan (Private) Limited	321,351	12,138
	691,417	26,196

40. OTHER OPERATING INCOME - NET

	Note	2018	2017
		(Rupees in '000)	
Penalties levied on banks and financial institutions		1,517,846	1,131,474
License / Credit Information Bureau fee recovered		967,216	904,202
Gain / (loss) on sale of investment-net			
Foreign - 'at fair value through profit or loss'		2,310,012	39,949
Gain / (Loss) on restructuring of exposure of Zarai Taraqiati Bank Limited and House Building Finance Company Limited		-	3,311,793
Gain / (Loss) on remeasurement of securities classified as 'fair value through profit or loss'		(3,947,032)	(4,930,365)
Revenue from sale of Prize Bonds to Government of Pakistan		438,075	6,306
Others		11,973	110,996
		1,298,090	574,355

41. OTHER INCOME - NET

	Note	2018	2017
Gain on disposal of property, plant and equipment		13,829	14,340
Liabilities and provisions written back - net		11,351	11,780
Grant income under foreign assistance program		18,090	9,064
Others	41.1	753,256	266,865
		796,526	302,049

41.1 These include service charges at the rate of 0.12% of the total value of re-issueable cash deposited by various banks with SBP Banking Services Corporation field offices and NBP chest branches.

42. COST OF PRINTING BANK NOTES AND PRIZE BONDS

	Note	2018	2017
		(Rupees in '000)	
Raw material			
Opening stock		1,144,470	674,552
Purchases including in transit		7,787,202	669,498
Closing stock		(1,025,080)	(1,144,470)
		7,906,592	199,580
Salaries, wages and benefits	42.1	1,226,762	53,783
Stores and spares		344,812	5,624
Fuel and power		98,820	5,069
Insurance		6,497	402
Transportation		1,617	66
Rent, rates and taxes		27,048	881
Depreciation	18.4	72,378	4,667
Provision for obsolete stores and spares - net		4,072	-
Stock-in-trade - net		809	-
Repairs and maintenance		40,680	2,585
Amortisation		88	5
		1,823,583	73,082
Manufacturing cost		9,730,175	272,662
Opening work-in-process		746,330	931,478
Closing work-in-process		(1,344,144)	(746,330)
		(597,814)	185,148
Cost of goods manufactured		9,132,361	457,810
Opening stock of finished goods		234,216	182,913
Closing stock of finished goods		(4,359)	(234,216)
		229,857	(51,303)
Cost of finished goods purchased	42.2	-	8,721,464
		9,362,218	9,127,971

42.1 Salaries, wages and benefits include Rs 287.542 million (2017: Rs 12.862 million) in respect of staff pension.

42.2 This represents bank notes printing charges paid to PSPC until June 13, 2017 at agreed rates under specific arrangements. PSPC became part of the Group consequent to its acquistion by the Bank effective June 14, 2017.

43. AGENCY COMMISSION

Agency commission is mainly payable to National Bank of Pakistan (NBP) under an agreement for providing banking services to Federal and Provincial Governments as an agent of the Bank. Furthermore, a small portion of the agency commission also pertains to Bank of Punjab (BOP), which was appointed as agent of the Bank, to collect Government of Punjab's taxes and receipts.

44. GENERAL ADMINISTRATIVE AND OTHER EXPENSES

	Note	2018	2017
		---------(Rupees in '000)-------	
Salaries and other benefits		10,969,888	9,379,672
Retirement benefits and employees' compensated absences	44.1	9,742,967	7,691,921
Contribution to Employee Staff Welfare Fund		116,898	-
Rent and taxes		119,409	55,481
Insurance		72,609	49,958
Electricity, gas and water		436,231	399,577
Depreciation	18.1	2,421,512	2,273,363
Amortisation of intangible assets	19	35,590	3,231
Repairs and maintenance		746,948	647,007
Directors' fee		1,172	-
Auditors' remuneration	44.2	17,868	14,337
Legal and professional		46,423	53,536
Fund managers / custodian expenses		553,592	475,909
Travelling expenses		676,197	543,492
Daily expenses		127,298	106,964
Fuel		78,576	43,876
Conveyance		26,572	24,647
Postages, telegram / telex and telephone		199,935	228,128
Training		121,030	122,700
Stationery		32,309	23,881
Remittance of treasure		147,329	132,836
Books and newspapers		36,414	37,289
Memorial chair		17,461	-
Advertisement		57,831	48,554
Uniforms		33,934	36,345
Others		867,668	548,245
		27,703,661	22,941,749

44.1 This includes an amount relating to defined contribution plan aggregating Rs. 347.887 million (2017: Rs. 238.396 million).

44.2 Auditors' remuneration

	2018			2017		
	EY Ford Rhodes	KPMG	Total	EY Ford Rhodes	A. F. Ferguson & Co.	Total
	---------- (Rupees in '000) ----------					
State Bank of Pakistan						
Audit fee	3,300	3,300	6,600	3,000	3,000	6,000
Out of pocket expenses	550	550	1,100	500	500	1,000
	3,850	3,850	7,700	3,500	3,500	7,000
SBP Banking Services Corporation						
Audit fee	2,750	2,750	5,500	2,500	2,500	5,000
Out of pocket expenses	1,100	1,100	2,200	1,000	1,000	2,000
	3,850	3,850	7,700	3,500	3,500	7,000
National Institute of Banking and Finance						
Audit fee	-	275	275	-	225	225
Out of pocket expenses	-	30	45	-	63	63
	-	305	320	-	288	288
		A. F. Ferguson &	Total			
Pakistan Security Printing Corporation						
Audit fee	-	1,953	1,953	-	49	49
Out of pocket expenses	-	195	195	-	-	-
	-	2,148	2,148	-	49	49
	7,700	10,153	17,868	7,000	7,337	14,337

44.3 Staff retirement benefits-unfunded (State Bank of Pakistan and SBP Banking Services Corporation)

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

	2018	2017
- Discount rate for year end obligation	9.00% p.a.	7.75% p.a.
- Salary increase rate (where applicable)	10.00% p.a.	8.75% p.a.
- Pension indexation rate (where applicable)	7.5% p.a.	5.25% p.a.
- Medical cost increase rate	9.00% p.a.	7.75% p.a.
- Petrol price increase rate (where applicable)	10.00% p.a.	8.75% p.a.
- Personnel turnover		
SBP	9.5% p.a.	4.8% p.a.
SBP-BSC	18.00% p.a.	9.2% 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.

44.3.2 Through its Unfunded defined benefit plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

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

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

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

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

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

44.3.3 Change in present value of defined benefit obligation

	2018					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	(Rupees in '000)					
Present value of defined benefit obligation as on July 1, 2017	61,733,525	48,799	21,789,331	1,602,183	527,426	85,701,264
Current service cost	1,041,580	6,624	480,431	6,287	36,728	1,571,670
Interest cost on defined benefit obligation	4,378,743	3,842	1,657,685	121,862	40,166	6,201,268
Benefits paid	(10,467,215)	(3,800)	(800,212)	(80,451)	(16,305)	(11,369,783)
Liability transferred to SBP - BSC	-	-	-	-	-	-
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(96,592)	-	(96,592)
Experience adjustments	2,844,464	1,420	476,992	(226,538)	30,583	3,126,921
Present value of defined benefit obligation as on June 30, 2018	59,531,106	56,885	23,604,207	1,335,941	616,609	85,134,748

	2017					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	(Rupees in '000)					
Present value of defined benefit obligation as on July 1, 2016	58,018,505	41,822	21,135,663	1,755,433	480,307	81,431,840
Current service cost	1,107,980	5,809	371,176	6,432	33,884	1,525,373
Interest cost on defined benefit obligation	4,003,135	3,052	1,500,117	119,954	34,158	5,660,396
Benefits paid	(5,606,702)	-	(888,841)	(201,804)	(16,483)	(6,714,830)
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	3,011,570	-	388,832	(45,471)	8,593	3,363,524
Experience adjustments	1,197,937	(1,864)	(717,636)	(32,361)	(11,123)	434,881
Present value of defined benefit obligation as on June 30, 2017	61,733,525	48,799	21,789,331	1,602,183	527,426	85,701,264

44.3.4 Remeasurements recognised in consolidated statement of comprehensive income

	2018					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	(Rupees in '000)					
- Actuarial gains / (losses) from changes in financial assumptions	-	-	-	96,592	-	96,592
- Experience adjustments	(2,844,464)	(1,420)	(476,992)	226,538	(30,583)	(3,126,921)
	(2,844,464)	(1,420)	(476,992)	323,130	(30,583)	(3,030,329)

	2017					
	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	(3,011,570)	-	(388,832)	45,471	(8,593)	(3,363,524)
- Experience adjustments	(1,197,937)	1,864	717,636	32,361	11,123	(434,881)
	(4,209,507)	1,864	328,804	77,832	2,530	(3,798,405)

[signature] [signature]

44.3.5 Amount recognised in the consolidated profit and loss account

	2018					
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	----------(Rupees in '000)----------					
Current service cost	1,041,589	5,624	480,431	6,287	36,739	1,571,670
Interest cost on defined benefit obligation	4,378,743	3,642	1,657,665	121,052	40,166	6,201,268
Contribution made by employees	-	-	-	(11,561)	-	(11,561)
	5,420,332	10,266	2,138,096	115,778	74,905	7,761,377

	2017					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	----------(Rupees in '000)----------					
Current service cost	1,107,980	5,800	371,178	6,432	33,884	1,525,373
Interest cost on defined benefit obligation	4,003,135	3,032	1,500,117	110,954	34,158	[illegible]
Contribution made by employees	-	-	-	(19,326)	-	(19,326)
	5,111,115	8,931	1,871,295	107,060	68,042	7,166,443

44.3.6 Movement of present value of defined benefit obligation

	2018					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	----------(Rupees in '000)----------					
Net recognised liabilities at July 1, 2017	61,733,525	48,799	21,789,331	1,602,103	527,426	85,701,264
Amount recognised in the consolidated profit and loss account	5,420,332	10,266	2,138,096	115,778	76,905	7,761,377
Remeasurements	2,844,464	1,420	476,692	(323,130)	30,583	3,030,329
Benefits paid during the year	(10,467,215)	(3,600)	(800,212)	(80,401)	(18,305)	(11,369,733)
Employees contribution	-	-	-	11,561	-	11,561
Net recognised liabilities at June 30, 2018	59,531,106	56,885	23,604,207	1,325,941	616,609	85,134,748

	2017					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	----------(Rupees in '000)----------					
Net recognised liabilities at July 1, 2016	58,018,505	41,822	21,135,083	1,756,433	480,397	81,431,840
Amount recognised in the consolidated profit and loss account	5,111,115	8,931	1,871,295	107,060	68,042	7,166,443
Remeasurements	4,209,607	(1,954)	(328,806)	(77,832)	(2,530)	3,798,485
Benefits paid during the year	(5,605,702)	-	(888,841)	(201,804)	(18,483)	(6,714,830)
Employees contribution	-	-	-	19,326	-	19,326
Net recognised liabilities at June 30, 2017	61,733,525	48,799	21,789,331	1,602,102	527,426	85,701,264

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
		------(Rupees in '000)------	
Pension			
Discount rate	1%	(1,711,928)	1,940,870
Salary increase rate	1%	410,145	(395,889)
Pension increase rate	1%	1,000,541	(1,342,561)
Expected mortality rates	1 Year	(542,488)	589,294
Gratuity			
Discount rate	1%	(10,704)	12,475
Salary increase rate	1%	12,308	(10,704)
Post retirement medical benefit			
Discount rate	1%	(926,911)	1,179,431
Salary increase	1%	51,505	(46,220)
Post-retirement medical cost increase rate	1%	1,176,702	(938,506)
Expected mortality rates	1 Year	(172,950)	167,305
Benevolent			
Discount rate	1%	(24,829)	28,131
Six months post retirement benefit			
Discount rate	1%	(43,114)	49,390
Salary / petrol price increase rate	1%	49,090	(43,892)

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

44.3.8 Duration of defined benefit obligation

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits
The weighted average duration of the defined benefit obligation is	8 Years	5-16 Years	14-17 Years	5-7 Years	6-8 Years

44.3.9 Estimated expenses to be charged to consolidated profit and loss account for the year ending June 30, 2019

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2019 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	1,030,729	5,972	485,635	6,034	42,101	1,570,471
Interest cost on defined benefit obligation	4,715,124	4,981	1,783,694	125,766	53,116	6,682,581
Amount chargeable to the consolidated profit and loss account	5,745,853	10,953	2,269,329	131,800	95,217	8,253,052

44.4 Staff retirement benefits-funded (PSPC)

44.4.1 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:

	2018	2017
- Discount rate	10.00% p.a	9.25% p.a
- Salary increase rate	10.00% p.a	9.25% p.a
- Pension increase rate	6.00% p.a	5.25% 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.

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

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The fund believes that due to long-term nature of the plan liabilities and the strength of the Corporation's support, the current investment strategy manages this risk adequately.

Inflation risk

The majority of the plan's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. However, the fund manages plan assets to off set inflationary impacts.

Life expectancy / withdrawal rate

The majority of the plan's obligations are to provide benefits on severance with the Corporation or on achieving retirement. Any change in life expectancy / withdrawal rate would impact plan liabilities.

44.4.3 Amounts recognised in the consolidated balance sheet are determined as follows:

	2018	2017
	--------(Rupees in '000)	--------
Present value of defined benefit obligation	5,788,238	4,957,302
Fair value of plan assets	(1,689,861)	(1,811,035)
	4,098,377	3,146,267

44.4.4 **Movement of present value of defined benefit obligation and fair value of plan assets**

	2018	2017
	(Rupees in '000)	
Present value as at July 1, 2017	4,957,302	6,005,357
Discontinued operations	-	(1,674,196)
Employees transferred to NSPC	-	124,014
Current service cost	58,305	57,250
Interest cost of defined benefit obligation	448,191	495,342
Benefits paid during the year	(223,980)	(276,492)
Past service cost	-	-
Actuarial remeasurement loss	548,420	226,027
Present value as at June 30, 2018	5,788,238	4,957,302
Movement in fair value of plan assets		
Fair value as at July 1, 2017	1,811,035	2,383,162
Discontinued operations	-	(635,706)
Employees transferred from NSPC	-	57,934
Expected return on plan assets	160,716	192,810
Contribution made by employer	76,844	83,163
Benefits paid during the year	(223,980)	(276,492)
Actuarial remeasurement (loss) / gain	(134,754)	6,154
Fair value as at June 30, 2018	1,689,861	1,811,035

44.4.5 Plan assets consist of the following:

	2018 (Rupees in '000)	2018 %	2017 (Rupees in '000)	2017 %
Equity instruments	582,186	26.12	721,954	30.22
Debt instruments	700,260	31.41	679,101	28.42
Cash and cash equivalent	946,867	42.47	988,115	41.36
	2,229,313	100.00	2,389,170	100.00
Less: Pertaining to NSPC (being the multi employer fund)	539,452		578,135	
	1,689,861		1,811,035	

44.4.6 Amount recognised in the consolidated profit and loss account

	2018	2017
Current service cost	58,305	2,666
Net interest cost on defined benefit obligation	287,475	14,089
	345,780	16,755

44.4.7 **Amount recognised in consolidated other comprehensive income**

	2018	2017
Remeasurement (loss) / gain on obligation		
Actuarial (losses) / gains from changes in financial assumptions	(548,420)	(10,527)
Remeasurement (loss) / gain on plan assets		
Actual net loss on plan assets	(134,754)	(287)
	(683,174)	(10,814)

44.4.8 **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%	(614,172)	746,291
Salary growth rate	1%	207,563	(191,040)
Pension indexation rate	1%	553,893	(470,382)

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

44.4.9 **Duration of defined benefit obligation**

	Pension
The weighted average duration of the defined benefit obligation is	13 Years

44.4.10 Estimated expenses to be charged to consolidated profit and loss account for the year ending June 30, 2019

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2019 would be as follows:

	Pension	
	2018	2017
	(Rupees in '000)	
Amount chargeable to the consolidated profit and loss account	474,234	343,032

44.5 Employees' compensated absences

The Group's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 6,990.016 million (2017: Rs. 7,098.384 million). An amount of Rs. 1,626.349 million (2017: Rs. 281.365 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, 2019 would be Rs 1,077.942 million. The benefits paid during the year amounted to Rs 1,734.717 million (2017: Rs 658.791 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 423.400 million and Rs. 486.945 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 499.455 million and Rs. 444.068 million respectively and the net liability would also be affected by the same amount. The weighted average durations of the liability against employees' compensated absences for the Bank and the Corporation are 9 years and 4 years respectively.

	Note	2018	2017
45. TAXATION		(Rupees in '000)	
Current - for the year		905,828	4,602
- prior year		12,585	-
Deferred		129,702	812
		1,048,115	5,414
46. PROFIT FOR THE YEAR AFTER NON-CASH AND OTHER ITEMS			
Profit before taxation		176,720,766	238,069,011
Adjustments for:			
Depreciation	18	2,495,402	2,273,363
Amortisation of intangible assets	19	35,678	3,231
Provision / (reversal) for:			
- retirement benefits and employees' compensated absences	44	9,742,967	7,691,921
- loans and advances		(22)	(6,139)
- diminution in value of investments - local - net		(39,475)	-
- other doubtful assets		76,145	16,842
Gain on restructuring of exposure of Zarai Taraqiati Bank Limited (ZTBL) and House Building Finance Company Limited (HBFCL)		-	(3,311,793)
Gain on disposal of property, plant and equipment		(13,829)	(14,340)
Share of profit from associate		(691,417)	(26,196)
Dividend income		(415,000)	(12,248,843)
Effect of exchange gain on cash and cash equivalents		111,510,273	1,687,144
		299,421,488	234,134,201
47. CASH AND CASH EQUIVALENTS			
Cash and bank balances	5	586,651	2,190,657
Local currency - coins	7	989,497	861,860
Foreign currency accounts and investments	8	991,942,236	1,444,739,189
Earmarked foreign currency balances	9	12,277,462	10,319,532
Special Drawing Rights of the IMF	10	59,272,776	63,657,319
		1,065,068,622	1,521,768,557

48. RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties in its normal course of business. Related parties include the Federal Government as major shareholder of the Group, Provincial Governments, Government of Azad Jammu and Kashmir, Gilgit-Baltistan Administration Authority, Government controlled enterprises / entities, retirement benefit plans, directors and key management personnel of the Group.

48.1 Governments and related entities

The Group is acting as an agent of the Federal Government and is responsible for functions conferred upon as disclosed in note 1 to these consolidated financial statements. Balances outstanding from and transaction with the Federal and Provincial Governments and related entities not disclosed elsewhere in the consolidated financial statements are given below:

Transactions during the year	2018	2017
	-----------(Rupees in '000)---------	
- Creation of MRTBs	9,118,640,000	6,250,800,000
- Retirement / rollover of MRTBs	7,993,340,000	5,799,530,000
- Outstanding foreign currency swap contracts	-	89,778,296

- Commission income from sale of Market Treasury Bills, issuance of Prize Bonds, National Saving Certificates and management of public debt (refer note 37).

48.2 Remuneration to key management personnel

Key management personnel of the Group include members of the Board of Directors of the Bank, Governor of the Bank, Deputy Governors of the Bank and other executives of the Group who have responsibility for planning, directing and controlling the activities of the Group. Fee of the non-executive members of the Board of Directors is determined by the Board. According to section 10 of the State Bank of Pakistan Act, 1956, the remuneration of the Governor is determined by the President of Pakistan. Deputy Governors are appointed and their salaries are fixed by the Federal Government. Details of remuneration of key management personnel of the Group are as follows:

	2018	2017
	-----------(Rupees in '000)---------	
Short-term employee benefit	699,178	453,614
Post-employment benefit	146,447	56,169
Loans disbursed during the year	149,451	60,458
Loans repaid during the year	141,584	77,397
Directors' fees	15,047	13,584
Number of key management personnel	88	37

Short-term benefits include salary and benefits, medical benefits and free use of Group maintained cars in accordance with their entitlements. Post employment benefits include gratuity, pension, benevolent fund, post retirement medical benefits, six months post retirement facility and contributory provident fund.

49. 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 49.1 to 49.10 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.

49.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Group's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled Banks and financial institutions are usually secured either by Government guarantees or by demand promissory notes. Equity exposures based on their nature are not exposed to credit risk. Geographical exposures are controlled by country limits and are updated as and when necessary with all limits formally reviewed on a periodic basis. The Group's exposure to credit risk associated with foreign investments is managed by monitoring compliance with investment limits for counterparties. The Group's credit risk mainly lies with exposure towards government sector and financial institutions.

49.2 Concentrations of risk

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

49.2.1 Geographical analysis

	2018						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(Rupees in '000)						
Financial assets							
Cash and bank balances held by subsidiaries	586,651	-	-	-	-	-	586,651
Local currency - coins	989,497	-	-	-	-	-	989,497
Foreign currency accounts and investments	28,158,826	452,796,130	705,297,405	97,016,940	15,639,892	34,011,088	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	-	-	12,277,462
Special Drawing Rights of the International Monetary	-	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	20,362	-	-	-	20,362
Securities purchased under agreement to resell	1,562,309,789	-	-	-	-	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	-	33,104,114
Investments - local	3,824,128,547	-	-	-	-	-	3,824,128,547
Loans, advances and bills of exchange	453,176,066	324,382	-	-	-	-	453,500,448
Assets held with the Reserve Bank of India	-	1,550,321	-	-	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	-	10,674,303	-	-	-	-	10,674,303
Other assets	2,743,075	571	93,552	288	-	-	2,837,486
Total financial assets	5,917,474,027	465,345,713	764,684,095	97,017,228	15,639,892	34,011,088	7,295,072,043

	2017						
	Pakistan	Asia (other than Pakistan)	America	Europe	Australia	Others	Grand Total
	(Rupees in '000)						
Financial assets							
Cash and bank balances held by subsidiaries	2,190,657	-	-	-	-	-	2,190,657
Local currency - coins	861,860	-	-	-	-	-	861,860
Foreign currency accounts and investments	23,961,146	453,088,974	652,637,412	560,768,972	48,490,151	43,586,533	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	-	-	10,319,532
Special Drawing Rights of the International Monetary	-	-	63,657,319	-	-	-	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	17,382	-	-	-	17,382
Securities purchased under agreement to resell	1,533,373,313	-	-	-	-	-	1,533,373,313
Current accounts of Governments	36,797,935	-	-	-	-	-	36,797,935
Investments - local	2,694,286,076	-	-	-	-	-	2,694,286,076
Loans, advances and bills of exchange	362,286,041	417,749	-	-	-	-	362,702,790
Assets held with the Reserve Bank of India	-	1,384,376	-	-	-	-	1,384,376
Balances due from the Governments of India and Bangladesh	-	9,917,256	-	-	-	-	9,917,256
Other assets	2,677,144	743,347	117,504	559,715	2,307	-	4,100,017
Total financial assets	4,666,753,704	465,551,702	716,429,617	561,328,687	48,498,458	43,586,533	6,502,148,701

The geographical analyses is based on composition of financial assets in the specific continents other than for Pakistan which has been disclosed separately. All continents having significant composition have been presented separately while the remaining have been clubbed under "Others".

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49.2.2 Industrial analysis

	2018					
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	Grand Total
	(Rupees in '000)					
Financial assets						
Cash and bank balances held by subsidiaries	15,745	-	-	573,906	-	589,651
Local currency - coins	969,497	-	-	-	-	969,497
Foreign currency accounts and investments	1,188,726,580	34,767,681	4,246,075	86,719,501	19,360,450	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	-	12,277,462
Special Drawing Rights of the International Monetary Fund Monetary Fund	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	-	20,362	-	-	-	20,362
Securities purchased under agreement to resell	-	-	-	1,562,309,789		1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	-	33,104,114
Investments - local	3,725,288,491	-	87,466,618	11,373,438	-	3,824,128,547
Loans, advances and bills of exchange	14,453,450	-	42,364,420	376,606,894	20,075,684	453,500,448
Assets held with the Reserve Bank of India	1,550,321	-	-	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	10,674,303	-	-	-	-	10,674,303
Other assets	1,470,185	93,254	387,324	1,158	885,566	2,837,487
Total financial assets	4,986,550,148	94,154,073	134,464,437	2,037,581,686	40,321,700	7,295,072,044

	2017					
	Sovereign	Supranational	Public Sector Entities	Banks & Financial Institutions	Others	Grand Total
	(Rupees in '000)					
Financial assets						
Cash and bank balances held by subsidiaries	6,496	-	-	2,184,161	-	2,190,657
Local currency - coins	861,860	-	-	-	-	861,860
Foreign currency accounts and investments	831,724,378	213,375,369	2,494,010	718,737,738	16,207,693	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	-	10,319,532
Special Drawing Rights of the International Monetary Fund Monetary Fund	-	63,657,319	-	-	-	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	-	17,382	-	-	-	17,382
Securities purchased under agreement to resell	-	-	-	1,533,373,313	-	1,533,373,313
Current accounts of Governments	36,797,935	-	-	-	-	36,797,935
Investments - local	2,522,321,316	-	160,249,170	11,715,590	-	2,694,286,076
Loans, advances and bills of exchange	13,340,783	-	32,990,934	296,890,086	19,481,987	362,703,790
Assets held with the Reserve Bank of India	1,384,376	-	-	-	-	1,384,376
Balances due from the Governments of India and Bangladesh	9,917,256	-	-	-	-	9,917,256
Other assets	1,944,622	252,614	267,856	1,222,763	512,162	4,100,017
Total financial assets	3,428,618,554	277,302,884	196,001,970	2,564,123,851	36,201,842	6,502,148,701

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49.3 Credit exposure by credit rating

The credit quality of financial assets is managed by the Group using external credit ratings. The table below shows the credit quality by class of assets for all financial assets that are neither past due nor impaired as at the reporting date and are exposed to credit risk, based on the rating of external rating agencies. The Group uses lower of the credit rating of Moody's, Standard & Poor's and Fitch to categorise its financial assets in foreign currency accounts and investments. For domestic financial assets, credit ratings of JCR-VIS and PACRA are used.

	2018							
	Sovereign (49.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in '000)							
Financial assets								
Cash and bank balances held by subsidiaries	586,651	-	-	-	-	-	-	586,651
Local currency - coins	989,497	-	-	-	-	-	-	989,497
Foreign currency accounts and investments	823,876	79,368,748	728,307,790	474,999,234	18,181,159	20,030,906	6,510,772	1,333,820,287
Earmarked foreign currency balances	12,277,482	-	-	-	-	-	-	12,277,482
Special Drawing Rights of the International Monetary Fund	-	-	-	-	-	-	59,272,778	59,272,778
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	20,362	20,362
Securities purchased under agreement to resell	-	-	-	1,590,763,664	1,546,125	-	-	1,592,309,789
Current accounts of Governments	33,104,114	-	-	-	-	-	-	33,104,114
Investments - local	3,725,288,492	-	22,000	6,100,000	-	-	-	3,731,410,492
Loans, advances and bills of exchange	14,453,450	65,105,010	58,032,186	294,003,469	-	15,478	21,890,875	453,500,448
Assets held with the Reserve Bank of India	-	-	-	-	1,550,321	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	10,633,850		10,674,303
Other assets	1,808,263	-	-	1,158	-	-	1,028,066	2,837,487
Total financial assets	3,789,431,605	144,371,758	783,361,956	2,335,487,525	22,318,058	30,680,236	88,722,851	7,202,353,989

	2017							
	Sovereign (49.3.1)	AAA	AA	A	BBB	Lower than BBB	Unrated	Grand Total
	(Rupees in '000)							
Financial assets								
Cash and bank balances held by subsidiaries	-	-	-	2,184,181	-	-	6,496	2,190,657
Local currency - coins	861,860	-	-	-	-	-	-	861,860
Foreign currency accounts and investments	2,818,137	327,909,180	790,607,846	646,065,902	12,838,602	-	2,281,921	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	-	-	-	10,319,532
Special Drawing Rights of the International Monetary Fund	-	-	-	-	-	-	63,657,319	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	-	-	-	17,382	17,382
Securities purchased under agreement to resell	-	-	-	1,532,117,092	-	1,256,321	-	1,533,373,313
Current accounts of Governments	36,797,935	-	-	-	-	-	-	36,797,935
Investments - local	2,576,481,684	-	-	4,207,070	-	-	1,608,250	2,584,297,004
Loans, advances and bills of exchange	13,340,763	106,832,276	204,791,880	17,816,145	-	23,000	19,899,736	362,703,790
Assets held with the Reserve Bank of India	-	-	-	-	1,384,376	-	-	1,384,376
Balances due from the Governments of India and Bangladesh	-	-	-	-	40,453	9,876,803	-	9,917,256
Other assets	1,044,622	260,784	224,919	989,481	21,250	-	838,981	4,100,017
Total financial assets	2,042,464,533	435,002,220	995,624,615	2,205,300,351	14,282,681	11,155,124	88,311,086	6,392,160,608

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

49.3.2 The collateral held as security against financial assets to cover the credit risk are disclosed in the respective notes.

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

	Gross Amount		Impairment Provision	
	2018	2017	2018	2017
	(Rupees in '000)			
Available for sale investment - unlisted	2,392,284	2,431,758	817,388	856,863
Loans and advances - agriculture sector	12,321	18,587	12,321	18,587
Loans and advances - industrial sector	1,054,285	1,054,285	1,054,285	1,054,285
Loans and advances - others	1,063,630	15,128,905	1,063,630	4,275,563
Assets held with the Reserve Bank of India	1,550,321	1,384,376	1,550,321	1,384,376
Balances due from the Governments of India and Bangladesh (including loans recoverable from financial institutions operating in Bangladesh)	11,002,252	10,340,535	11,002,252	10,340,535

49.5 Liquidity analysis with interest / mark-up rate risk

49.5.1 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.

	2018						
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	Grand total
	(Rupees in '000)						
Financial assets							
Non-derivative assets							
Cash and bank balances held by subsidiaries	542,370	-	542,370	44,281	-	44,281	586,651
Local currency - coins	-	-	-	989,497	-	989,497	989,497
Foreign currency accounts and investments	1,032,575,912	262,325,274	1,294,901,186	36,037,562	795,790	36,833,352	1,331,734,538
Earmarked foreign currency balances	-	-	-	12,277,462	-	12,277,462	12,277,462
Special Drawing Rights of the International Monetary Fund	59,272,776	-	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	20,362	-	20,362	20,362
Securities purchased under agreement to resell	1,561,748,056	-	1,561,748,056	561,733	-	561,733	1,562,309,789
Current accounts of Governments*	33,104,114	-	33,104,114	-	-	-	33,104,114
Investments - local	3,600,442,640	57,014,671	3,657,457,311	75,281,444	91,389,793	166,671,237	3,824,128,548
Loans, advances and bills of exchange	289,840,471	115,604,475	405,444,946	33,878,755	14,176,746	48,055,501	453,500,448
Assets held with the Reserve Bank of India	-	-	-	1,550,321	-	1,550,321	1,550,321
Balances due from the Governments of India and Bangladesh	9,813,926	-	9,813,926	860,377	-	860,377	10,674,303
Other assets	-	-	-	2,836,442	1,044	2,837,486	2,837,486
	6,587,340,285	434,944,420	7,022,284,605	164,338,235	106,363,373	270,701,610	7,292,986,215
Derivative assets							
Foreign currency accounts and investments	-	-	-	2,085,749	-	2,085,749	2,085,749
	-	-	-	2,085,749	-	2,085,749	2,085,749
Grand total	6,587,340,285	434,944,420	7,022,284,605	166,423,984	106,363,373	272,787,359	7,295,072,044
Financial liabilities							
Non-derivative liabilities							
Bank notes in circulation	-	-	-	4,635,146,711	-	4,635,146,711	4,635,146,711
Bills payable	-	-	-	644,452	-	644,452	644,452
Current accounts of the Government *	89,828,633	-	89,828,633	-	-	-	89,828,633
Payable to Islamic Banking Institutions against Bai Muajjal transactions	-	-	-	-	-	-	-
Payable under bilateral currency swaps agreements	367,252,000	-	367,252,000	3,157,071	-	3,157,071	370,409,071
Deposits of banks and financial institutions	-	-	-	813,948,915	-	813,948,915	813,948,915
Other deposits and accounts	112,523,260	-	112,523,260	87,904,941	-	87,904,941	200,428,201
Payable to International Monetary Fund	214,993,928	694,592,843	909,586,771	2,998,260	-	2,998,260	912,585,031
Other liabilities	11,302	29,516	40,818	27,287,881	-	27,287,881	27,328,699
	784,609,123	694,622,359	1,479,231,482	5,571,088,231	-	5,571,088,231	7,050,319,713
Derivative liabilities							
Other liabilities	-	-	-	27,277,082	-	27,277,082	27,277,082
Grand total	784,609,123	694,622,359	1,479,231,482	5,598,365,313	-	5,598,365,313	7,077,596,795
On balance sheet gap (a)	5,802,731,142	(259,677,939)	5,543,053,203	(5,431,941,329)	106,363,373	(5,325,577,954)	217,475,249
Foreign currency forward and swap contracts - sale	-	-	-	(1,112,127,341)	-	(1,112,127,341)	(1,112,127,341)
Foreign currency forward and swap contracts - purchase	-	-	-	248,969,098	-	248,969,098	248,969,098
Futures - sale	-	-	-	(41,585,759)	-	(41,585,759)	(41,585,759)
Futures - purchase	-	-	-	26,130,491	-	26,130,491	26,130,491
Capital commitments	-	-	-	(295,241)	-	(295,241)	(295,241)
Off balance sheet gap	-	-	-	(878,908,752)	-	(878,908,752)	(878,908,752)
Total yield / interest risk sensitivity gap	5,802,731,142	(259,677,939)	5,543,053,203	(4,553,032,577)	106,363,373	(4,446,669,203)	1,096,384,006
Cumulative yield / interest risk sensitivity gap	5,802,731,142	5,543,053,203	11,085,106,406	6,533,073,829	6,639,437,203	2,192,768,000	2,192,768,001
Contingent liabilities in respect of guarantees given	-	-	-	1,413,195	20,837,159	22,250,354	22,250,354

(a) On balance sheet gap represents the net amounts of on-balance sheet items.

* The 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.

	2017						
	Interest / mark-up bearing			Non interest / mark-up bearing			
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	Grand total
	(Rupees in '000)						
Financial assets							
Non-derivative assets							
Cash and bank balances held by subsidiaries	1,231,312	-	1,231,312	959,345	-	959,345	2,190,657
Local currency - coins	-	-	-	881,890	-	881,890	881,890
Foreign currency accounts and investments	1,500,549,874	250,388,472	1,750,938,346	22,232,615	679,640	22,912,255	1,773,850,601
Earmarked foreign currency balances	-	-	-	10,319,532	-	10,319,532	10,319,532
Special Drawing Rights of the International Monetary Fund	83,657,319	-	83,657,319	-	-	-	83,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	-	-	-	17,382	-	17,382	17,382
Securities purchased under agreement to resell	1,533,129,822	-	1,533,129,822	243,491	-	243,491	1,533,373,313
Current accounts of Governments*	37,093,793	-	37,093,793	(295,858)	-	(295,858)	36,797,935
Investments - local	2,475,250,955	56,900,348	2,532,151,303	151,935,151	10,199,622	162,134,773	2,694,286,076
Loans, advances and bills of exchange	244,351,283	83,664,077	328,015,360	18,150,023	16,536,407	34,686,430	362,703,790
Assets held with the Reserve Bank of India	-	-	-	1,384,376	-	1,384,376	1,384,376
Balances due from the Governments of India and Bangladesh	9,056,879	-	9,056,879	860,377	-	860,377	9,917,256
Other assets	-	-	-	3,593,890	1,081	3,594,941	3,594,941
	5,870,321,237	390,952,897	6,261,274,134	210,262,144	27,418,760	237,680,904	6,498,955,038
Derivative assets							
Foreign currency accounts and investments	-	44,081	44,081	2,644,506	-	2,644,506	2,688,587
Other assets	-	-	-	505,076	-	505,076	505,076
	-	44,081	44,081	3,149,582	-	3,149,582	3,193,663
Grand total	5,870,321,237	390,996,978	6,261,318,215	213,411,726	27,418,760	240,830,486	6,502,148,701
Financial liabilities							
Bank notes in circulation	-	-	-	4,167,135,807	-	4,167,135,807	4,167,135,807
Bills payable	-	-	-	830,547	-	830,547	830,547
Current accounts of the Government *	208,120,653	-	208,120,653	-	-	-	208,120,653
Payable to Islamic Banking Institutions against Bai Muajjal transactions	25,098,651	-	25,098,651	38,579	-	38,579	25,137,230
Payable under bilateral currency swaps agreements	154,669,000	-	154,669,000	881,410	-	881,410	155,550,410
Deposits of banks and financial institutions	96,686,622	-	96,686,622	572,650,917	-	572,650,917	669,337,539
Other deposits and accounts	85,509,474	-	85,509,474	79,085,600	-	79,085,600	164,595,074
Payable to International Monetary Fund	144,192,970	622,436,124	766,629,094	20,752,172	-	20,752,172	787,381,266
Other liabilities	5,160	11,674	16,834	31,344,852	-	31,344,852	31,361,686
	714,372,530	622,447,798	1,336,820,328	4,872,499,884	-	4,872,499,884	6,209,320,212
On balance sheet gap (a)	5,155,948,707	(231,450,820)	4,924,497,887	(4,659,088,158)	27,418,760	(4,631,669,398)	292,828,489
Foreign currency forward and swap contracts - sale	-	-	-	(1,084,484,958)	-	(1,084,484,958)	(1,084,484,958)
Foreign currency forward and swap contracts - purchase	-	-	-	250,807,909	-	250,807,909	250,807,909
Futures - sale	-	-	-	(41,585,759)	-	(41,585,759)	(41,585,759)
Futures - purchase	-	-	-	26,130,491	-	26,130,491	26,130,491
Capital commitments	-	-	-	(295,241)	-	(295,241)	(295,241)
Off balance sheet gap	-	-	-	(849,427,558)	-	(849,427,558)	(849,427,558)
Total yield / interest risk sensitivity gap	5,155,948,707	(231,450,820)	4,924,497,887	(3,809,660,600)	27,418,760	(3,782,241,840)	1,142,256,047
Cumulative yield / interest risk sensitivity gap	5,155,948,707	4,924,497,887	9,848,995,774	6,039,335,174	6,066,753,934	2,284,512,093	2,284,512,093
Contingent liabilities in respect of guarantees given	-	-	-	3,382,284	20,608,998	23,991,282	23,991,282

(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 those balances are in debit.

49.5.2 The effective interest / mark-up rate for the monetary financial assets and liabilities are mentioned in their respective notes to the consolidated financial statements.

49.6 Interest rate risk

49.6.1 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, 2018 would increase / decrease by Rs. 964.67 (2017: Rs. 806.82 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate instruments.

The Group does not keep a sizable portion of its foreign currency accounts and investments in floating rate securities, therefore the profit / loss attributable to the Group's exposure to interest rate on its variable rate instruments is negligible.

49.6.2 **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

The Group is exposed to fair value interest rate risk on its fixed income securities classified as 'financial assets at fair value through profit or loss'. To manage its fair value interest rate risk arising from investments in these securities, the management adopts practices mentioned in note 49.10 to these consolidated financial statements.

As at June 30, 2018, a 10 basis points shift in market value, mainly as a result of change in interest rates with all other variables held constant, would result in consolidated profit for the year to increase by Rs. 2,348.54 million (2017: Rs. 1,582.32 million) or decrease by Rs. 2,352.19 million (2017: Rs. 1,585.47 million) mainly as a result of an increase or decrease in the fair value of fixed rate financial assets classified as financial asset at fair value through profit or loss.

49.7 **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, 2017 with all other variables constant profit for the year would have been Rs. 1,985.23 million higher / lower (2017: Rs. 6,748.87 million). Net foreign currency exposure of the Group is as follows:

	2018	2017
	(Rupees in '000)	
US Dollar	294,299,500	1,072,083,483
Pound Sterling	(58,496,395)	(62,074,847)
Chinese Yuan	(95,640,926)	(87,260,316)
Euro	(274,661,162)	(224,807,106)
Japanese Yen	(60,355,570)	(55,935,160)
United Arab Emirates Dirham	1,935,381	1,625,688
Australian Dollar	250,077	(139,679)
Canadian Dollar	47,390	(19,128)
Others	(5,901,735)	35,014,019
	(198,523,440)	678,486,954

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 49.8 and 49.7 to these consolidated financial statements prepared as of June 30, 2018 are not necessarily indicative of the effects on the Group's profit and loss of future movements in different variables.

49.8 **Price Risk**

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity securities price risk because of investment in listed equity securities by the Group classified as available-for-sale. These investments are held as per the specific directives of the Government of Pakistan in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. Accordingly, price risk on listed equity securities can not be managed by the Group.

In case of 5% increase or decrease in KSE 100 index on June 30, 2018, other comprehensive income would increase or decrease by Rs. 834.626 million (2017: Rs. 945.623 million) and equity of the Group would increase or decrease by the same amount as a result of gains / (losses) on equity securities classified as available-for-sale.

The analysis is based on the assumption that the equity index would increase or decrease by 5% with all other variables held constant and all the 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, 2018 is not necessarily indicative of the effect on the Group's equity of future movements in the level of KSE 100 index.

49.9 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 49.5.1.

49.10 Portfolio risk management

The Group has appointed external managers to invest a part of the foreign exchange reserves in international fixed income securities. The external managers are selected after conducting a thorough due diligence by the Group and externally hired investment consultants, and appointed after the approval of the Board of Directors of the Bank. The mandates awarded to the managers require them to outperform the benchmarks which are based on fixed income global aggregate indices. The benchmarks are customised to exclude certain securities, currencies, and maturities to bring it to an acceptable level of risk and within the Group's approved risk appetite. Managers are provided investment guidelines within which they have to generate excess returns over the benchmark. Safe custody of the portfolio is provided through carefully selected global custodian who is independent of the portfolio managers. The custodian also provides valuation, compliance, corporate actions and recovery, and other value added services which are typically provided by such custodian. The valuations provided by the custodian are reconciled with the portfolio managers, and recorded accordingly.

50. 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	
	2018	2017	2018	2017
	(Rupees in '000)			
Financial assets				
Cash and bank balances held by subsidiaries	586,651	2,190,657	586,651	2,190,657
Local currency - coins	989,497	861,860	989,497	861,860
Foreign currency accounts and investments	1,333,820,287	1,782,539,188	1,333,820,287	1,782,539,188
Earmarked foreign currency balances	12,277,462	10,319,532	12,277,462	10,319,532
Special Drawing Rights of the International Monetary Fund	59,272,776	63,657,319	59,272,776	63,657,319
Reserve tranche with the International Monetary Fund under quota arrangements	20,362	17,382	20,362	17,382
Securities purchased under agreement to resell	1,562,309,789	1,533,373,313	1,562,309,789	1,533,373,313
Current accounts of Governments	33,104,114	36,797,935	33,104,114	36,797,935
Investments - local	3,824,128,547	2,894,286,076	3,824,128,547	2,694,286,076
Loans, advances and bills of exchange	453,500,448	362,703,790	453,500,448	362,703,790
Assets held with the Reserve Bank of India	1,550,321	5,758,914	1,550,321	1,384,378
Balances due from the Governments of India and Bangladesh	10,674,303	9,917,256	10,674,303	9,917,256
Other assets	2,837,486	4,100,017	2,824,709	4,100,017

	Carrying Value		Fair value	
	2018	2017	2018	2017
	-----(Rupees in '000)-----			
Financial liabilities				
Bank notes in circulation	4,635,146,711	4,167,135,807	4,635,146,711	4,167,135,807
Bills payable	644,452	630,547	644,452	630,547
Current accounts of Governments	89,828,633	208,120,653	89,828,633	208,120,653
Payable to Islamic Banking institutions against Bai Muajjal transactions	-	25,137,230	-	25,137,230
Payable under bilateral currency swap agreement	370,409,071	155,550,410	370,409,071	155,550,410
Deposits of banks and financial institutions	813,948,915	689,337,539	813,948,915	689,337,539
Other deposits and accounts	200,428,200	164,865,074	200,428,200	164,865,074
Payable to the International Monetary Fund	912,585,032	787,381,266	912,585,032	787,381,266
Other liabilities	54,605,781	31,361,686	54,605,781	31,361,686

50.1 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 flows) (Level 3).

	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	-----(Rupees in '000)-----			
On balance sheet				
Financial assets				
Foreign currency accounts and investments - held for trading	410,298,797	158,477,934	-	568,776,731
Investments - local	75,784,692	-	-	75,784,692
Non-financial assets				
Operating fixed assets (Land and buildings)	-	-	106,551,787	106,551,787
Gold reserves held by the Bank	315,610,772	-	-	315,610,772
	801,694,261	158,477,934	106,551,787	1,066,723,982
Off balance sheet				
Foreign currency forward and swap contracts - sale	-	1,112,127,341	-	1,112,127,341
Foreign currency forward and swap contracts - purchase	-	248,969,098	-	248,969,098
Futures - sale	41,585,759	-	-	41,585,759
Futures - purchase	26,132,491	-	-	26,132,491

	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	-----(Rupees in '000)-----			
On balance sheet				
Financial assets				
Foreign currency accounts and investments - held for trading	376,765,673	2,686,724	-	379,452,397
Investments - local	96,016,146	-	-	96,016,146
Non-financial assets				
Operating fixed assets (Land and buildings)	-	-	108,243,493	108,243,493
Gold reserves held by the Bank	270,361,202	-	-	270,361,202
	743,143,021	2,686,724	108,243,493	854,073,238
Off balance sheet				
Foreign currency forward and swap contracts - sale	-	935,079,726	-	935,079,726
Foreign currency forward and swap contracts - purchase	-	498,678,723	-	498,678,723
Futures - sale	43,038,829	-	-	43,038,829
Futures - purchase	35,430,566	-	-	35,430,566

The Group's policy is to recognise transfers into and out of the different fair value hierarchy levels at the date the event or change in circumstances that caused the transfer occurred.

There were no transfers between levels 1 and 2 during the year.

(a) Financial Instruments in level 1

Financial instruments included in level 1 comprise of financial assets in note 6.1 related to foreign currency accounts and investments and investment in listed shares in note 13.3 classified as available-for-sale.

(b) Financial instruments in level 2

Financial instruments included in level 2 comprise of forward and swap contracts, units of mutual funds and US Treasury Bills.

(c) Financial instruments in level 3

Currently, no financial instruments are classified through level 3.

50.2 **Valuation techniques used in determination of fair values within level 2 and level 3**

Item	Valuation approach and input used
Forward foreign exchange contracts	The valuation has been determined by interpolating the mid rates announced by State Bank of Pakistan.
Operating fixed assets (Land and building)	Land and buildings are revalued to their fair values on a periodic basis by involving professional valuers. The fair values of land and building are determined by physically analysing the condition of land and building and in case of land by ascertaining the current market value of similar land, which is selling in near vicinity. Moreover, for buildings, the valuer has also considered prevailing current cost of construction for relevant type of civil work carried out thereon, where ever required. The management considers the above parameters used as the "highest and best use" and best evidence of fair value for its land and building. Note 18.1 to these consolidated financial statements highlights the year of valuation and external valuer name. The effect of changes in the unobservable inputs used in the valuations cannot be determined with certainty. Accordingly, a qualitative disclosure of sensitivity has not been presented in these consolidated financial statements.
Units of mutual funds	The fair values of investments in units of mutual funds are determined based on their net values as published at the close of each business day
US Treasury Bills	These are valued using the mid rates communicated by the Federal Reserve Bank of New York.

51. **CLASSIFICATION OF FINANCIAL INSTRUMENTS**

	2019				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	(Rupees in '000)				
Financial assets					
Cash and bank balances held by subsidiaries	586,651	-	-	-	586,651
Local currency - coins	989,497	-	-	-	989,497
Foreign currency accounts and investments	421,875,514	570,862,480	341,082,293	-	1,333,820,287
Earmarked foreign currency balances	12,277,462	-	-	-	12,277,462
Special Drawing Rights of the International Monetary Fund	59,272,776	-	-	-	59,272,776
Reserve tranche with the International Monetary Fund under quota arrangements	20,362	-	-	-	20,362
Securities purchased under agreement to resell	1,562,309,789	-	-	-	1,562,309,789
Current accounts of Governments	33,104,114	-	-	-	33,104,114
Investments - local	3,676,480,454	1,328,263	54,930,037	91,389,793	3,824,128,547
Loans, advances and bills of exchange	444,266,238	-	-	-	444,266,238
Assets held with the Reserve Bank of India	1,550,321	-	-	-	1,550,321
Balances due from the Governments of India and Bangladesh	10,674,303	-	-	-	10,674,303
Other assets	2,823,552	1,157	-	-	2,824,709

51 STATE BANK OF PAKISTAN AND ITS SUBSIDIARIES

	2017				
	Loans and receivables	Assets at fair value through profit or loss	Held to maturity	Available for sale	Total
	-----------------------	-----------------------	(Rupees in '000)	-----------------------	-----------------------
Financial assets					
Cash and bank balances held by a subsidiary	2,190,657				2,190,657
Local currency - coins	861,860	-	-	-	861,860
Foreign currency accounts and investments	1,063,277,816	382,140,984	337,120,388	-	1,782,539,188
Earmarked foreign currency balances	10,319,532	-	-	-	10,319,532
Special Drawing Rights of the International Monetary Fund	63,657,319	-	-	-	-
Reserve tranche with the International Monetary Fund under quota arrangements	17,382	-	-	-	17,382
Securities purchased under agreement to resell	1,533,373,313	-	-	-	1,533,373,313
Current accounts of Governments	36,797,935	-	-	-	36,797,935
Investments - local	2,527,764,268	1,582,086	54,924,466	110,015,256	2,694,286,076
Loans, advances and bills of exchange	362,703,790	-	-	-	362,703,790
Assets held with the Reserve Bank of India	1,384,276	-	-	-	1,384,276
Balances due from the Governments of India and Bangladesh	9,917,256	-	-	-	9,917,256
Other assets	3,594,941	505,076	-	-	4,100,017

	2018		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	-----------------------	(Rupees in '000)	-----------------------
Financial liabilities			
Bank notes in circulation	4,635,146,711	-	4,635,146,711
Bills payable	644,452	-	644,452
Current accounts of Governments	89,828,633	-	89,828,633
Payable under bilateral currency swap agreement	370,409,071	-	370,409,071
Payable to Islamic Banking Institutions against Bai Muajjal transactions	-	-	-
Deposits of banks and financial institutions	813,948,915	-	813,948,915
Other deposits and accounts	200,428,200	-	200,428,200
Payable to the International Monetary Fund	912,585,032	-	912,585,032
Other liabilities	27,328,699	27,277,082	54,605,781

	2017		
	Carried at amortised cost	Liabilities at fair value through profit or loss	Total
	-----------------------	(Rupees in '000)	-----------------------
Financial liabilities			
Bank notes in circulation	4,167,135,807	-	4,167,135,807
Bills payable	630,547	-	630,547
Current accounts of Governments	208,120,653	-	208,120,653
Payable under bilateral currency swap agreement	155,550,410	-	155,550,410
Payable to Islamic Banking Institutions against Bai Muajjal transactions	25,137,230	-	25,137,230
Deposits of banks and financial institutions	669,337,539	-	669,337,539
Other deposits and accounts	164,665,074	-	164,665,074
Payable to the International Monetary Fund	787,381,266	-	787,381,266
Other liabilities	31,361,686	-	31,361,686

52 NON-ADJUSTING EVENT

The Board of Directors of the Bank in their meeting held on ________________ have appropriated an amount of Rs ____________ million to "Revenue Reserve". The balance of profit after allocation of such appropriation will be transferred to the Government of Pakistan. The financial statements of the Group for the year ended June 30, 2018 do not include the effect of above appropriation and transfer of balance profit to the Government of Pakistan, which will be accounted for in the financial statements of the Group for the year ending June 30, 2019.

53. **DATE OF AUTHORISATION**

These consolidated financial statements were authorised for issue on 23 OCT 2018 by the Board of Directors of the Bank (i.e. Parent entity).

54. **CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary for the purpose of better presentation and comparison. No significant reclassifications have been made during the current year except for the following:

FROM	TO	2017
		Rupees in '000
Current accounts of Governments - payable balances - Federal Government	Current accounts of Governments - receivable balances - Railways accounts	29,518,688

55. **GENERAL**

Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

Tariq Bajwa **Governor**	**Jameel Ahmad** **Deputy Governor**	**Saleemullah** **Executive Director**

KPMG Taseer Hadi & Co.

National Institute of Banking and Finance (Guarantee) Limited

Financial Statements

For the year ended

30 June 2018

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
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Islamabad, Pakistan
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INDEPENDENT AUDITORS' REPORT

To the members of National Institute of Banking and Finance (Guarantee) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of National Institute of Banking and Finance (Guarantee) Limited (the Institute), which comprise the statement of financial position as at 30 June 2018, and the income and expenditure statement, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the income and expenditure statement, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Institute's affairs as at 30 June 2018 and of the income and expenditure, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

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Emphasis of Matter

We draw attention to note 18.1 to the financial statements wherein it is stated that, based on the advice of its legal counsel, the institute has not recognized liability in respect of sales tax under Islamabad Capital Territory (Tax on services) Ordinance, 2015. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of directors are responsible for overseeing the Institute's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

a) proper books of account have been kept by the Institute as required by the Companies Act, 2017 (XIX of 2017);

b) the statement of financial position, the income and expenditure statement, the statement of changes in equity and the statement of cash flows

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together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Institute's business; and

d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Other Matter

The financial statement of the Institute for the year ended 30 June 2017, were audited by another auditor whose report dated 18 October 2017 expressed an unmodified opinion on those statements.

The engagement partner on the audit resulting in this independent auditors' report is Riaz Pesnani.

KPMG Taseer Hadi & Co.
Chartered Accountants
Islamabad

04 October 2018

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018	2017
		Rupees in '000	
ASSETS			
Non-current assets			
Property and equipment	5	72,549	36,986
Intangible assets	6	-	-
Long term deposits		1,645	1,645
Current assets			
Stock of stationery and consumables		2,392	1,191
Receivable against training programs	7	105,094	44,392
Advances, prepayments and other receivables	8	6,374	1,864
Due from State Bank of Pakistan (Parent entity)	9	125,087	135,612
Short term investments	10	31,155	28,401
Assets relating to Endowment fund	11	102,793	98,421
Tax refunds due from government		5,888	4,808
Cash and bank balances	12	8,327	65
		387,110	314,754
TOTAL ASSETS		461,304	353,385
LIABILITIES			
Non-current liabilities			
Restricted Grant	13	13,029	-
Deferred Capital Grant	14	13,223	-
Endowment Fund - Deferred Grant	15	102,793	98,421
		129,045	98,421
Current liabilities			
Accrued expenses and other payables	16	24,568	8,778
TOTAL LIABILITIES		153,613	107,199
NET ASSETS		307,691	246,186
SHARE CAPITAL AND RESERVES			
Share capital	17	29,261	29,261
Accumulated surplus-revenue reserve		278,430	216,925
Total equity		307,691	246,186
CONTINGENCIES AND COMMITMENTS	18		

The annexed notes from 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/ MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018	2017
		Rupees in '000	
INCOME			
Grant income	19	10,278	-
Training and education fee	20	419,539	366,876
Hostel and training halls	21	25,410	26,367
Other income	22	9,886	2,106
Income transferred from endowment fund	15	1,458	1,405
		466,571	396,754
EXPENDITURE			
Programme activities	23	(10,278)	-
Operating, administrative and general expenses	24	(394,788)	(296,080)
		(405,066)	(296,080)
Operating surplus for the year		61,505	100,674
Other comprehensive income for the year		-	-
Total comprehensive surplus for the year		61,505	100,674

The annexed notes from 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018	2017
		Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating surplus for the year		61,505	100,674
Adjustments for non cash items			
Income from investments	22	(1,791)	(1,515)
Restricted grant recognised as income	19	(8,766)	-
Amortisation of deferred capital grant	22	(1,512)	-
Reversal of provision against doubtful receivables		(86)	(10)
Depreciation	5	17,248	13,409
Gain on disposal of property and equipment	22	(408)	(350)
		4,685	11,534
Operating income before working capital changes		66,190	112,208
Changes in working capital			
(Increase) / decrease in current assets			
Stock of stationery and consumables		(1,201)	(240)
Receivable against training programs		(60,616)	36,434
Advances, prepayments and other receivables		(4,510)	1,695
Due from State Bank of Pakistan (Parent entity)		10,525	(135,612)
		(55,802)	(97,723)
Increase / (decrease) in current liabilities			
Accrued expenses and other payables		10,651	1,806
Net changes in working capital		(45,151)	(95,917)
Withholding tax deducted		(1,080)	(2,496)
Interest income received during the year		1,677	1,471
Restricted grant received during the year		36,530	-
Long term deposits		-	(13)
Net cash generated from operating activities		58,166	15,253
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(47,672)	(11,334)
Sale proceeds from disposal of property and equipment		408	350
Investments made during the year		(120,382)	(30,069)
Investments redeemed during the year		117,742	25,819
Endowment fund investments made during the year		(304,981)	(384,813)
Endowment fund investments redeemed during the year		304,981	384,813
Net cash used in investing activities		(49,904)	(15,234)
Net increase in cash and cash equivalents during the year		8,262	19
Cash and cash equivalents at the beginning of the year		65	46
Cash and cash equivalents at the end of the year		8,327	65

The annexed notes from 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/ MANAGING DIRECTOR **DIRECTOR**

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Share Capital	Accumulated Surplus	Total
	Rupees in '000		
Balance at 01 July 2016	29,261	116,251	145,512
Total comprehensive income for the year -surplus	-	100,674	100,674
Balance at 30 June 2017	29,261	216,925	246,186
Balance at 01 July 2017	**29,261**	**216,925**	**246,186**
Total comprehensive income for the year -surplus	-	**61,505**	**61,505**
Balance at 30 June 2018	**29,261**	**278,430**	**307,691**

The annexed notes from 1 to 34 form an integral part of these financial statements.

CHIEF EXECUTIVE OFFICER/
MANAGING DIRECTOR

DIRECTOR

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1 CORPORATE AND GENERAL INFORMATION

1.1 The Company and its operations

National Institute of Banking and Finance (Guarantee) Limited ("the Institute") was incorporated under the repealed Companies Ordinance, 1984 on 21 March 1993 in Pakistan, as a private company limited by guarantee having share capital. The Institute is engaged in providing education and training in the field of banking, finance and allied areas. State Bank of Pakistan is the Parent entity of the Institute ("the Parent entity").

Registered office of the Company is situated at NIBAF Building, Street 4 , Pitras Bukhari Road, H-8/1 , Islamabad. The Company's regional campus is located at LRC Building, State Bank of Pakistan , I.I. Chundrigar Road, Karachi.

1.2 Summary of significant events and transactions

Significant events and transaction affecting the financial statements are summarised as follows:

- During the year the Institute entered into a grant agreement with the State Bank of Pakistan (Parent entity) for launching National Financial Literacy Programme for the youth of Pakistan. Implementation period of the program is five years from the date of the agreement and committed amount for this period is Rs. 149 million.

- During the year Institute introduced following new trainings in response to increased on-job training need of the Parent entity.
  - Several IT related and skill upgradation programs to meet requirement of SBP's new training policy.
  - Strategic leadership development programs;
  - Capacity building sessions on ERM;
  - Officers development program;
  - Awareness on workplace harassment.
  - E-learning programs

- Other than meeting the demand of the Parent entity, traning agenda for SME was also developed.

- Due to the first time application of financial reporting requirements under the Companies Act, 2017, including disclosure and presentation requirements of the fifth schedule of the Companies Act, 2017, some of the amounts reported for the previous year have been reclassified.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS Standards), issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017 ; and

- Provisions of and directives issued under the Companies Act, 2017.

Where provisions of and directives issued under the Companies Act, 2017 differ from the IFRS Standards, the provisions of and directives issued under the Companies Act, 2017 have been followed.

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except as stated otherwise.

2.3 Functional and presentation currency

These financial statement are presented in Pak Rupees (PKR or Rupee) which is the Company's functional currency. All the amounts have been rounded off to the nearest thousand, unless otherwise stated.

2.4 Significant accounting estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

(a) Property and equipment

The Institute reviews the residual values and useful lives of property and equipment on a regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property and equipment with a corresponding effect on depreciation charge and impairment.

(b) Intangible assets

The Institute reviews the residual values and useful lives of intangible assets on a regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of intangible assets with a corresponding effect on amortisation and impairment.

(c) Impairment

The Institute's assessment relating to impairment of assets is discussed in note 4.3.

(d) Provision for slow moving stocks and other receivables

The Institute exercises judgment and makes provision for slow moving stocks based on their future usability. Provision for other receivables is determined using judgment based on past business practices, probability of recovery and lapsed time period of due balance. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

(e) Provision for doubtful receivables

The Institute makes provisions for doubtful receivables when the collection of full amount is not probable. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3 **STANDARDS, INTERPRETATIONS AND AMENDMENTS TO THE APPROVED ACCOUNTING STANDARDS**

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Institute's financial statements.

- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' - effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Institute's financial statements.

- Annual Improvements to IFRSs 2014-2016 Cycle [Amendments to IAS 28 'Investments in Associates and Joint Ventures') (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Institute's financial statements.

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The amendments are not likely to have an impact on Institute's financial statements.

Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Institute's financial statements.

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

- Amendment to IFRS 4 'Insurance Contracts'- Applying IFRS 9 'Financial Instruments' with IFRS 4 (effective for annual periods beginning on or after 1 July 2018). The amendment address issue arising from the different effective dates of IFRS 9 and the forthcoming new standard IFRS 17 'Insurance Contracts'. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 1 July 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. These amendments may impact the Institute's equity accounted investee, however a financial impact has not been determined.

- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The Institute is currently in the process of analysing the potential impact of changes required in revenue recognition policies on adoption of the standard.

- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Institute is currently in the process of analysing the potential impact of changes required in classification and measurement of financial instruments and the impact of expected loss model on adoption of the standard.

- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The amendments are not likely to have an impact on Institute's financial statements.

- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax. The Institute is currently assessing the impact of the IFRIC 22 on its financial statements, if any.

- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Institute's financial statements.

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

- Annual Improvements to IFRS Standards 2015-2017 Cycle - the improvements address amendments to following approved accounting standards:

- IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangement' - the amendment aims to clarify the accounting treatment when an entity increases its interest in a joint operation that meets the definition of a business. An entity re-measures its previously held interest in a joint operation when it obtains control of the business. an entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

- IAS 12 'Income Taxes' - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

- IAS 23 'Borrowing Costs' - the amendment clarifies that an entity treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Institute's financial statements

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes as indicated below.

• Amendments to IAS 7 'Statement of Cash Flow' became effective during the year. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

Adoption of this requirement has not resulted in any change as currently there were no changes in liabilities arising from financing activities.

• The Companies Act, 2017 specified certain disclosures to be included in the financial statements. The Company has presented the required disclosures in these financial statements and re-presented certain comparatives. However, there was no change in the reported amounts of profit and other comprehensive income and the amounts presented in the statement of financial position due to these re-presentations.

4.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any.

Depreciation is charged to income and expenditure account applying the straight line method, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation is charged on additions from the month the asset is available for use and on disposals up to the month preceding the month of disposal. The rates of depreciation are stated in note 4.1 to these financial statements.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each reporting date.

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

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Gains and losses on sale or retirement of property and equipment are included in the income and expenditure account.

4.2 Intangible - computer softwares

Computer softwares are stated at cost less accumulated amortisation. Software costs are capitalised only when it is probable that future economic benefits attributable to the software will flow to the Institute and these are amortised applying the straight line method at the rates stated in note 6.1 to these financial statements.

4.3 Impairment

The carrying amounts of the Institute's assets are reviewed at each reporting date to determine whether there is any indication of impairment loss. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount and the differences are recognized as expense in the income and expenditure account.

4.4 Deferred grants

Grants related to specific assets are set up as deferred grants and recognized as income on a systematic basis over the useful life of the related assets.

4.5 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 costs incurred in bringing the items to their present location and condition. Replacement cost of the items is used to measure the net realizable value. The valuation is done on moving average basis. Provision is made for stocks which are not used for a considerable period of time or stocks which are not expected to be used in future.

4.6 Receivable against training programs and other receivables

Receivable against training programs are recognised and carried at original invoice amount less an allowance for any doubtful receivable.

An estimate for doubtful receivable against training programs and other receivables is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

4.7 Financial Instruments

Financial Assets

4.7.1 Classification

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

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

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

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Institute's loans and receivables comprise of long term deposits, receivable against training programs, advances and other receivables, due from State Bank of Pakistan and bank balances in the statement of financial position.

c) Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity with the Institute having positive intent and ability to hold till maturity.

d) Available for sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity and (c) financial assets 'at fair value through profit or loss'.

Currently, the financial assets of the Institute have been classified under "loans and receivables" and "held to maturity" categories.

4.7.1.1 Initial recognition and measurement

All financial assets are recognised at the time the Institute becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Institute commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value while the transaction costs associated with these financial assets are taken directly to the income and expenditure account.

4.7.1.2 Subsequent measurement

Subsequent to initial recognition, financial assets categorised as "loans and receivables" and "held to maturity" are valued at amortised cost.

4.7.1.3 Impairment

The Institute assesses at reporting date whether there is objective evidence that a financial asset is impaired.

a) Assets carried at amortised cost

A financial asset or a group of financial assets is impaired and impairment losses are recorded only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty or default in payments, the probability that they will enter bankruptcy, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults.

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For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income and expenditure account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Institute also evaluates impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income and expenditure account.

4.7.1.4 Offsetting of financial assets and liabilities

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

4.7.2 Financial liabilities

All financial liabilities are recognised at the time when the Institute becomes a party to the contractual provisions of the instrument.

4.7.3 Derecognition

Financial assets are derecognised at the time when the Institute loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised at the time when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or expires. Any gain or loss on derecognition of financial assets and financial liabilities is taken to the income and expenditure account.

4.8 Accrued expenses and other payables

Liabilities for accrued expenses and other amounts payable are carried at amortized cost, which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Institute.

4.9 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and cash with banks in current account.

4.10 Provisions

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

(initials)

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4.11 Income recognition

(a) Grants

(i) **Capital grants**

Grants received for fixed assets are initially recorded as capital grants in the statement of the financial position. Subsequently, these are recognized as income on a systematic basis over periods necessary to match them with the carrying value of the related assets.

(ii) **Restricted grants**

Grants, of a non-capital nature, received for specific purposes, and any bank interest earned on them, are classified as restricted grants. Such grants are transferred to income to the extent of actual expenditure incurred against them. Expenditure incurred against grants committed but not received, is accrued and recognized in income and is reflected as a grant receivable. Unspent portions of such grants are reflected as restricted grants in the statement of the financial position.

(iii) **Unrestricted grants**

Grants received from donors without any conditions are recognized as unrestricted grants in income, during the period of receipt. Expenditure incurred against grants committed but not received, is accrued and recognized in income and is reflected as a grant receivable.

(b) Revenue recognition

(i) Training, education and hostel services are recognised on an accrual basis.

(ii) Income on investment is accounted for on a time proportion basis using the applicable rates.

(iii) Income from endowment fund is recognised on an accrual basis and determined in accordance with the NIBAF Endowment Fund Rules.

(iv) Other income is recognised as and when earned.

4.12 Endowment fund - Deferred Grant

The Institute has established an Endowment fund effective from 01 July 2011 for utilisation of the amount received from the SBP. The terms of references / rules and regulations of the Endowment fund have been formulated. The aims and objective of NIBAF Endowment Fund are as under:

a) Capacity building of SBP and its subsidiaries (including SBP-BSC, NIBAF and others, if any) as well as other banking professionals in realms of Rural Finance, Microfinance, Agriculture and SMEs etc.

b) To encourage, promote, support and undertake academic and scientific investigations, innovative research, inventions and developments in various Banking and Finance related areas.

c) To provide assistance in such activities as field surveys, experiments, collection and dissemination of information, seminars, conferences and trainings etc. aimed at increasing awareness, introducing improvements and enhancing efficiency in areas related to Banking and Finance in general and Rural Finance in particular.

d) To conduct research and trainings to increase awareness of commercial banks regarding possibilities, prospects and risks, to develop demand driven products and services, instituting enhanced portfolio management capability and installing systems and procedures for reducing costs etc.

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e) To promote gathering of information on rural finance by collecting and analysing data, conducting survey thereby working as a main training hub.

f) To create linkages with national and international organisations for the strengthening of Rural finance related activities.

g) For any other purpose which the Institute's Board of Directors may consider fit for the overall benefit Institute and its stakeholders.

4.13 Retirement benefits

The permanent employees of the Institute represent employees who are either deputed by the State Bank of Pakistan (Parent entity) or State Bank of Pakistan - Banking Service Corporation (related entity). All the employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and is not charged to the Institute.

4.14 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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5 PROPERTY AND EQUIPMENT

5.1 The following is a statement of property and equipment:

	Property and equipment					
	Furniture and fixtures	Electronic data processing equipment	Office equipment	Vehicles	Capital Work in Progress (Note 5.3)	Total
	Rupees in '000					
Cost						
Balance as at 01 July 2016	14,980	21,301	58,662	43,555	-	138,498
Additions during the year	2,002	2,442	5,200	-	-	9,644
Transfer in during the year	-	3,159	-	-	-	3,159
Disposals during the year	(60)	-	(665)	-	-	(725)
Balance as at 30 June 2017	16,922	26,902	63,197	43,555	-	150,576
Balance as at 01 July 2017	**16,922**	**26,902**	**63,197**	**43,555**	**-**	**150,576**
Additions during the year (Note 5.5)	**7,972**	**11,501**	**12,484**	**12,600**	**5,139**	**49,696**
Transfer in during the year	**-**	**3,647**		**-**		**3,647**
Disposals during the year	**(622)**	**(7,666)**	**(2,345)**	**-**		**(10,633)**
Balance as at 30 June 2018	**24,272**	**34,384**	**73,336**	**56,155**	**5,139**	**193,286**
Allowance for depreciation						
Balance as at 01 July 2016	8,838	21,277	44,950	24,372	-	99,437
Depreciation charge for the year	1,134	226	5,997	6,052	-	13,409
Transfer in during the year	-	1,469	-	-	-	1,469
Disposals during the year	(60)	-	(665)	-	-	(725)
Balance as at 30 June 2017	9,912	22,972	50,282	30,424		113,590
Balance as at 01 July 2017	**9,912**	**22,972**	**50,282**	**30,424**	**-**	**113,590**
Depreciation charge for the year	**1,360**	**4,852**	**5,312**	**5,724**	**-**	**17,248**
Transfer in during the year	**-**	**532**	**-**	**-**	**-**	**532**
Disposals during the year	**(622)**	**(7,666)**	**(2,345)**	**-**	**-**	**(10,633)**
Balance as at 30 June 2018	**10,650**	**20,690**	**53,249**	**36,148**	**-**	**120,737**
Carrying amounts - 2017	7,010	3,930	12,915	13,131	-	36,986
Carrying amounts - 2018	**13,622**	**13,694**	**20,087**	**20,007**	**5,139**	**72,549**
Rate of depreciation	**10%**	**33%**	**20%**	**20%**		

5.2 Land and buildings in use of the Institute are owned by the State Bank of Pakistan. No rent for its use has been charged by the State Bank of Pakistan to the Institute.

5.3 Capital work in progress represents items of electronic data processing and office equipment, which were delivered to the Institute but were not available for use as at 30 June 2018.

5.4 Net book value of assets disposed off during the year was below 500,000 Rupees.

5.5 Additions include following assets purchased for National Financial Literacy Programme (NFLP). Title of vehicles purchased is in name of State Bank of Pakistan, Parent entity.

	Rupees in '000
Electronic data processing equipment	184
Office equipment	602
Vehicles	12,600
Furniture and fixtures	1,349
	14,735

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		Note	2018	2017
			Rupees in '000	
5.6	The depreciation charge for the year has been allocated as follows:			
	Operating, administrative and general expenses	24	15,736	13,409
	Programme expenses	23	1,512	-
			17,248	13,409

		Note	2018	2017
6	**INTANGIBLE ASSETS - COMPUTER SOFTWARE**			
6.1	The following is a statement of intangible assets:			
	Cost			
	Balance as at the beginning of the year		195	195
	Additions during the year		-	-
	Disposals during the year		-	-
	Balance as at end of the year		195	195
	Allowance for amortisation			
	Balance as at the beginning of the year		195	195
	Amortisation for the year		-	-
	Disposals during the year		-	-
	Balance as at end of the year		195	195
	Carrying amount		-	-
	Rate of amortisation		33%	33%

		Note	2018	2017
7	**RECEIVABLE AGAINST TRAINING PROGRAMS**			
	Associated undertakings			
	State Bank of Pakistan (Parent) (SBP)	7.1 & 7.2	54,886	2,223
	SBP Banking Services Corporation (related Party) (BSC)	7.1 & 7.2	39,076	32,849
			93,962	35,072
	Others			
	Considered good		11,132	9,320
	Considered doubtful		1,358	1,444
			12,490	10,764
	Provision for doubtful receivables	7.3	(1,358)	(1,444)
			11,132	9,320
			105,094	44,392

7.1 The year-end balance also represents the maximum aggregate amount outstanding at any time during the year.

7.2 At reporting date, the ageing of receivables from associated undertakings were as follows:

	Gross amount		Gross amount	
	2018		2017	
	(Rupees '000)		(Rupees '000)	
	SBP	BSC	SBP	BSC
Past due 1-30 days	49,676	37,515	-	12,432
Past due 31-90 days	4,340	1,527	1,844	17,773
Past due 91-180 days	542	-	76	2,606
Past due 181-365 days	62	-	222	6
More than one year	266	34	81	32
	54,886	39,076	2,223	32,849

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		2018	2017
		Rupees in '000	
7.3	**Provision for doubtful receivables**		
	Opening balance	1,444	1,454
	Reversal during the year	(86)	(10)
		1,358	1,444

		2018	2017
8	**ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES**		
	Advances to staff - unsecured, considered good	493	1,212
	Advance to Suppliers - unsecured, considered good	5500	-
	Receivable from Endowment fund upon maturity of Investment	-	237
	Prepayments	381	415
		6,374	1,864

9 DUE FROM STATE BANK OF PAKISTAN (PARENT ENTITY)

This represents the current account of the Institute with the State Bank of Pakistan (Parent entity) to manage the financial affairs of the Institute. The settlement of trainings provided to SBP and SBP BSC are also settled through current account. Further, all the investments in Market Treasury Bills (MTBs) are made through the Parent entity.

10 SHORT TERM INVESTMENTS

	Note	2018	2017
		Rupees in '000	
Held to maturity			
Market Treasury Bills			
Cost	10.1	30,970	28,330
Accrued profits		185	71
		31,155	28,401

10.1 These carry return at the average rate of 6.49% per annum and having maturities from 16 August 2018 to 30 August 2018 (2017: 6.1% per annum having maturity from 14 September 2017 to 28 September 2017)

10.2 The fair value of investments as at 30 June 2018 is Rs 31.2 million (2017: Rs 28.4 million).

11 ASSETS RELATING TO ENDOWMENT FUND

	Note	2018	2017
		Rupees in '000	
Held to maturity			
Market Treasury Bills			
Cost	11.1	102,619	98,512
Accrued profits		174	146
Less: income payable to the Institute		-	(237)
		102,793	98,421

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11.1 These carry return at the rate of 6.76% per annum and having maturity on 13 September 2018 (2017: 6.1% per annum having maturity on 21 December 2017).

11.2 The fair value of investments as at 30 June 2018 is Rs 102.8 million (2017: Rs 98.66 million).

12 CASH AND BANK BALANCES

	Note	2018	2017
		Rupees in '000	
Cash in hand		60	60
Cash in bank - current accounts			
SBP Banking Services Corporation (Associated undertaking)		8,267	5
		8,327	65

13 RESTRICTED GRANT

	Note	2018	2017
Balance as at 01 July			
Restricted Grant received during the year		36,530	-
Capital expenditure	14	(14,735)	-
Recognized as income	19	(8,766)	-
Balance as at 30 June		13,029	-

13.1 This represents grant received from State Bank of Pakistan, Parent entity, pursuant to grant agreement dated 21 September 2017 for launching National Financial Literacy Program for Youth (NFLP-Y) of the country. Period of implementation of the program is five years from the date of the agreement.

	Note	2018	2017
		Rupees in '000	
14 DEFERRED CAPITAL GRANTS			
Balance as at 01 July		-	-
Cost of assets purchased during the year from capital grants	13	14,735	-
Amortization for the year representing the depreciation of related assets	19	(1,512)	-
Balance as at 30 June		13,223	-
15 ENDOWMENT FUND - DEFERRED GRANT			
Opening balance		98,421	94,207
Interest income on investments		5,830	5,619
Less: income allocated to the Institute (at the rate of 25 percent)		(1,458)	(1,405)
Closing balance		102,793	98,421

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15.1 This represented capital grant amounting to US dollar one million received by the Institute in January 2005 from the State Bank of Pakistan (Parent Entity) for establishment of a Rural Finance Resource Centre. The grant was disbursed by the State Bank of Pakistan out of the proceeds of loan received by the Government of Pakistan (GoP) from Asian Development Bank vide loan agreement No. 1987-PAK dated 23 December 2002. The Institute has established an Endowment fund effective from 01 July 2011 for utilisation of the amount received from SBP. The NIBAF Endowment Fund Rules, detailing the investment and utilisation of the grant, have been formulated and approved by the Board of Directors in their meeting held on 12 August 2015.

16 ACCRUED EXPENSES AND OTHER PAYABLES

	Note	2018	2017
		Rupees in '000	
Payable to the Parent entity	16.1	5,139	-
Travelling and training cost payable		7,130	1,145
Accrued expenses		10,505	6,725
Security Deposit	16.2	1,794	908
		24,568	8,778

16.1 This represents amount payable to the Parent entity for provision of items of property and

16.2 These represent amounts received as security deposits from dealers and suppliers of the Institute, which are utilisable for the purpose of the business in accordance with their agreements.

	Note	2018	2017
		Rupees in '000	
17 SHARE CAPITAL			
Authorized share capital			
(20,000,000 Ordinary shares of Rs.10 each)		200,000	200,000
Issued, subscribed and paid-up capital			
2,926,084 ordinary shares of Rs.10 each issued for cash	17.1	29,261	29,261

17.1 State Bank of Pakistan holds 2,926,083 (2017: 2,926,083) ordinary shares and the Deputy Governor of State Bank of Pakistan holds 1 (2017: 1) share of the Institute as at the date of statement of financial position.

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18 CONTINGENCIES AND COMMITMENTS

18.1 Contingencies

18.1.1 Tax related contingencies

18.1.1.1 The Finance Act 2015 extended the scope of services covered under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (ICTO) and some new services were brought within the purview of sales tax which are detailed in schedule to the ICTO. During the year 2016, the Institute received a notice from the tax department dated 20 January 2016 claiming that the services provided by Institute fall within the purview of serial numbers 13, 19 and 38 of schedule to the ICTO and accordingly the Institute should get itself registered for sales tax, obtain Sales Tax Registration number (STRN), file returns for six months from July 2015 to December 2015 and settle the outstanding liability in respect of sales tax for those six months. The management believes that the Institute does not fall under the purview of serial numbers 13, 19 and 38 of schedule to the ICTO mainly on the ground that NIBAF is a training institute and is not liable to be registered under sales tax on services. A reply was sent from the Institute's management to the Assistant Commissioner Inland Revenue (ACIR) justifying the non-applicability of serial numbers 13, 19 and 38 of schedule to the ICTO to the Institute. However, the ACIR maintained the tax department's view and ordered the compulsory registration of the Institute with immediate effect through its order dated 19 February 2016.

Moreover, the Institute received a show cause notice on 10 March 2016 for filing the tax returns for the period from July 2015 to December 2015 and payment of the due amount of sales tax on services. Subsequently, the department passed the following order on 11 April 2016:

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.

The Institute challenged the above order passed by the ACIR before the Commissioner Inland Revenue Appeals II (CIRA). However, the matter was decided against the Institute.

During the year 2017, the Institute filed an appeal before the Commissioner Inland Revenue Appeals II (CIRA) challenging the compulsory registration of the Institute done by the department vide its order dated 19 February 2016. This appeal was disposed of by the CIRA on 9 February 2017 because it was not maintainable under the law (as it was outside his jurisdiction) and the case could now be taken to the Honorable Islamabad High Court. Consequently, the Institute filed writ petition against the above orders before the Honorable Islamabad High Court (IHC).

IHC passed an order dated 29 January 2018 and directed CIRA to decide the representation of the Institute expeditiously (preferably within 7 days) after affording an opportunity of being heard. The Institute filed applications to CIRA for compliance with IHC order. On 12 March 2018, representatives of the Institute attended a hearing before the tax department and made oral and written submission. On 02 April 2018, Deputy commissioner Inland Revenue passed an order rejecting Institute's application for de-registration and passed an order for compulsory registration of the Institute. The institute intends to file writ petition against the order dated 02 April 2018.

The Institute, based on the advice of its legal counsel, is of the view that the Institute has valid grounds and there are fair chances of success before the Honorable Islamabad High Court. Accordingly, no provision has been recognized in these financial statements.

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18.1.1.2 During the year the Institute received a show cause notice for Rs. 8 million from the tax authorities against alleged non-deduction of tax on various payments relating to tax year 2017. The Institute has submitted the necessary information and thereafter, tax authorities have not proceeded to pass any order. The management of the Institute is confident of favorable outcome and accordingly no provision has been recognised in these financial statements.

18.1.2 Litigations

All below mentioned cases have been filed by the employees of the Parent entity for promotions etc. As these employees were deputed at the Institute, accordingly, Institute has also been added as defendant party. Management is confident that resolution of these matters would not result in any financial outlay.

18.1.2.1 In June 2016, In National Industrial Relations Commission case No. CMA 7A(70)/2016, the ex-employees claimed promotions as back benefit. The case is under legal process in single bench NIRC along with another other case of same party.

18.1.2.2 In March 2017, National Industrial Relations Commission case No. 12A(71)/2017, an appeal was filed against the decision of single bench NIRC for industry wise collective bargaining unit for labor practices. Democratic workers union appealed for one union for all subsidiaries of SBP on the plea that the Top management is same in all cases as per industrial relations act 2012. Resolution of this matter would not result in financial outlay.

18.1.2.3 In August 2017, In National Industrial Relations Commission case No.4 12A(161)/2017, Ex-contractual employees filed case in the line with a previous settled case, for permanent service in SBP. The initial petition was dismissed by single bench NIRC on technical grounds, resulting in filing appeal by the employees in full bench NIRC. Hearing is in initial stage. Management is confident of favourable outcome of this matter.

		2018	2017
		Rupees in '000	
18.2	**Commitments in respect of capital expenditure**	-	98

18.3 There were no other contingencies and commitments outstanding as at 30 June 30 2018 (30 June 2017 : Nil) except as disclosed in notes 18.1 and 18.2.

19 GRANT INCOME

	Note	2018	2017
		Rupees in '000	
Transfers from:			
Restricted grant	13	8,766	-
Deferred capital grant	14	1,512	-
		10,278	-

20 TRAINING AND EDUCATION FEE

	2018	2017
Domestic courses	397,256	330,509
International courses	7,753	20,590
Islamic banking courses	14,530	15,777
	419,539	366,876

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		Note	2018	2017
			Rupees in '000	
21	HOSTEL AND TRAINING HALLS INCOME			
	Rental income		14,255	15,417
	Service charges		1,152	979
	Food and beverages		10,003	9,971
			25,410	26,367
22	**OTHER INCOME**			
	Income from financial assets			
	Interest on investments		1,791	1,515
	Income from non-financial assets			
	Reversal of provision against doubtful receivables	7.3	86	10
	Gain on disposal of property and equipment		408	350
	Recovery of overheads from NFLP Program		4,500	-
	Others - net		3,101	231
			8,095	591
			9,886	2,106
23	**PROGRAMME EXPENSES**			
	Salary and benefits		2,250	-
	Other expenses		2,016	-
	Depreciation	5.6	1,512	-
	Overheads		4,500	
			10,278	-
24	**OPERATING, ADMINISTRATIVE AND GENERAL EXPENSES**			
	Salaries, wages and other benefits		182,355	142,694
	Training cost		60,545	35,723
	Repairs and maintenance		28,335	20,615
	Lodging, catering and allied services		44,281	29,685
	Travelling and conveyance		17,453	11,379
	Printing and stationery		4,998	5,235
	Medical		1,947	402
	Electricity, gas and water		26,110	24,324
	Telephone and fax		1,112	1,095
	Vehicles running and maintenance		1,100	1,092
	General consumables		990	1,092
	Security charges		3,959	3,725
	Insurance		2,086	2,090
	Newspapers, books and periodicals		139	167
	Postage and courier		309	424
	Entertainment		1,124	711
	Auditors' remuneration	24.1	320	288
	Legal and professional		148	613
	Depreciation	5.5	15,736	13,409
	Others		1,741	1,317
			394,788	296,080

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	2018	2017
	Rupees in '000	
24.1 Auditors' remuneration		
Audit fee	275	225
Out of pocket expenses	45	45
	320	270
Sindh Sales Tax on Services	-	18
	320	288

25 TAXATION

The Institute had claimed exemption from income tax under clause (92) of Part I of the Second Schedule to the Income Tax Ordinance, 2001 for the tax year 2013 and for the tax year 2014 under clauses (59) and (60) of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Pursuant to enactment of section 100C with effect from 01 July 2014; the Institute filed its tax returns for the Tax Years 2015 to 2017 by claiming tax credit under the said section against its tax liability on income for the year.

For the tax Year 2018, on the basis of opinion of its tax advisor, the Institute's management management believes that Institute's income is exempt in terms of section 49 of the State Bank of Pakistan Act, 1956 ("SBP Act"), whereby the State Bank of Pakistan [SBP], its subsidiaries or any other trust established by it, are not liable to pay wealth tax, income tax or super-tax on their income or wealth. Accordingly, no provision for income tax has been made in these financial statements.

26 RELATED PARTIES

26.1 Parent and related party relationships

The Institute is a wholly owned subsidiary of the State Bank of Pakistan (Parent entity); therefore all subsidiaries and associated undertakings of State Bank of Pakistan are the related parties of the Institute. Other related parties comprise of directors and key management personnel and entities over which the directors are able to exercise significant influence. Because of the ownership of Institute ultimately by the Government of Pakistan, the Institute also enters into transaction with few others State Controlled Entities. These transactions are not material , therefore not disclosed in the financial statements.

Balances with related parties have been disclosed in note 7, 9, 12, 13 and 16 and remuneration to Chief Executive Officer, Directors and Executives has been disclosed in Note 27. Transactions with related parties are as follows:

	2018	2017
State Bank of Pakistan (Parent Entity)	Rupees in '000	
Revenue charged	232,534	199,306
Receipts / (Payments) - net	179,871	219,901
Restricted grant received during the year	36,530	-

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	Rupees in '000	
Associated undertaking - SBP - Banking Services Corporation (Subsidiary of Parent entity)		
Revenue charged	161,596	132,820
Receipts / (Payments) - net	155,369	151,731

26.2 Following are the associated companies and related parties with whom the Institute had entered into transactions during the year:

Associated company	Basis of relationship	Number of shares held in the Institute	Aggregate %age shareholding in the Institute
State Bank of Pakistan	Holding entity	2,926,083	100.00%
SBP Banking Services Corporation	Common control	-	0.00%

Related party	Basis of relationship	Number of shares held in the Institute	Aggregate %age shareholding in the Institute
Mr. Amer Aziz	Chief Executive Officer	-	0.00%
Dr. Asad Zaman	Director	-	0.00%
Dr. Eatzaz Ahmad	Director	-	0.00%

27 REMUNERATION OF CHIEF EXECUTIVE OFFICER, DIRECTORS AND EXECUTIVES

	Chief Executive Officer	Non-Executive Directors	Executives	Total
2018	(Rupees in '000)			
Fees	-	94	-	94
Managerial remuneration	21,849	-	120,917	142,766
Fuel allowance	577	-	3,434	4,011
Telephone allowance	111	-	1,085	1,196
Contribution to Provident fund	1,311	-	3,387	4,698
House rent allowance	-	-	84	84
Others	569	-	2,091	2,660
	24,417	94	130,998	155,509
Number of persons	1	2	33	

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
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	Chief Executive Officer	Executive Directors	Executives	Total
2017	(Rupees in '000)			
Fees	-	282	-	282
Managerial remuneration	18,675	-	92,951	111,626
Fuel allowance	709	-	2,382	3,091
Telephone allowance	111	-	919	1,030
Contribution to Provident fund	1,121	-	2,248	3,369
House rent allowance	-	-	224	224
Others	348	-	1,235	1,583
	20,964	282	99,959	121,205
Number of persons	1	2	25	

27.1 The Chief Executive Officer has been provided free use of the Institute's maintained car

27.2 All the employees of the Institute are entitled to retirement benefits in accordance with the rules and regulations of the retirement fund / schemes of the Parent entity. The respective expenses are borne by the Parent entity and are not charged to the Institute as all employees are on deputation.

28 FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

Fair value is the amount that would be received on sale of an asset or paid on transfer of a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying values and fair value estimates. Underlying the definition of fair value is the presumption that the entity is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets i.e. listed equity shares are based on the quoted market prices at the close of trading on the period end date. The quoted market prices used for financial assets held by the institute is current bid price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13 'Fair Value Measurements' requires the Institute to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

28.1 Fair value of financial assets and liabilities

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

	Carrying amount				Fair value			
Financial assets and liabilities	**Loans and receivables**	**Held to maturity**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2018	**Rupees**				**Rupees**			
Financial assets not measured at fair value								
Long term deposits	1,645	-	-	1,645	-	-	-	-
Receivable against training programs	105,094	-	-	105,094	-	-	-	-
Due from State Bank of Pakistan (Parent) entity	125,087	-	-	125,087	-	-	-	-
Short term investments	-	31,155	-	31,155	31,155	-	-	31,155
Assets relating to Endowment fund	-	102,793	-	102,793	102,790	-	-	102,790
Cash and bank balances	8,327	-	-	8,327	-	-	-	-
Total financial assets	240,153	133,948	-	374,101	133,945	-	-	133,945
Financial liabilities not measured at fair value								
Accrued expenses and other payables	-	-	(24,568)	(24,568)	-	-	-	-
Total financial liabilities	-	-	(24,568)	(24,568)	-	-	-	-

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

28.1 Fair value of financial assets and liabilities (continued)

	Carrying amount				Fair value			
Financial assets and liabilities	**Loans and receivables**	**Held to maturity**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2017		**Rupees**				**Rupees**		
Financial assets not measured at fair value								
Long term deposits	1,645	-	-	1,645	-	-	-	-
Receivable against training programs	44,392	-	-	44,392	-	-	-	-
Due from State Bank of Pakistan (Parent) entity	135,612	-	-	135,612	-	-	-	-
Short term investments	-	28,401	-	28,401	28,401	-	-	28,401
Assets relating to Endowment fund	-	98,421	-	98,421	98,421	-	-	98,421
Cash and bank balances	65	-	-	65	-	-	-	-
Total financial assets	181,714	126,822	-	308,536	126,822	-	-	126,822
Financial liabilities not measured at fair value								
Accrued expenses and other payables	-	-	(8,778)	(8,778)	-	-	-	-
Total financial liabilities	-	-	(8,778)	(8,778)	-	-	-	-

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

29 FINANCIAL RISK MANAGEMENT

The Institute has exposure to the following risks arising from financial instruments:

1) Credit risk
2) Liquidity risk
3) Market risk

29.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Institute's risk management framework. The Board has delegated the responsibility for developing and monitoring the Institute's risk management policies to its management. The management reports regularly to the Board of Directors on its activities. The Institute's risk management policies are established to identify and analyse the risks faced by the Institute, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Institute's activities. The Institute, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The management monitors compliance with the Institute's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Institute.

29.1.1 Credit risk

(i) Receivable against training programs

The Institute's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Since the majority of the customers are either commercial banks and government owned entities including the Parent entity and its subsidiary, the Institute is less likely to be exposed to credit risk. The Institute also provides trainings to other central banks which are conducted in coordination with Government of Pakistan and has no history of significant default risk. The Institute maintains provision for doubtful debts that represents its estimate of probable losses in respect of receivable against training programs.

Geographically there is no concentration of credit risk.

At reporting date, the maximum credit exposure in trade debts by type of customer was as follows:

	2018	2017
	(Rupees '000)	
Government owned entities	93,962	35,072
Others	12,490	10,764
	106,452	45,836

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

At reporting date, the ageing of trade debts and provision for doubtful debts were as follows:

	Gross amount		Provision for doubtful debts	
	2018	2017	2018	2017
	(Rupees '000)		(Rupees '000)	
Past due 1-30 days	92,465	12,762	-	-
Past due 31-90 days	8,644	26,568	-	-
Past due 91-180 days	2,035	2,985	-	-
Past due 181-365 days	473	848	-	-
More than one year	2,835	2,673	1,358	1,444
	106,452	45,836	1,358	1,444

The management believes that all unimpaired amounts are collectable in full, based on historical payment behavior and extensive analysis of customer credit risk. The movement in provision for doubtful debts during the year is disclosed in note 7.3

29.1.2 Liquidity risk

Liquidity risk is the risk that the Institute will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation. The Institute believes that it is not exposed to any significant level of liquidity risk.

29.1.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Institute's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(i) Currency risk

The Institute is not exposed to currency risk.

(ii) Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period. The Institute is not exposed to Interest rate risk as it has fixed rate securities.

(iii) Other market price risk

The primary goal of the Institute's investment strategy is to maximize investment returns on surplus funds. The Institute adopts a policy of minimizing its price risk by investing in fixed rate investments like Market Treasury Bills. Currently, the Institute is not exposed to price risks as the investments are currently being carried at amortised cost.

NATIONAL INSTITUTE OF BANKING AND FINANCE (GUARANTEE) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

30 CAPITAL MANAGEMENT

The Institute's objective when managing capital, is to safeguard the Institute's ability to continue as a going concern and maintain a strong capital base to support the sustained development of its business activities. The Institute is not subject to externally imposed capital requirements. Further, the parent's support is available to continue its operations.

31 NUMBER OF EMPLOYEES

	2018	2017
	Number	
Number of employees	35	31
Average number of employees	33	29

32 CORRESPONDING FIGURES

32.1 Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison. There have been no significant re-arrangements or reclassifications during the current year.

33 GENERAL

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

34 DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 04 OCT 2018 by the Board of Directors of the Institute.

CHIEF EXECUTIVE OFFICER/ MANAGING DIRECTOR

DIRECTOR

PAKISTAN SECURITY PRINTING CORPORATION
(PRIVATE) LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

pwc A·F·FERGUSON&Co.

Independent Auditor's Report to the members of Pakistan Security Printing Corporation (Private) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Pakistan Security Printing Corporation (Private) Limited (the Corporation), which comprise the statement of financial position as at June 30, 2018, and the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the International Financial Reporting Standards and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2018 and of the profit and other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the director's report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Board of directors are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

(a) proper books of account have been kept by the Corporation as required by the Companies Act, 2017 (XIX of 2017);

(b) the statement of financial position, the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;

(c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Corporation's business; and

(d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is Khurshid Hasan.

AFFerguson

A. F. Ferguson & Co.,
Chartered Accountants
Karachi, October 17, 2018

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2018

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
ASSETS				
NON CURRENT ASSETS				
Property, plant and equipment	6	52,144,366	52,183,635	883,284
Investment property	7	-	-	-
Intangibles	8	6	96	495
		52,144,372	52,183,731	883,779
Long term investments in associates	9	2,345,584	2,134,590	1,988,032
Other long term investments	10	23,904	27,164	120,195
Long term loans	11	82,087	96,168	61,626
Long term deposits	12	18,172	12,836	13,176
Deferred taxation	13	243,999	193,273	693,601
		54,858,118	54,647,762	3,760,409
CURRENT ASSETS				
Stores and spares - net	14	293,041	248,608	333,567
Stock-in-trade - net	15	2,321,705	2,073,947	2,515,499
Trade debts - net	16	1,357,094	1,702,777	2,493,084
Loans and advances	17	29,040	26,781	19,507
Trade deposits and prepayments	18	9,821	4,821	13,973
Accrued mark-up		4,702	90,233	91,708
Other receivables	19	45,097	1,744,036	23,386
Current maturity of long term investments	10	-	99,955	199,932
Short term investments	20	7,450,263	7,704,086	8,087,047
Taxation - net		505,899	398,414	221,446
Cash and bank balances	21	578,324	1,275,911	1,787,567
		12,594,986	15,369,569	13,786,716
TOTAL ASSETS		67,453,104	70,017,331	17,547,125
EQUITY AND LIABILITIES				
SHARE CAPITAL AND RESERVES				
Share capital				
Authorised capital 1,000,000 (June 30, 2017: 1,000,000) ordinary shares of Rs 1,000 each		1,000,000	1,000,000	1,000,000
Issued, subscribed and paid up capital	22	1,000,000	1,000,000	1,000,000
Reserves				
Surplus on revaluation of property, plant and equipment - net	23	51,503,347	51,505,483	-
Other reserves	23	7,858,598	6,365,491	11,166,608
		59,361,945	57,870,974	11,166,608
TOTAL EQUITY		60,361,945	58,870,974	12,166,608
NON CURRENT LIABILITIES				
Liabilities against assets subject to finance leases	24	28,145	11,674	17,563
Deferred liabilities	25	4,098,377	3,146,267	3,622,195
		4,126,522	3,157,941	3,639,758
CURRENT LIABILITIES				
Trade and other payables	26	2,049,141	2,208,535	1,732,736
Payable to NSPC		905,862	5,774,651	-
Accrued mark-up		248	70	112
Current portion of liabilities against assets subject to finance leases	24	9,386	5,160	7,911
		2,964,637	7,988,416	1,740,759
		7,091,159	11,146,357	5,380,517
TOTAL EQUITY AND LIABILITIES		67,453,104	70,017,331	17,547,125
CONTINGENCIES AND COMMITMENTS	27			

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chief Executive Officer

Director

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED JUNE 30, 2018

	Note	June 30, 2018	June 30, 2017
		-------------Rupees '000-------------	
CONTINUING OPERATIONS			
Net sales		12,214,281	9,476,192
Cost of sales	28	(9,362,218)	(7,106,566)
GROSS PROFIT		2,852,063	2,369,626
Administrative expenses	29	(591,418)	(515,159)
Other expenses	30	(218,442)	(110,604)
Other income	31	376,982	686,498
		(432,878)	60,735
Operating profit		2,419,185	2,430,361
Finance cost	32	(3,273)	(1,915)
Share of profit from associates	33	691,417	562,453
PROFIT BEFORE TAXATION FROM CONTINUING OPERATIONS		3,107,329	2,990,899
Taxation	34	(1,048,115)	(945,961)
PROFIT AFTER TAXATION FROM CONTINUING OPERATIONS		2,059,214	2,044,938
DISCONTINUED OPERATIONS			
Profit after taxation from discontinued operations	35	-	697,930
Profit for the year		2,059,214	2,742,868
		-------------Rupees-------------	
EARNINGS PER SHARE	36		
- Continuing operations		2,059	2,045
- Discontinued operations		-	698
		2,059	2,743

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chief Executive Officer

Director

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018

	June 30, 2018	June 30, 2017
	Rupees '000	
Profit for the year	2,059,214	2,742,868
Other comprehensive (loss) / income for the year:		
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive loss of associates	(64,227)	(58,904)
Impact of deferred tax	9,634	7,364
	(54,593)	(51,540)
Unrealised (depreciation) / appreciation during the year on available-for-sale investments of the Corporation	(3,260)	5,967
Total items that may be reclassified subsequently to profit or loss	(57,853)	(45,573)
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of post retirement benefits obligation of associates (notes 9.1 and 9.2)	1,990	2,664
Remeasurement of post retirement benefits obligation of the Corporation	(683,174)	(219,863)
Impact of deferred tax	170,794	65,959
	(512,380)	(153,904)
Gain on revaluation of property, plant and equipment	-	51,693,429
Impact of deferred tax	-	(187,401)
	-	51,506,028
Total items that will not be reclassified subsequently to profit or loss	(510,390)	51,354,788
Total other comprehensive (loss) / income for the year	(568,243)	51,309,215
Total comprehensive income for the year	1,490,971	54,052,083
Total comprehensive income for the year attributable to owners of the Corporation arising from		
- Continuing operations	1,490,971	53,383,883
- Discontinued operations	-	668,200
	1,490,971	54,052,083

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chief Executive Officer

Director

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Note	June 30, 2018	June 30, 2017
		-----------Rupees '000-----------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	39	(673,782)	3,021,234
Taxes paid		(1,025,898)	(1,276,150)
Pension paid		(76,844)	(83,163)
Long term loans		17,094	(51,391)
Long term deposits - net		(5,336)	46
Net cash (utilised in) / generated from operating activities		(1,764,766)	1,610,576
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(33,197)	(124,740)
Investment in subsidiary		-	(1,000,000)
Proceeds from sale of long term investments		99,955	200,000
Purchase of short term investments		(22,014)	(6,553,260)
Proceeds from sale of property, plant and equipment		3,026	1,414
Proceeds from sale of short term investments		6,278,834	3,653,273
Mark-up received		432,658	451,208
Dividends received		418,186	359,656
Net cash generated from / (utilised in) investing activities		7,177,448	(3,012,449)
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease rentals paid		(10,269)	(9,783)
Dividend paid		-	(600,000)
Net cash utilised in financing activities		(10,269)	(609,783)
Net increase / (decrease) in cash and cash equivalents during the year		5,402,413	(2,011,656)
Cash and cash equivalents at the beginning of the year		1,275,911	3,287,567
Cash and cash equivalents at the end of the year	40	6,678,324	1,275,911

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chief Executive Officer

Director

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2018

	Issued, subscribed and paid-up capital	Capital reserves				Revenue reserves			Total reserves	Grand total
		Surplus on revaluation of investments	Asset acquisition reserve	Surplus on revaluation of property, plant and equipment - net	Sub-total capital reserves	General reserve	Accumulated (loss)/ profit	Sub-total revenue reserves		
	Rupees '000									
Balance as at July 1, 2016	1,000,000	20,964	3,800,000	-	3,820,964	5,996,048	1,349,596	7,345,644	11,166,608	12,166,608
Transactions with owners										
Final cash dividend for the year ended June 30, 2016@ 60% (i.e. Rs 600 per share)	-	-	-	-	-	-	(600,000)	(600,000)	(600,000)	(600,000)
Specie dividend - Net assets attributable to discontinued operations as on March 31, 2017	-	-	-	-	-	(5,131,717)	(1,616,000)	(6,747,717)	(6,747,717)	(6,747,717)
Total transactions with owners	-	-	-	-	-	(5,131,717)	(2,216,000)	(7,347,717)	(7,347,717)	(7,347,717)
Transfer to general reserve	-	-	-	-	-	23,751	(23,751)	-	-	-
Transfer to asset acquisition reserve	-	-	1,700,000	-	1,700,000	-	(1,700,000)	(1,700,000)	-	-
Surplus on revaluation of property, plant and equipment - Incremental depreciation for the year - net of deferred tax	-	-	-	(545)	(545)	-	545	545	-	-
Total comprehensive income for the year ended June 30, 2017										
Profit for the year	-	-	-	-	-	-	2,742,868	2,742,868	2,742,868	2,742,868
Other comprehensive income / (loss)	-	(45,573)	-	51,506,028	51,460,455	-	(151,240)	(151,240)	51,309,215	51,309,215
	-	(45,573)	-	51,506,028	51,460,455	-	2,591,628	2,591,628	54,052,083	54,052,083
Balance as at June 30, 2017	1,000,000	(24,609)	5,500,000	51,505,483	56,980,874	888,082	2,018	890,100	57,870,974	58,870,974
Transfer to general reserve						742,868	(742,868)	-	-	-
Transfer to asset acquisition reserve	-	-	2,000,000	-	2,000,000	-	(2,000,000)	(2,000,000)	-	-
Surplus on revaluation of property, plant and equipment - Incremental depreciation for the year - net of deferred tax	-	-	-	(2,136)	(2,136)	-	2,136	2,136	-	-
Total comprehensive income for the year ended June 30, 2018										
Profit for the year	-	-	-	-	-	-	2,059,214	2,059,214	2,059,214	2,059,214
Other comprehensive loss		(57,853)	-	-	(57,853)	-	(510,390)	(510,390)	(568,243)	(568,243)
	-	(57,853)	-	-	(57,853)	-	1,548,824	1,548,824	1,490,971	1,490,971
Balance as at June 30, 2018	1,000,000	(82,462)	7,500,000	51,503,347	58,920,885	1,630,950	(1,189,890)	441,060	59,361,945	60,361,945

The annexed notes 1 to 48 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chief Executive Officer

Director

PAKISTAN SECURITY PRINTING CORPORATION (PRIVATE) LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. THE CORPORATION AND ITS OPERATIONS

1.1 Pakistan Security Printing Corporation (Private) Limited ("the Corporation") was incorporated in Pakistan under the Companies Ordinance, 1984 (now Companies Act, 2017) and was wholly owned by the Government of Pakistan upto June 13, 2017. Effective June 14, 2017, the Corporation became subsidiary of the State Bank of Pakistan. The registered office and the factory are located at Jinnah Avenue, Malir Halt, Karachi, in the province of Sindh. The Corporation is principally engaged in the printing of currency notes and prize bonds on behalf of the State Bank of Pakistan.

2. SIGNIFICANT TRANSACTIONS AND EVENTS AFFECTING THE CORPORATION'S FINANCIAL POSITION AND PERFORMANCE

All significant transactions and events that have affected the Corporation's financial position and performance during the year have been adequately disclosed in the notes to these financial statements. For a detailed discussion about these significant transactions and events please refer to the Directors' report.

3. SIGNIFICANT ACCOUNTING INFORMATION AND POLICIES

3.1 Basis of measurement

These financial statements have been prepared under the historical cost convention unless otherwise specifically stated.

3.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the functional currency of the Company.

3.3 The fifth schedule to the Companies Act, 2017 became applicable to the Corporation for the first time for the preparation of these financial statements. The Companies Act, 2017 (including its fifth schedule) forms an integral part of the statutory financial reporting framework applicable to the Corporation and amongst others, prescribes the nature and content of disclosures in relation to various elements of the financial statements.

Section 225 of the Companies Act, 2017 inter alia states that notwithstanding anything in the Companies Act, 2017 any company that intends to make unreserved compliance of the International Financial Reporting Standards (IFRSs) issued by the IASB shall be permitted to do so. Accoridngly, the Corporation has opted to make unreserved compliance of the IFRSs.

In accordance with IFRS 1 'First-time adoption of International Financial Reporting Standards', the same accounting policies have been followed throughout these first IFRS financial statements and in the opening IFRS statement of financial position as at July 1, 2016 except for the matter stated in note 5.2 below.

3.4 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). In addition the disclosure requirements of the fifth schedule to the Companies Act, 2017 have also been complied with. Where disclosure requirements of the fifth schedule to the Companies Act, 2017 differ from the IFRSs issued by IASB, the requirements of the IFRSs issued by IASB have been followed.

These financial statements represent the first IFRS financial statements of the Corporation as detailed in note 3.3 above. The transition date for the purpose of these financial statements is July 1, 2016.

For all periods up to and including the year ended June 30, 2017, the Corporation's financial statements were prepared in accordance with approved accounting standards as applicable in Pakistan i.e. such IFRSs issued by the IASB as were notified under the repealed Companies Ordinance, 1984 and provisions of and directives issued under the repealed Companies Ordinance, 1984. In case requirements were to differ, the provisions of or directives under the Companies Ordinance, 1984 prevailed.

3.5 New standards, amendments to applicable financial reporting framework and new interpretations that are not yet effective

There are certain new standards, amendments to the standards and interpretations that will be mandatory for the Corporation's annual accounting periods beginning on or after July 1, 2018. The amendments and interpretations will not have any significant impact on the financial reporting of the Corporation and, therefore, have not been disclosed in these financial statements.

Further IFRS 9 'Financial Instruments' (effective July 1, 2018), IFRS 15 'Revenue from Customers' (effective July 1, 2018), IFRS 16 'Leases' (effective July 1, 2019) and IFRS 17 'Insurance contracts' (effective July 1, 2021) are applicable for the Corporation's future financial reporting. At present, the impacts of application of these IFRSs on the Corporation's future financial statements are being assessed.

3.6 Property, plant and equipment

3.6.1 Owned

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment, if any, except for land and buildings which are carried with effect from April 1, 2017 at revalued amounts less any accumulated depreciation and subsequent accumulated impairment, if any. The details are stated in note 5.2 below.

Depreciation is charged to profit or loss applying the straight line method whereby the depreciable amount of an asset is depreciated over its estimated useful life at the rates specified in note 6.1.1 to these financial statements.

Depreciation on additions is charged from the month in which the asset is available for use and continued to be depreciated until it is derecognised, that is, upto the month preceding the month of disposal. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use.

No depreciation is charged if the asset's residual value exceeds its carrying amount.

Residual values, useful lives and methods of depreciation are reviewed at each date of statement of financial position and adjusted if expectations differ significantly from previous estimates.

Useful lives are determined by the management based on expected usage of the asset, expected physical wear and tear, technical and commercial obsolescence, legal and similar limits on the use of the assets and other similar factors.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the recoverable amount.

Major renewals, replacements and improvements that meet the recognition criteria in IAS 16 "Property, Plant and Equipment" are capitalised and the assets so replaced, if any, are retired. Normal repairs and maintenance are charged to profit or loss as and when incurred. Gains and losses on disposals of the assets are included in profit or loss in the year in which disposal is made.

3.6.2 Capital work in progress

These are stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use.

3.6.3 Leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements are shown as a liability net of financial charges allocable to future periods.

The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets owned by the Corporation.

3.7 Investment Properties

Investment properties, principally leasehold building, are held for long term rental yields and are not occupied by the Corporation. Investment properties are measured initially at cost, including related transaction costs. These properties are carried at cost.

Additions to investment properties consists of cost of capital nature. The profit on disposal is determined as a difference between sales proceeds and the carrying amount of the assets at the commencement of the accounting period plus capital expenditure in the period.

3.8 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Intangible assets are recognised when it is probable that the expected future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Cost of the intangible asset includes purchase cost and directly attributable expenses incidental to bring the asset for its intended use.

Costs associated with maintaining computer software are recognised as an expense as and when incurred.

Amortisation is charged to profit or loss on a straight line basis over the estimated useful life at the rates specified in note 8.1 to these financial statements unless such lives are indefinite. All intangible assets with an indefinite useful life are systematically tested for impairment at each date of statement of financial position. Amortisation on additions to intangible assets is charged from the date on which an item is acquired or capitalised and upto the date preceding the disposal.

Useful lives of intangible operating assets are reviewed, at each date of statement of financial position and adjusted if the impact of amortisation is significant.

3.9 Impairment

The Corporation assesses at each date of statement of financial position whether there is any indication that property, plant and equipment and intangible assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed recoverable amounts, assets are written down to their recoverable amounts and the differences are recognised in profit or loss.

3.10 Stores and spares

Stores and spares are valued at the lower of cost determined on weighted average method and net realisable value. Stores and spares in transit are valued at cost incurred upto the date of statement of financial position. Local purchases of engineering stores are charged to profit or loss at the time of purchase.

The Corporation reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form.

3.11 Stock-in-trade

Raw materials are valued at lower of cost determined on weighted average basis and net realisable value except for items in transit which are stated at cost incurred upto the date of statement of financial position.

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.

3.12 Trade debts and other receivables

Trade debts and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for doubtful trade debts and other receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Debts, considered irrecoverable, are written off, as and when identified.

3.13 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognised in profit or loss or statement of comprehensive income to which it relates.

Current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into account tax credits and tax rebates available, if any, and tax paid on final tax basis or minimum tax on turnover or seventeen percent of accounting profit, whichever is higher. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from the assessments made / finalised during the year.

Deferred tax

Deferred tax is recognised using the liability method on all temporary differences between the carrying amounts of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all major taxable temporary differences.

Deferred tax assets are recognised for all major deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of the deferred tax asset is reviewed at each date of statement of financial position and is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred income tax assets are reassessed at each date of statement of financial position and are recognised to the extent that it becomes probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is utilised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the date of statement of financial position.

3.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purpose of the statement of cash flows, cash and cash equivalents comprise of cash in hand, deposits held with banks and other short term highly liquid investments with maturities of three months or less from the date of acquisition.

3.15 Borrowing costs

Borrowing costs relating to the acquisition, construction or production of a qualifying asset are recognised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which these are incurred.

3.16 Provisions

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

3.17 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services whether billed or not.

3.18 Leases

Liabilities against assets subject to finance lease are accounted for at the net present value of minimum payments under the lease arrangements. Financial charges under lease arrangements are allocated to periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

3.19 Staff retirement benefits

Defined benefit plan

The Corporation operates an approved defined benefit funded pension scheme for all its permanent employees under the Pakistan Security Printing Corporation (Private) Limited Employees (Pension and Gratuity) Regulations 1993 (the regulations). During the previous year as a result of business reorganisation, employees relating to National Security Printing Company (Private) Limited (NSPC) were transferred to NSPC and as per the business transfer agreement dated May 19, 2017 the costs of gratuity or pension are to be borne by transferee company i.e. NSPC, accordingly, the pension fund has become a multi-employer fund. Contribution to the pension fund is made based on the actuarial valuation carried out on annual basis using Projected Unit Credit method. All actuarial gains and losses are recognised in "other comprehensive income" as they occur. Under the scheme, the employees are entitled to the following:

(a) employees who have completed the prescribed qualifying period of more than ten years of service and opt for the scheme are entitled to post retirement pension benefit; and

(b) gratuity for employees who have opted for gratuity instead of pension or those who have completed five years of service but have not yet completed ten years of service. Provision for gratuity has been calculated on the basis of projected unit credit method.

3.20 Employees' compensated absences

The Corporation accounts for the liability in respect of employees' compensated absences in the year in which these are earned. Annual provisions to cover the obligations under the scheme are based on estimates and are charged to profit or loss currently. As the component of the liability involved is not material, the Corporation does not carry out actuarial valuation for the said liability.

3.21 Revenue recognition

- Revenue from sale of goods is measured at fair value of the consideration received or receivable. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. The Corporation records revenue from sale of goods on dispatch of goods to its customers.

- Rental income from property is accrued on time proportion basis at agreed rates.

- Interest income on available-for-sale debt securities, held-to-maturity investments and loans and receivables are recognised using effective interest rate method.

- Return on bank deposits is recognised on accrual basis taking into account the effective yield.

- Dividend income is recognised when the Corporation's right to receive the dividend is established.

- Gains / losses arising on sale of investments are included in profit or loss in the period in which they arise.

- Unrealised gains / losses arising on revaluation of securities classified as held for trading are included in profit or loss in the period in which they arise.

- Scrap sales and miscellaneous income are recognised on receipt basis.

- Unrealised gains / losses arising on revaluation of securities classified as 'available-for-sale' are included in other comprehensive income in the period in which they arise.

3.22 Foreign currency transactions

Transactions in foreign currencies are recorded in Pakistan Rupee at the exchange rates approximating those prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are reported in Pakistan Rupee at the exchange rates approximating those prevalent at the date of statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange differences are recognised in profit or loss.

3.23 Dividend and other appropriations

Dividend is recognised as a liability in the period in which it is declared. Appropriations of profit are reflected in the statement of changes in equity in the period in which such appropriations are approved.

3.24 Financial instruments

3.24.1 Financial assets

The Corporation classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

c) Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixe maturity that are quoted in an active market, where management has the intention and abilit to hold till maturity are carried at amortised cost.

d) Available for sale financial assets

These are non-derivatives that are either designated in this category or not classified in any o the other categories. They are included in non-current assets unless management intends tc dispose of the investments within twelve months from the date of statement of financia position.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised as "Other comprehensive income" are included in profit or loss as gains and losses on disposal of short term investments. Interest on available for sale securities calculated using effective interest method is recognised in profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss when the Corporation's right tc receive payments is established.

3.24.2 Recognition

All financial assets are recognised at the time when the Corporation becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised at trade date i.e. the date on which the Corporation commits to purchase or sell the asset.

3.24.3 Measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. 'Loans and receivables' and 'held to maturity' investments are carried at amortised cost using effective interest rate method.

3.24.4 Fair value measurement principles

Gains or losses arising, from changes in the fair value of the 'financial assets at fair value through profit or loss' are recognised in profit and loss for the year. Changes in the fair value of instruments classified as 'available for sale' are recognised in 'Other comprehensive income' until derecognised or impaired, when the accumulated fair value adjustments recognised in unrealised surplus on revaluation of investments are included in profit or loss for the year.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (for unlisted securities), the Corporation measures the investments at cost less impairment in value, if any.

3.24.5 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

3.24.6 Impairment

Financial assets other than those carried at fair value through profit or loss are reviewed at each date of statement of financial position to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. If an available-for-sale investment is impaired, the cumulative loss is removed from equity and is recognised in profit or loss.

If in subsequent period the amount of impairment loss decreases, the reduction in impairment loss on financial assets other than the investments classified as available-for-sale are recognised in the profit or loss. However, impairment losses recognised in profit or loss on available-for-sale equity instruments are not reversed through profit or loss.

3.24.7 Financial liabilities

All financial liabilities are recognised at the time when the Corporation becomes a party to the contractual provisions of the instrument.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

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

3.24.8 Off-setting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the financial statements if the Corporation has a legally enforceable right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.25 Contingent liabilities

A contingent liability is disclosed when:

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Corporation; or

- there is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

3.26 Investment in associates

Entities in which the Corporation has significant influence but not control and which are neither its subsidiaries nor joint ventures are classified as associates and are accounted for by using the equity method of accounting.

These investments are initially recognised at cost, thereafter the carrying amount is increased or decreased to recognise the Corporation's share of profit or loss of associates. Share of post acquisition profit or loss of associates is accounted for in the Corporation's profit or loss. Distribution received from investee reduces the carrying amount of investment. The Corporation's share of associate's other comprehensive income is recognised in other comprehensive income of the Corporation.

The carrying amount of the investment is tested for impairment, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount and loss, if any is recognised in profit or loss.

Unrealised gains / losses arising from transactions with associated companies are eliminated against the investment in the associates to the extent of Corporation's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

The Corporation accounts for its share of comprehensive income from associates as at year end on the basis of latest available financial statement of associates but not older than three months.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with the applicable financial reporting framework requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. In the process of applying the Corporation's accounting policies, the management has made the following estimates and judgments which are significant to the financial statements:

a) Assumptions and estimates used in determining the recoverable amount, residual values and useful lives of property, plant and equipment (note 6);

b) assumptions and estimates used in determining the fair value of land and buildings (note 6);

c) assumptions and estimates used in determining the useful lives and residual values of intangibles (note 8);

d) assumptions and estimates used in the recognition of current and deferred taxation (notes 13 and 34);

e) assumptions and estimates used in determining the provision for slow moving stores and spares (note 14);

f) assumptions and estimates used in writing down items of stock-in-trade to their net realisable value (note 15);

g) assumptions and estimates used in calculating the provision for impairment for trade debts (note 16);

h) assumptions and estimates used in measurement of fair value of investments (note 20);

i) assumptions and estimates used in accounting for defined benefit plan (note 25); and

j) assumptions and estimates used in disclosure and assessment of provision for contingencies (note 27).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

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5. FIRST TIME ADOPTION OF IFRSs

5.1 Presented below is a reconciliation of the amounts stated in the last annual financial statements for the year ended June 30, 2017 which were prepared in accordance with approved accounting standards as applicable in Pakistan and these financial statements:

	July 1, 2016	June 30, 2017
	------- Rupees '000 ------	
Total equity as reported in the financial statements for the year ended June 30, 2017	12,166,608	7,365,491
Impact due to change in an accounting policy (as stated in notes 5.1.1 and 5.2 below)	-	51,505,483
Total equity as reported in these financial statements	12,166,608	58,870,974

	June 30, 2017
	Rupees '000
Total comprehensive income as reported in the financial statements for the year ended June 30, 2017	2,546,055
Impact due to change in an accounting policy (as stated in notes 5.1.1 and 5.2 below)	51,506,028
Total comprehensive income as reported in these financial statements	54,052,083

5.1.1 As stated in the Corporation's previous financial statements i.e. for the year ended June 30, 2017, surplus on revaluation of property, plant and equipment was credited to the 'surplus on revaluation of property, plant and equipment' account and was shown in the balance sheet / statement of financial position below share capital and reserves in accordance with the previously applicable financial reporting framework i.e. approved accounting standards as applicable in Pakistan.

5.2 Change in an accounting policy during the period from the date of transition to IFRSs.

With effect from April 1, 2017, the Corporation has revised its accounting policy in respect of subsequent measurement of land and buildings which are now carried at revalued amount less accumulated depreciation and impairment, if any. Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in the equity. To the extent that the increase reverses a decrease previously recognised in statement of profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset' s original cost, net of tax, is reclassified from the 'revaluation surplus on property, plant and equipment' (PPE) to 'accumulated profit'. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the assets. Upon disposal, any revaluation reserve relating to the particular assets being sold is transferred to accumulated profit.

From the date of transition to IFRSs i.e. July 1, 2016 and upto March 31, 2017, the land and buildings of the Corporation were stated at cost less accumulated depreciation and impairment, if any.

The effect of change in the accounting policy is summarised below:

	As at March 31, 2017	Impact of change	As at April 1, 2017
	------------ Rupees in '000		----------------
Effect on statement of financial position			
Operating fixed assets			
- Land	3,241	51,068,759	51,072,000
- Buildings on freehold land	111,347	624,670	736,017
	114,588	51,693,429	51,808,017
Deferred taxation	686,291	(187,401)	498,890
Surplus on revaluation of property, plant and equipment - net	-	51,506,028	51,506,028

	Rupees in 000
Effect on statement of profit or loss and other comprehensive income	
Gain on revaluation of property, plant and equipment - net of tax (up to March 31, 2017)	-
Impact of change in policy made on April 1, 2017	51,506,028
Gain on revaluation of property, plant and equipment - net of tax recognised on April 1, 2017	51,506,028

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		Note	June 30, 2018	June 30, 2017	July 1, 2016
6.	PROPERTY, PLANT AND EQUIPMENT			Rupees '000	
	Operating fixed assets	6.1	52,133,906	52,174,773	846,151
	Capital work in progress	6.3	10,460	8,862	37,133
			52,144,366	52,183,635	883,284

6.1 Operating fixed assets

6.1.1 The following is a statement of operating fixed assets:

	Owned: Freehold land	Building on Freehold land	Building on Leasehold land	Plant and machinery	Power and other installation	Furniture and fixtures	Office equipment and machinery	Vehicles	Sub-total	Leased Vehicles	Total
	Rupees '000										
As at July 1, 2016											
Cost	3,241	434,148	3,732	7,420,304	284,885	52,213	238,533	18,946	8,462,345	46,283	8,497,437
Accumulated depreciation	-	(311,074)	(3,732)	(6,601,891)	(171,383)	(41,299)	(194,127)	(18,370)	(7,236,838)	(21,030)	(7,250,958)
Net book value	3,241	123,074	-	823,413	113,802	11,814	46,406	576	1,221,109	24,353	1,248,483
Year ended June 30, 2016											
Additions	-	2,148	-	15,584	-	2,177	18,448	46	38,400	7,683	44,090
Transfers from capital work in progress during the year (note 7.3.1)	-	2,464	-	74,983	-	-	-	-	77,438	-	77,438
Transfers											
Cost	-	-	-	-	-	-	-	3,773	3,773	(3,773)	-
Accumulated depreciation	-	-	-	-	-	-	-	(3,659)	(3,659)	3,659	-
Net book value	-	-	-	-	-	-	-	114	114	(114)	-
Disposals											
Cost	-	-	-	-	-	-	-	(3,819)	(3,819)	-	(3,819)
Accumulated depreciation	-	-	-	-	-	-	-	3,771	3,771	-	3,771
Net book value	-	-	-	-	-	-	-	(48)	(48)	-	(48)
Depreciation charge for the year	-	(11,040)	-	(409,540)	(24,805)	(2,684)	(13,865)	(369)	(512,225)	(8,800)	(520,833)
Net book value as at June 30, 2016	3,241	116,636	-	504,441	88,990	11,307	47,871	339	822,820	23,331	846,151
Year ended June 30, 2017											
Additions	-	-	-	4,382	519	1,707	1,425	-	10,831	-	10,831
Transfers from capital work in progress during the year (note 7.3.1)	-	2,503	-	133,844	-	-	-	-	136,347	-	136,347
Transfers											
Cost	-	-	-	-	-	-	-	3,640	3,640	(3,640)	-
Accumulated depreciation	-	-	-	-	-	-	-	(3,192)	(3,192)	3,192	-
Net book value	-	-	-	-	-	-	-	448	448	(448)	-
Disposals											
Cost	-	-	-	-	-	-	-	(5,361)	(5,361)	-	(5,361)
Accumulated depreciation	-	-	-	-	-	-	-	5,298	5,298	-	5,298
Net book value	-	-	-	-	-	-	-	(63)	(63)	-	(63)
Depreciation charge for the year	-	(11,881)	-	(135,519)	(24,082)	(2,771)	(12,751)	(938)	(179,832)	(7,035)	(186,867)
Transfer to investment											
Cost	-	-	(3,732)	-	-	-	-	-	(3,732)	-	(3,732)
Accumulated depreciation	-	-	3,732	-	-	-	-	-	3,732	-	3,732
Discontinued operations - note 38											
Cost	-	-	-	(1,258,141)	(5,208)	(13,053)	(35,733)	-	(1,330,788)	(3,111)	(1,333,[illegible])
Accumulated depreciation	-	-	-	937,418	3,090	12,121	32,603	-	1,005,[illegible]	2,145	1,007,[illegible]
	-	-	-	(310,[illegible])	(2,118)	(932)	(3,130)	-	(325,[illegible])	(966)	(326,[illegible])
Revaluation adjustment											
Cost	51,066,759	383,672	-	-	-	-	-	-	51,382,921	-	51,382,921
Accumulated depreciation	-	330,798	-	-	-	-	-	-	330,798	-	330,798
	51,066,759	404,873	-	-	-	-	-	-	51,603,429	-	51,893,429
Net book value as at June 30, 2017	51,072,000	731,830	-	247,623	63,338	6,311	30,419	183	52,158,891	14,882	52,174,773
Year ended June 30, 2018											
Additions	-	4,139	-	1,530	1,829	1,252	12,356	6,341	27,226	30,317	57,542
Transfers from capital work in progress during the year (note 7.3.1)	-	4,374	-	-	-	-	-	-	4,374	-	4,374
Transfers											
Cost	-	-	-	-	-	-	-	10,894	10,894	(10,894)	-
Accumulated depreciation	-	-	-	-	-	-	-	(10,323)	(10,323)	10,323	-
Net book value	-	-	-	-	-	-	-	571	571	(571)	-
Disposals											
Cost	-	-	-	-	-	-	-	(11,481)	(11,481)	(8,261)	(19,742)
Accumulated depreciation	-	-	-	-	-	-	-	11,110	11,110	4,080	15,190
Net book value	-	-	-	-	-	-	-	(371)	(371)	(1,166)	(1,537)
Depreciation charge for the year	-	(13,039)	-	(42,271)	(22,981)	(2,060)	(16,820)	(960)	(92,271)	(8,946)	(101,216)
Net book value as at June 30, 2018	51,072,000	727,304	-	207,082	42,186	7,813	26,957	5,631	52,096,219	24,887	52,133,906
As at June 30, 2016											
Cost	3,241	418,757	3,732	7,515,946	284,005	55,390	245,981	18,990	8,548,098	48,214	8,615,172
Accumulated depreciation	-	(302,119)	(3,732)	(6,961,495)	(195,805)	(44,083)	(198,110)	(18,651)	(7,742,938)	(26,883)	(7,769,019)
Net book value	3,241	116,638	-	554,451	88,020	11,307	47,871	339	822,820	23,331	846,151
As at June 30, 2017											
Cost	51,072,000	735,132	-	6,398,026	280,179	44,844	193,001	17,515	58,740,542	42,357	58,782,900
Accumulated depreciation	-	(3,312)	-	(6,150,393)	(216,841)	(34,733)	(158,222)	(17,332)	(6,586,651)	(27,475)	(6,608,127)
Net book value	51,072,000	731,830	-	247,623	63,338	6,311	30,419	183	52,158,891	14,882	52,174,773
As at June 30, 2018											
Cost	51,072,000	743,645	-	6,399,555	281,601	45,279	206,048	23,026	58,771,318	66,799	58,838,094
Accumulated depreciation	-	(16,341)	-	(6,192,473)	(239,422)	(37,420)	(180,052)	(17,405)	(6,672,988)	(22,082)	(6,694,179)
Net book value	51,072,000	727,304	-	207,082	42,199	7,883	25,997	5,621	52,098,219	24,887	52,133,906
Annual rates of depreciation	-	5%	5%	10%	10% - 30%	10% - 20%	10% - 33%	20%		20%	

6.1.2 A reassessment of the fair values of the land and buildings was conducted as at June 30, 2018, whereby it was confirmed that there is no material change in the values assessed as at March 31, 2017.

The fair valuation of land has been assessed based on the use of the land which is not its current use i.e. 'highest and best use' concept. The Corporation is continuing with the land's current use because of the fact that the complete printing facility / factory is situated on such land.

The land has been valued on the basis of fair market value while buildings' revaluation represents current cost of construction for relevant type of civil works. Land and buildings are carried at revalued amounts (level 3) determined by professional valuer based on their assessment of the market values. The unobservable inputs used in the valuations cannot be determined with certainity, accordingly, a qualitative disclosure of sensitivity has not been presented in these financial statements.

6.1.3 Had there been no revaluation, the written down value of specific classes of fixed assets based on cost model would have been as follows:

	June 30, 2018	June 30, 2017
	Rupees '000	
Freehold land	3,241	3,241
Building on freehold land	106,464	107,928

6.2 Depreciation charge for the year has been allocated as follows:

	Note	June 30, 2018	June 30, 2017	July 1, 2016
			Rupees '000	
Cost of sales attributable to:				
- Continuing operations	28	72,378	98,771	417,310
- Discontinued operations		-	59,959	74,218
		72,378	158,730	491,528
Administrative expenses attributable to:				
- Continuing operations	29	28,838	24,637	26,840
- Discontinued operations		-	2,300	2,467
		28,838	26,937	29,307
		101,216	185,667	520,835

6.3 Capital work in progress

Civil works	-	4,374	4,099
Plant and machinery	10,460	4,488	33,034
	10,460	8,862	37,133

6.3.1 The movement in capital work in progress is as follows:

	Note			
Balance as at beginning of the year		8,862	37,133	35,042
Additions during the year				
- Plant and machinery		5,972	111,331	72,984
- Civil works		-	2,778	6,563
		5,972	114,109	79,547
Transfers to operating fixed assets				
- Plant and machinery		-	(133,844)	(74,992)
- Building on freehold land		(4,374)	(2,503)	(2,464)
		(4,374)	(136,347)	(77,456)
Less: Discontinued operations	35	-	(6,033)	-
Balance at end of the year		10,460	8,862	37,133

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	June 30, 2018	June 30, 2017
7. INVESTMENT PROPERTY	---------Rupees '000---------	
Cost	2,732	2,732
Accumulated depreciation	(2,732)	(2,732)
Balance as at June 30	-	-

7.1 As a result of revaluation exercise by an independent valuer, the fair value of the investment property was assessed to be Rs 32.315 million as at March 31, 2017.

8. INTANGIBLES

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		---------------Rupees '000---------------		
Computer software				
As at July 1				
Cost		20,533	21,246	21,236
Accumulated amortisation		(20,437)	(20,751)	(20,345)
Net book value		96	495	891
Year ended June 30				
Additions during the year		-	-	10
Amortisation for the year	8.1 & 8.2	(90)	(252)	(406)
Less: Discontinued operations	35			-
- Cost		-	(713)	-
- Accumulated amortisation		-	566	-
Net book value as at June 30		6	96	495
As at June 30				
Cost		20,533	20,533	21,246
Accumulated amortisation		(20,527)	(20,437)	(20,751)
Net book value		6	96	495

8.1 Computer software are being amortised over a useful life of 5 years.

8.2 Amortisation charge for the year has been allocated as follows:

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		---------------Rupees '000---------------		
Cost of sales attributable to:				
- Continuing operations	28	88	109	252
- Discontinued operations		-	107	-
		88	216	252
Administrative expenses attributable to:				
- Continuing operations	29	2	36	154
		90	252	406

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9. LONG TERM INVESTMENTS IN ASSOCIATES

Investments in the following associates are accounted for using equity method of accounting:

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Security Papers Limited	9.1	1,741,299	1,624,763	1,557,788
SICPA Inks Pakistan (Private) Limited	9.2	604,285	509,827	430,244
		2,345,584	2,134,590	1,988,032

9.1 Security Papers Limited

	Note	June 30, 2018	June 30, 2017	July 1, 2016
Ownership interest		40.03%	40.03%	40.03%
Cost		5,032	5,032	5,032
Share of post acquisition after tax profits	9.3 & 9.4	2,978,687	2,608,621	2,306,785
Share in after tax other comprehensive income	9.4	(127,798)	(64,042)	(7,094)
Effect of restatement on other comprehensive income		7,970	7,970	7,970
Dividend received		(1,122,592)	(932,818)	(754,905)
		1,741,299	1,624,763	1,557,788

9.2 SICPA Inks Pakistan (Private) Limited

	Note	June 30, 2018	June 30, 2017	July 1, 2016
Ownership interest		47.00%	47.00%	47.00%
Cost		26,790	26,790	26,790
Share of post acquisition after tax profits	9.6	1,744,296	1,422,945	1,162,328
Effect of restatement on after tax profits		375	375	375
Share in after tax other comprehensive income	9.6	(1,147)	(2,666)	(3,375)
Effect of restatement on other comprehensive income		(528)	(528)	(528)
Dividend received	9.7	(1,165,501)	(937,089)	(755,346)
		604,285	509,827	430,244

9.3 The movement in share of post acquisition after tax profit for Security Papers Limited (SPL) is as follows:

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Opening balance		2,608,621	2,306,785	2,111,737
Share of after tax profit from associate for the year ended June 30	9.4	295,587	375,342	252,537
Unrealised loss / (gain) on transactions	9.5	74,479	(73,506)	(57,489)
		370,066	301,836	195,048
Closing balance		2,978,687	2,608,621	2,306,785

9.4 These amounts are based on audited annual financial statements of SPL as at and for the year ended June 30, 2018.

9.5 This represents the effect of elimination of unrealised gain on transactions between the associate i.e. SPL and the Corporation to the extent of its interest in the associate (40.03%).

9.6 These amounts are based on annual audited financial statements of SICPA Inks Pakistan (Private) Limited (SICPA) as at and for the year ended December 31, 2017 which have been adjusted using the unaudited interim financial information for the three months periods ended March 31, 2017 and 2018.

9.7 During the year ended June 30, 2018, the Corporation received dividend from SICPA subsequent to March 31, 2018 (being the date of the associate's financial information used for recording share of profit from associate) amounting to Rs 43.534 million (2017: Rs 181.743 million) which has been adjusted in the carrying value of investment in associate as at June 30, 2018.

9.8 Summarised financial statements of the associates are as follows:

	Security Papers Limited (audited)			SICPA Inks Pakistan (Private) Limited (unaudited)		
	June 30, 2018	June 30, 2017	June 30, 2016	March 31, 2018	March 31, 2017	March 31, 2016
	Rupees '000					
Assets	5,891,505	5,679,207	5,272,613	2,152,650	1,982,402	1,562,288
Liabilities	1,185,954	1,078,750	1,023,124	774,307	510,972	362,497

	Year ended June 30,			Year ended March 31,		
	2018	2017	2016	2018	2017	2016
	Rupees '000					
Revenue	3,466,918	2,842,085	2,583,566	3,469,552	2,519,454	1,910,764
Profit after tax	738,412	937,653	630,871	683,726	554,503	397,318
Other comprehensive (loss) / income	(159,270)	(142,265)	(46,016)	3,231	1,509	(4,057)

9.9 The market value of SPL as at June 30, 2018 is Rs 121.02 per share (2017: Rs 145.95 per share) i.e. an aggregate amount of Rs 2,870.805 million (2017: Rs 3,462.188 million). The breakup value based on net assets of SICPA as per latest unaudited financial statements as on March 31, 2018 is Rs 241.81 per share (March 31, 2017: Rs 258.150 per share) i.e. an aggregate amount of Rs 647.821 million (March 31, 2017: Rs 691.572 million).

9.10 The investments in associated companies or undertakings have been made in accordance with the requirements under the Act.

10. OTHER LONG TERM INVESTMENTS

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Available-for-sale - Al Hamra Islamic Stock Fund	10.1	23,904	27,164	21,197
Held-to-maturity - Pakistan Investment Bonds		-	99,955	298,930
Less: Current maturity		-	(99,955)	(199,932)
		-	-	98,998
		23,904	27,164	120,195

10.1 Available-for-sale investment include:

June 30, 2018	June 30, 2017	July 1, 2016	Name of investee	June 30, 2018	June 30, 2017	July 1, 2016
Number of units				Rupees '000		
2,217,429	2,217,429	1,995,981	Al Hamra Islamic Stock Fund	23,904	27,164	21,197

This represents available-for-sale investment at fair value with Al Hamra Islamic Stock Fund having cost of Rs 10 million (2017: Rs 10 million).

11. LONG TERM LOANS

	June 30, 2018	June 30, 2017	July 1, 2016
	Rupees '000		
Long term loans to employees	92,626	106,818	68,111
Less: Current maturity	(10,539)	(10,650)	(6,485)
	82,087	96,168	61,626

11.1 The amount represents a housing loan scheme for all of the Corporation's permanent employees who have completed a minimum service period of eight years. The loan is granted to selected employees on the basis of the years of service with the Corporation with equal opportunity for the employees in all categories. The loan is granted at a service cost of 3% per annum on the outstanding loan amount. The loan is repayable in 10 years in equal monthly installments.

11.2 The fair value adjustment in accordance with the requirements of IAS 39 arising in respect of these loans is not considered material in the overall context of these financial statements and hence not recognised.

12. LONG TERM DEPOSITS

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Considered good				
Security deposits	12.1	11,041	7,766	7,180
Lease deposits		5,758	3,697	4,623
Others		1,373	1,373	1,373
		18,172	12,836	13,176

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12.1 These include deposits provided to K-Electric Limited, Sui Southern Gas Company Limited and Karachi Water & Sewerage Board in respect of utilities availed by the Corporation from respective suppliers.

13. DEFERRED TAXATION

	June 30, 2018	June 30, 2017	July 1, 2016
	Rupees '000		
Deductible temporary differences			
Property, plant and equipment	12,823	467	30,844
Stores and spares	7,911	8,176	12,770
Stock-in-trade	12,969	15,321	19,244
Trade debts	39	-	100,154
Loans and advances	1,389	1,667	1,722
Short term investments	1,476	-	-
Other receivables	7,372	8,846	9,141
Liabilities under finance lease	9,383	5,053	7,721
Deferred liabilities - pension payable	692,911	626,542	771,156
	746,273	666,072	952,752
Taxable temporary differences			
Long term investment in associates	(347,064)	(262,849)	(244,526)
Short term investments	-	(22,782)	(14,625)
Surplus on revaluation of property, plant and equipment - net	(155,210)	(187,168)	-
	(502,274)	(472,799)	(259,151)
Deferred taxation asset	243,999	193,273	693,601

13.1 The movement in temporary differences is as follows:

	Balance as at July 1, 2017	Recognised in profit or loss	Recognised in OCI	Balance as at June 30, 2018
	Rupees '000			
Property, plant and equipment	467	12,356	-	12,823
Stores and spares	8,176	(265)	-	7,911
Stock-in-trade	15,321	(2,352)	-	12,969
Trade debts	-	39	-	39
Loans and advances	1,667	(278)	-	1,389
Short term investments	(22,782)	24,258	-	1,476
Other receivables	8,846	(1,474)	-	7,372
Liabilties under finance lease	5,053	4,330	-	9,383
Deferred liabilities - pension payable	626,542	(104,425)	170,794	692,911
Revaluation surplus on property plant and equipment	(187,168)	31,958	-	(155,210)
Long term investment in associates	(262,849)	(93,849)	9,634	(347,064)
	193,273	(129,702)	180,428	243,999

14. STORES AND SPARES

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Engineering spares				
- in hand		188,752	187,213	234,672
- in transit		28,494	3,057	22,896
		217,246	190,270	257,568
General stores				
- in hand		83,608	84,083	114,218
- in transit		23,831	1,506	2,974
		107,439	85,589	117,192
		324,685	275,859	374,760
Provision for slow moving stores and spares	14.1	(31,644)	(27,251)	(41,193)
		293,041	248,608	333,567

14.1 Provision for slow moving stores and spares

Opening balance	27,251	41,193	36,975
Provision made during the year	7,491	8,567	5,748
Provision no longer required written back	(3,419)	(4,310)	(1,530)
Provision transferred from / (to) NSPC	321	(18,199)	-
	4,393	(13,942)	4,218
Closing balance	31,644	27,251	41,193

15. STOCK-IN-TRADE

Raw materials				
- in hand		1,009,187	1,139,816	1,485,934
- in transit		15,893	4,654	50,999
		1,025,080	1,144,470	1,536,933
Work-in-process		1,344,144	746,330	952,508
Finished goods		4,359	234,216	88,132
		2,373,583	2,125,016	2,577,573
Provision for slow moving and obsolete stock-in-trade	15.1	(51,878)	(51,069)	(62,074)
		2,321,705	2,073,947	2,515,499

15.1 Provision for slow moving and obsolete stock-in-trade

Opening balance	51,069	62,074	64,852
Provision made during the year	809	3,626	2,185
Provision no longer required written back	-	(4,138)	(4,963)
Write off against provision	-	(2,224)	-
Provision transferred to NSPC	-	(8,269)	-
	809	(11,005)	(2,778)
Closing balance	51,878	51,069	62,074

16. TRADE DEBTS

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Unsecured				
Considered good				
- Due from related party - State Bank of Pakistan	16.2	1,357,094	1,702,777	2,462,883
- Due from others		-	-	30,201
		1,357,094	1,702,777	2,493,084
Considered doubtful				
- Due from related party - State Bank of Pakistan		157	-	322,669
- Due from others		-	-	408
		157	-	323,077
		1,357,251	1,702,777	2,816,161
Less: Provision for doubtful debts	16.1	(157)	-	(323,077)
		1,357,094	1,702,777	2,493,084

16.1 Provision for doubtful debts

	June 30, 2018	June 30, 2017	July 1, 2016
Opening balance	-	323,077	74,639
Provision made during the year	157	493,794	1,095,534
Provision no longer required written back	-	(458,632)	(847,096)
	157	35,162	248,438
Provision transferred to NSPC	-	(358,239)	-
Closing balance	157	-	323,077

16.2 Ageing analysis of the amounts due from related parties is as follows:

	Upto 1 month	1 to 6 months	More than 6	As at June 30, 2018	As at June 30, 2017	As at June 30, 2016
	Rupees '000					
State Bank of Pakistan	1,354,769	2,325	-	1,357,094	1,702,777	866,409

16.2.1 The Corporation does not consider balance aged upto one month as 'past due'.

16.3 As at June 30, 2018, trade debts outstanding for more than one year amounted to Rs 0.157 million (2017: Rs Nil) were impaired.

16.4 Receivable from State Bank of Pakistan (SBP) is pledged as security against running finance facility obtained by the Corporation from Bank Al-Habib Limited (note 38). The related No Objection Certificate has been obtained from SBP vide SBP's letter number CMD/211/2-2011 dated March 2, 2011.

16.5 The maximum amount of receivable due from related party - State Bank of Pakistan at the end of any month during the year was Rs 2,581.520 million (2017: Rs 1,702.777 million).

17. LOANS AND ADVANCES

	June 30, 2018	June 30, 2017	July 1, 2016
	Rupees '000		
Advances - Considered good			
Suppliers	17,797	15,177	11,991
Employees	704	954	1,031
	18,501	16,131	13,022
Loans - Considered good			
Employees	10,539	10,650	6,485
Advances - Considered doubtful			
Suppliers	5,556	5,556	5,556
Less: Provision for doubtful balances	(5,556)	(5,556)	(5,556)
	-	-	-
	29,040	26,781	19,507

		Note	June 30, 2018	June 30, 2017	July 1, 2016
			Rupees '000		
18.	**TRADE DEPOSITS AND PREPAYMENTS**				
	Deposits with excise and custom authorities		1,044	1,044	1,044
	Margin against letter of credit		-	-	8,237
	Deposits with Pakistan National Shipping Corporation (PNSC)		-	-	200
	Other deposits		-	-	421
			1,044	1,044	9,902
	Short-term prepayments		8,777	3,777	4,071
			9,821	4,821	13,973
19.	**OTHER RECEIVABLES**				
	Considered good				
	Advance sales tax		9,444	-	22,275
	Receivable on behalf of NSPC	19.1	-	1,733,816	-
	Workers' profits participation fund	19.2	3,102	8,260	-
	Insurance claim		182	113	123
	Others		32,369	1,847	988
			45,097	1,744,036	23,386
	Considered doubtful				
	Sales tax recoverable				
	- On sale of assets to SICPA Inks Pakistan (Private) Limited		26,529	26,529	26,529
	- Others		2,959	2,959	2,959
			29,488	29,488	29,488
			74,585	1,773,524	52,874
	Less: Provision for doubtful balances		(29,488)	(29,488)	(29,488)
			45,097	1,744,036	23,386

19.1 This represented amount which was to be collected on behalf of NSPC on no-charge basis in accordance with the common facilities agreement dated May 19, 2017. The related payable has been separately recognised on the statement of financial position.

		Note	June 30, 2018	June 30, 2017	July 1, 2016
			Rupees '000		
19.2	Workers' profits participation fund				
	(Asset) / liability at the beginning of the year		(8,260)	22,728	9,831
	Allocation for the year	19.2.1	116,898	141,740	132,728
			108,638	164,468	142,559
	Payments made during the year		(111,740)	(172,728)	(119,831)
	(Receivable) / payable at the end of the year		(3,102)	(8,260)	22,728

19.2.1 Allocation for the year includes Rs Nil million (2017: Rs 48.878 million) pertaining to the discontinued operations.

20. **SHORT TERM INVESTMENTS**

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Loans and receivables - Term deposit receipts	20.1	6,122,000	6,122,000	4,822,000
Designated as at fair value through profit or loss - Investments in Mutual funds	20.2 & 20.3	1,328,263	1,582,086	1,265,047
		7,450,263	7,704,086	6,087,047

20.1 These represent term deposit receipts maturing upto 12 months with various banks bearing mark-up ranging from 5.35% to 7% (2017: 5.6% to 6.15%) per annum. Term deposit receipt of Rs 22 million (2017: Rs 22 million) with Faysal Bank Limited is marked under lien against bank guarantee (note 27.1.3).

20.2 Designated as at fair value through profit or loss - Investments in Mutual funds:

June 30, 2018	June 30, 2017	July 1, 2016	Name of investee	June 30, 2018	June 30, 2017	July 1, 2016
---------- Number of units		---------		----------------	Rupees '000	----------------
666,328	666,328	633,652	MCB Cash Management Optimizer Fund	70,587	66,978	63,579
6,758,035	6,758,035	6,385,120	Meezan Islamic Fund	428,019	516,381	422,759
669,794	669,794	640,442	MCB DCF Income Fund	74,565	71,286	67,915
6,168,107	6,168,107	6,011,758	ABL Islamic Stock Fund	89,787	106,798	81,706
115,695	115,695	110,732	Atlas Money Market Fund	61,241	58,063	55,466
7,571,877	7,538,791	7,028,702	NAFA Islamic Asset Allocation Fund	117,461	128,778	107,548
17,735,243	17,891,631	4,370,591	NAFA Islamic Stock Fund	202,134	231,840	50,000
1,372	-	-	NAFA Money Market Fund	14	-	-
417,331	417,331	388,712	Al-Ameen Shariah Stock Fund	56,039	63,960	49,984
-	1,229,420	1,201,932	MFPF-Meezan Asset Allocation Plan II	-	78,064	64,940
2,602,512	2,602,512	-	MSAF Meezan Strategic Allocation Plan I	114,551	131,323	-
2,845,091	2,845,091	-	MSAF Meezan Strategic Allocation Plan II	113,865	130,815	-
-	-	550,287	NAFA Islamic Principal Protected Fund II	-	-	61,740
-	-	2,000,000	Meezan Capital Preservation Fund II	-	-	122,760
-	-	2,096,103	MFPF Meezan Capital Preservation Plan I	-	-	116,628
45,351,385	46,502,735	31,418,031		1,328,263	1,582,086	1,265,047

20.3 The Corporation invests in a portfolio of financial assets (investments in mutual funds) with a view to profiting from their total return in the form of dividends or changes in fair value and evaluates its performance on that basis.

21. CASH AND BANK BALANCES

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		----------------	Rupees '000	----------------
With banks in current accounts				
- remunerative	21.1	542,370	1,231,312	1,737,017
- non-remunerative		20,209	38,103	20,030
		562,579	1,269,415	1,757,047
Cash in hand		15,745	6,496	30,520
		578,324	1,275,911	1,787,567

21.1 These accounts carry mark-up ranging from 4.50% to 6.25% (2017: 3.75% to 6.20%) per annum.

22. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

June 30, 2018	June 30, 2017	July 1, 2016		June 30, 2018	June 30, 2017	July 1, 2016
----------------	(No. of Shares)	----------------		----------------	Rupees '000	----------------
529,237	529,237	529,237	Ordinary shares of Rs 1,000 each fully paid in cash	529,237	529,237	529,237
1,999	1,999	1,999	Ordinary shares of Rs 1,000 each issued as fully paid for consideration other than cash	1,999	1,999	1,999
468,764	468,764	468,764	Ordinary shares of Rs 1,000 each issued as fully paid bonus shares	468,764	468,764	468,764
1,000,000	1,000,000	1,000,000		1,000,000	1,000,000	1,000,000

22.1 As at June 30, 2018, the ordinary shares of Rs 1,000 each were held by State Bank of Pakistan (the parent company).

		Note	June 30, 2018	June 30, 2017	July 1, 2016
23.	**RESERVES**		Rupees '000		
	Surplus on revaluation of property plant and equipment - net	23.2	51,503,347	51,505,483	-
	Other reserves				
	- (Deficit) / Surplus on revaluation of investments		(82,462)	(24,609)	20,964
	- Asset acquisition reserve		7,500,000	5,500,000	3,800,000
	- General reserve		1,630,950	888,082	5,996,048
	- Accumulated (loss) / profit		(1,189,890)	2,018	1,349,596
			7,858,598	6,365,491	11,166,608
			59,361,945	57,870,974	11,166,608

23.1 This includes amount transferred from unappropriated profit each year for the purpose of setting aside reserves for future capital expenditure. The reserve is not utilisable for the purpose of distribution to shareholders.

		June 30, 2018	June 30, 2017
		Rupees '000	
23.2	**SURPLUS ON REVALUATION OF PROPERTY PLANT AND EQUIPMENT - NET**		
	As at July 1		
	- Freehold land	51,068,759	-
	- Buildings on freehold land	623,892	-
		51,692,651	-
	Surplus on revaluation of:		
	- Freehold land	-	51,068,759
	- Buildings on freehold land	-	624,670
		-	51,693,429
	Less: Transferred to accumulated loss / profit		
	Surplus relating to incremental depreciation charged during the year - net of deferred tax	(2,136)	(545)
	Related deferred tax	(916)	(233)
		(3,052)	(778)
		51,689,599	51,692,651
	Less: Related deferred tax liability:		
	As at July 1	(187,168)	-
	On surplus arising on property, plant and equipment during the year	-	(187,401)
	Incremental depreciation charged during the year on related assets transferred to profit or loss	916	233
	Deferred tax liability recognised on surplus	(186,252)	(187,168)
		51,503,347	51,505,483

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24. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASES

	June 30, 2018			June 30, 2017			July 1, 2016		
	Minimum lease payments	Financial charges	Present value of minimum lease payments	Minimum lease payments	Financial charges	Present value of minimum lease payments	Minimum lease payments	Financial charges	Present value of minimum lease payments
	Rupees '000								
Not later than one year	11,302	1,916	9,386	5,890	730	5,160	9,141	1,230	7,911
Later than one year and not later than five years	29,516	1,371	28,145	13,347	1,673	11,674	18,890	1,327	17,563
	40,818	3,287	37,531	19,237	2,403	16,834	28,031	2,557	25,474
Less: shown in current maturity			(9,386)			(5,160)			(7,911)
Long term portion			28,145			11,674			17,563

24.1 The above represents finance leases entered into to procure the Corporation's vehicles. The financing rate used as discounting factor ranges from 6.17% to 7.19% (2017: 6.34% to 7.99%).The Corporation intends to exercise its option to purchase the leased assets on completion of the respective lease periods. The liabilities against assets subject to finance lease are secured by the lessor's charge over the leased assets. The cost of operating and maintaining the leased assets are borne by the Corporation.

24.2 Following is the movement in liabilities against assets subject to finance leases:

	June 30, 2018
	(Rupees in '000)
Opening balance as at July 1	16,834
Financial charges on lease	1,845
Finance lease obtained during the year	30,317
Lease discontinued	(1,196)
Lease rental paid	(10,269)
Closing balance as at June 30	37,531

25. DEFERRED LIABILITIES

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Defined benefit plan (staff pension scheme) - funded	25.3	4,096,377	3,146,267	3,622,195

25.1 As stated in note 3.19 the Corporation operates a defined benefit plan i.e. an approved funded pension scheme for all its permanent employees subject to attainment of retirement age and minimum service of the prescribed period. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at June 30, 2018. The disclosures made in notes 25.2 to 25.15 are based on the information included in that actuarial report.

25.2 The projected unit credit method using the following significant assumptions was used for this valuation:

	June 30, 2018	June 30, 2017	July 1, 2016
- Discount rate - per annum	10.00% p.a	9.25% p.a	9.0% p.a
- Expected rate of increase in salaries - annual	10.00% p.a	9.25% p.a	9.0% p.a
- Expected rate of increase in monthly pension	6.00% p.a	5.25% p.a	5.0% p.a
- Pre-Retirement Mortality	SLIC 2001-2005	SLIC 2001-2005	SLIC 2001-2005
- Post-Retirement Mortality	SLIC 2001-2005	SLIC 2001-2005	SLIC 2001-2005

25.3 Reconciliation of statement of financial position:

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Present value of defined benefit obligation	25.4	5,788,238	4,957,302	6,005,357
Fair value of plan assets	25.5	(1,689,861)	(1,811,035)	(2,383,162)
Net liability in the statement of financial position		4,098,377	3,146,267	3,622,195

25.4 Present value of defined benefit obligation

as at July 1, 2017/ 2016		4,957,302	6,005,357	4,927,211
Less: Discontinued operations		-	(1,674,196)	-
Employees transferred to NSPC		-	124,014	-
Current service cost		58,305	57,250	133,138
Interest cost		448,191	495,342	506,198
Benefits paid		(223,980)	(276,492)	(212,555)
Past service cost		-	-	246,438
Remeasurement loss on obligation		548,420	226,027	404,927
Present value as at June 30		5,788,238	4,957,302	6,005,357

25.5 Movement in fair value of plan assets

Fair value as at July 1, 2017 / 2016		1,811,035	2,383,162	2,383,449
Less: Discontinued operations	25.5.1	-	(635,706)	-
Employees transferred from NSPC		-	57,934	-
Expected return on plan assets		160,716	192,810	243,542
Corporation's contributions		76,844	83,163	84,558
Benefits paid		(223,980)	(276,492)	(212,555)
Remeasurement (loss) / gain on fair value of plan assets		(134,754)	6,164	(115,832)
Fair value as at June 30		1,689,861	1,811,035	2,383,162

25.5.1 These plan assets are still in the name of the Corporation and are being held for and on behalf of NSPC in accordance with the common facilities and cost sharing agreement dated May 19, 2017.

	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
25.6 Movement in net liability in the statement of financial position is as follows:				
Opening balance of net liability		3,146,267	3,622,195	2,543,762
Less: Discontinued operations		-	(1,038,490)	-
Employees transferred from NSPC		-	66,080	-
Charge for the year	25.8	345,780	359,782	642,232
Corporation's contributions		(76,844)	(83,163)	(84,558)
Net remeasurement loss for the year	25.10	683,174	219,863	520,759
Closing balance of net liability		4,098,377	3,146,267	3,622,195
25.7 Charge for the year has been allocated as under:				
Cost of sales:				
- Continuing operations	28.1	267,542	222,816	366,897
- Discontinued operations		-	53,346	135,701
		267,542	276,162	502,598
Administrative expenses:				
- Continuing operations	29.1	78,238	67,467	101,933
- Discontinued operations		-	16,153	37,701
		78,238	83,620	139,634
		345,780	359,782	642,232

25.8 The following amounts have been recognised in profit or loss in respect of the pension plan:

	June 30, 2018	June 30, 2017	July 1, 2016
	Rupees '000		
Current service cost:			
Continuing operations	58,305	46,191	97,191
Discontinued operations	-	11,059	35,947
	58,305	57,250	133,138
Past service cost:			
Continuing operations	-	-	179,900
Discontinued operations	-	-	66,538
	-	-	246,438
Net interest cost:			
Continuing operations	287,475	244,093	191,739
Discontinued operations	-	58,439	70,917
	287,475	302,532	262,656
	345,780	359,782	642,232

25.9 Actual return on plan assets

	June 30, 2018	June 30, 2017	July 1, 2016
Expected return on plan assets:			
- Continuing operations	160,716	155,564	177,786
- Discontinued operations	-	37,246	65,756
	160,716	192,810	243,542
Remeasurement (loss) / gain on fair value of plan assets:			
- Continuing operations	(134,754)	4,973	(84,557)
- Discontinued operations	-	1,191	(31,275)
	(134,754)	6,164	(115,832)
Actual return on plan assets	25,962	198,974	127,710

25.10 Remeasurement recognised in other comprehensive income

	June 30, 2018	June 30, 2017	July 1, 2016
Remeasurement loss on defined benefit obligation:			
Continuing operations	548,420	182,365	295,597
Discontinued operations	-	43,662	109,330
	548,420	226,027	404,927
Remeasurement loss / (gain) on fair value of plan assets:			
Continuing operations	134,754	(4,973)	84,557
Discontinued operations	-	(1,191)	31,275
	134,754	(6,164)	115,832
	683,174	219,863	520,759

25.11 Plan assets comprise of the following:

	June 30, 2018		June 30, 2017		July 1, 2016	
	(Rs in '000)	Percentage %	(Rs in '000)	Percentage %	(Rs in '000)	Percentage %
Equity instruments	582,186	26.12	721,954	30.22	601,734	25.25
Debt instruments	700,260	31.41	679,101	28.42	1,309,386	54.94
Cash and cash equivalents	946,867	42.47	988,115	41.36	472,042	19.81
Investment in Listed Securities						
Others (PIBs, TFCs and TBills)						
	2,229,313	100.00	2,389,170	100.00	2,383,162	100.00
Less: Pertaining to NSPC	539,452		578,135		-	
	1,689,861		1,811,035		2,383,162	

25.12 Expected charge to profit or loss in respect of post employment benefit plan for the year ending June 30, 2019 is Rs 474.235 million (2018: Rs 285.669 million).

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

	Impact on defined benefit obligation		
	Change in assumptions	Increase in assumption	Decrease in assumption
	Rupees '000		
Discount rate	1%	(614,172)	746,291
Salary growth rate	1%	207,563	(191,040)
Pension indexation rate	1%	553,893	(470,382)

25.14 The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

25.15 The weighted average duration of the defined benefit obligation is 13 years.

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

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. The fund believes that due to long-term nature of the plan liabilities and the strength of the Corporation's support, the current investment strategy manages this risk adequately.

Inflation risk

The majority of the plan's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities. However, the fund manages plan assets to off set inflationary impacts.

Life expectancy / withdrawal rate

The majority of the plan's obligations are to provide benefits on severance with the Corporation or on achieving retirement. Any change in life expectancy / withdrawal rate would impact plan liabilities.

26. TRADE AND OTHER PAYABLES	Note	June 30, 2018	June 30, 2017	July 1, 2016
		Rupees '000		
Creditors				
- Payable to associates	26.1	1,011,322	636,331	650,119
- Payable to others		24,412	23,046	18,956
- Payable to SBP		41,432	941	-
Bills payable		2,291	4,655	18,492
Accrued liabilities	26.2	640,359	494,063	608,750
Advances from customers of NSPC		-	273,378	290,281
Advance from SBP	26.3	159,490	594,877	9,199
Sales tax payable		-	38,343	-
Workers' profits participation fund	19.2	-	-	22,728
Deposits and retention money		18,443	17,955	18,020
Advance rent and security deposits	26.4	1,817	1,721	1,655
Others		149,575	123,225	94,536
		2,049,141	2,208,535	1,732,736

26.1 Payable to associates			
Security Papers Limited	488,688	421,290	301,976
SICPA Inks Pakistan (Private) Limited	522,634	215,041	348,143
	1,011,322	636,331	650,119

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26.1.1 Payable to associates includes Rs Nil (2017: Rs 3.173 million) payable in respect of procurements made on behalf of NSPC for its production activities.

26.2 This amount includes Rs Nil (2017: Rs 8.511 million) payable in respect of bonus and leave encashment for employees of NSPC.

26.3 This represents advance from SBP for the production of prize bonds.

26.4 This includes amount received as security deposit from Samba Bank Limited against rent of a premises. This amount has not been kept in a separate bank account and is utilisable for the purpose of the Corporation's business.

27. CONTINGENCIES AND COMMITMENTS

27.1 Contingencies

27.1.1 The Corporation is defending certain cases filed by its ex-employees on account of their reinstatement in the Corporation and compensation for loss of their jobs. Management considers that the probability of any significant liability arising from such cases is remote.

27.1.2 In the previous years the tax authorities initiated proceedings for amendment of deemed assessments for tax years 2004 to 2009 by issuing notices under sections 122 (5A) read with 122(9) of the Income Tax Ordinance, 2001. The amended orders were passed and certain demands were raised for which the Corporation subsequently filed rectification application as a result of which the demands were rectified to Rs 34.9 million. The Corporation, having paid the aforesaid net demand of Rs 34.9 million, had filed appeals before the Commissioner of Inland Revenue - Appeals (CIR(A)) which were decided against the Corporation. The Corporation, further filed appeal before the Appellate Tribunal Inland Revenue (ATIR) which vide order dated June 29, 2015 partially upheld the action of the Additional Commissioner Inland Revenue for amending the aforesaid assessments.

Further, the Corporation's miscellaneous application before ATIR on the matter of allocation of expenses has been dismissed. A reference before the High Court of Sindh has been filed by the Corporation, the adjudication of which is pending to date. The management, however, is continuing with its view that the net demand will eventually be revoked and the amount paid be refunded / adjusted in favour of the Corporation.

27.1.3 Outstanding letters of guarantee amounted to Rs 22 million (2017: Rs 22 million).

27.2 Commitments

27.2.1 Capital commitments at the year end amounted to Rs 16.293 million (2017: Rs 15.368 million).

27.2.2 Letters of credit for raw material and stores and spares outstanding at the year end amounted to Rs 1,595.255 million (2017: Rs 11.031 million).

28. COST OF SALES

	Note	June 30, 2018	June 30, 2017
		-----------Rupees '000-----------	
Raw material			
Opening stock		1,144,470	925,631
Purchases including in transit		7,787,202	5,729,701
Closing stock		(1,025,080)	(1,144,470)
		7,906,592	5,510,862
Salaries, wages and benefits	28.1	1,226,762	1,154,751
Stores and spares		344,812	255,820
Fuel and power		98,820	108,829
Insurance		6,497	8,641
Transportation		1,617	1,420
Rent, rates and taxes		27,048	18,909
Depreciation	6.2	72,378	98,771
Provision for obsolete stores and spares - net		4,072	5,458
Provision for slow moving and obsolete stock-in-trade - net		809	3,383
Repairs and maintenance		40,680	55,506
Amortisation	8.2	88	109
		1,823,583	1,711,597
Manufacturing cost		9,730,175	7,222,459
Opening work-in-process	15	746,330	821,126
Closing work-in-process		(1,344,144)	(746,330)
		(597,814)	74,796
Cost of goods manufactured		9,132,361	7,297,255
Opening stock of finished goods	15	234,216	43,527
Closing stock of finished goods		(4,359)	(234,216)
		229,857	(190,689)
		9,362,218	7,106,566

28.1 Salaries, wages and benefits include Rs 267.542 million (2017: Rs 222.816 million) in respect of staff pension.

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29. ADMINISTRATIVE EXPENSES

	Note	June 30, 2018	June 30, 2017
		----------Rupees '000----------	
Salaries, wages and benefits	29.1	394,787	353,513
Directors' meeting fee and expenses		1,172	5,409
Fuel and power		23,946	16,662
Insurance		2,124	1,695
Travelling and entertainment		19,826	8,090
Depreciation	6.2	28,838	24,637
Amortisation	8.2	2	36
Security charges		81,361	74,418
Repairs and maintenance		14,817	11,605
Communication		2,652	2,603
Legal and professional charges		1,603	750
Advertisements		7,691	8,132
Printing and stationery		247	300
Operating lease rentals		1,998	113
Provision for doubtful debts - net		157	-
Others		10,197	7,196
		591,418	515,159

29.1 Salaries, wages and benefits include Rs 78.238 million (2017: Rs 67.467 million) in respect of staff pension.

30. OTHER EXPENSES

	Note	June 30, 2018	June 30, 2017
		----------Rupees '000----------	
Auditors' remuneration	30.1	2,148	17,502
Exchange loss - net		2,293	106
Workers' profit participation fund	19.2	116,898	92,862
Loss on sale of investments		9,808	-
Loss on remeasurement of short term investments		87,195	-
Others		100	134
		218,442	110,604

30.1 Auditors' remuneration

	Note	June 30, 2018	June 30, 2017
Audit fee		770	770
Fee for half yearly review		137	137
Other services	30.1.1	1,046	16,400
		1,953	17,307
Out of pocket expense		195	195
		2,148	17,502

30.1.1 These include fee in respect of audit of special purpose financial statements of the Corporation prepared for consolidation purpose at the parent company level.

31. OTHER INCOME

	Note	June 30, 2018	June 30, 2017
		----------Rupees '000----------	
Income from financial assets			
Gain on remeasurement of short term investments		-	226,328
Return on investment in Pakistan Investment Bonds		507	11,675
Gain on sale of investments		-	22,805
Mark-up on bank deposits	31.1	346,620	376,041
Bonus / dividend income		-	20,130
Service charges on long term loans	11	3,013	1,886
		350,140	658,865
Income from non financial assets			
- related parties			
Rental income from associate			
- SICPA Inks Pakistan (Private) Limited		9,453	8,380
Service charges recovered from associate			
- Security Papers Limited		335	340
		9,788	8,720
- others			
Rental income - other		9,705	8,585
Scrap sales		4,045	5,145
Gain on disposal of operating fixed assets		2,655	1,361
Miscellaneous income		649	3,822
		17,054	18,913
		376,982	686,498

31.1 These amounts have been netted off against share of other income aggregating Rs 19.728 million (2017: Rs 30.960 million) relating to NSPC.

	Note	June 30, 2018	June 30, 2017
		----------Rupees '000----------	
32. FINANCE COST			
Financial charges on liabilities against assets subject to finance lease		1,845	1,143
Bank charges		1,428	772
		3,273	1,915
33. SHARE OF PROFIT FROM ASSOCIATES			
Security Papers Limited	9.3	370,066	301,836
SICPA Inks Pakistan (Private) Limited	9.2	321,351	260,617
		691,417	562,453

		Note	June 30, 2018	June 30, 2017
			-----------Rupees '000----------	
34.	**TAXATION**			
	Current - for the year		905,828	787,111
	- prior year		12,585	11,997
			918,413	799,108
	Deferred		129,702	146,853
			1,048,115	945,961

34.1 Relationship between tax expense and accounting profit

	June 30, 2018	June 30, 2017
	-----------Rupees '000----------	
Profit before taxation form continuing operations	3,107,329	2,990,899
Profit before taxation form discontinued operations	-	929,540
Profit before taxation	3,107,329	3,920,439
Tax applicable at the rate of 30% (2017: 31%)	932,199	1,215,336
Difference in effective tax rate of equity-accounted investees	(60,482)	(103,719)
Tax effect of income taxed at lower rates	1,901	(27,148)
Tax credits	(316)	(43,262)
Tax effect of change in tax rate for next year	74,729	18,732
Tax effects of notional expenses allowed on rental income	(582)	(532)
Super tax	88,081	106,167
	1,035,530	1,165,574
Prior year tax effect	12,585	11,997
	1,048,115	1,177,571

		Note	June 30, 2018	June 30, 2017
34.1.1	Tax from continuing operations		1,048,115	945,961
	Tax from discontinued operations	35	-	231,610
			1,048,115	1,177,571

35. DISCONTINUED OPERATIONS

During the year ended June 30, 2017, in accordance with the decisions taken in the Corporation's extra ordinary general meetings (EOGMs) held on December 27, 2016 and January 6, 2017, a subsidiary company [i.e. National Security Printing Company (Private) Limited – NSPC] was formed and the assets and liabilities pertaining to the Corporation's non-currency business were hived-down / transferred to NSPC through a business transfer agreement dated May 18, 2017. The financial performance and cash flows of discontinued operations for prior period are as follows:

		For the period from July 1, 2016 to March 31, 2017
		Rupees '000
35.1	Financial performance of discontinued operations	
	Sales	2,426,024
	Sales tax	(369,367)
	Net sales	2,056,657
	Cost of sales	(940,659)
	Gross profit	1,115,998
	Administrative expenses	(142,533)
	Other expenses	(48,878)
	Other income	4,953
		(186,458)
	Profit before taxation	929,540
	Taxation	(231,610)
	Profit after taxation	697,930
35.2	Cash flow attributable to discontinued operations	
	Net cash generated from operating activities	2,044,957
	Net cash used in investing activities	(19,204)
	Net cash used in financing activities	(3,285)

36. EARNINGS PER SHARE

	June 30, 2018	June 30, 2017
	----------Rupees '000----------	
Profit after taxation from continuing operations	2,059,214	2,044,938
Profit after taxation from discontinued operations	-	697,930
	--------(No. of Shares)--------	
Weighted average number of ordinary shares outstanding during the year	1,000,000	1,000,000
	-------------Rupees-------------	
Earnings per share - continuing operations	2,059	2,045
Earnings per share - discontinued operations	-	698

There are no dilutive potential ordinary shares outstanding as at June 30, 2018 or 2017.

37. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

37.1 Related parties comprise of parent i.e. State Bank of Pakistan associates [Security Papers Limited and SICPA Inks Pakistan (Private) Limited], entities under common control / directorship, employee benefit plans and key management personnel of the Corporation.

37.2 Significant transactions with related parties other than those specifically included in investment in associates (note 9), other long term investments (note 10), transactions with employee's pension fund (note 25), cost of sales (note 28), administrative expenses (note 29), other income (note 31) are as follows:

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	Note	June 30, 2018	June 30, 2017
		----------Rupees '000----------	
Transactions with parent / common control and directorship			
Sale of bank notes		11,776,570	9,397,810
Sale of prize bonds	37.9	437,711	78,382
Charge of staff deputed at the Corporation		40,490	941
Transactions with associated undertakings			
Purchase of paper from Security Papers Limited		3,458,205	2,835,186
Sharing of group pool expenses with Security Papers Limited		41,178	30,826
Purchase of ink from SICPA Inks Pakistan (Private) Limited		4,269,892	2,236,563
Share of group pool expenses with SICPA Inks Pakistan (Private) Limited		2,761	2,015
Transactions with entities under common control / directorship			
Expenses borne on behalf of NSPC		544,801	707,772
Investment in subsidiary		-	6,066,879
Sale of postal and non-postal-items to Director General Pakistan Post Office		-	599,744
Sale of passports to Director General Immigration and Passports		-	1,368,802
Sale of ballot papers to Election Commission of Pakistan		-	-
Sale of census form to Pakistan Beureau of Statistics		-	199,752
Transactions with Government of Pakistan			
Maturity of PIBs		100,000	200,000
Markup income		507	11,675
Key management personnel		Note 37.7	

37.3 All sales transactions with State Bank of Pakistan are carried out by the Corporation using the "Cost Plus Mark-up Method" approved by the Ministry of Finance. All other transactions with related parties are entered on mutually agreed terms.

37.4 Transactions with employee benefit funds are carried out based on the terms of employment of the employees and according to the actuarial advice (note 25).

37.5 Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation. The Corporation considers its Chief Executive / Managing Director and all its directors as its key management personnel. There are 9 directors (2017: 6 directors) of the Corporation including the Managing Director.

37.6 The related party status of outstanding balances as at June 30, 2018 is included in notes 9, 16, 19, 25 and 26. These are to be settled in the ordinary course of business.

37.7 Remuneration of the Managing Director, Directors and Executives of the Corporation is as follows:

	June 30, 2018			June 30, 2017		
	Managing Director	Directors	Executives	Managing Director	Directors	Executives
	Rupees '000					
Directors' fee	-	1,172	-	-	5,409	-
Managerial remuneration	24,909	-	86,178	4,435	-	67,036
Bonus	3,083	-	17,633	974	-	13,966
Ex-gratia	-	-	14,107	2,033	-	11,173
Staff retirement benefits	-	-	6,739	269	-	6,705
Medical expenses	83	-	171	319	-	131
Others	120	-	2,367	1,180	630	367
	28,195	1,172	127,195	9,210	6,039	99,378
Number of persons	1	10	22	1	3	21

37.8 Following are the related parties with whom the Company had entered into transactions or have arrangements / agreements in place.

S.No.	Company Name	Basis of relationship	Aggregate % of shareholding in the Company
1	State Bank of Pakistan	Parent	100.00%
2	Government of Pakistan	Ultimate Parent	100.00%
3	Security Papers Limited	Associate	40.03%
4	SICPA Inks Pakistan (Private) Limited	Associate	47.00%
5	Pakistan Security Printing Corporation - Employees' Pension Fund	Employees fund	N/A
6	National Security Printing Company (Private) Limited	State owned/controlled entity	N/A

37.9 In respect of sale of prize bonds, SBP is acting as an agent on behalf of its principal i.e. Central Directorate of National Savings (CDNS)

38. RUNNING FINANCE - unavailed

The Corporation has a short-term running finance facility available from Bank Al-Habib Limited which is secured by way of a registered hypothecation charge against its receivable from SBP (see note 16.4). The facility amounts to Rs 250 million (2017: Rs 250 million) and the rate of mark-up is three months average KIBOR (2017: KIBOR).

39. CASH GENERATED FROM OPERATIONS

	Note	June 30, 2018	June 30, 2017
		----------Rupees '000----------	
Profit before taxation from continuing and discontinued operations		3,107,329	3,920,439
Adjustments for non cash items and other items:			
Depreciation		101,216	185,667
Gain on disposal of operating fixed assets		(2,655)	(1,361)
Loss / (gain) on remeasurement of short term investments		87,195	(186,904)
Expense for pension fund		345,780	359,782
Mark-up on bank deposits		(346,620)	(439,082)
Return on investment in Pakistan Investment Bonds		(507)	(11,675)
Share of profit from associates		(691,417)	(562,453)
Provision for doubtful debts - net		157	35,162
Provision for slow moving and obsolete stock-in-trade and stores and spares - net		5,202	3,745
Amortisation		90	252
Financial charges on leased vehicles		1,845	1,143
(Loss) / gain on sale of investments		9,808	(30,148)
Service charges on long term loans		(3,013)	(2,202)
Bonus / dividend income		-	(20,130)
Working capital changes	39.1	(3,288,192)	(231,001)
		(673,782)	3,021,234

39.1 Working capital changes

(Increase) / decrease in current assets		
Stores and spares	(48,826)	(1,845)
Stock-in-trade	(248,567)	(415,615)
Trade debts	345,526	755,145
Loans and advances	(2,259)	(9,451)
Trade deposits and prepayments	(5,000)	(6,108)
Other receivables	1,698,939	(1,720,650)
	1,739,813	(1,398,524)
(Decrease) / increase in current liabilities		
Trade and other payables	(159,394)	475,799
Payable to NSPC	(4,868,789)	691,766
Accrued mark-up	178	(42)
	(5,028,005)	1,167,523
	(3,288,192)	(231,001)

39.2 Cashflow statement has been prepared on an aggregate basis for continuing and discontinued operations for the prior year ended June 30, 2017.

40. CASH AND CASH EQUIVALENTS

	Note	June 30, 2018	June 30, 2017
		----------Rupees '000----------	
Loans and receivables - Term deposit receipts with contractual maturity of less than three months	20	6,100,000	-
Cash and bank balances	21	578,324	1,275,911
		6,678,324	1,275,911

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41. FINANCIAL INSTRUMENTS BY CATEGORY

	June 30, 2018	June 30, 2017
	---------Rupees '000---------	
FINANCIAL ASSETS		
Loans and receivables at amortised cost		
Long term loans	82,087	96,168
Long-term deposits	18,172	12,836
Trade debts	1,357,094	1,702,777
Loans	10,539	10,650
Accrued mark-up	4,702	90,233
Other receivables	32,551	1,735,776
Short term investments	6,122,000	6,122,000
Cash and bank balances	578,324	1,275,911
	8,205,469	11,046,351
Fair value through profit or loss		
Short term investments	1,328,263	1,582,086
Available-for-sale		
Other long-term investments - Al Hamra Islamic Stock Fund	23,904	27,164
Held-to-maturity		
Other long-term investments - Pakistan Investment Bonds	-	99,955
	9,557,636	12,755,556
FINANCIAL LIABILITIES		
Financial liabilities at amortised cost		
Liabilities against assets subject to finance leases	37,531	16,834
Trade and other payables	1,887,834	1,300,216
Payable to NSPC	905,862	5,774,651
Accrued mark-up	248	70
	2,831,475	7,091,771

42. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

42.1 The Corporation's activities expose it to certain financial risks. Such financial risks emanate from various factors that include, but not limited to credit risk, liquidity risk and market risk. The Corporation's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance. Risks measured and managed by the Corporation are explained in notes 42.1.1, 42.1.2 and 42.1.3 below:

42.1.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted.

Out of the total financial assets of Rs 9,557.636 million (2017: Rs 12,755.556 million), the financial assets that are subject to credit risk amounted to Rs 9,541.891 million (2017: Rs 12,649.105 million).

The analysis below summarises the credit quality of the Corporation's financial assets as at June 30, 2018 / 2017.

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The bank balances along with credit ratings are tabulated below:

	June 30, 2018	June 30, 2017
	----Rupees '000----	
Credit ratings		
A-1+	562,579	1,269,415

The analysis of credit rating of short term investments is as follows:

Credit ratings		
AM1+	1,032,083	854,383
AM2+	-	589,439
AM2	61,241	-
AM2++	234,939	138,264
	1,328,263	1,582,086

Term deposit receipts of the Corporation as at June 30, 2018 are kept with commercial banks having minimum credit rating of A-1.

As at June 30, 2018, trade debts balance is with State Bank of Pakistan, the parent company. Accordingly the credit risk is minimal.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The management believes that it is not exposed to any significant level of liquidity risk.

The management forecasts the liquidity of the Corporation on basis of expected cash flow considering the level of liquid assets necessary to meet such risk.

Financial liabilities in accordance with their contractual maturities are presented below:

	Maturity within one year	Maturity after one year	Total
	----Rupees '000----		
	June 30, 2018		
Financial liabilities			
Liabilities against assets subject to finance leases	11,302	29,516	40,818
Trade and other payables	1,887,833	-	1,887,833
Payable to NSPC	905,862	-	905,862
Accrued mark-up	248	-	248
	2,805,245	29,516	2,834,761
	June 30, 2017		
Financial liabilities			
Liabilities against assets subject to finance leases	5,890	13,347	19,237
Trade and other payables	1,300,216	-	1,300,216
Payable to NSPC	5,774,651	-	5,774,651
Accrued mark-up	70	-	70
	7,080,827	13,347	7,094,174

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42.1.3 Market Risk

Currency Risk

Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The Corporation does not have any significant exposure in foreign currency.

Interest rate risk

Interest / mark-up rate risk arises from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. At June 30, 2018, if the market interest rate had changed by 100 bps with all other variables held constant, profit before taxation for the year would have been higher / lower by Rs 66.644 million (2017: Rs 74.533 million). This is mainly due to changes in the interest rates of balances placed on term deposits, Pakistan Investment Bonds (PIBs) and saving accounts with banks where changes in interest rates may have impact on the future profits / cash flows.

Other price risk

Other price risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The effects of changes in fair value of such investments in mutual funds made by Corporation, on the future profits will impact the Corporation.

42.1.4 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

As at June 30, 2018, all financial assets and financial liabilities are carried at amortised cost except for investment in mutual funds which are carried at their fair values.

Financial assets which are tradeable in an open market are revalued at the market prices prevailing on the date of statement of financial position. The fair values of all other financial assets and liabilities are not considered to be significantly different from their carrying values as these financial assets and liabilities are short term in nature.

The Corporation classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

There were no transfers between level 1, 2 or 3 of the fair value hierarchy during the year.

The valuation techniques used are as follows:

Level 1: Quoted prices (unadjusted) in active markets

The fair value of financial instruments traded in active markets is based on Net Asset Values (NAVs) of the units of the mutual funds at the reporting date. A market is regarded as active when it is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within level 1 that are observable.

Level 3: Fair values for debt securities are determined using a discounted cash flow technique, which uses expected cash flows and a market-related discount rate (PKRV rates for the purpose).

The following table analysis within the fair value hierarchy of the Corporation's financial assets (by class) measured at fair value at June 30, 2018:

Financial assets	June 30, 2018			
	Level 1	Level 2	Level 3	Total
	Rupees '000			
Short term investments - at fair value through profit and loss	1,328,263	-	-	1,328,263
Investments - Available-for-sale	23,904	-		23,904
	1,352,167	-	-	1,352,167

Financial assets	June 30, 2017			
	Level 1	Level 2	Level 3	Total
	Rupees '000			
Short term investments - at fair value through profit and loss	1,582,086	-	-	1,582,086
Investments - Available-for-sale	27,164	-		27,164
	1,609,250	-	-	1,609,250

43. CAPITAL RISK MANAGEMENT

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

In order to maintain or adjust the capital structure, the Corporation may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debt.

As at June 30, 2018 and 2017, the Corporation had surplus reserves to meet its requirements.

44. PLANT CAPACITY AND ACTUAL PRODUCTION

	June 30, 2018	June 30, 2017
	Reams	
Production	133,555	105,992

The actual production was sufficient to meet the demand. Due to nature of business of the Corporation, installed capacity is not relevant.

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45. NUMBER OF EMPLOYEES

The total and average number of employees during the year and as at June 30, 2018 and 2017 respectively are as follows:

	June 30, 2018	June 30, 2017
	---No of employees---	
Average number of employees during the year	758	952
Average number of factory employees during the year	491	640
Number of employees as at June 30	741	778
Number of factory employees as at June 30	499	552

46. NON-ADJUSTING EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

The Board of Directors at its meeting held on 17 OCT 2018 has proposed for the year ended June 30, 2018 cash dividend of Rs 2,000 per share (2017: Rs nil per share), amounting to Rs 2,000 million (2017: nil), transfer to asset acquisition reserve and general reserve from unappropriated profits amounting to Rs Nil million (2017: Rs 2,000 million) and Rs Nil million (2017: Rs 743 million) respectively, subject to the approval of the members at the annual general meeting to be held on 26 OCT 2018. The financial statements for the year ended June 30, 2018 do not include the effects of these appropriations which will be accounted for subsequent to the year end.

47. GENERAL

Figures have been rounded off to the nearest thousand of rupees unless otherwise stated.

48. DATE OF AUTHORISATION

These financial statements were authorised for issue on 17 OCT 2018 by the Board of Directors of the Corporation.

Chief Executive Officer

Chief Financial Officer

Chief Executive Officer

Director

EY

Building a better working world

SBP - Banking Services Corporation
FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

EY Ford Rhodes
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Independent Auditor's Report

To the Board of Directors and State Bank of Pakistan

Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2018, 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, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

The financial statements of the Corporation for the year ended June 30, 2017 were audited by A.F. Ferguson & Co. and EY Ford Rhodes who had expressed an unmodified opinion thereon vide their report dated October 27, 2017.

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.

Those charged with governance are responsible for overseeing the Corporation 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.

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

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

KPMG T— R

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

Dated: 23 October 2018

Karachi

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2018

	Note	2018	2017
		------(Rupees in '000)------	
ASSETS			
Current account with the State Bank of Pakistan		50,042,724	50,746,464
Investments	5	521,419	532,178
Employee loans	6	9,152,123	9,481,894
Advances, deposits and prepayments	7	100,983	49,581
Medical and stationery consumables	8	190,334	164,822
Property and equipment	9	895,356	880,477
Total assets		60,902,939	61,855,416
LIABILITIES			
Deposits and other liabilities	10	5,074,430	5,657,276
Deferred liabilities - unfunded staff retirement benefits	11	54,828,509	55,198,140
Total liabilities		59,902,939	60,855,416
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	12	1,000,000	1,000,000
CONTINGENCIES AND COMMITMENTS	13		

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

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		------(Rupees in '000)------	
Discount and interest earned	14	**31,315**	31,352
Net operating expenses	15	**14,917,727**	12,495,138
Reimbursable from the State Bank of Pakistan		**(8,544,648)**	(7,423,955)
Allocated to the State Bank of Pakistan		**(6,373,079)**	(5,071,183)
		-	-
Operating profit		**31,315**	31,352
Gain on disposal of property and equipment		**4,504**	10,220
Profit for the year		**35,819**	41,572

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

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		------(Rupees in '000)------	
Profit for the year		**35,819**	41,572
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Loss on remeasurements of defined benefit plans	15.2.4.1	**(2,961,549)**	(1,667,758)
Allocated to the State Bank of Pakistan		**2,961,549**	1,667,758
		-	-
Total comprehensive income for the year		**35,819**	41,572

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

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2018

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

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

KPMG

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Note	2018	2017
		-------(Rupees in '000)-------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	16	26,588	15,868
Profit transferred to the State Bank of Pakistan		(35,819)	(41,572)
Income on Government securities received during the year		26,186	15,201
		16,955	(10,503)
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		217,371	(1,535,308)
Medical and stationery consumables		(25,512)	(25,944)
Employee loans		329,771	1,371,538
Advances, deposits and prepayments		(51,402)	15,020
(Decrease) / Increase in liabilities			
Deposits and other liabilities		(183,116)	793,505
Net cash generated from operating activities		304,067	608,308
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		(10,700)	(6,370)
Capital expenditure		(303,013)	(620,765)
Proceeds from disposal of property and equipment		9,646	18,827
Net cash used in investing activities		(304,067)	(608,308)
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.

KPMG

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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 9 - 'Financial Instruments'	January 1, 2018
- IFRS 15 - 'Revenue from contracts with customers'	January 1, 2018
- IFRS 16 - 'Leases'	January 1, 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time
- IFRS 17 - 'Insurance contracts'	January 1, 2021

Amendments	**Effective date (annual periods beginning on or after)**
Amendments to IFRS 2 - *'Share based payments'* on clarifying how to account for certain types of share-based payment transactions	01 January 2018
Amendments to IFRS 4 - *'Insurance contracts'* regarding the implementation of IFRS 9, 'Financial instruments'	01 January 2018
Amendments to IAS 28 - Long term interest in associates and joint ventures	01 January 2019
Amendment to IAS 40 - *'Investment property'* relating to transfers of investment property	01 January 2018
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

Interpretations	
IFRIC 22, 'Foreign currency transactions and advance consideration'	01 January 2018
IFRIC 23, 'Uncertainty over income tax'	01 January 2019

Improvements	
IFRS 1, *'First-time adoption of IFRS'*, regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.	01 January 2018
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
IAS 28, *'Investments in associates and joint ventures'* regarding measuring an associate or joint venture at fair value.	01 January 2018

The Bank expects that the adoption of the above standards, amendments, interpretations and improvements will not have any material impact on the Bank's financial statements in the period of initial application other than the initial application of IFRS 9, 'Financial instruments' as described below:

- In July 2014, the IASB issued the final version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (IAS 39).

  IFRS 9 eliminates the existing financial asset categories and adopts a principles-based approach to the classification of financial assets, which is driven by a financial instrument's cash-flow characteristics and the business model in which it is held.

  IFRS 9 also introduces an expected loss impairment model for all financial assets not measured at fair value through profit or loss (FVTPL). The model has three stages:

  (i) on initial recognition, 12-month expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset;

  (ii) if credit risk increases significantly from initial recognition, lifetime expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset; and

  (iii) when a financial asset is considered credit-impaired, interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

  IFRS 9 also includes a new hedge accounting model, together with corresponding disclosures about risk management activities for those applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The most significant changes apply to those entities that hedge non-financial risk.

  The Bank has made a preliminary assessment based on certain premises regarding its exposure to Sovereigns and their Central banks and expects that transition to IFRS 9 is not likely to impact significantly the Bank's financial statements except reclassifications and measurements of certain financial instruments.

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

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2017 but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are, therefore, not disclosed in these financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

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

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

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

b) **Loans and receivables**

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

c) **Held to maturity**

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

d) **Available for sale financial assets**

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

4.1.1.2 Initial recognition and measurement

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

4.1.1.3 Subsequent measurement

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

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

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

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

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

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

4.1.1.4 Impairment

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

a) **Assets carried at amortised cost**

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

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

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

b) **Assets classified as 'available for sale'**

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

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

4.1.2 **Financial liabilities**

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

4.1.3 **Derecognition of financial assets and financial liabilities**

a) **Financial assets**

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

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

b) **Financial liabilities**

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

4.1.4 **Fair value measurement principles**

The fair value of financial instruments traded in active markets at the balance sheet date is based on their quoted market prices or dealer price quotation without any deduction for transaction costs. If there is no active market for a financial asset, the Corporation establishes fair value using valuation techniques. These include the use of recent arms length 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.

4.1.5 **Offsetting of financial assets and financial liabilities**

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

4.2 **Employee loans**

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

4.3 **Medical and stationery consumables**

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

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

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

4.4 **Property and equipment**

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

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic 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. Under this scheme, contribution is made both by the Corporation and employee at the rate of 6% of the monetized salary. The Corporation provided an option to employees covered under old scheme to join the funded New Contributory Provident Fund Scheme - NCPF (new scheme) effective from July 1, 2010. Under this scheme, contribution is made by both the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new scheme.

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

c) the following other staff retirement benefit schemes:

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

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard has been carried out as at June 30, 2018. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur. The amount arising as a result of remeasurement is allocated to the State Bank of Pakistan, however, the liability is retained in the balance sheet of the Corporation.

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	2018	2017
		------(Rupees in '000)------	
5. INVESTMENTS			
Held to maturity			
Market Treasury Bills	*5.1 & 5.2*	521,419	532,178
		521,419	532,178

5.1 Market Treasury Bills carry mark-up at the rate of 5.90 % to 6.26% per annum (2017: 5.91% to 5.99% per annum) and are having maturities from July 5, 2018 to August 16, 2018 (2017: August 03, 2017 to September 14, 2017).

5.2 The fair value of these investments as at June 30, 2018 is Rs. 523.971 million (2017: Rs. 532.062 million). Market Treasury Bills have been revalued on the basis of yields published by Reuters (PKRV) for Government securities.

	Note	2018	2017
		------(Rupees in '000)------	
6. EMPLOYEE LOANS			
Considered good		9,152,123	9,481,894
Considered doubtful		7,715	7,737
	6.1	9,159,838	9,489,631
Provision against doubtful loans	*6.2*	(7,715)	(7,737)
		9,152,123	9,481,894

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 which are interest free. These include loans amounting to Rs. 28.905 million (2017: Rs. 12.974 million) that carry mark up at 10% per annum (2017: 10% per annum). Maximum maturity of loans is upto year 2056 (2017: 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	2018	2017
		------(Rupees in '000)------	
6.2 Provision held against employee loans			
Opening balance		7,737	7,610
Charge for the year		-	127
Reversals during the year		(22)	-
Closing balance		7,715	7,737

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	Note	2018	2017
		—(Rupees in '000)—	
7. ADVANCES, DEPOSITS AND PREPAYMENTS			
Prepayments		32,856	35,562
Advances and deposits		17,818	5,282
Others		50,309	8,737
		100,983	49,581
8. MEDICAL AND STATIONERY CONSUMABLES			
Medicines		125,107	113,628
Stationery		15,548	10,344
Engineering		26,975	22,414
Others		31,108	19,508
		198,838	165,894
Provision against obsolete items		(8,504)	(1,072)
		190,334	164,822
9. PROPERTY AND EQUIPMENT			
Operating fixed assets	9.1	894,993	880,477
Capital work-in-progress		363	-
		895,356	880,477

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

2018	Cost				Accumulated Depreciation				Net book value as at June 30, 2018	Annual rate of 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		
	(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	

2017	Cost				Accumulated Depreciation				Net book value as at June 30, 2017	Annual rate of depreciation %
	As at July 01, 2016	Additions / (deletions)	Transferred from SBP	As at June 30, 2017	As at July 01, 2016	Charge for the year / (deletions)	Transferred from SBP	As at June 30, 2017		
	(Rupees in '000)									
Furniture & Fixtures	147,456	11,086 (30,866)	-	127,676	102,357	9,426 (30,655)	-	81,128	46,548	10
Office equipment	1,096,573	567,498 (31,959)	-	1,632,112	901,308	113,496 (31,587)	-	983,217	648,895	20
EDP equipment	550,587	12,328 (32,653)	-	530,262	419,907	66,031 (32,314)	-	453,624	76,638	33.33
Motor vehicles	168,219	75,677 (33,827)	-	210,069	98,882	25,933 (23,142)	-	101,673	108,396	20
	1,962,835	666,589 (129,305)	-	2,500,119	1,522,454	217,886 (120,698)	-	1,619,642	880,477	

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	Note	2018	2017
		(Rupees in '000)	
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	15.2.10	4,055,586	4,455,316
Deposits		270,743	637,791
Others		748,101	564,169
		5,074,430	5,657,276

	Note	2018	2017
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
Gratuity		3,966	2,815
Pension		37,044,817	38,656,505
Benevolent fund scheme		941,469	1,194,678
Post retirement medical benefits		16,056,121	14,491,690
Six months post retirement benefits		123,475	113,160
	15.2.4	54,169,848	54,458,848
Provident fund scheme		658,661	739,292
		54,828,509	55,198,140

12. SHARE CAPITAL

2018	2017		2018	2017
(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	2018	2017
Claims against the Corporation not acknowledged as debts	13.1.1	2,962	2,962

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

	Note	2018	2017
		(Rupees in '000)	
13.2 Commitments			
Capital commitments	13.2.1	142,102	68,840

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

	2018	2017
14. DISCOUNT AND INTEREST EARNED	(Rupees in '000)	
Interest income on Government securities	30,913	30,685
Interest on employee loans	402	667
	31,315	31,352

15. NET OPERATING EXPENSES	Note	2018	2017
		(Rupees in '000)	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		6,513,590	5,709,601
Rent and taxes		39,591	37,604
Insurance		17,402	12,979
Electricity, gas and water		357,749	323,968
Repair and maintenance		268,492	218,083
Auditors' remuneration	15.1	7,700	7,000
Legal and professional		15,357	9,270
Travelling		24,146	16,864
Daily expenses		38,246	30,638
Passages / rest and recreational allowance		312,066	258,419
Fuel		3,688	2,810
Conveyance		19,368	17,456
Postages and telephone		14,643	11,399
Training		204,817	205,964
Remittance of treasure		147,329	132,636
Stationery		15,677	10,408
Books and newspapers		2,151	1,813
Advertisement		19,600	11,028
Bank guards charges		174,331	147,587
Uniforms		32,626	34,984
Others		316,179	225,444
		8,544,648	7,423,955
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	15.2	6,090,087	4,853,297
Depreciation	9.1	282,992	217,886
		6,373,079	5,071,183
		14,917,727	12,495,138

15.1 **Auditors' remuneration**

	2018			2017		
	EY Ford Rhodes	KPMG Taseer Hadi & Co.	Total	EY Ford Rhodes	A.F.Ferguson & Co.	Total
	(Rupees in '000)					
Audit fee	2,750	2,750	5,500	2,500	2,500	5,000
Out of pocket expenses	1,100	1,100	2,200	1,000	1,000	2,000
	3,850	3,850	7,700	3,500	3,500	7,000

15.2 **Staff retirement benefits**

15.2.1 Charge for the year in respect of defined contribution plan amounted to Rs. 108.907 million (2017: Rs. 42.187 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:

	2018	2017
- Discount rate for year end obligation	9.00%	7.75% p.a.
- Salary increase rate (where applicable)	10.00%	8.75% p.a.
- Pension increase rate (where applicable)	7.50%	6.25% p.a.
- Medical cost increase rate (where applicable)	9.00%	7.75% p.a.
- Petrol price increase rate (where applicable)	10.00%	8.75% p.a.
- Personnel turnover	18.00%	9.2% 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

	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	1,394,678	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	2,491,358	318	1,104,366	91,164	8,734	3,695,940
Benefits paid	(7,858,601)	-	(456,205)	(36,737)	(934)	(8,352,477)
Liability transferred from SBP	116,663	-	29,442	2,391	4,715	153,211
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	-	-	-	(62,092)	-	(62,092)
Experience adjustments	2,697,663	598	585,645	(250,633)	(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

	2017					
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
	Rupees in '000					
Present value of defined benefit obligation as on July 1, 2016	37,457,883	2,327	13,911,141	1,308,845	100,956	52,781,152
Current service cost	807,936	297	244,963	2,599	6,529	1,062,324
Interest cost on defined benefit obligation	2,370,905	169	987,219	89,143	7,244	3,454,680
Benefits paid	(3,994,261)	-	(588,656)	(158,576)	(2,064)	(4,743,557)
Liability transferred from SBP	15,507	-	17,763	1,121	2,100	36,491
Remeasurements:						
Actuarial (gains) / losses from changes in financial assumptions	1,894,062	-	244,469	(30,600)	8,517	2,116,358
Experience adjustments	(95,527)	22	(225,209)	(17,764)	(10,122)	(348,600)
Present value of defined benefit obligation as on June 30, 2017	38,656,505	2,815	14,491,690	1,394,678	113,160	54,458,848

15.2.4.1 Amount recognised in the Statement of Comprehensive Income

	2018					
	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	-	-	-	(63,092)	-	(63,092)
- Experience adjustments	2,697,663	598	585,645	(250,621)	(9,644)	3,023,641
						2,961,549

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

15.2.5 Amount recognised in the Profit and Loss Account

	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

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

15.2.6 Movement of present value of defined benefit obligation

	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	116,657	-	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

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

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
		(Rupees in '000)	
Pension			
Discount rate	1%	(2,711,136)	3,220,026
Salary increase rate	1%	869,947	(825,113)
Pension increase rate	1%	2,324,894	(1,957,577)
Expected mortality rates	1 Year	466,432	(463,578)
Gratuity Scheme			
Discount rate	1%	3,765	4,381
Salary increase rate	1%	4,177	3,765
Post retirement medical benefits			
Discount rate	1%	(2,337,695)	3,001,685
Medical cost increase rate	1%	3,055,614	(2,410,321)
Salary increase rate	1%	32,059	(29,158)
Expected mortality rates	1 Year	302,779	(299,321)
Benevolent fund scheme			
Discount rate	1%	(43,707)	48,928
Six months post retirement facility			
Discount rate	1%	(6,540)	7,313
Salary / petrol increase rate	1%	7,587	(6,899)

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.

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	8 Years	5 Years	17 Years	5 Years	6 Years

15.2.9 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2019

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2019 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	Rupees in '000					
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Amount chargeable to profit and loss account	3,432,583	553	1,435,549	93,850	16,178	4,978,713

15.2.10 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 4,055.586 million (2017: Rs. 4,455.316 million). An amount of Rs. 1,010.380 million (2017: Rs. 109.854 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, 2019 would be Rs. 597.115 million. The benefits paid during the year amounted to Rs. 1,453.360 million (2017: Rs. 589.822 million). In case of 1% increase / decrease in discount rate, the net charge for the year would decrease / increase by Rs. 170.166 million and Rs. 192.804 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. 204.970 million and Rs. 185.036 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	2018	2017
	(Rupees in '000)	
Profit for the year	35,819	41,572
Adjustments for:		
Interest income on Government securities	(4,727)	(15,484)
Gain on disposal of property and equipment	(4,504)	(10,220)
	(9,231)	(25,704)
	26,588	15,868

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:

	2018	2017
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	39,042	32,849
Transactions during the year - reimbursable from State Bank of Pakistan		
Training expense charged during the year	174,823	132,820

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.

18.2 Concentrations of risk

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

18.2.1 Geographical analysis

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

18.2.2 Industrial analysis

	2018			
	Sovereign	Banks & Financial Institutions	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
	521,419	50,042,724	9,178,685	59,742,828

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

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:

	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
	521,419	59,221,409	59,742,828

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

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	
	2018	2017	2018	2017
	(Rupees in '000)			
Employee loans	7,715	7,737	7,715	7,737

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.

	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	59,743,828
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

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

*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 held to maturity investments whose fair value is disclosed in note 5.2 to these financial statements which have been valued under level 2. These are carried at amortised cost in accordance with the Corporation's policy.

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2018		
	Loans and receivables	**Held to maturity**	**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
	59,221,409	521,419	59,742,828

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

	2018	2017
	(Rupees in '000)	
Financial liabilities - at amortised cost		
Deposits and other liabilities	1,018,844	1,201,960

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on **23 OCT 2018** 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.

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
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PRINTED BY THE MANAGER, PRINTING CORPORATION OF PAKISTAN PRESS, ISLAMABAD.
PUBLISHED BY THE DEPUTY CONTROLLER, STATIONERY AND FORMS, UNIVERSITY ROAD, KARACHI.