

# Annual Performance Review

2015 - 16



SBP BANKING SERVICES CORPORATION

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# Annual Performance Review 2015-16



**SBP Banking Services Corporation**

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## ***Vision***

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*To develop SBP BSC into a dynamic and efficient organization equipped with requisite technology and human resource capable of extending sustainable support to the State Bank of Pakistan in achieving its objectives.*



## ***Mission***

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*To provide excellent banking and financial services to stakeholders besides ensuring implementation of SBP policies in order to command their trust and respect.*



# ANNUAL PERFORMANCE REVIEW

## 2015-16

### *About this Report*

Annual Performance Review (APR) is a regular publication of State Bank of Pakistan Banking Services Corporation (SBP BSC). The report covers detailed record of SBP BSC's performance and operational functions conducted during the financial year 2015-16. Following are the broad areas covered in the report:

- Key business areas and institutional framework of SBP BSC
- Detailed profile of departments serving as operational wing of SBP BSC
- Financial Statements of SBP BSC

*Annual Performance Review is available at the following website:*  
[www.sbp.org.pk/publications](http://www.sbp.org.pk/publications)

*For more information, please contact:*

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# About SBP Banking Services Corporation

Being a functional subsidiary of State Bank of Pakistan, SBP Banking Services Corporation performs currency management functions (distribution of fresh currency notes and coins and lifting of soiled banknotes from the market), provides banking services to governments and financial institutions and promotes and implements SBP policies in development finance areas (Small and Medium Enterprise, Agriculture and Microfinance), Foreign Exchange Operations and Adjudication as well as different credit schemes through its Field Offices across Pakistan.

## Priorities

- *Providing quality banking services to governments, banks etc;*
- *Managing currency;*
- *Promoting and implementing SBP policies;*
- *Handling foreign exchange operations and adjudication;*
- *Managing the risks; and*
- *Nurturing organization's efficient and dynamic human resources.*

## Strategic Framework

- *Optimizing use of technology to enhance efficiency;*
- *Devising Strategic Vision for the organization through Strategic Planning Process*
- *Continuing to act on behalf of State Bank of Pakistan;*
- *Maintaining a sound financial and organizational footing; and*
- *Pursuing a changing management and organizational development policy.*

## Goals

- *Acquiring higher level of satisfaction of stakeholders through:*
- *Improving efficiency;*
- *Reducing processing time;*
- *Maintaining friendly attitude towards customers; and*
- *Improving effectiveness in SBP's policy implementation.*

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## SBP BSC's Field Offices

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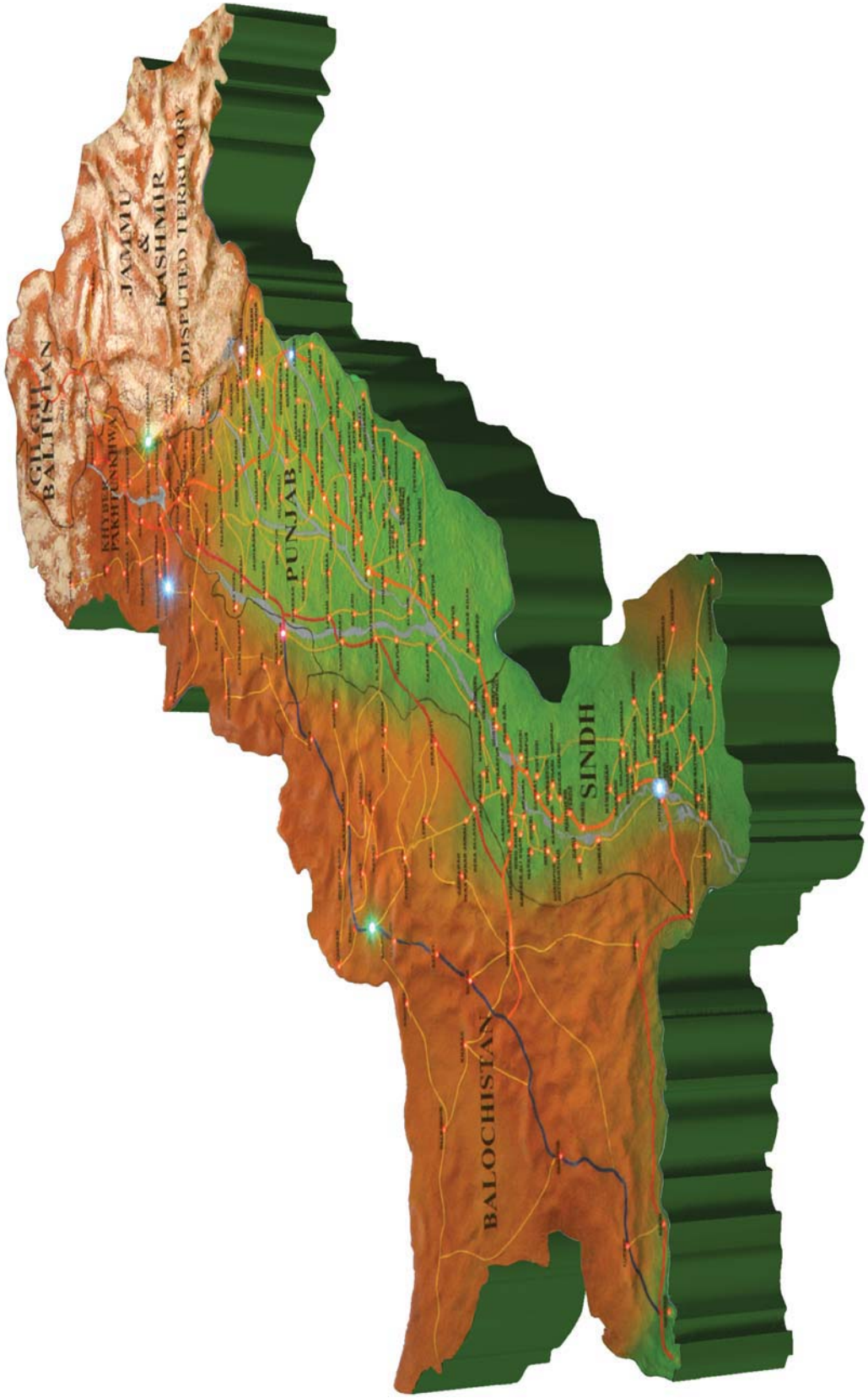
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State Bank of Pakistan, inaugurated by Quaid-e-Azam Muhammad Ali Jinnah on 1<sup>st</sup> July 1948, is located in Karachi.

SBP Banking Services Corporation was set up, as an operational arm of SBP, in January 2002 through an Ordinance of 2001. It is a fully-owned subsidiary of SBP.

SBP BSC's Head Office is in Karachi, while its sixteen Field Offices are located across the country as under:

1. SBP BSC, Bahawalpur
  2. SBP BSC, Dera Ismail Khan
  3. SBP BSC, Faisalabad
  4. SBP BSC, Gujranwala
  5. SBP BSC, Hyderabad
  6. SBP BSC, Islamabad
  7. SBP BSC, Karachi
  8. SBP BSC, Lahore
  9. SBP BSC, Multan
  10. SBP BSC, Muzaffarabad
  11. SBP BSC, North Nazimabad (KHI)
  12. SBP BSC, Peshawar
  13. SBP BSC, Quetta
  14. SBP BSC, Rawalpindi
  15. SBP BSC, Sialkot
  16. SBP BSC, Sukkur
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## The Team

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### The Team Appreciates ...

and expresses gratitude for the significant support/guidance, provided to it by all Directors, Chief Managers, APR Contributors, Editors, Reviewers and the Management Committee on Publications, in making this report a valuable document.

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## Message from Governor, SBP – Chairman, Board of Directors of SBP BSC

I have always believed that being a fully owned subsidiary with presence in fifteen key locations of Pakistan and also one in AJK, the SBP Banking Services Corporation has much potential for the State Bank to achieve its objectives as a central bank of the country. Ever since assuming the charge of Governor in 2014, I had plans to make SBP BSC a vibrant institution so that its full potential can be explored for the benefits of BSC and SBP as well as the entire nation. For this purpose, I have been overseeing the development of BSC, automation of its operations, particularly in currency management, government banking, and foreign exchange operations. I have also been paying my utmost attention to the institutional structure of BSC and the need to change its law to make it more vibrant and efficient.



I am glad that the outgoing year has remained an eventful year for SBP BSC because the Corporation achieved many key milestones. To name a few: essential amendments in its Ordinance, restructuring of the Corporation into groups at Head Office level and regions at Field Offices level. I feel extreme pleasure in sharing with the readers that the amendments in SBP BSC's Ordinance have been cleared by the Ministry of Law and Justice and now it awaits Cabinet's approval before its submission to the Parliament for enactment as per procedure. The restructuring of SBP BSC as approved by its Board of Directors, has paved the way for creation of posts in Officer Grade 8 and 7, thus providing a full ladder of career progression to SBP BSC Officers which was restricted up to Officer Grade 6 level only. The year also saw the first officer from within the SBP BSC who has been promoted as Officer Grade 7. Job descriptions, Key Performance Indicators of key line management staff have also been sharpened.

I may state here that both SBP BSC and SBP have jointly started the journey for automation of currency operations in February 2015 by holding a Currency Conference at Lahore which was attended by experts from few international organizations, local banking sector and the Pakistan Security Printing Corporation. To ensure development of our strategy for automation of currency operations in the country, a number of opportunities of exposure visits of different central banks, seminars, workshops etc; were provided to officers of SBP BSC, in particular, and SBP in general. I am glad that these visits helped the Banking Services Corporation and the State Bank of Pakistan to jointly develop a comprehensive Currency Management Strategy that was announced by SBP in August, 2015.

Under Currency Management Strategy, major focus remained on automated management of currency notes in the banking sector. This year, two Banknote Processing & Authentication Systems (BPAS) have been procured and successfully installed at Karachi, which are capable of end-to-end high speed currency note processing including counting, authentication, online shredding and briquetting. This would also help in mitigating and managing the risk of counterfeit currency notes. SBP BSC has also enhanced its efforts for automation of foreign exchange operations and has successfully achieved automation of Export Form (E-Form) in Web-Based One Customs (WeBOC) with the active coordination of Exchange Policy Department and the Pakistan Customs. Similar efforts have also been started for automation of I-Form. The Bank is also coordinating with Federal and Provincial Governments for a single solution for online issuance of cheques, payments and reconciliation with the active coordination of Finance Department. For the purpose, a pilot project is being tested. The management has also suggested improvements in Expenditure Regulations, based on the current business requirements, which has recently been approved by the Board.

During the year, premature retirement of the ageing workforce at SBP BSC continued to pose a challenge, however, the management has been making noticeable efforts for meeting the gap by strategically hiring fresh graduates as OG-1 and OG-2, who are more familiar with IT infrastructure and can achieve the same results, perhaps even better, with much lower staff strength. The Bank

has also undertaken the first Employee Engagement Survey this year and I am glad to state that the employee engagement level at SBP BSC is 59%, which is quite close to the global average of 62%. I am pleased that SBP BSC has been complementing SBP's efforts for expanding the financial inclusion. However, I will urge the SBP BSC Managing Director and his team to continue making rigorous efforts to raise the bar further and keep up the good work. I may add here that the key for reaching the higher echelons is to develop the skills of HR capital, use of technology in a more efficient manner and improve the business processes while inculcating the accountability culture.

The role of SBP BSC in managing common services in the area of procurement, provision of medical services, security of human resources of SBP, SBP BSC and NIBAF and assets of these institutions across Pakistan, besides provision of engineering related services for our existing buildings and the designing of new premises at different locations also need specific mention, though I expect the BSC to make strenuous efforts for further improvements.

I would like to express my gratitude to SBP BSC's Board of Directors for its support and cooperation towards enhancing the role of SBP BSC as per its mandate. While appreciating the efforts of the Managing Director, his team comprising Directors and Chief Managers, Officers and Staff of SBP BSC, I hope that they would continue to work for achieving further higher goals towards betterment of both the State Bank of Pakistan and SBP Banking Services Corporation.

**ASHRAF MAHMOOD WATHRA**

Governor

State Bank of Pakistan

## Message from Managing Director, SBP Banking Services Corporation

I am extremely delighted to present the Annual Performance Review of SBP Banking Services Corporation (BSC) for the financial year 2015-16 which was an eventful year for the Corporation from many perspectives. During the year, a number of strategic initiatives were taken to provide better and efficient banking services, improved circulation of fresh currency notes and strengthening BSC's ability to implement State Bank's policy instructions regarding foreign exchange operations, besides helping it in expanding the outreach of financial services in the country.



Restructuring of the Corporation was one of the important strategic initiatives taken during the year, in terms of which Groups were created at Head Office Karachi, besides creating three Regional Offices to club the sixteen Field Offices as per their locations to improve their oversight. This restructuring paved the way for creation of OG-7 and OG-8 posts in the organization and is likely to meet the growing business requirements as well as improve synergies between Functional Departments and Field Offices. This will also reduce the number of officers reporting directly to Managing Director, thus allowing him to focus on strategic matters. Resultantly, an officer of BSC has been promoted as Director in the Officer Grade-7 for the first time. All other Grade -7 officers are on deputation from the State Bank. Slowly and gradually the management of BSC will be entrusted to officers having worked in different positions across the Corporation which will make its operational policy formulation more robust.

Another important milestone of the management relates to the proposed amendments in SBP BSC Ordinance, 2001. The modified Ordinance in BSC when enacted, would improve the governance framework by empowering the Board of SBP BSC regarding appointment of its Auditors and expand the working scope in areas of operations incidental to our core functions etc, without compromising the overarching role and control of SBP. The proposed amendments also define the process of appointment of an Acting Managing Director, SBP BSC, in case of a vacancy. The BSC has also modified its Expenditure Regulations to enhance monetary powers delegated by the Board to its management. The proposal has been agreed by the Board's Audit Committee<sup>1</sup>. The management also worked on development of a paper on the "Operating Performance on a Sustainable Business Growth Basis". Other initiatives include the opening of revenue collection centers at strategic locations for efficient collection and its reporting to the Government, improving the efficiency of cash management and setting up of Cash in Transit (CIT) companies to achieve the goals envisaged under the Currency Management Strategy of SBP.

During the year, SBP BSC (Bank) continued to provide banking services to the Federal and Provincial Governments, their attached departments as also other stakeholders at its all offices, though the level of these services at our North Nazimabad Office are very limited. Efforts are being made to enhance the quantum and level of Government banking operations as also provision of advances to banks under SBP schemes at this office gradually. The main functions in this area include transfer of funds, payment of pensions, collection of revenue, making payments on behalf of Government departments and reporting the revenue collection transactions to Federal Board of Revenue (FBR) on daily basis through online network etc. During the year, BSC collectively conducted 7.95 million (approx) transactions of Government payments and receipts through its Field Offices as compared to 7.06 million (approx) transactions last year, thus reflecting year on year increase of 13%. The Bank is also coordinating with AGPR for a single solution for online issuance of cheques, payments and reconciliation with active coordination of SBP's Finance Department. A test phase was initiated at our Islamabad Office, and upon its successful implementation it was expanded to Karachi, Lahore, Peshawar and Quetta. It is expected that in FY17 this will be expanded to other offices of SBP BSC. The Bank has also been successful in enhancing its role

<sup>1</sup> The Board of SBP BSC has since approved them in its meeting held on 27th August 2016.

in efficient revenue collection through its Field Offices & NBP branches and has achieved significant improvements in revenue collection due to improved systems and processes as well as enhanced monitoring which aggregates at Rs 3,183.3 billion vis -a -vis Rs 2,636.9 billion last year, showing an increase of 21%.

The outgoing financial year also witnessed major achievements in currency management operations of the Bank. The Currency Management Department (CMD) of BSC, working in close coordination with SBP's Finance Department, developed a comprehensive strategy for the management of currency operations in Pakistan. This strategy envisaged automation of currency operations not only in all offices of SBP BSC, but also made it mandatory for banks in Pakistan to dispense the bank notes only after being authenticated with machines. This will bring a paradigm shift in the currency management, besides reinforcing the efforts of SBP and SBP BSC to ensure that the banking sector is not used as a tool to circulate counterfeit notes in Pakistan. The strategy will also ensure implementation of Clean Note Policy of the State Bank.

During the year, the Corporation also procured two High Speed Banknote Authentication and Processing Systems (BPAS) and the briquetting system for disposal of shredded waste in an environmental friendly manner. These machines, capable of authenticating 100,000 banknotes per hour and online destruction of unfit notes, have been successfully installed at our Karachi Office. The BPAS machines are also capable to prepare packets and bind them into bundles of ten packets. The Corporation intends to install these machines at other Field Offices, keeping in view the quantum of notes managed by them. In addition to BPAS, the Corporation has also started procuring note authentication machines for performing its daily transaction-based work at the counters of its different offices. To streamline the procurement process, the Corporation is also working on assessing our total needs of BPAS, Desktop and Counter-Top note authentication machines.

Issuance of fresh currency notes on the occasion of Eid-ul-Fitr and Eid-ul-Azha has remained a challenging task for the management of SBP and SBP BSC. In order to facilitate the general public in the supply of fresh currency notes, the '8877- SMS' based service was successfully managed for the second year running, on these religious festivals. This year, the outreach of this scheme during Eid-ul-Fitr 2016 was expanded to 500 branches in 100 cities and small towns across Pakistan as compared to 335 branches last year. Over a million individuals obtained fresh currency notes by using SMS service during Ramadan, 2015.

SBP BSC has made significant progress in managing foreign exchange operations by its Foreign Exchange Operations Department (FEOD). During the year, the management has focused on automation of work processes, out of which the most prominent was automation of Export Form (E-Form) in Web-Based One Customs (WeBOC). This milestone was achieved with the active coordination and lead role of SBP's Exchange Policy Department and Pakistan Customs. With the successful launch of electronic E-Form, the Corporation, Exchange Policy Department and Customs also coordinated in launching of electronic I-Form<sup>2</sup>. This will help curb malpractices in multiple payments against a single import consignment and use of non-banking channels to settle import payments. Monitoring of import payment was further strengthened by adding essential fields in the decades-old import schedule with the help of Exchange Policy and Statistics & Data Warehouse Departments of SBP.

In order to automate Part-II (Performance-based facility) of the Export Finance Scheme, the verification and scrutiny process of EE-1/EF-1 statements has also been initiated through the system-based calculation of total Export Earnings (EE-1) and subsequently Export Performance (EF-1) of exporters, which is expected to mitigate the financial risks and lead towards a robust system-based performance and limit allocation for exporters. In addition, for effective and efficient reports, an Analytical Cube has been developed for preparing consolidated reports, analyzing the

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<sup>2</sup> The Electronic I-Form was made applicable as from 1st September 2016.

data trends, cross referencing and monitoring of monthly data received from Authorized Dealers through International Transaction Reporting System (ITRS). Moreover, the prototype has been developed for the risk-based monitoring of FE returns using ITRS data. FEOD vigorously followed the exporters for repatriation of stuck-up export proceeds and managed to get repatriation of US\$ 301 million in FY16 as compared to US\$ 296.5 million in FY15. During the year, Drawback of Local Taxes and Levies (DLTL) Schemes announced by the Ministry of Textile Industry and Ministry of Commerce were also dealt by FEOD, and detailed guidelines, along with Excel worksheet, have been issued to facilitate the banks in lodging cases/claims for payment of subsidy. During the year, the FEOD also disbursed Rs 5.94 billion subsidy in respect of around 3,000 cases under different schemes announced by the Federal and Provincial Governments in respect of exports made by Textile, Sugar, Wheat and Sports Goods, Surgical Instruments, Leather Garments etc, and Importers/Manufacturers of DAP Fertilizer. The efforts of Foreign Exchange Adjudication Department (FEAD) in ensuring realization of stuck up export proceeds from 1,369 cases referred to them by FEOD also resulted into repatriation of US\$ 57.7 million during the year. The FEAD also took up complaints against banks filed by FEOD on account of banks' failure to meet their obligations set out under Foreign Exchange Regulations Act, 1947 (FERA).

During 2015-16, the Corporation enhanced its focus to augment SBP's strategic objective of expanding the financial inclusion in the country through Development Finance Support Department (DFSD) and its units. The DFSD facilitated the Agriculture Credit & Microfinance Department of SBP (AC&MFD-SBP) through periodic follow up and review meetings with 36 Participating Financial Institutions across 143 districts for monitoring the disbursement of Rs 600 billion target set by SBP for agriculture sector. A sum of little over Rs 500 billion was disbursed by different Field Offices of SBP BSC under the Export Refinance Schemes. The DFSD also developed a modified set of standardized documents for the on-site verification of EFS cases by the verification teams of different Field Offices who are required to ensure that the commercial banks have complied with the instructions of SBP issued in this regard. These modified forms have also helped our verification teams to ensure consistent reporting of irregularities, which in turn facilitated the DFSD to consolidate these reports on bank wise basis. The DFSD also managed work relating to issuance of Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in respect of 8,572 loans amounting to Rs 6 billion.

During FY16, the offices disbursed Rs 500.09 billion and Rs 81 billion under the Export Finance Schemes and Islamic Export Refinance Schemes of SBP. The DFSD and its units across BSC also facilitated DFG in implementation of a number of initiatives/ programs through its Access to Finance Units (AFUs) for information dissemination, capacity building, awareness creation, and development of linkages with stakeholders in SMEs, infrastructure & housing finance, agriculture and horticulture sectors etc.

The working strength of SBP BSC (including SBP deputationists) has reduced considerably from 5,981 at the time of its creation to 2,807 as on 30th June 2016. During the outgoing year, the working strength of the Corporation has been reduced by about 550 due to early retirements, superannuation and deaths. The resultant HR gap was managed through fresh induction of 81 officers under the Young Professionals Induction Program (YPIP) and 78 officers under Officers Training Program (OTP) during the year, while 253 officers and unionized staff were promoted. Regarding improvement in HR policy framework, a number of policies have been reviewed, improved, and introduced which include Absorption Policy, Reward & Recognition Policy, Code of Conduct, Communication Policy, Whistle Blowing Policy etc.

An Employee Engagement Survey conducted by an external management consultancy firm, M/s Grant Thornton Consulting Pvt. Ltd. revealed that the employee engagement level across SBP BSC is at 59% which is quite close to the global average of 62%. Moreover, a Workload Analysis Project has also been taken up to assess the optimal staff requirements. Training and improvement of skill set of employees remained a special focal activity. A number of training initiatives were

taken this year to augment the skill sets of employees by sending them for training/exposure visits/workshops at domestic and international institutions.

SBP BSC intends to hold a 'Strategic Planning Conference' to redefine its Vision and Mission statements and develop the strategic goals, tactical objectives and business goals for the next five years in line with SBP Vision 2020. Holding of this conference was planned to be held during the outgoing year, however, the consultant could not be hired as none of the responding firms could fulfill the eligibility criteria. Another initiative taken by the management during the year was to translate forms, in use of general public, in Urdu, for facilitating a larger segment of society, which shall be available for public consumption shortly.

An important function performed by the SBP BSC relates to the healthcare and medical services. In this regard, efforts are being made for provision of the optimal health care services to the Bank's officers and staff which include, among others, the following: i) undertaking a comprehensive review of the Bank's formulary, ii) ensuring the cost effective procurement by minimizing the role of middleman, iii) broadening the network of hospitals, labs, and consultants across Pakistan, iv) conducting the Health Awareness Sessions on various topical issues, v) issuance of medical photo ID cards, vi) installation of Queue Management System, and vii) introduction of online appointment system, etc.

A number of activities are being performed by the Bank in the field of Corporate Social Responsibility (CSR) which include: (i) Summer/Winter Internship Programs offered to the students of Pakistani universities/institutes accredited by Higher Education Commission (HEC), which provide students an insight about the core functions and working of the Bank, (ii) Outreach Programs in the shape of conferences/seminars/exhibitions/workshops/capacity building programs, etc. aimed at educating the stakeholders/academia/general public about topical issues, and (iii) Promotion of sports and healthy recreational activities which has earned a good name for the Bank. The notable activities in the arena of sports & recreational activities included the holding of SBP Governor's Cup Interbank Cricket and other tournaments, display of outstanding performance by SBP cricket team at various national-level tournaments, formation of State Bank's Women Cricket Team and the start of 1st SBP Women Cricket Championship 2016, Opening Ceremony of the newly-constructed State Bank Cricket Pavilion, and holding of a grand Fun Gala and musical event during FY16.

I would like to take this opportunity to express my deepest gratitude to the Honorable Governor and the members SBP BSC Board for their unflinching support and continued guidance as well as my colleagues for their efforts and commitment towards achievement of our strategic objectives and accomplishment of responsibilities assigned by SBP to its operational arm.

**QASIM NAWAZ**  
Managing Director  
SBP Banking Services Corporation

## **Governance Structure of SBP Banking Services Corporation**

SBP Banking Services Corporation (SBP BSC) was established in January 2002 as a wholly-owned subsidiary of State Bank of Pakistan under the SBP Banking Services Corporation Ordinance 2001.

As an operational arm of the Central Bank, SBP BSC is engaged in managing currency and foreign exchange operations, providing banking services to the Federal and Provincial Governments, financial institutions and the general public. It is also conducting development finance activities in support of Development Finance Group (DFG) of State Bank of Pakistan (SBP), implementing export refinance schemes and performing agency functions like sale/purchase of Prize Bonds including managing prize money draws. SBP BSC also handles sale/purchase of instruments of National Savings Schemes (NSS) or any other functions assigned to it by SBP.

### **Board of Directors**

According to the Ordinance, general superintendence, direction and management of the affairs and business of SBP BSC and overall policy making in respect of its operations is vested in the Board of Directors. The Board may exercise all such powers and perform all such acts and deeds that may be exercised or done by SBP BSC. In discharging its functions, the Board ensures compliance of the orders and directions that may be issued by SBP from time to time.

The Board of Directors of SBP BSC is comprised of:

- a) Members of the Central Board of Directors of SBP; and
- b) Managing Director, SBP BSC.

The members of Central Board of Directors of State Bank of Pakistan comprise SBP Governor, Finance Secretary and eight Independent non-executive Directors nominated by the Federal Government. SBP Governor acts as the Chairman of the Board. The Directors, at least one from each province, are appointed by the Federal Government. They are eminent professionals from the field of economics, finance, banking and accountancy. Managing Director (MD) is appointed by SBP as mandated by the SBP BSC Ordinance 2001.

In the first half of March FY16, Mr. Mehmood Mandviwalla, Mr. M. Nawaz Tiwana, Mr. Iskander Mohammed Khan, Khawaja Iqbal Hassan, Mr. Muhammad Hidayatullah and Mr. Zafar Masud have completed their three years' tenure as Director of the Board. The positions vacated by Mirza Qamar Beg and Mr. Shahid Ahmed Khan in FY15 were not filled up. Accordingly, the Federal Government appointed Dr. Tariq Hassan, Hafiz Mohammad Yousaf, Mr. Zubyr Soomro, Khawaja Iqbal Hassan, Mr. Zafar Masud, Mr. Ardeshir Khursheed Marker, Mr. Mohammad Riaz and Mr. Sarmad Amin as members of SBP Board on March 22, 2016.

The Board of SBP BSC met six times during FY16 and provided strategic leadership and oversight to the management in corporate restructuring, amendments in SBP BSC Ordinance 2001, significant policies and financial statements etc.

### Board of Directors<sup>3</sup>



**Mr. Ashraf Mahmood Wathra**, Governor; Chairman Board of Directors and Chairman Monetary Policy Committee.

Governor and Chairman since April 29, 2014, Mr. Wathra brings 35 years of commercial and investment banking experience to the Bank. He has worked in eight regulatory regimes in South East and Far East Asia including Singapore, Hong Kong, and Australia. He has also served on the Board of Directors of several Financial Institutions.



**Dr. Waqar Masood Khan** (Member, SBP Board since April 16, 2013)  
Secretary, Finance Division, Government of Pakistan and ex-officio member of SBP Board, Dr. Waqar has served as Special Secretary to the Prime Minister, Secretary, Economic Affairs Division, and Additional Secretary, Prime Minister's Secretariat. He did his PhD in Economics from Boston University, USA.



**Dr. Tariq Hassan** (Member, SBP Board since March 22, 2016)  
A senior law consultant, attorney and advocate Supreme Court of Pakistan, Dr. Hassan is a former Chairman, SECP. He has served as Advisor to the Federal Government. He has also been associated with World Bank and the International Fund for Agriculture Development as Legal Counsel, among other assignments, at prestigious organizations. He did his PhD in Juridical Science from Harvard University, USA.



**Hafiz Mohammad Yousaf** (Member, SBP Board since March 22, 2016)  
A Chartered Accountant with professional experience of over 30 years, Hafiz Yousaf is serving as Member, SECP Board and is also the President of the Institute of Chartered Accountants of Pakistan, besides holding other important responsibilities. He is Fellow Member of the Institute of Chartered Accountants of Pakistan (FCA).

<sup>3</sup> Board Composition is as of June 30, 2016.



**Mr. Zubyr Soomro** (Member, SBP Board since March 22, 2016)  
Former President and Chairman UBL with over 40 years' experience in the financial sector, Mr. Soomro is presently working as a global financial sector expert for SGA, a New York based consulting firm and Chairman, Hikmah Consulting. Mr. Soomro holds a Masters degree in South Asian Studies from London University.



**Khawaja Iqbal Hassan** (Member, SBP Board since March 22, 2016)  
A seasoned banker, who established a commercial bank and a leading investment banking firm, Mr. Iqbal Hassan has 35 years' experience in the financial sector. He is serving on the Boards of prominent public and private enterprises. He has also served on many Task Forces established by the Government of Pakistan. Mr. Hassan was awarded Sitara-i-Imtiaz for his meritorious contributions towards national interest.



**Mr. Zafar Masud** (Member, SBP Board since March 22 - August 24, 2016)<sup>4</sup>  
Director and Co-Founder of Burj Capital, a leading private equity firm, Mr. Masud has served at several senior level positions with international financial institutions in their domestic and international operations as well as on their key management committees. Presently, he is serving on the Boards of leading public sector organizations. He holds an MBA degree from the Institute of Business Administration, Karachi.



**Mr. Ardeshir Khursheed Marker** (Member, SBP Board since March 22, 2016)  
A businessman by profession, Mr. Khursheed Marker is partner and Director Operations for Karachi at Green Bean Coffee Company Ltd. He is also a partner in Merck Marker Pvt. Ltd. and manages its financial and business development areas. Mr. Marker holds a Masters degree in Economics from London School of Economics.



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

<sup>4</sup> Pursuant to his appointment as Director General, Central Directorate of National Savings (CDNS), Mr. Zafar Masud resigned from the SBP Board on August 24, 2016, in line with Section 13(1)(b) of the SBP Act, 1956 (as amended).



**Mr. Sarmad Amin** (Member, SBP Board since March 22, 2016)

A progressive entrepreneur and a businessman, Mr. Sarmad Amin is a member of Lahore Chamber of Commerce and Industry (LCCI) and All Pakistan Textile Mills Association (APTMA). He was also the Vice President of LCCI and member Executive Committee of APTMA. Presently, Mr. Amin is Chairman of Samin Textiles Limited, besides being a member on the Boards of several conglomerates. He is also Honorary Consul of the Republic of Austria in Pakistan. He graduated from the University of the Punjab, Lahore.



**Mr. Qasim Nawaz** (Managing Director SBP BSC)

Joining the State Bank in 1988, Mr. Qasim Nawaz is a business graduate from the Quaid-i-Azam University, Islamabad. During his over 28 years of association with the Bank, he served in various responsible capacities and contributed towards the development of banking policies, supervision of banking system, financial inclusion and promotion of industries. Mr. Qasim Nawaz, who is serving as Managing Director (MD) SBP BSC since 2014, is also a member on the Board of National Institute of Banking and Finance (NIBAF) as SBP's nominee. He has also served SBP BSC as its MD from 5<sup>th</sup> September, 2009 to 17<sup>th</sup> September, 2012.

## Committees of the Board of SBP BSC

The SBP BSC Ordinance 2001 allows the subsidiary to set up committees consisting of an adequate number of directors, having specific Terms of Reference (ToRs), which outlines powers, functions, duties and other terms of appointment of such committees as it may determine. The designated committees independently deal with matters entrusted to them by the Board.

Presently, there are two committees of the Board which look after the matters relating to Human Resources (HR) and Audit. The details of these committees are as under:

### A. Committee of SBP BSC Board on HR

This committee assists the Board in human resources area. It reviews all proposals requiring approval of the Board regarding revision, modification or interpretation of HR policies and submits its recommendations to the Board. During the year under review, the committee held four meetings and has the following composition:

1. Mr. Zubyr Soomro	Chairman
2. Mr. Zafar Masud	Member <sup>5</sup>
3. Mr. Mohammad Riaz	Member
4. Managing Director, SBP BSC	Member

### B. Committee of SBP BSC Board on Audit

The committee assists the Board on issues relating to audit and reviews audit proposals required to be submitted to the Board. During the year under review, the committee held three meetings and is comprised of the following members:

1. Hafiz Muhammad Yousaf	Chairman
2. Khawaja Iqbal Hassan	Member
3. Mr. Ardeshir Khursheed Marker	Member

## Management Structure

The Managing Director (MD) is the Chief Executive Officer of SBP Banking Services Corporation and manages the business and operations of SBP BSC on behalf of the Board of Directors as per powers vested in him by the Board. The MD is being assisted by a team of Directors/Heads of Department and Chief Managers.

### Heads of Department (HoDs) Forum

The forum, which consists of Directors/Heads of Department of SBP BSC, is responsible to set the operational policy parameters that help the SBP BSC in achieving the strategic direction as set by its Board. The forum also deliberates upon various policies for the approval of the Board as well as monitors the progress of decisions taken by the Board/Management to ensure compliance of goals and objectives of SBP BSC.

### Chief Managers (CMs) Conference

The forum, which consists of Chief Managers of SBP BSC's Field Offices situated in 16 major cities of Pakistan, mainly discusses the operational areas of the subsidiary and suggests measures to bring about improvement in them for approval of the higher management.

<sup>5</sup> Pursuant to his appointment as Director General, Central Directorate of National Savings (CDNS), Mr. Zafar Masud resigned from the SBP Board on August 24, 2016, in line with Section 13(1)(b) of the SBP Act, 1956 (as amended).



# Banking Services to Governments and Banks





# 1 Banking Services to Governments and Banks

*As a statutory obligation on behalf of State Bank of Pakistan, the SBP Banking Services Corporation carries out the operational work relating to the banker to Governments and banks through its 16 Field Offices and a wide network of National Bank of Pakistan branches all over the country. SBP BSC's Accounts Department also prepares annual accounts, manages preparation and monitoring of yearly budget of the Corporation.*

## 1.1 Overview

SBP BSC, under Section 21 of SBP Act 1956 read with Section 15 (3) e of SBP BSC Ordinance 2001, provides various types of banking services to the Federal, Provincial and District Governments through its 16 Field Offices all over the country (**Box 1.1**).

### **Box 1.1: Services Provided to Governments, Banks and Non-bank Financial Institutions**

- Collection of revenues and payments on behalf of Government Departments.
- Reporting of transactions to Federal Board of Revenue (FBR) through online network, on a daily basis, under Collection Automation Program (CAP).
- Facilitating Government Departments for settlement of payments and receipts through National Bank of Pakistan (NBP) and Bank of Punjab (BOP) as agents of SBP.
- Operational work relating to public debt transactions.
- Maintenance of current accounts of commercial banks and Non-bank Financial Institutions (NBFIs).
- Remittance facilities to Governments and financial institutions for transfer of funds.

## 1.2 Management of Governments' Accounts

As a part of its core functions, SBP BSC maintains the accounts of Federal/Provincial/Local Governments and is responsible for the consolidation of receipts and payments made on their behalf. Data pertaining to Governments' transactions is reported to the concerned external stakeholders (i.e. Accountant General of Provinces, Accountant General Pakistan Revenue (AGPR) and Pakistan Railways etc.) The position of balances is also provided to SBP's Finance Department on a daily basis for onward submission to the stakeholders.

During FY16, around 7.95 million transactions of Government payments/receipts were processed by SBP BSC Field Offices as compared to 7.06 million in FY15, showing a 13% rise (**Table 1.1**).

Being an operational arm of SBP and facilitator of payment and settlement system, SBP BSC provides operational support to Payment System Department (PSD) of SBP. As a part of SBP's vision 2020, the PSD and Accounts Department are jointly working on: a) collection of Government taxes through Alternative Delivery Channels (ADCs) like Automated Teller Machines (ATMs) and Mobile Banking etc. and b) for establishing industry standards to ensure ongoing security, integration and interoperability of various payment systems.

Transactions	2013-14	2014-15	2015-16
Receipts	2.26	2.97	3.74
Payments	4.01	4.09	4.21
<b>Total</b>	<b>6.27</b>	<b>7.06</b>	<b>7.95</b>

Accounts Department is also coordinating with Finance Department and AGPR with a view to implementing a single solution from issuance of cheques by different Government departments and reporting reconciliation of payments made against these cheques by different Field Offices. A test phase of the project was started at Islamabad Field Office, and upon getting promising results, similar test projects are being initiated at Karachi, Lahore, Peshawar and Quetta Field Offices. Plans are underway to roll out this solution at all Field Offices shortly. Implementation of this solution will not only improve the operational efficiency of SBP BSC, but also enable the Government to have the desired reporting/information on real-time basis.

### 1.3 Reporting of Zakat Balances

Consolidation, maintenance and reporting of Zakat Account to the Ministry of Religious Affairs is one of the important functions of SBP BSC. During the year under review, around Rs 7.48 billion Zakat was collected and deposited with SBP BSC by various institutions as compared to Rs 5.75 billion last year, showing an increase of 36%.

### 1.4 Reporting of Federal Board of Revenue Transactions

One of the vital tasks performed by SBP BSC is collection, consolidation and reporting of data regarding Federal Board of Revenue (FBR) taxes. In order to streamline the reporting of tax collected by the Field Offices as well as to facilitate the tax payers in obtaining evidence of tax deposit promptly, the SBP BSC has been using Collection Automation Project II (CAP-II)-a system of FBR since 2011-which has largely ensured reporting of tax collection to FBR on real time basis.

The tax revenue collected by SBP BSC Field Offices & network of NBP branches and credited to the concerned accounts of the Federal Government during FY16 was around Rs 3,183.3 billion as compared to Rs 2,636.9 billion in FY15, resulting in an increase of about 21%. Details are given in **Table 1.2** below.

Head of Account	Receipts				Payments			
	FY13	FY14	FY15	FY16	FY13	FY14	FY15	FY16
Sales Tax	849,880	1,010,756	1,113,551	1,344,682	29,025	32,028	43,294	33,806
Federal Excise	131,428	150,688	165,151	187,148	532	323	369	532
Customs	245,350	263,347	334,594	452,491	10,462	9,845	9,569	12,607
Income Tax	747,297	880,361	1,023,605	1,199,019	21,151	24,486	15,107	13,292
<b>Total</b>	<b>1,973,955</b>	<b>2,305,152</b>	<b>2,636,901</b>	<b>3,183,340</b>	<b>61,170</b>	<b>66,682</b>	<b>68,339</b>	<b>60,237</b>

Note: The totals may exhibit slight difference due to separate rounding off.

### 1.5 Banker to Banks

SBP BSC operates current accounts of banks to facilitate both cash reserve computations by SBP and also for day-to-day operational requirements of banks. These accounts are operated by the authorized representatives of banks according to the powers prescribed in Power of Attorney (POA) delegated to them by the competent authority of the concerned banks. However, due to open ended nature of the document, various flaws were noted by the Internal Audit Department (IAD) in the Power of Attorney submitted to different Field Offices by banks. In order to facilitate banks, SBP BSC has now issued a Standardized Power of Attorney. This initiative has been widely appreciated across the board by banks as various ambiguities pertaining to POA have now been resolved.

### **1.6 Clearing House Services**

SBP BSC supports SBP in carrying out the supervision of automated clearing services provided by National Institutional Facilitation Technologies (NIFT) in order to process and settle transactions between commercial banks across the country. During FY16, about 66.9 million instruments were processed through NIFT as against 78.3 million in FY15.

Clearing House membership has also been allowed to Micro Finance Banks (MFBs) during the year, which has brought MFBs at par with commercial banks. This year alone about 41 memberships were allowed across SBP BSC.

### **1.7 GL/Reconciliation**

Accounts Department is responsible for accounting and financial functions including the preparation and monitoring of SBP BSC budget. Accordingly, the International Financial Reporting Standards (IFRS) compliant financial statements for FY15 were issued during the year under review. In pursuit of implementing the best accounting practices at par with international standards, the department has also developed/revised various policies in Budgeting, Reconciliation, Asset Management, Internal Monitoring etc. Additionally, various in-house analysis were conducted during the year, in coordination with the Human Resource Management Department (HRMD) and SBP's Information Technology Department (ITD).

### **1.8 Future Outlook**

The future outlook of SBP BSC in Banking, Payment Systems, Accounting and Finance is derived from SBP's Strategic Plan for 2016-20. SBP BSC will also implement the recommendation made in the Policy Paper, which has recently been approved by the Board about the Corporation's future role in ensuring its organizational growth. Some of the initiatives already undertaken and aimed to be undertaken by Accounts Department will be in respect of the following projects:

1. Implementation of automated payment solution for Government Banking i.e., Financial Accounting and Budgeting System (FABS).
2. Enhancing the ambit of clearing to all the participants of banking sector.
3. E-banking solutions and process efficiency through consolidation of Government cheques.
4. Standardization of Government cheques with adequate security features.
5. Expanding the role of SBP BSC for Government business.
6. Strengthening the risk management practices at SBP BSC.
7. Improving financial discipline across SBP BSC.
8. Assisting new agent(s) of SBP for conducting Government business.
9. Other initiatives for enhancing operational effectiveness and efficiency.

## 1.9 Major Achievements

Major achievements during the year under review, are mentioned below:

### Box 1.2: Major Achievements

1. Initiation of sales tax collection by SBP BSC Offices; saving of Rs 42.15 million in agency commission payment by SBP on account of collection of Rs 35.12 billion during FY16.
2. Facilitation and coordination with AGPR in implementation of parallel run of FABS system for Government payments at Islamabad Field Office.
3. Devised Control Procedures in consultation with FEOD, Finance Department, DMMD and BID for reimbursement of Government LC claims by banks to counter the exchange rate differential.
4. Coordinated with PSD for allowing Clearing House Membership to Micro Finance Banks and its implementation at SBP BSC Field Offices.
5. Submission of proposal for establishing custom booths at various collection points. (Significant savings in commission are anticipated at Custom House Branch, Karachi. Similar other options are being explored.)
6. A proposal for standardization of Government cheques is under approval phase.
7. Initiation of E-Stamping collections through Bank of Punjab (BoP).

# Currency Management





## 2 Currency Management

*Currency Management process encompasses issuance of good quality bank notes, stock management and ensuring their uninterrupted supply through four Issue Offices of SBP Banking Services Corporation supervised by the Currency Management Department (CMD). Besides facilitating the Central Directorate of National Savings (CDNS) and maintaining a close liaison with Pakistan Security Printing Corporation (PSPC), the department is also endeavoring to upgrade currency operations in Pakistan through introduction of a comprehensive, state-of-the-art automated solution commensurate with our environment and challenges.*

### 2.1 Overview

As a part of its overall mandate, CMD is tasked with ensuring: i) smooth, timely and equitable issuance of fresh/re-issuable banknotes through Field Offices, NBP chests/sub-chests and commercial banks; ii) sale, encashment of Prize Bonds and Savings Certificates and conduct of Prize Bonds' draws as per laid down procedures; iii) implementation of SBP's Clean Note Policy through a comprehensive and fair system of onsite cash monitoring mechanism at banks' branches; and iv) alignment of our existing currency management framework with the prevailing best international practices. CMD closely coordinates with SBP's Finance Department and Central Directorate of National Savings for seeking policy directions, dealing with matters relating to currency management and executing national savings schemes on behalf of CDNS.

#### **Box 2.1: Achievements during FY16**

- Successful installation of Banknote Processing and Authentication System and allied destruction solutions;
- Successful installation of desktop note sorters at Field Offices;
- Usage of 8877 SMS tool for distribution of fresh currency notes on religious festivals.
- Updation of CMD webpage and uploading of all circulars, including information regarding security features of bank notes.
- Managed, with the help of Field Offices, verification of 223 NBP chests/sub-chests and 3,428 branches of commercial banks for their compliance to instructions on the subject.
- Conducting awareness programs through Field Offices with primary focus on security features of bank notes and SBP Clean Note Policy.

Additionally, CMD coordinates with SBP's concerned departments in facilitating the Law Enforcement Agencies (LEAs) in combating the counterfeiting of currency notes, national Prize Bonds etc. For this purpose, the department has also been focusing on procurement of sophisticated machines capable of authenticating bank notes and Prize Bonds across all SBP BSC's Field Offices. The department also plans to establish a Forensic Laboratory to enhance its internal capabilities for evaluating the type and ratio of counterfeiting. CMD works in tandem with Finance Department to introduce sophisticated security features in bank notes.

With a view to creating awareness among the general public and other stakeholders about the security features of banknotes, the department with the help of 16 Field Offices, conducts dissemination programs across Pakistan. This information is also disseminated through posters and brochures which are provided free of charge to commercial banks and other stakeholders for public awareness.

CMD provides its input to Finance Department for demand forecast pertaining to annual printing of bank notes and minting of additional coins.

The department has provided necessary input to Finance Department in developing the future vision of “Currency Management Strategy” (CMS) in Pakistan. Presently, CMD is actively pursuing implementation of CMS, along with developing different guidelines for banks in line with this strategy.

## 2.2 Circulation of Banknotes

Pakistan has recently seen an upsurge in internet and mobile banking transactions and usage of plastic money through various mediums. However, the economy still appears to be cash centric as is evident from the steady increase in Notes-in-Circulation (NIC). The annual growth in NIC during FY16 was 25.6 percent as against 18.1 percent recorded in FY15. The NIC as a percentage of Gross Domestic Product (GDP) stood at 11.6 percent in FY16, which is slightly higher than 10.0 percent recorded in FY15. The trend showing increase in NIC during the last few years is presented in **Table 2.1**.

Years	Nominal GDP (MP) (billion Rupees)	NIC (billion Rupees)	NIC as % of GDP	Percentage (%) Change in NIC Over Previous Year
FY10	14,867.0	1,377.4	9.3	12.6
FY11	18,276.5	1,600.0	8.8	16.2
FY12	20,046.5	1,777.1	8.9	11.1
FY13	22,379.0	2,042.6	9.1	14.9
FY14	25,068.1	2,309.2	9.2	13.1
FY15	27,383.7	2,726.5	10.0	18.1
FY16 <sup>6</sup>	29,597.7 <sup>7</sup>	3,424.5	11.6	25.6

## 2.3 Issuance of Fresh Notes

In line with the objectives of SBP’s Clean Note Policy, CMD persistently strives to improve the quality of bank notes in circulation. This is achieved through smooth and uninterrupted supply of fresh notes throughout the year, in general, and on the eve of Eid-ul-Fitr and Eid-ul-Azha, in particular. The issuance of fresh notes is mainly carried out with the help of 16 SBP BSC Field Offices and 224 NBP chests/ sub-chests across the country. The value of fresh notes issued during FY16 increased by 59% over the previous year.

### 2.3.1 Distribution of Fresh Notes to Public on Religious Occasions

To satisfy significant demand of fresh cash before Eid festivals (Ramadan & Eid-ul-Azha), SBP BSC makes special arrangements, in collaboration with Field Offices and commercial banks, for issuance of lower denomination of fresh bank notes to the general public. During FY16, SBP BSC issued lower denomination fresh bank notes amounting to Rs 46,887 million to the general public, an increase of 14% over the previous year. Consolidated details of lower denomination fresh bank notes issued on both Eids for the last two years are given in **Table 2.3**.

Year	Pieces	Percentage Increase (%)	Value	Percentage Increase (%)
FY13	2,103	16.1	519,800	17.2
FY14	2,185	3.9	489,997	(5.7)
FY15	2,330	6.6	573,253	17.0
FY16 <sup>8</sup>	2,610	12.0	911,345	59.0

<sup>6</sup> Figures as per Statement of Affairs, June 24, 2016.

<sup>7</sup> Figures confirmed from MPD, SBP and PBS website @ [http://www.pbs.gov.pk/sites/default/files//tables/Table\\_4\\_.pdf](http://www.pbs.gov.pk/sites/default/files//tables/Table_4_.pdf)

<sup>8</sup> Globus figures as on June 30, 2016.

	Denominations				Total Pieces	Total Value
	Rs 10/-	Rs 20/-	Rs 50/-	Rs 100/-		
<b>Eids 2015</b>	653	189	232	191	1,266	41,041
<b>Eids 2016</b>	849	292	206	223	1,569	46,887

SBP BSC in collaboration with Pakistan Banks' Association (PBA) introduced a new SMS-based service for issuance of smaller denomination fresh notes to the general public. The introductory service which started on the occasion of Eid-ul-Fitr 2015 on test basis initially from 150 bank branches in 28 cities was expanded to 335 bank branches in 92 cities on the eve of Eid-ul-Azha 2015. The service was further expanded to 500 designated branches in 115 cities during Eid-ul-Fitr 2016 and more than one million people availed fresh bank notes amounting to 14.84 billion through this service.

## 2.4 Mechanization of Currency Management Operations

Currency Management is a complex and sensitive process, starting from printing and examination/ authentication up to the destruction of bank notes. CMD is continuously striving to improve currency management and operations in an automated environment. To this end, CMD has recently completed successful installation of high-end one-stop Banknote Processing and Authentication System (BPAS) and Banknote Destruction System (BDS) at its Karachi Field Office. These processing solutions are equipped with the capabilities of authentication, counterfeit detection, packing, bundling, shrink wrapping of fit bank notes and online shredding of unfit bank notes etc. Moreover, CMD has also procured desktop note sorters for all the Field Offices and is facilitating the Finance Department in evaluating bank note processing systems for commercial banks in line with its Currency Management Strategy. This service will gradually help in implementation of Currency Management Strategy announced in 2015.

## 2.5 Monitoring of Currency Operations

As a part of overall Currency Management, CMD oversees onsite examinations of commercial banks' branches through 16 Field Offices in order to ensure that the SBP & SBP BSC's instructions relating to currency and Prize Bonds from time to time are complied by them. During the year under review, the Field Offices examined 3,428 branches of commercial banks in their respective areas. SBP has a long standing agreement with the National Bank of Pakistan under which NBP performs treasury functions on behalf of the Central Bank through its 224 designated branches linked to 16 Field Offices of SBP BSC. The monitoring of compliance to operational requirements by NBP chest branches has been assigned by SBP to SBP BSC. For the first time in FY16, SBP BSC Field Offices examined 223 NBP chest and sub-chest branches and based on the findings recorded during these visits, an analytical report has been prepared, highlighting the irregularities and making recommendations for corrective measures by the NBP Management. The report and its crux has also been shared with NBP management and its Board of Directors.

## 2.6 National Prize Bonds

National Prize Bonds (NPBs) are bearer-type securities available in eight denominations as elaborated in **Table 2.4**. The sale and encashment of these securities is carried out by all the Field Offices, authorized commercial bank branches and National Savings Centres. Draws of all denominations of NPBs are held only at nine SBP BSC Field Offices on quarterly basis as per schedule announced by the CDNS.

As on 30<sup>th</sup> June, 2016, the overall value of NPBs held by the general public increased by Rs 123.9 billion, as against an increase of Rs 75.9 billion during last year.

Denom	FY15				FY16			
	Sale	Encashment	Prize Money Payment	Value of NPB held by Public	Sale	Encashment	Prize Money Payment	Value of NPB held by Public
100	1,368	481	494	887	1,130	355	583	774
200	4,464	3,275	1,807	1,189	3,675	1,959	1,866	1,716
750	13,970	7,750	5,157	6,220	14,669	4,512	5,926	10,157
1,500	17,681	9,543	5,950	8,138	18,140	6,290	6,857	11,850
7,500	18,728	10,691	5,165	8,037	18,157	6,872	5,835	11,285
15,000	31,040	19,525	7,717	11,497	34,125	12,968	9,087	21,158
25,000	26,998	11,935	5,111	15,066	35,667	8,899	6,785	26,769
40,000	47,834	22,983	11,231	24,852	54,662	14,468	13,910	40,194
<b>Total</b>	<b>162,083</b>	<b>86,183</b>	<b>42,632</b>	<b>75,886</b>	<b>180,225</b>	<b>56,323</b>	<b>50,849</b>	<b>123,903</b>

Further, prize money payment has also increased, mainly on account of two reasons: (a) lesser encashment and greater holdings of all denominations of NPBs by the general public; and (b) increase in the number of series in every denomination.

## 2.7 Defence Savings Certificates

Defence Savings Certificates (DSCs) Scheme, introduced in 1966 by the CDNS, is a long-term investment option with a minimum maturity period of 10 years. DSCs are available in various denominations, starting from Rs 500/- with a maximum denomination of Rs 1 million. The feature which makes this investment option lucrative is the automatic reinvestment of profit amount in case of non-encashment, resulting in compounding of profit. The profit payment, currently at 8.68 percent per annum, is either on maturity or encashment with number of years completed.

A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.5**.

Sr. No.	Office	FY14			FY15			FY16		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	0	6	6	3	40	4	97	0	0
2.	D. I. Khan	0	1	1	12	1	1	3	0	0
3.	Faisalabad	315	651	651	401	539	539	269	453	453
4.	Gujranwala	80	473	228	0	1	5	36	0	0
5.	Hyderabad	80	473	228	53	119	55	133	117	113
6.	Islamabad	122	173	230	59	171	276	107	272	272
7.	Karachi	4,061	6,391	5,888	46,240	29,011	0	6,105	31,506	1,540
8.	Lahore	508	1,895	1,895	494	925	1,252	2,880	723	723
9.	Multan	0	2	2	0	0	0	0	0	0
10.	Muzaffarabad	8	20	20	24	4	4	23	8	8
11.	N.Nazimabad	2,366	1,585	1,585	375	390	390	723	1,889	761
12.	Peshawar	24	95	95	87	30	30	26	61	47
13.	Quetta	44	418	418	99	145	145	35	237	237
14.	Rawalpindi	304	697	1,177	710	756	1,333	847	828	719
15.	Sialkot	72	98	98	25	16	15	188	89	89
16.	Sukkur	36	60	60	29	54	54	148	144	46
<b>Total:</b>		<b>8,020</b>	<b>13,038</b>	<b>12,582</b>	<b>48,611</b>	<b>32,202</b>	<b>4,103</b>	<b>11,620</b>	<b>36,327</b>	<b>5,008</b>

## 2.8 Special Savings Certificates

Special Savings Certificates (SSCs) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle income investors with steady income. These certificates are available in various denominations, starting from Rs. 500/- and going up to Rs. 1 million with a maturity period of three years. Profit coupons are payable biannually, currently at the rate of 6.8 percent for the first five and 8.0 percent for the last coupon. A comparison between number of cases handled by SBP BSC for sale, encashment and profit payment of SSCs for the last three years is given in Table 2.6.

**Table 2.6: Number of SSC Cases handled by SBP BSC Field Offices**

Sr. No.	Office	FY14			FY15			FY16		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	0	0	2	0	1	3	38	5	5
2.	D. I. Khan	0	1	1	0	0	0	0	0	0
3.	Faisalabad	911	1,116	5,155	1,263	1,151	4,215	433	907	907
4.	Gujranwala	1	0	0	4	1	1	8	4	4
5.	Hyderabad	458	513	180	579	479	288	260	1,047	1,047
6.	Islamabad	81	75	230	62	151	438	195	306	306
7.	Karachi	9,395	15,030	22,110	84,788	38,179	127,933	36,594	46,496	46,496
8.	Lahore	1,576	1,448	4,651	1,834	2,967	2,376	5,872	1,599	1,599
9.	Multan	8	10	18	0	6	8	0	3	3
10.	Muzaffarabad	7	26	65	10	18	20	0	4	4
11.	North Nazimabad	6,527	7,198	11,926	3,808	2,787	5,010	3,757	5,670	5,670
12.	Peshawar	87	107	370	82	143	301	125	41	41
13.	Quetta	33	47	44	55	42	63	10	18	18
14.	Rawalpindi	586	832	2,377	2,417	942	836	1,803	702	702
15.	Sialkot	238	361	198	30	67	67	62	144	144
16.	Sukkur	5	17	22	17	40	56	154	40	40
<b>Total:</b>		<b>19,913</b>	<b>26,781</b>	<b>47,349</b>	<b>94,949</b>	<b>46,974</b>	<b>141,615</b>	<b>49,311</b>	<b>56,986</b>	<b>56,986</b>

## 2.9 HR Capacity Building

In line with SBP BSC's efforts to broaden the officers' knowhow about the overall organizational practices, CMD is striving to provide its officers varied opportunities to acquire exposure about the best international practices on cash processing. To this end, a considerable number of officers were nominated to participate in various local and international programs, which included Cash Seminar arranged by Czech Central Bank, Exposure Visit of Currency Management Team and High Securities Printing Conference in Indonesia, etc. Further, officers have also been nominated for function-specific and soft skills training programs conducted by NIBAF and other reputable institutions like the Institute of Bankers Pakistan (IBP), Pakistan Institute of Management (PIM), Pakistan Society for Training and Development (PSTD) etc.

## 2.10 Future Outlook

CMD is undertaking various projects to automate the cash handling as part of Currency Management Strategy. Currently, efforts to improve cash processing and handling mechanism at SBP BSC Field Offices are underway. Furthermore, various developmental initiatives are being undertaken to ensure the immediate and long term success of CMS both within SBP BSC and at commercial banks.

All these initiatives are aimed at improving the quality and useful life of bank notes in circulation by eliminating manual interventions in cash operations, enhancing the role of commercial banks in cash sorting and re-circulation and improving banking sector's capacity to detect counterfeit bank notes. This will be achieved by installing high quality cash authentication machines at all Field Offices and commercial banks' branches. Meanwhile, CMD is initiating a project to improve its remittance and cash movement mechanism by adopting best practices as major part of currency is exchanged at Field

Offices. Going forward, the banking industry will also use similar cash transportation and handling mechanism for moving cash in a secured environment.

For automation of cash operations within SBP BSC, the CMD has carried out a detailed need assessment of cash handling machines required at all Field Offices. This assessment has been carried out in view of their current and future expected receipt and processing of all denominations' bank notes. The machines will be procured as per PPRA rules.

It is also intended that SBP BSC shall handle fresh and unfit banknotes only and the major exchange of re-issuable currency notes shall take place between commercial banks directly. For this purpose, the CMD plans to introduce Interbank Trading of Cash from January 2, 2017 as per Currency Management Strategy.

To extend and streamline the cash sorting and ATM feeding procedures of banking industry, the CMD plans to develop an appropriate policy to bring our cash transit activities in line with international standards.

CMD is also actively coordinating with CDNS and PSPC for automation of prize bond operations. As Pakistan's economy continues to grow, it is expected that currency in circulation and prize bonds will also keep on increasing over the next several years. Therefore, in the long-term, CMD is looking forward to establishing more smart offices by increasing its network.

# Development Finance Support Services





## 3 Development Finance Support Services

*Development Finance Support Department (DFSD) provides necessary operational support to the Development Finance Group (DFG) of State Bank of Pakistan (SBP) to meet its strategic objective of promoting an inclusive financial system in the country.*

### 3.1 Overview

Development Finance Support Department plays an integral role in the implementation of SBP's policies and initiatives that are geared towards the promotion of an inclusive financial system. DFSD works in collaboration with its field units established at 15 Field Offices of SBP BSC. These units serve as an excellent forum for information dissemination, interaction with industry stakeholders and acquiring grass root level feedback for incorporation in SBP's future policies/interventions.

### 3.2 Access to Finance

In continuation of SBP's commitment to encourage the flow of credit to the underserved agriculture sector, a credit disbursement target of Rs 600 billion was set for FY16. This credit disbursement target was allocated among 36 Participating Financial Institutions (PFIs) by Development Finance Group.

#### **Box.3.1: Performance Highlights for FY16 – Access to Finance**

- Facilitated AC&MFD-SBP through periodic follow up and review meetings with 36 PFIs across 143 districts for monitoring the achievement of Rs 600 billion indicative target set by SBP for the agriculture sector in FY16. Disbursement during the year (July 2015 to June 2016) was Rs. 598.3 billion, which is 16 percent higher than the disbursement made during the same period last year.
- Review meeting with Business Heads of financial institutions for monitoring of agri. credit targets in Karachi region was conducted for the first time.
- Conducted awareness sessions for the promotion of Housing Finance in six different regions of the country as advised by IH&SMEFD-SBP. The sessions were attended by around 1,800 participants.
- Facilitated AC&MFD-SBP in the implementation of One Window Operation (OWO) in all districts through development of detailed monitoring formats and instructions to be followed by AFUs and financial institutions.
- Facilitated IBD-SBP in the conduct of a 5-day awareness session on Islamic Banking at six SBP BSC Field Offices.
- Conducted five meetings with regional stakeholders in underserved areas of the country for the purpose of deliberating on increasing the flow of agri. credit to the farmers in these regions, as required by the sub-committee of Agricultural Credit Advisory Committee (ACAC). Detailed insights, issues, and recommendations were shared with DFG.
- Facilitated AC&MFD-SBP in the conduct of six Farmers' Financial Literacy Programs in order to educate the farming community about basic banking knowledge.
- Facilitated IH&SMEFD-SBP in the conduct of a one-day interactive sessions between financial institutions, SMEDA and SBP at five SBP BSC Field Offices.
- Facilitated IH&SMEFD-SBP in conducting half-day awareness sessions on Green Banking and Finance at three SBP BSC Field Offices; arranged to support the SBP initiative for promotion of green and sustainable banking as a tool for addressing energy shortfall and climate change.
- Half yearly plan of AFU activities was developed for efficiency and improved monitoring.
- Monthly Development Finance Newsletter has been revamped.
- 64 Focus Group meetings were organized, which included 15 for SME finance, 12 for Agri. finance, 13 for Microfinance, 14 for Islamic Banking, 5 for Housing finance, and 5 Joint sessions.

Through its Access to Finance Units (AFUs) established at 13 SBP BSC Field Offices, DFSD actively monitored PFIs' performance with regard to target achievement at regional level through review

meetings and constant follow up. This feedback has been regularly shared with SBP's Agricultural Credit & Microfinance Department (AC&MFD) to facilitate it in formulation of effective policies.

As DFG is about to rollout the Nationwide Financial Literacy Program (NFLP), DFSD facilitated AC&MFD in identification of Master Trainers from workforce of different Field Offices. The DFSD has also: (a) prepared monitoring formats; (b) SOPs for fund management; (c) developed district-wise schedule of delivery of classroom trainings and (d) identified lead banks and Micro Finance Institutions (MFIs) in all districts. This preparedness will help DFSD in rolling out the program once these arrangements are approved/agreed by DFG.

S. No.	Activity	No.
1	Focus Group Meetings	80
2	Awareness Programs	84
3	Capacity Building	41
4	Agri. Target and OWO related Onsite Visits	9
5	Fair, Conference, Exhibition etc.	22
6	Seminars and Workshops	26
7	Linkages with Academia	10
8	Linkages with Govt. and Others	22
9	Research Activities	3
10	Others	5
<b>Total</b>		<b>302</b>

Process for the reconstitution of Development Finance Coordination Committee of SBP and SBP BSC was successfully initiated by Development Finance Support Department with a view to maximizing coordination between DFSD and DFG. The first meeting of the Committee was held in March 2016 under the chairmanship of SBP Deputy Governor (FM, IB & SI).

Four Working Groups comprising DFSD-HOK and AFU officers have been formed as an initiative for capacity building and to capitalize on DFSD's field presence. These Working Groups are expected to bring improvement in communication and coordination between Head Office, Karachi and Field Offices by creating a virtual workforce.

The department also facilitated DFG in implementation of a number of initiatives/ programs through its AFUs for information dissemination, capacity building, creating awareness and developing linkages with stakeholders (**Box 3.1** and **Table 3.1**).

### **3.2.1 Developmental Initiatives**

- (1) A study on the demand side impediments facing the textile processing cluster of Small & Medium enterprises (SMEs) in Faisalabad region was undertaken during the year under review. A questionnaire was developed for the purpose, translated into Urdu, and shared with the Infrastructure, Housing & SME Finance Department (IH&SMEFD) of SBP for review. After calculating the sample size i.e. 93, the questionnaires were distributed to the target respondents. In collaboration with relevant stakeholders, interviews were conducted and the completed questionnaires were collected. The questionnaire has been coded and data entry has been done in SPSS (Statistical Package for the Social Sciences). The insights and analysis of the survey results of the research exercise will be presented in the final report by 30<sup>th</sup> November 2016.
- (2) SME Finance Mela has been arranged in six different regions to promote the sector and provide a platform where industry players can interact. The events were collectively attended by more than 4,000 participants.
- (3) Twelve programs for the promotion of non-farm sector were conducted in remote areas across the country through which more than 1,500 people have been imparted awareness on the opportunities in this sector.

- (4) DFSD collaborated with AFUs in SBP BSC Quetta and Peshawar to develop a report covering issues, challenges and potential of horticulture sector in these regions.

### 3.2.2 Future Outlook

- (1) Working Groups will be utilized for execution of DFSD's developmental projects as well as other assignments for ensuring timeliness and capacity building.
- (2) More research oriented exercises will be undertaken with a focus on exploring and exploiting the potential in underserved areas.
- (3) Collaboration with SBP for implementing the National Financial Inclusion Strategy.

## 3.3 Management of Refinance Schemes

To fulfill the credit requirements of critical sectors of Pakistan's economy including agriculture, trade, manufacturing and energy, the State Bank of Pakistan has introduced various short and long term concessionary financing schemes. The department ensures implementation and monitors the proper utilization of funds disbursed under these schemes with the help of its Refinance Schemes Units (RSUs) at SBP BSC Field Offices across the country. Provision of refinance facility to commercial banks/ DFIs and its timely recovery of principal and mark-up are the responsibilities of RSUs.

### 3.3.1 Export Finance Scheme

The Export Finance Scheme (EFS) is the most prominent among all Refinance Schemes of SBP. It was introduced with the objective to boost the country's value added exports by providing the exporters' access to low cost funds to meet their short term financing needs. Further, to facilitate exporters who wish to avail financing under Islamic banking principles, the Islamic mode of the scheme, Islamic Export Refinance Scheme (IERS), has also been in operations since 2002-2003.

During FY 2015-16, RSUs disbursed Rs 500.09 billion under the Export Refinance Schemes, Rs 404.81 billion were disbursed to the corporate exporters and Rs 13.72 billion to SME exporters under the EFS, while under the IERS Rs 81.34 billion and Rs 0.22 billion were disbursed to corporate and SME exporters respectively.

To ensure that banks and exporters availing the facility are strictly complying with the instructions issued by SBP on the subject and the funds disbursed are only being utilized for value-added export purposes, DFSD supervises the onsite verification process through SBP BSC's Field Offices every year. In FY16, onsite verification teams of twelve Field Offices completed the verification of 13,395 loans whose amount of Refinance stood at Rs 463.62 billion and were disbursed to twenty nine banks in FY14.

SBP BSC Field Offices charged a total penalty of Rs 52.80 million for violations of instructions of the Scheme. Penalty against violations observed in loans pertaining to Part-I category of EFS/IERS accounted for 25.8% (Rs 13.61 million) of the total amount, while the remaining 74.2% (Rs 39.19 million) was against violations in loans of Part-II category. The total amount of penalty charged in FY16 has decreased by 8.3% compared to last year when Rs 57.58 million were charged.

#### Box 3.2: Performance Highlights for FY16 – Management of Refinance Schemes

- Total Rs 500.09 billion disbursed under Export Refinance Schemes:
  - Rs 418.53 billion under EFS
  - Rs 81.56 billion under IERS
- Rs 52.80 million charged as penalty to 29 participating banks on account of violation of EFS/IERS instructions against loans disbursed in FY14
- Rs 19.50 billion disbursed under LTFF

\* All disbursement figures are till May 15, 2016

### 3.3.2 Long Term Financing Facility

The Long Term Financing Facility (LTFF) provides finance to exporters for adopting new technology and/or upgrading their existing plant and machinery. This scheme is also available to Islamic banks, but is subject to approval of SBP's Shariah Board. Loans are repayable within 3, 5 or maximum 10 years. During FY16, Rs 19.50 billion were disbursed under LTFF.

### 3.3.3 Developmental Initiatives

- (1) DFSD has prepared a set of standardized documents including annexure, checklist and a model report for the onsite verification teams to ensure consistent reporting to it. This will allow DFSD to analyze data better, draw conclusions and make necessary recommendations to DFG and banks.
- (2) To improve the understanding of the Scheme and operational procedures, DFSD has developed a set of Frequently Asked Questions (FAQs) and a comprehensive training material for RSUs officials.

### 3.3.4 Future Outlook

- (1) To spread awareness among the concerned sectors regarding various refinance facilities offered by SBP via commercial banks/DFIs, DFSD will organize and conduct awareness sessions across the country, especially in underutilizing areas.
- (2) To increase operational efficiency and reduce the workload of RSU officials, DFSD has identified automation projects pertaining to the verification of EE/EF-1 statements and offsite monitoring of EFS cases, which it intends to take up in the next financial year.

## 3.4 Financial Inclusion Scheme Management

The National Financial Inclusion Strategy 2015-20 envisions access and use of a range of savings, credit, insurance and payment services to meet the needs of the people of Pakistan with dignity and fairness. Efforts are underway to improve access to financial services for the poor and marginalized groups as well as micro & small enterprises in the country.

One way to encourage financial institutions to lend to priority, marginalized and collateral deficient segments, is to share their credit risk. Credit Guarantee schemes usually familiarize banks with priority sectors thereby enhancing the comfort level of banks for lending to such priority sectors on sustainable basis. For this purpose, various credit guarantee and subsidy schemes with the funding support of UK's Department for International Development (DFID), Federal and Provincial Governments are being implemented as detailed below.

### 3.4.1 Prime Minister's Youth Business Loan Program

DFSD is entrusted with the responsibility of processing claims of banks under Prime Minister's Youth Business Loan Program (PMYBL) in the light of instructions from IH&SMEFD. During FY16, eight banks submitted their subsidy claims under PMYBL while six more banks have also started

#### Box 3.3: Highlights relating to Credit Guarantee and Subsidy Schemes

- 25,967 PMYBL related transactions have been processed by DFSD for subsidy amounting to Rs 370.8 million
- Guidelines for reporting under PMYBL and PMYBL Globus User manual have been prepared
- During the year, funds of Rs 3,900 million have been disbursed by various banks/DFIs to MFBs/MFIs under MCGF.
- 8,572 loans for financing amount of Rs 6,009.1 million were issued guarantees to 13 Participating Financial Institutions (PFIs) pertaining to CY2014 and CY2015.
- During the year, 20 claims for an amount of Rs 1.4 million have been disbursed to concerned banks.
- A comprehensive Developmental Impact Review of CGS was prepared by DFSD and presented to TCCG
- Awareness program, in collaboration with IH&SMEFD and Sindh Enterprises Development Fund (SEDF), was also arranged in Sukkur to sensitize utilization of MS&GF.
- Fund on account of CGS, MCGF, CGSMF and RHMS Funds amounting to approximately Rs 9 billion were managed by DFSD.

disbursing loans under PMYBL and will submit their claims in FY17. During the year, 25,967 PMYBL related transactions have been processed for subsidy amounting to Rs 370.8 million for onward submission to Finance Division, Government of Pakistan (GoP).

#### **3.4.2 Microfinance Credit Guarantee Facility**

SBP, in collaboration with DFID, launched the Microfinance Credit Guarantee Facility (MCGF) in December, 2008 to address the funding problem of MFIs/MFBs.

During FY16, requests for guarantee against the financing amount of Rs 9,400 million were received. However, due to limited availability of MCGF funds for backing the guarantees, guarantee for financing amount of Rs 3,900 million could be issued. Based on analysis of MCGF backed running finance facilities, a condition of at least 75% average utilization has also been introduced for efficient utilization of available funds.

#### **3.4.3 Credit Guarantee Scheme for Small & Rural Enterprises**

With a view to motivating the banks to lend to borrowers, who would not have access to credit under normal circumstances, SBP has launched the Credit Guarantee Scheme (CGS) for Small and Rural Enterprises with the assistance of GoP and DFID in 2010.

During FY16, 8,572 loans for a financing amount of Rs 6,009.1 million were issued to 13 PFIs pertaining to CY14 and CY15, as per PFI limits approved by the Technical Committee on Credit Guarantee (TCCG) in July 2015. Moreover, 20 claims of Rs 1.4 million have been reimbursed to concerned PFIs during FY16.

Highlights of developmental impact analysis of loans sanctioned during CY14 and CY15 presented to TCCG include:

- 1) Fresh borrowers constituted 91% of the borrowers entertained by PFIs.
- 2) PFIs sanctioned 95% of the loans to Sole Proprietors and Small Enterprises.
- 3) Farmers, Small Enterprises and Microenterprises constitute 55%, 41% and 4% respectively of the total loans sanctioned.
- 4) Rural versus Urban sanctioned loans remained almost at equal level of 52% and 48% respectively.
- 5) Loans were granted to mainly 15 different sectors to borrowers from 89 districts of Pakistan.

#### **3.4.4 Mark-up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh**

SBP launched "Mark-up Subsidy & Guarantee Facility (MS&GF) for Rice Husking Mills in Sindh" in March 2013 with a view to modernizing and upgrading the rice husking mills of Sindh. So far, 6 rice husking mills have been provided financing under this Scheme for an amount of Rs 54 million. Further, an awareness program, in collaboration with IH&SMEFD and SEDF (Sindh Enterprise Development Fund), was arranged by DFSD in Sukkur to sensitize utilization of the Scheme.

### 3.4.5 Credit Guarantee for Small and Marginalized Farmers

To enhance access of small and marginalized farmers to formal credit, State Bank of Pakistan has launched the Credit Guarantee for Small and Marginalized Farmers (CGSMF) with the funding support of Government of Pakistan. The scheme offers 50% partial guarantee on the given outstanding amount, at the time of default, to banks for their lending to eligible borrowers. The salient features of the scheme are given in **Box 3.4**.

### 3.4.6 Fund Management

Funds on account of CGSSRE (Credit Guarantee Scheme for Small & Rural Enterprises), MCGF and CGSMF and MS&GF for Rice Husking Mills in Sindh amounting to Rs 9.0 billion approximately are being managed by DFSD. Fifty investments on account of these five funds have been made in FY16.

### 3.4.7 Developmental Initiatives

- (1) Guidelines for reporting under PMYBL have been disseminated to executing agencies (EAs) for their awareness and facilitation for error free claims submission.
- (2) PMYBL Globus User Manual was also successfully completed for better succession planning and standardization.
- (3) DFSD also prepared developmental impact analysis of Credit Guarantee Scheme for Small & Rural Enterprises and presented to TCCG.
- (4) DFSD has prepared data reporting formats under CGSMF which include socio economic indicators as well.

### 3.4.8 Future Outlook

- (1) The reporting/processing under different credit and subsidy schemes is being automated to meet HR and increasing workload challenges in coordination with SBP's Information Technology Department.
- (2) Awareness and capacity building programs on credit guarantee and subsidy schemes for banks'/DFIs' officials will also remain one of the focus areas to enhance reporting quality and better serve the target sectors.
- (3) DFSD is expected to initiate operational implementation of upcoming CGF for low cost housing.
- (4) DFSD will be performing its due role in augmenting SBP efforts in implementing the National Financial Inclusion Strategy.

#### Box 3.4: Salient Features of Credit Guarantee and Subsidy Schemes

- Target Segment: Small Farmers who do not have any collateral to offer against loans
- Landholding Limit: up to 05 acres in canal-fed & 10 acres in rain-fed
- Risk Sharing: 50% (payment upon classification of loan as Substandard)
- Maximum Loan Size: Rs. 100,000/-
- Maximum Tenor: 1 year (1.5 years for sugarcane)
- Claim Frequency: Half yearly basis
- Allocation of Limits: on yearly basis
- Executing Agency: SBP on behalf of GoP
- Implementing Agency: SBP BSC through PFIs
- Target: Estimated 300,000 loans worth Rs. 30.0 billion
- Applicability: All eligible farmers in (a) all provinces (b) special areas (AJ & K, FATA and Gilgit- Baltistan) and (c) Federal Capital.

# Foreign Exchange Operations





## 4 Foreign Exchange Operations

*The key role assigned to the Foreign Exchange Operations Department (FEOD) is to facilitate all stakeholders in managing their foreign exchange requirements as per Foreign Exchange Manual. FEOD also processes cases for payment of subsidy by Government under its various schemes. The department aims to discharge its responsibilities diligently, smoothly and efficiently with emphasis on augmenting and facilitating its stakeholders.*

### 4.1 Foreign Exchange Operations Department

Foreign Exchange Operations Department is one of the core departments of SBP BSC which primarily deals with the monitoring and repatriation of export proceeds within the stipulated time frame. The department grants approvals for government, private and commercial foreign exchange remittances. Scrutiny of applications and payment to exporters under various subsidy schemes, collection and analysis of monthly FE returns are some other functions performed by FEOD.

### 4.2 Developmental Initiatives

FY16 has remained an eventful year for FEOD due to changes in regulations, increase in operational assignments and changes in the management of the department. Instructions and guidelines were issued to banks for ensuring compliance by all stakeholders to the foreign exchange regime and instructions issued by Government departments. Policy feedback was provided to the policy making departments of SBP and other Government agencies. Despite all these executions, FEOD has accomplished key milestones with the collective efforts of various stakeholders in automation, capacity building and processing of cases etc. Major initiatives completed during FY16 are as under:

#### 4.2.1 Emphasis on Automation

The SBP BSC management has been trying to automate major work processes for efficient disposal of cases referred to FEOD and to streamline the departmental processes and working. Most prominent is the automation of Export Form (E-Form) in Web-Based One Customs (WeBOC). This automation is bringing efficiency to the current system by reducing the cost of doing business for exporters, eliminating the use of fake/forged Form-E, efficient processing of Drawbacks on Local Taxes and Levies (DLTL) claims to exporters, and hence ultimately increasing the repatriation of export proceeds in the country.

The automation of Import Form (I-Form) is also being carried out through WeBOC by linking the payment module with the customs' cleared consignments with the help of customs authorities and Exchange Policy Department (EPD). This will help in curbing malpractices in the form of multiple payments against single import consignment and use of non-banking channels to settle import payments. Monitoring of import payment was further strengthened by adding essential fields in the decades-old import schedule with the help of EPD and S&DWD (Statistics and Data Warehouse Department). Prior to this change, it was not possible to monitor the performance against each mode of trade. This small change in the system has resulted in efficient monitoring of trade transactions according to their risk profile.

In order to evaluate the export performance, a large number of EE-1/EF-1 statements are being verified and scrutinized every year. The next year Part-II Export Finance limit for exporters is

contingent upon this verification; therefore all returns submitted are required to be verified within a period of 25 calendar days. During FY16, over 400,000 entries of EE-1/EF-1 statements were verified by FEOD from International Transactions Reporting System (ITRS) for assessing the export performance of the exporters and allocation of limit for Export Finance Scheme (EFS) Part-II. There was a substantial increase in the volume of entries as compared to FY15 where less than 350,000 entries were verified. The manual verification is a time consuming and tedious process. However, to meet the timelines, staff of FEOD has to work for extended hours. An automation project was conceived which will improve efficiency and effectiveness in the monitoring of Part-II (Performance based facility) of the Export Finance Scheme. Towards this end, FEOD has successfully brought on board all the major stakeholders including DFSD, S&DWD and ISTD (Information Systems & Technology Department) for the automation of this project.

An analytical tool named “Cube” has also been developed for analyzing the data trends, cross referencing and monitoring of monthly data received from Authorized Dealers (ADs). Moreover, a prototype has been developed for risk-based monitoring of FE returns. Both the tools have been developed by using the already available data in ITRS in use of S&DWD.

#### 4.2.2 Capacity Building Initiatives

The first and the foremost initiative was the capacity building of officers of Foreign Exchange Operations Department as also of commercial banks. FEOD had arranged various training programs to equip the trainees with the knowledge of innovations and complexities of the fast-changing scenario in international trade as well as in foreign exchange regime of Pakistan. For the purpose, in-house training and attachment programs with commercial banks have been arranged by FEOD. The initiative is aimed at comprehending the trade operations as well as to bridge the gap between Regulators and Authorized Dealers in respect of trade issues. Moreover, efforts have also been made to enhance knowledge base of officers on issues having indirect forward and backward linkages with foreign exchange operations. Accordingly FEOD officers were sent for training in Anti Money Laundering (AML), internal controls, risk management and trade dynamics of freight forwarders and shipping companies’ operations. In this regard, renowned industry experts were invited to share their market experience. Further, in order to encourage self-learning by officers, the ENB webpage of FEOD has been enriched with constructive training material, tutorials and presentations in FE areas, which are part of a resource base for appearing in the E-Learning modules of SBP BSC.

#### Box 4.1: Performance Highlights for FY16

- Automation of Export & Import forms through WeBOC.
- Initiation of automation of verification and scrutiny process of EE-1/EF-1 statements.
- Effective utilization of ITRS for monitoring and compliance of FE transactions.
- Capacity building of FEOD officers to improve their technical proficiency required for the fast-changing scenario in the arena of international trade.
- Conducting of capacity building training programs for the officials of ADs for improving their technical capacity of FX operations.
- Referral of a total of 3,493 cases to FEA Courts against delinquent exporters, importers and ADs for legal proceedings.
- Effective monitoring of import payments against advance payment, resulting in repatriation of USD 10 million.
- Development of system-based scrutiny and payment under DLTL Textile and Non-Textile subsidy schemes of Rs 3.13 billion.
- Payments of Sugar, Wheat/Atta and Fertilizer Subsidy Schemes amounting to Rs 17.1 billion.
- Monitoring of FE allocation.

Moreover, keeping in view the fact that Authorized Dealers are major stakeholders, seminars and training programs were organized at various locations to improve their capacity with regard to FE operations. For the purpose, FEOD, EPD and IBP (Institute of Bankers Pakistan) have jointly designed a course for capacity building of officers of Authorized Dealers. During FY16, training was

imparted to more than 800 officers of ADs. In addition, training programs for the officials of SBP were conducted to make them aware about the practical aspects of trade finance.

#### **4.2.3 Process Improvement for Quick Disposal of Cases**

FEOD receives and processes a large number of cases from different stakeholders on a daily basis for allowing necessary permission for commercial and private remittance. The department received more than 10,000 cases during FY16, 15% more as compared to the cases received during FY15. Around 97% of cases received have been disposed off during the period. The remaining 3% cases were the most recent ones or such cases that were held up for further clarification from ADs. In order to facilitate the ADs in the scrutiny and preparation of cases, the department has developed standardized templates, covering letter and checklist of minimum required documents. To monitor the performance of the department, a Management Information System was designed and implemented at Head Office and all Field Offices. The implementation of these measures has helped the department to reduce the turnaround time in approval of cases.

### **4.3 Monitoring & Enforcement**

The department has continuously been making endeavors to properly follow-up cases of export overdue to ensure repatriation of export proceeds. Further, efforts were made for effective monitoring of outflow of foreign exchange by importers, shipping companies, airlines and freight forwarders.

#### **4.3.1 Realization of Export Proceeds and Adjudication Process**

In terms of instructions of State Bank of Pakistan, exporters are required to realize proceeds of exports within the stipulated timelines from the date of shipments. FEOD vigorously followed the exporters for repatriation of stuck-up export proceeds, based on data of Export Overdue, as reported by commercial banks in Export Overdue Reporting System (EORS). The department managed to get repatriation of USD 301 million from overdue export proceeds in FY16 as compared to USD 296.5 million during FY15. Complaints against 2,233 delinquent exporters were filed with the Foreign Exchange Adjudication Department (FEAD) under section 12 (1) of Foreign Exchange Regulation Act (FERA), 1947. For the last few years, FEOD has also started filing complaints against the Authorized Dealers who have failed to submit shipping documents and exercise due diligence required by FE Manual and SBP instructions. During FY16, FEOD has filed 1,235 complaints against Authorized Dealers as against 2,503 in FY15.

#### **4.3.2 Monitoring of Import Payments**

As a result of monitoring of import data, especially import against open account, various cases were unearthed where an importer sent multiple remittances against the same bill of lading. With the active follow-up during the year, the department has been able to ensure repatriation of substantial foreign exchange fraudulently sent abroad against duplicate documents. As a corollary, regulations were revised and strengthened with the help of EPD and banks were advised to send all cases to FEOD for approval where original transport documents were missing. During the year, 2,455 cases were approved by FEOD. The department expects that automation of I-Form will further ease the monitoring process.

#### **4.3.3 Scrutiny and Payment of Subsidy Schemes**

FEOD has been entrusted to make payments for subsidy under different schemes announced by various ministries of the Government of Pakistan. To facilitate processing of these cases, the department, in collaboration with ISTD, has developed an application for system-based scrutiny and payments of Textile and Non-Textile subsidy schemes.

During the year, DLT schemes announced by the Ministry of Textile Industry and Ministry of Commerce were also dealt by the department. Under the scheme, DLT was allowed on enhanced exports of 2013-14; if increased beyond 10 percent as compared to exports of 2012-13. FEOD issued detailed guidelines to banks for proper processing and submission of claims. In the last quarter of FY16, the method of calculation for exports of two years was revised by the Ministries. In order to facilitate the exporters in filing revised claims, FEOD issued guidelines along with an Excel Workbook for recalculation of claims.

Besides DLT schemes, FEOD also dealt with subsidy schemes on export of sugar, wheat/wheat flour and subsidized sale of fertilizer under the Kissan Package. An amount of Rs 5.94 billion was disbursed in FY16 against all the subsidy schemes as compared to Rs 7.37 billion in FY15, in line with the policy announcement by the respective ministries.

#### **4.3.4 Scrutiny and Verification of FE Returns**

The volume of FE returns with supporting documents has substantially increased with the growth of international trade of Pakistan. During FY16, a total of 1.3 million forms (E, I, M, R/IRV, T-1, Hajj) along with supporting documents were received by FEOD. Out of these, 171,314 'M' & 'I' forms were scrutinized as per laid down criteria and discrepancies in 39,960 forms were found, which got rectified.

The department has also intensified its monitoring and follow-up for submission of shipping documents where payments were released by banks in advance for import of goods as per SBP instructions. Requisite penalty was recovered from delinquent banks in instances where the shipping documents were not furnished.

#### **4.4 Future Outlook**

Responding to the emerging requirements of a robust and effective monitoring mechanism for foreign exchange transactions coupled with providing efficient services to its stakeholders, FEOD has envisaged its future outlook on three pillars i.e. automation, improving efficiencies in its processes, and capacity building.

In the arena of automation and process efficiencies, two major projects have been initiated i.e. automation of verification of EE-1/EF-1 statements and acquisition of a digital work flow system for case processing. In the first project, manual performance evaluation of exporters' EE-1/EF-1 statements will be shifted to an electronic verification, scrutiny and performance calculation based system. This automation will bring about efficiency in human resources, reduction in error rate and saving in lead time. The second project is intended to shift the manual approval processes of commercial and private remittances, cases of subsidies and exchange account of FEOD into an automated approval process wherein applications from ADs will be received, processed, approved and disposed off in an automated environment. It will also greatly help in record management of such cases together with subsequent archival of documents, which at present is a gigantic task.

Efforts will also be made to convert the capacity building program initiated for officers of ADs during the previous year into a certification program. This goal shall be achieved with the help of NIBAF - the training arm of SBP - and the IBP. FEOD also intends to further enhance its program for sending its officers, on attachment basis, to commercial banks so that they continue to upgrade their skills.

FEOD will continue to improve its partnerships with all stakeholders for ensuring better FE management and compliance of regulatory instructions.

# Foreign Exchange Adjudication





## 5 Foreign Exchange Adjudication

*Foreign Exchange Adjudication Department (FEAD) adjudicates cases relating to violation of different Sections of Foreign Exchange Regulation Act (FERA), 1947 as per powers vested in it under Section 23B of FERA. The Adjudicating Officers are appointed by SBP Governor through a Gazette Notification in terms of powers vested in him under Section 19 of SBP BSC Ordinance, 2001.*

### 5.1 Foreign Exchange Adjudication Department

Foreign Exchange Operations Department is authorized to lodge complaints against defaulting exporters, importers and Authorized Dealers (ADs) to adjudicate cases relating to specified Sections of FERA, 1947 and instructions issued by State Bank of Pakistan (SBP). Therefore, the Adjudicating Officers are empowered to impose penalties, if the accused are found guilty. The proceedings are conducted as per Adjudication Proceedings and Appeal Rules, 1988. Presently, eight courts are functioning which include 3 at Karachi, 2 at Lahore and one each at Multan, Sialkot and Faisalabad.

The courts are empowered to impose penalties, if the prosecution (FEOD) proves that the contravention was willful, and subsequently directs the relevant institution for recovery of these penalties as per Section 23-J of FERA, 1947.

Since establishment of the Foreign Exchange Adjudication mechanism in 1990 till end of June, 2016, the FEAD has managed repatriation of US\$ 465 million from exporters who had failed to realize the export proceeds within due dates as per instructions of SBP.

#### 5.1.1 Performance Highlights

The FEA Courts have managed to arrange repatriation of a sizeable amount of foreign exchange in recent years through realization of overdue export proceeds. During FY16, stuck up export proceeds equivalent to US\$ 57.8 million (highest ever in a year) were realized as compared to US\$ 49.4 million in FY15 (**Table 5.1**).

Adjudication Courts	Export Proceeds Realized		% Change
	FY15	FY16	
Karachi	25.6	24.3	-5%
Lahore	13.6	13.5	-1%
Faisalabad	3.3	14.8	348%
Multan	0.6	0.8	33%
Sialkot	6.3	4.4	-30%
<b>Total</b>	<b>49.4</b>	<b>57.8</b>	<b>17%</b>

It is pertinent to mention here that US \$ 107 million were repatriated during the last two fiscal years. The share of three Adjudicating Courts at Karachi stood at 42 percent in overall realization of stuck up export proceeds during FY16.

The total number of complaints pertaining to the delinquent exporters/ Authorized Dealers processed on a country-wide basis stood at 3,718; out of which 2,806 complaints were disposed off during FY16 as compared to 2,087 in FY15, showing an increase of 34% (**Table 5.2**).

During the year under review, FEAD has further strengthened its Recovery Units and for the purpose finalized Standard Operating Procedures (SOPs) for recovery as per Section 23-J of FERA, 1947. The new initiative has succeeded in significantly enhancing the recovery i.e. Rs 1.8 million recovered during the last quarter of FY16, as against a much lesser amount of Rs 0.8 million recovered during the entire FY15.

- A 3-day comprehensive training of adjudication and allied staff was arranged by FEAD in coordination with Training and Development Department and Punjab Judicial Academy, Lahore during the year under review.
- A project regarding “Development of Electronic Complaint Lodgment & Management System” is under preparation, which will facilitate SBP BSC in exercising efficient and effective monitoring of complaints so as to move forward to the paperless environment in adjudication proceedings.

Adjudication Courts	Number of cases		% Change
	FY15	FY16	
Karachi	932	1355	45%
Lahore	640	667	4%
Faisalabad	172	537	212%
Multan	73	30	-59%
Sialkot	270	217	-20%
<b>Total</b>	<b>2087</b>	<b>2806</b>	<b>34%</b>

# Human Resource Management





## 6 Human Resource Management

*Human Resource Management Department (HRMD) is the engine of organizational change management initiatives. HRMD facilitates in creating a conducive and congenial work environment for employees, thereby enabling them to make effective contribution towards accomplishment of organizational objectives.*

### 6.1 Overview

Human Resource Management Department remained focused on desired HR interventions, thereby making strategic contribution towards achievement of organizational objectives. In this regard, various initiatives were undertaken to strengthen and ensure effective utilization of human capital. Major focus remained on Talent Resourcing, Career Development, Automation of Performance Management System and Review of HR Policy Framework.

### 6.2 HR Profile

The rationalization of workforce is moving in the preferred direction, primarily due to continuous automation of processes, business process re-engineering and ongoing early retirements. The working strength of SBP BSC has reduced significantly over time as a number of employees opted for early retirement. The resultant gap is being managed through fresh induction in an appropriate manner. The grade-wise comparison of headcount for FY15 and FY16 shows that working strength has declined by 265 employees or 8.8 percent (**Table 6.1**). Historically, the working strength of SBP BSC has reduced by around 54%, i.e. from 5,964 since its inception to 2,746 by June, 2016.

Grade	No. of Employees			
	FY15		FY16	
	Total Strength	Percentage	Total Strength	Percentage
OG-7	-	-	1	0.04%
OG-6	5	0.17%	9	0.33%
OG-5	22	0.73%	35	1.27%
OG-4	78	2.59%	73	2.66%
OG-3	212	7.04%	241	8.78%
OG-2	956	31.75%	847	30.84%
OG-1	868	28.83%	836	30.44%
Below OG-1	870	28.89%	704	25.64%
<b>Total</b>	<b>3,011</b>	<b>100%</b>	<b>2,746</b>	<b>100%</b>

### 6.3 Restructuring Plan for SBP BSC

A comprehensive Bank-wide restructuring exercise has been carried out with the underlying objective to transform SBP BSC into a more vibrant organization, capable enough to meet the changing business requirements and improve synergies between functional Departments and Field Offices. Further, positions of Officers Grade-7 and 8 have been created through amendments in SBP BSC Staff Regulations (2005) so as to provide career development opportunities to officers, address unwieldy span of control of Managing Director (MD), allowing him to focus on strategic issues, achieve optimum operational efficiency and bring about consistency in decision-making across the organization. The related improvements in the Promotion Policy, Salary Scales and benefits for OG-7 and 8 positions have been announced. This year also witnessed the promotion of an officer to the position of OG-7 from within SBP BSC, for the first time, since its establishment. The officer, on promotion, has been posted as Director, Currency Management Department (CMD).

Based on the Restructuring Plan, the Organogram of SBP BSC has been revised wherein the HOK departments have been clustered into three Groups viz. Network & Financial Management, Forex & Development Finance, and HR & Support Services managed by their respective Group Heads, whereas the Field Offices have been clustered into three regions viz. South, Central and North, headed by their respective Regional Heads.

#### **6.4 Policy Review and Development**

With the on-going transformation phase at SBP BSC, the HRMD undertook several organizational development initiatives to review the existing HR policies framework. In this regard, a number of policies have been revised/being introduced as under:

##### **6.4.1 Absorption Policy for SBP Officers on Deputation with SBP BSC**

The Absorption Policy for SBP officers on deputation with SBP BSC has been announced. The Policy is aimed at meeting the organizational HR requirements on a sustainable basis. Taking advantage of the Policy, around 47 officers have been absorbed in the Corporation.

##### **6.4.2 Residential Accommodation Policy**

In order to provide safe accommodation for essential staff/fresh inductees/female officers, a Residential Accommodation Policy has been introduced. The broad features of this Policy include focus on identification of residential needs, rules and regulations for allotment, determination of rent, mechanism for payment of utility charges, vacation of accommodation and maintenance of housing property.

##### **6.4.3 Leave Policy**

The major objective to revise the Leave Policy was to maintain a healthy and efficient workforce by offering opportunities for rejuvenation, meeting personal commitments or any emergencies by availing leave through a formal and structured process.

##### **6.4.4 Reward & Recognition Policy**

Reward & Recognition Policy has been introduced to foster a positive work environment through reward and recognition of desired performance, constructive behavior, commitment and demonstration of desired values and supporting the achievement of organizational objectives.

##### **6.4.5 Communication Policy**

The objective of Communication Policy (Internal) is to reinforce SBP BSC's Vision, Mission, Strategic Goals and Core Values through timely, accurate and consistent communication. SBP BSC shall adopt various means for internal communications such as HRMD Broadcasts, Electronic Notice Board (ENB), Heads of Department (HoDs) Meeting, Chief Managers' Conference, Departmental/ Office Management Team and Town Hall Meetings etc.

##### **6.4.6 Whistle Blowing Policy**

Whistle Blowing Policy has been introduced with the aim to provide a mechanism where employees can, without fear of reprisal, report illegal and unethical activities for pre-emptive remedial measures in a confidential manner.

##### **6.4.7 Code of Conduct**

The purpose of Code of Conduct is to ensure high standards of ethical behavior, courage, integrity, accountability and excellence.

### 6.4.8 Brief on Instructions issued on HR Matters

As part of organizational development initiatives, a comprehensive brief on various instructions issued on HR matters, other than those mentioned above, is given in **Box 6.1**.

#### Box 6.1: Brief on instructions issued on HR Matters

**(1) Introduction of Online Leave Application System**

HRMD, in collaboration with ISTD, introduced 'Online Leave Application System' for OG-1 & above officers in order to automate HR related processes. Applications for leave within Pakistan up to 30 days at a stretch are now filled, approved and processed online through automated form.

**(2) Introduction of Employee Self Service Portal**

The purpose of Employee Self Service Portal (ESSP) is to maintain employee-related data in Oracle Module which provides read-only access to employees with respect to their own information only. Through this facility, employees are able to view their personal details such as qualifications, dependants, updated medical record, leave, PMS, loans and fund related information etc.

**(3) E-Learning-Linkage with Career Development**

The linkage of E-learning with career development of officers was developed in order to enhance their competencies as well as the required skill set.

**(4) Real Time Salary Transfer at SBP BSC**

To ensure real time, efficient and reliable transfer of employees' salary to their accounts, the bank account number of the employees used for salary credit has been switched to International Bank Account Number (IBAN).

**(5) Employee Separation from Bank's Service - Charging of Mark-up on Outstanding Liabilities**

In addition to existing mechanism available for recovery of staff loans, all employees separating from the Bank's service are required to adjust their outstanding liabilities within 30 days of notice period. In case liabilities are not adjusted within the stated period, concerned ex-employee will be liable to pay mark-up on outstanding liabilities @ KIBOR+5% till the date the liabilities are settled.

**(6) Revision in Existing Designations of SBP BSC Officers - Cash Side**

The designations of Treasury Officer and Assistant Treasury Officer working on Cash Side have been revised as Senior Officer (Treasury) and Officer (Treasury) respectively.

**(7) Revised Job Description of Chief Managers**

In view of ongoing transformation phase of the organization, Job Description of Chief Managers has been revised so as to align the same with strategic plans of SBP BSC.

**(8) Job Descriptions of 'Group Heads' and 'Regional Heads'**

Upon completion of a detailed job analysis and benchmarking exercise, Job Descriptions for 'Group Heads' and 'Regional Heads' positions have been approved by the Competent Authority.

### 6.5 Annual Manpower Planning Exercise

Annual Manpower Planning Process has been standardized under which all Departments/Field Offices were advised to evaluate their HR needs in line with their respective Business Plans for FY17, expected retirements and required succession arrangements to ensure availability of required talent in future. The HR requirements received were subsequently consolidated and rationalized by HRMD as per criticality of respective business functions, availability of existing manpower, rightsizing and expected retirements in future etc. The Annual Manpower Plan now serves as a basis for identification of internal and external resourcing needs on organization wide basis.

### 6.6 Employee Engagement Survey

An organization-wide Employee Engagement Survey for all OG-1 & above officers was successfully conducted through an external management consultancy firm, M/s Grant Thornton Consulting Pvt. Ltd. The objective was to scramble into perceptions and mindset of officers coupled with drivers that shape their behavior. It provided an opportunity for all concerned to offer valued feedback through

active participation. Overall participation rate in the survey was 75%, with an organization-wide Employee Engagement Index of 59%, which is close to the global average. The report, thereof, submitted by the consultants summarized the overall results of the survey, highlighted areas of concern and recommended an action plan against the same. The said report has already been shared with all the respective departments and Field Offices and steps are being undertaken to improve the process.

### 6.7 Workload Analysis

An organization-wide workload analysis project has been undertaken through a renowned HR consultancy firm, M/s. Mazars Consulting. The purpose is to determine ideal headcount/manpower required to perform business functions across SBP BSC. The assignment includes evaluation of workload across the organization, spot benchmark positions and identifies required number of manpower (grade wise) to carry out business functions and subsequently project grade-wise HR needs, keeping in view the existing attrition rate. The report, thereof, shall be submitted by the consultants in the second Quarter of FY17.

### 6.8 Talent Resourcing

During FY16, prime focus of HRMD was directed towards organization-wide strengthening of HR base through induction of qualified resources. For the purpose, selections were made across multiple hierarchical levels under various recruitment initiatives through a transparent process. All recruitments of officials in core/support areas of the Bank are being made through a competitive recruitment process i.e. publication of advertisements, followed by pre-selection test by an independent testing agency and interviews. The selections are made in compliance with the statutory quota requirements.

In order to further improve the pre-induction screening process, medical guidelines have been revised wherein psychometric and psychological/mental soundness tests have been introduced. Further, upon expiry of the contract agreement with previous testing agency, the process for engagement of services of an independent testing agency was reinitiated through a competitive bidding process as envisaged under the relevant rules of Public Procurement Regulatory Authority (PPRA), whereby a new firm has been selected. Besides these regular recruitment drills, the short term HR needs are being met through daily wage and outsourced arrangements. A Brief on the major initiatives is given in **Box 6.2**.

#### **Box 6.2: Brief on Recruitment Initiatives during FY16**

##### **(1) Young Professionals Induction Program (YPIP) - 5th Batch**

A batch of 81 trainees was selected under 5th batch of YPIP, which after successful completion of pre-induction theoretical training, have formally joined the Bank's Service during 3<sup>rd</sup> Quarter of FY16.

##### **(2) Officers Training Programs (OTP) - 4<sup>th</sup> & 5<sup>th</sup> Batch**

A total of 78 officers were hired under 4<sup>th</sup> Batch of OTP who have been posted in Departments/Field Offices after successful completion of their theoretical training. Further, recruitment process for hiring of 5<sup>th</sup> batch has also been initiated. It is expected that officers selected under this batch will join the Bank's service during 2<sup>nd</sup> quarter of FY17.

##### **(3) Hiring of Professional Engineers**

In view of the shortage of technical staff in Engineering Department, business needs/operations and upcoming mega projects, recruitments were made at various levels (i.e. Entry, Supervisory and Divisional Head) whereby one Assistant Executive Engineer, two Executive Engineers, and one Sr. Joint Director have been inducted. Moreover, another recruitment drive for hiring of technical resources in the fields of civil, electrical and mechanical engineering has been initiated to equip the Engineering Department with adequate resource in line with its future roadmap.

##### **(4) Hiring of Security Guards**

In order to beef up the Banks' security, HRMD initiated recruitment drive for hiring of ex-servicemen as Security

Guards on contract basis. A total of 55 Security Guards were taken on board in FY16. Moreover, another recruitment drive for hiring of Security Guards has been initiated to further augment the security of the Bank.

**(5) Hiring of Specialized Professionals for FEOD/FEAD**

An exclusive recruitment drill to resource Foreign Exchange Operations/Adjudication functions has been initiated under which experienced professionals, bearing required experience/skill set, shall be inducted in the Bank. It is expected that upon completion of a competitive selection process, the said batch shall join SBP BSC during the 2<sup>nd</sup> quarter of FY17.

## 6.9 Career Development

One of the prime objectives of HRMD is to provide career development opportunities to the talented employees along with proper succession planning. Keeping this in view, HRMD has successfully completed promotion cycle during FY16 (**Table 6.2**) under which a large number of officers and clerical/non-clerical staff were promoted. In all, 253 promotions took place; out of which 130 officers and 86 clerical/non-clerical employees were promoted to next grade/scale, whereas 37 clerical/non-clerical employees were promoted to officer cadre. All promotions of officers under General Side were carried out as per the revised promotion policy which also included desktop evaluation for promotions up to OG-3 positions.

Cadre	No. of Employees Promoted
Officers	130
From Clerical/Non-Clerical Staff to Officer Cadre	37
Clerical/Non-Clerical Staff (Scale Promotions)	86
<b>Total</b>	<b>253</b>

In order to provide opportunities for career development and progression, options for change of Side/Cadre were offered to clerical/non-clerical employees. To facilitate staff, awareness sessions were conducted at Head Office, Karachi and Field Offices. Consequently, a total of 101 valid options have been received for re-designation to desired positions. A final decision shall be made by MD, SBP BSC in due course on the recommendation of a committee, which will scrutinize all the options received and suitability of the incumbent having opted for the job.

## 6.10 Performance Management System

Various initiatives have been undertaken during the year to improve effectiveness of the PMS processes. The Bell-Curve quota distribution observed for the performance year 2015-16 is given in **Table 6.3**. During the year under review, exemption to Bell Curve quota was allowed to 3.20 percent of total employees as compared to 3.13 percent in the previous year. This indicates that SBP BSC is moving towards normalization of Bell Curve.

A	B+	B	C	D
10% (On earning basis)	18%	47%	15%	10% (On earning basis)

### 6.10.1 Annual Merit Increase Budget

In line with the objective to develop a Pay-for-Performance culture, the AMI budget for officers was allocated at 10% of salary budget. This is expected to incentivize and motivate high performers to deliver desired results and add value to the organization. AMI was tailored according to the pay for performance principle under which the high performers were rewarded up to 8.5%, whereas others were appropriately differentiated. The AMI rates for officers in terms of Bell Curve are given in **Table 6.4**.

A	B+	B	C	D
8.5%	6.0%	4.5%	3.0%	NIL

Similarly, the clerical/non-clerical employees were awarded 7 percent performance increase across the board. Moreover, on the basis of rendering satisfactory performance, one-time performance award of 3 percent of monetized salary for the year 2015-16, as evaluated in their Performance Evaluation Reports (PERs), was given as detailed in **Table 6.5**.

### 6.10.2 Automation of PMS

In order to automate the PMS processes, a customized system-based application for PMS has been developed for SBP BSC that would result into replacement of paper-based forms, saving time and resources. In the first phase, PMS Planning and Mid Year Performance Review processes have been automated for implementation with effect from the performance planning phase 2016-17. User Acceptance Test (UAT) phase of testing has been completed and currently user manuals are being prepared before the formal launch.

Performance Categories	PER Range of Marks	Rate of one-time Performance Award per employee per year
Very Good	41-50	Rs 39,000
Good	31-40	Rs 32,000
Satisfactory	11-30	Rs 29,000
Unsatisfactory	0-10	Nil

### 6.10.3 Selection & Training of PMS Facilitators

With a view to enhancing awareness of PMS policies across the SBP BSC, a total of 29 OG-2/OG-3 officers across all Field Offices have been designated as PMS facilitators, who are assigned the responsibility to guide employees regarding all aspects of PMS at their respective offices. A comprehensive two-day training program including case-studies and role play methodologies, covering PMS policies and commonly-observed issues/grievances was arranged by HRMD at NIBAF, Islamabad. An expert session with two Chief Managers was also instrumental in enhancing the understanding of PMS. This exercise will be helpful towards capacity building of Field Offices in connection with the understanding of PMS guidelines and policies, especially once all the officers (including Cash-side officers) are brought under the ambit of PMS in near future.

### 6.10.4 OG-1 Officers Brought under Ambit of PMS

As a measure aimed at inculcating performance-based culture across the Bank, OG-1 officers (other than Cash Side) and TOs/ATOs working on General Side were brought under the ambit of PMS with effect from FY16. To facilitate their transition, awareness sessions of over 500 officers were conducted by the PMS Team of HRMD at Head Office, Karachi and PMS facilitators at their respective Field Offices.

### 6.10.5 Mid Year Performance Review

Mid Year performance review was further enhanced through inclusion of Training Needs Assessment (TNA) and Performance Improvement Plans (PIP). The aim is to ensure that appraisees are given ample opportunity by their appraisers to address any performance gaps identified for remainder of the year.

### 6.10.6 PMS Calendar

In order to ensure timely completion of end-to-end PMS cycle, a PMS calendar (providing the standardized timelines for initiation and completion of each PMS process) has been issued. The aim is to instill efficiency into completion of PMS cycle across SBP BSC while ensuring that responsibility of observation of overall timelines for completion of PMS cycle lies primarily on Field Offices/Departments at Head office, Karachi.

### **6.11 Future Outlook**

The primary objectives of HRMD are to ensure smooth implementation of restructuring plan, enable workforce to achieve its strategic goals and deliver HR services to all stakeholders in an effective manner. The department also aims to focus on skills up-gradation, leadership development, credible succession planning, technology up-gradation and timely recruitment of high potential and technology savvy professionals. The inflow of human resources and early retirements are being monitored regularly in order to maintain an optimal balance of human resources through HR Planning exercise. The results of Employee Engagement Survey are supposed to facilitate the management in taking informed decisions and promoting performance-oriented culture across SBP BSC. Further, in order to ensure quicker execution of PMS process, the department plans to automate PMS across SBP BSC. Moreover, workload analysis, conducted through the support of an external HR consultant, is also expected to facilitate in determining the ideal headcount necessary to perform business functions.



# Internal Audit





# 7 Internal Audit

*Internal Audit Department (IAD) provides independent assurance on effectiveness of governance, risk management framework and control processes.*

## 7.1 Overview

The Internal Audit Department has been entrusted with the significant responsibility to examine and evaluate whether the organization's framework of risk management, internal controls and governance processes is adequate and functioning properly. In addition, the objectives of IAD include, among others, giving advice and making recommendations to the senior management on the subject of improvement in internal control and risk management systems.

## 7.2 Working Performance

During the year under review, IAD carried out annual audit of 16 Field Offices and 8 departments at Head Office, Karachi (HOK). Moreover, 56 audit engagements were performed by Audit Hubs located at Karachi and Lahore. IT Audits of different IT centres and business applications were also carried out during the year. The results of audit activities have led to further improvements in the internal control environment, which provides potential support towards achieving the organizational objectives.

The observations made during audit engagements are rigorously followed up by Review and Enforcement Division of IAD. The compliance with regard to audit observations reported in audit reports and briefs of respective HOK Departments and Field Offices was carried out efficiently so that adequate response and regularization is done within a minimum time period.

## 7.3 Developmental Initiatives

The IAD, in line with its Charter as well as with a view to improving its approach in conducting audit and monitoring compliance to its observations, has completed the following developmental projects during FY16:

- (1) Development of Audit-Risk Assessment Framework  
This framework provides a systematic approach to ascertain risk related to conducting an audit and the level of reasonable assurance being provided depending upon multiple factors.
- (2) Development of Project Audit Framework  
Through this framework IAD has set guidelines for auditing the projects of different nature depending upon the dynamics such as time, cost, HR and outcomes involved in a project.
- (3) Preparation of Manual of Audit Practices and Departmental Procedures  
This manual will assist every auditor, either experienced or new, to understand procedures and processes relating to department as this manual covers all functional areas of IAD.

(4) Preparedness for External Review of IAD Practices

Completion of this project has not only identified and reduced the gaps between IAD's practices and Institute of Internal Auditing (IIA) standards, but also resulted into creation of Quality Assurance and Improvement Program (QAIP) which will help IAD to successfully go through internal & external reviews.

In order to achieve efficiency improvement, besides diminution in the redundant workload of departmental activities, a project is being initiated with a view to introducing Audit Management Software for automation of audit work. Similarly, the TORs of Audit Hubs have been modified as part of the Business Process Re-engineering (BPR) of these Hubs, thereby strengthening their working/checklists and reporting requirements, which have also been revised to streamline the functions and increase their efficiency.

Control and Risk Rating System (CRRS) for Field Offices and Departments has been revised while Project Audit Framework, working papers and area-wise checklists have been completed during FY16. The Framework is being applied on trial basis and the gaps identified will be addressed before start of the next Audit Cycle.

For the upcoming year, IAD plans to move towards relatively advanced level areas which will include external review of IAD, development of Control Assessment Questionnaire, Capacity Building for Auditing specialized areas and Implementation of Audit Management Software.

#### **7.4 Risk-Based Annual Audit Plan**

Before the start of FY16, a risk-based annual audit plan was prepared for the forthcoming audit activities, keeping in view the organizational goals and objectives. The plan was devised by incorporating the risk factors from the risk inventory, which was reviewed in consultation with the Field Offices, to achieve the desired results of the audit activities. Accordingly, the prioritization of business operations, based on risk ranking was updated. Further, the work load analysis and assessment of internal controls, based on last year's audit reports of Field Offices and Departments, was used in preparing the plan.

#### **7.5 Performance of Audit Hubs**

The function of Audit Hubs, set up in Karachi and Lahore, is based on a pre-defined high risk area specific scope that needs to be audited on periodic basis. Audit Hubs conducted 56 short and targeted audits during FY16 that helped in achieving effective monitoring of internal controls. The scope of Audit Hubs was revised and re-determined in the light of activity-based processes, carrying high risks and requiring frequent assurance and oversight. Frequently observed weaknesses in controls identified during audits were highlighted in order to facilitate the management's focus on them.

#### **7.6 Capacity Building of Internal Auditors**

Enhancement of auditors' skill set and proficiency is one of the key areas of focus at IAD. Training programs, based on priority and requirement, were held throughout FY16. IAD personnel participated in 32 trainings during the year under review, which provided valuable support to diversify the skill set of auditors, thereby enabling them to work more efficiently in a variety of key areas. These capacity building initiatives also facilitated to inculcate the latest audit techniques among officers of IAD, besides moving forward towards improvement in audit practices in line with the international best practices.

### **7.7 Future Outlook**

Going forward, IAD intends to move towards adoption of a more automated environment for its activities. For this purpose, the department is currently in the process of procuring and installing the Audit Management Software. Further, a risk framework for SBP BSC's core operations has been developed in order to ascertain strategic and major business risks along with underlying Key Risk Indicators in such operations to help minimize the level of risk exposure to the organization. IAD also plans to have its practices externally reviewed which will help in identifying the gaps with regard to international best practices and propose appropriate effective measures to plug the gaps.



# Corporate Governance





# 8 Corporate Governance

*Strategic & Corporate Affairs Department (SCAD) is entrusted with the responsibility to facilitate and support the Corporate Governance Framework at SBP BSC. Being the host of the upcoming Strategic Planning Conference which is envisioned to redefine the Vision and Mission of SBP BSC (Bank), SCAD is destined to play a crucial role towards articulating the future strategic direction of the Bank.*

## 8.1 Overview

The prime function performed by SCAD consists of facilitation and support to the Corporate Governance Framework at SBP BSC. The department reinforces the Management's efforts aimed at cultivating the Strategic Plans, delineating the business goals and implementing the same in accordance with the Bank's vision. For this purpose, Corporate Secretary Division (CSD) facilitates holding of meetings of SBP BSC's Board and its Committees on Audit and Human Resources, Heads of Department (HoDs) Forum, Chief Managers (CMs) Conference as well as Management Committees on various areas of operations. The department's charter has, therefore, been elevated as the repository of corporate information and records, besides acting as a proponent for improved corporate governance.

### Box 8.1: Highlights

#### Corporate Secretary Division (CSD)

- Holding of meetings relating to SBP BSC's Board and its Committees on Audit and Human Resource.
- Compliance of decisions of the Board of Directors of SBP BSC and the CMT of SBP.
- Organizing meetings of Heads of Department (HODs) Forum and Chief Managers (CMs) Conference.
- Serving as the Secretariat for Management Committees on: (a) Strategy Development, (b) Business Process Reengineering, (c) Publications, (d) Budget, and (e) Enterprise Risk Management.
- Coordinating, Finalizing and Publishing of Annual Performance Review (APR).

#### Systems and Procedures Division (SPD)

- Steering the Strategic Planning Process at SBP BSC.
- Coordination of Business Planning Process of the Corporation.
- Serving as Secretariat of Urdu Cooption Committee (UCC).
- Streamlining BPR activities under a single domain, removing redundancy and delays.
- Centralized business applications system support for operational functions at SBP BSC in coordination with ISTD.

Systems and Procedures Division (SPD) of SCAD has been assigned the responsibility to coordinate and monitor the Business Planning exercise, in addition to facilitating the Business Process Reengineering (BPR) activity. As the business processes at SBP BSC are largely driven by Globus and Oracle ERP Applications, there is a continuous focus to make them more user-friendly and efficient. SCAD also finalizes and updates the web contents relating to SBP BSC placed on both internal and external websites. The department also serves as the secretariat of Urdu Cooption Committee (UCC), which has been set up to facilitate use of Urdu for official purpose.

## 8.2 Performance Review of Strategic and Corporate Affairs Department

### 8.2.1 Board and its Committees

An important addition to the functions of department as well as to the SBP BSC, during the year under review, has been to activate the Office of Corporate Secretary (OCS) which was earlier established. To serve the purpose, an experienced professional has been entrusted with the

responsibilities of the Corporate Secretary of the corporation in order to run the matters relating to the Board of Directors of SBP BSC and its committees in a smooth and effective manner. The CS Division serves as a secretariat for facilitating meetings of SBP BSC Board and its Committees i.e. Audit Committee and Human Resource Committee. The key functions involved are: following the best practices of corporate governance and implementation thereon; facilitate and act as a conduit between the Board members, senior management and stakeholders and working towards sustainable growth of the Bank by following up the decisions taken by the Board and its Committees. The position with regard to the Board and its Committee meetings held during the year under review is provided in **Table 8.1**.

### 8.2.2 HoDs Forum/CMs Conference

The management believes in a collaborative approach towards decision making process, for which two important fora viz. Heads of Department (HoDs) Forum and Chief Managers (CMs) Conference serve as the nucleus of decision making to

facilitate efficient operations of SBP BSC. In this regard, SCAD has successfully managed to perform all the required functions, like issuance of notifications, development and circulation of agenda, coordinating with all stakeholders, drafting/dissemination of approved minutes and ensuring compliance of the decisions taken during these meetings. During FY16, the HoDs and CMs fora met nine times as against five meetings held during FY15.

Sr. No.	Name of the Forum	Total
1.	SBP BSC's Board of Directors	06
2.	Audit Committee of the Board	04
3.	Human Resource Committee of the Board	03

### 8.2.3 Management Committees Secretariat

SCAD has been assigned with the responsibility of spearheading the major operational functions to support collective decision making process of the management. The department also acts as a secretariat to the following committees of the management:

1. Management Committee on Strategy Development.
2. Management Committee on Business Process Re-engineering.
3. Management Committee on Publications.
4. Management Committee on Budget.
5. Enterprise Risk Management Committee.

The meetings of these Committees are held on periodical/need basis to make collective decisions in relevant operational areas. During FY16, the above mentioned Management Committees met six times.

### 8.2.4 Strategic Planning at SBP BSC

Strategic planning is considered to be one of the most important tools employed for the success of an organization and the task regarding formulation of Strategic Plan for the organization rests with SCAD. The initiative for development of Strategic Plan for the organization rests with SCAD. The initiative for development of Strategic Plan was taken by the management in 2014-15. After carefully evaluating the needs of the organization, the department prepared Expression of Interest (EOI) and Request for Proposal (RFP), which was published in national and international papers during September 2016 as per PPRA regulations. However, none of the firms who expressed interest could qualify the parameters laid down in RFP. Meanwhile, the management started working on various strategic initiatives: a) Amendments in the Ordinance of SBP BSC to expand the operational span of the organization within its mandate provided in SBP Act; b) outlining various

avenues for sustainable growth of the Bank; c) organizational restructuring by creating three major groups headed by Group Heads to facilitate the decision making and enhancing the accountability etc. Since these steps have already been taken, it is now intended to hire a Consultant who will facilitate the management in defining organizational strategy through upcoming Strategic Conference to develop a detailed Action Plan. The basic objective of this exercise will be to align the SBP BSC's strategic orientation with SBP Vision 2020. In this regard, SCAD has initiated an exercise through the hiring of the services of an experienced external consultant for finalizing the Strategic Plan implementation process in line with SBP's strategic direction.

### 8.2.5 Business Planning at SBP BSC

Another crucial function entrusted to SCAD is managing holding of Business Planning, for which it not only serves as a facilitator, but also operates as a coordinator in connection with the activities relevant to the said job. In this regard, the department endeavors to provide necessary facilitation in the process of monitoring the progress of an array of activities and projects approved in the Annual Business Plans. During the year under review, the Business Plan Exercise was rejuvenated and expanded by the management at the Regional Level for half-yearly review meeting as well as the approval of Business Plans for next year. All these meetings provided an interactive platform for the Field Offices/Departments to focus on the joint goals for furthering the cause of strategic recourse. During Business Plan Exercise for FY16, a total of 205 projects of all HOK Departments and Field Offices were reviewed.

**Table 8.2** shows a Region-wise comparison of projects (HOK Departments, and South, Central and North Regions) reviewed in Business Plan Exercise of FY15 and FY16.

Sr. No	Regions	FY15	FY16
1.	HOK Departments	49	63
2.	North Region Field Offices	38	39
3.	Central Region Field Offices	36	60
4.	South Region Field Offices	18	43

### 8.2.6 Annual Performance Review

Annual Performance Review (APR) is the flagship publication of SBP BSC which encapsulates detailed appraisal of the activities performed during a financial year. As part of its preparation, SCAD seeks information from all Departments and Field Offices regarding various key milestones and operational goals achieved by them during the year. The information so received is compiled in a systematic and cohesive manner. The Management Committee on Publications, which supervises the finalization of the contents of APR and its design, is assisted by the department. SCAD also coordinates with the Bank's Printing Press for the printing of APR and its distribution to the concerned Field Offices/Departments.

### 8.2.7 Urdu Cooption Committee

The Urdu Cooption Committee (UCC) was formed for cooption of Urdu as a medium of communication at the organizational level in the light of directives issued by the Government of Pakistan to adopt Urdu as an official language. The UCC has achieved many milestones including printing of various application forms, which are being used by the general public, in Urdu, placing nameplates in Urdu at Head Office, Karachi as well as in Field Offices etc. During the year under review, the Urdu Cooption Committee held four meetings.

### 8.2.8 Standardized Written Communication/ Correspondence

An important job assigned to SCAD during FY16 related to the standardization of written communication/correspondence in SBP BSC, internal as well as external, so as to make the process consistent throughout the Corporation. In this regard, relevant Standard Operating Procedures

(SOPs), samples of Letterhead, Inter Office Memorandum (IOM), etc. were prepared and circulated for implementation as from July 1, 2016.

### 8.2.9 Systems & Procedures

Systems and Procedures Division (SPD) of SCAD is entrusted with the responsibility of providing services and solutions across SBP BSC for efficient utilization of the core business solutions developed through Globus and Oracle Applications. For the purpose, SPD continues to initiate and seek active feedback from different users, aimed at bringing about consistent improvements in operational activity as well as strengthening of system-based internal controls. SPD ensures close interaction with users throughout the business planning, business process re-engineering activities and improvements in the monitoring processes. Frequent interaction with users facilitates SPD in prioritizing the developmental needs for new system applications and/or improvements in the existing processes in close coordination with Information System Department.

SPD provides first level helpdesk support to 16 Field Offices of SBP BSC and its Head Office in the areas of Globus Banking (Public Accounts Unit, Deposit Accounts Unit, Prize Bonds, NSS and Export Refinance etc.) and Globus Currency till the Close of Business signal is received from all offices. A comparison of the number of incidents resolved during FY15 and FY16 is shown in **Table 8.3**.

	FY15	FY16
Globus Banking	11,507	10,570
Globus Currency	4,473	3,446

Major achievements of SPD during FY16 are as under:

1. Implementation of Globus Dashboard for MD, HoDs, CMs, & DCMs.
2. Implementation of Direct Debit version of LC Payment Transaction between Rawalpindi and Islamabad Office.
3. Development of Email Alert for entries of Receivable/Payable Accounts on daily basis.
4. Facilitation to Users of Globus Banking and Currency Issue for preparing Test Scripts for each and every Version in live environment and preparation of Globus and CGSBP Helpdesk versions Test Script in connection with the upgradation of Globus Banking and Currency to Globus T24.
5. Development of SOPs for Helpdesk operations in collaboration with ISTD.
6. Development, finalization and approval of contents for the revamped SBP BSC Website which is now live.

### 8.3 Going Forward

SCAD is expected to continue its role as the neurocentre for the Bank by augmenting its diversified and challenging activities. The special activity chalked out for the year FY17 is the development of SBP BSC Strategic Plan. The department intends to finalize the plan in a two-day Conference assisted by an experienced consultant, based on various significant strategic initiatives already taken by SBP BSC and improving and aligning them with the strategic objectives of SBP as per its Vision 2020. SCAD also plans to build efficiency in the use of system-based applications by all the Departments and Field Offices of SBP BSC, particularly after the planned up-gradation of the Globus T-24 Application during the year. The department looks forward to expanding the Dashboard for augmenting the ongoing efforts to improve MIS for the senior management, besides facilitating the role of Globus as a supervisory tool.

# General Services





## 9 General Services

*The dynamic nature of business at SBP and its two subsidiaries (SBP BSC and NIBAF) demands provision of continuous support and efficient services which are catered by three dedicated departments i.e. General Services Department (GSD), Engineering Department and Internal Bank Security Department (IBSD).*

### 9.1 Overview

Provision of sustained and cost effective support services is pivotal for smooth conduct of business by an organization. At SBP, SBP BSC and NIBAF this job is being done jointly by three support services departments: General Services Department, Engineering Department and Internal Bank Security Department of SBP BSC. These departments extend support services in various areas such as procurement of: i) equipment, ii) consultancy services, iii) vehicles, iv) furniture and fixture, v) medicines and provision of medical services, vi) security related equipment as also provision of security services. Work relating to maintenance of building, provision of Heating, Ventilation & Air Conditioning (HVAC) services, modification, addition in existing buildings, and upkeep of all mechanical and electrical equipment are undertaken by SBP BSC as a common service. SBP BSC also provides and manages services relating to travel helpdesk and printing of publications of SBP, SBP BSC and NIBAF. The entire work relating to construction of any new building for SBP i.e. its planning, supervision and the consultancy to ensure timely completion in an efficient and cost effective manner is also handled by SBP BSC.

### 9.2 General Services Department

#### 9.2.1 Overview

Provision of cost effective, timely and quality support services to SBP and SBP BSC is a key mandate of General Services Department. In this regard, all-out efforts are made to ensure the best standards of “Customer Services”. The procurement of goods and services, in accordance with Public Procurement Regulatory Authority (PPRA) guidelines, is one of the major responsibilities of GSD. The department provides quality services in the areas of travel help desk, health care, disbursement of salary and related benefits and provision of printing facilities through state-of-the-art-in-house managed printing press. Moreover, GSD has also been providing policy input to various types of requests coming from SBP and SBP BSC Field Offices relating to procurement of different assets as well as services in compliance with relevant PPRA rules.

#### 9.2.2 Procurement of IT Equipment and Services

Being a key element of change management process, cost-effective technical up-gradation and procurement of IT equipment and IT consultancy services are some crucial and major procurement tasks of GSD. During FY16, GSD facilitated 30 different procurement arrangements amounting to Rs 1.4 billion approximately, completed 19 procurement assignments valued at Rs 70.4 million for hiring the services of different firms. The department has also successfully procured vehicles worth around Rs 76 million during FY16.

### 9.2.3 Health Care and Medical Services

Keeping in view the changing profile of Bank officers and rapidly growing technical innovation in health care industry, GSD is making continuous efforts to provide optimal health care services to the officers and staff of SBP, SBP BSC and NIBAF. Upfront, Bank's formulary has been revised by including medicines of top rated companies having latest formulas and delisting clinically obsolete medicines. Concerted efforts have been made to ensure cost effective procurement by minimizing the middleman and procure medicines directly from the concerned manufacturers or through their authorized distributors as per provisions of PPRA. Similarly, GSD has also broadened the network of hospitals, laboratories and consultants across Pakistan by enlisting them on the Bank's approved panel for convenience of our internal stakeholders. Moreover, a good number of reputed consultants have been invited to conduct Health Awareness Sessions on various topical issues for doctors working with the Bank's medical set-up across all Field Offices including HOK to further enhance their technical skills.

With a view to ensuring smooth and effective flow of consultancy services, Queue Management System has been installed. In addition, online appointment system has also been introduced for the Bank's employees to provide them convenience and save their precious time. Similarly, the employees have been provided the facility to get repeated medicines for their chronic illness through email.

In order to further strengthen internal controls, GSD in coordination with ISTD, HRD and HRMD, decided to issue Photo ID Medical Cards to its active and retired employees. In this regard, GSD has successfully completed issuance of medical cards to 4594 (96 percent) of the active SBP and SBP BSC employees and their dependents. While for the retired employees and their dependents, this number is 1941 (71 percent). Relatively lower number for retired employees is primarily because the retired employees are living mostly in remote areas and access to them apparently becomes difficult. All efforts are made to ensure that medical cards are prepared for all stakeholders.

### 9.2.4 Printing and Publication Services

GSD is also providing a wide range of printing services to SBP, SBP BSC and NIBAF through in-house state-of-the-art Printing Press. GSD is continuously making efforts to enhance the technical capacity of press staff by providing them relevant training opportunities. In general, printing requirements are cyclical and can be divided into monthly, quarterly, half-yearly and annual cycles. Major publications include: a) SBP Annual Report (Volume I & II), b) SBP BSC Annual Performance Review, c) Import/Export of Goods and Services, d) Inflation Monitor, e) Quarterly Report on the State of Pakistan's Economy, f) Performance Review of Banking System in Pakistan, g) State Bank News, and h) a good number of quarterly reviews published by different groups of SBP about their activities.

During FY16, the Bank's Press improved its quantitative as well as qualitative efficiency. The Printing Press received 1,004 jobs for printing, out of which 977 were printed and delivered to the relevant quarters within the agreed timelines.

### 9.2.5 Travel Help Desk Services

Cost effective provision of round the clock Travel Help Desk service to the Bank's employees for their official tours (and also for their private travel, if so desired) is one of the major activities of GSD. Besides being cost effective, the facility is a good source of help to the officers to plan their travel requirements. It is worth mentioning here that the Travel Help Desk has served more than 2500 employees of SBP, NIBAF and SBP BSC during FY16.

### 9.2.6 Future Outlook – GSD

GSD is exploring the possibility to further improve its prominent functions through putting a system based procurement mechanism in place. In this regard, work is under process to adopt e-procurement, instead of existing manual procurement system, which is going to enhance efficiency in tendering process through increased competition, enhanced efficiency in pay cycle and ultimately greater user satisfaction. GSD is exploring to further improve MIS by enlarging customized reporting network. In addition, it has been planned to further decentralize and delegate a number of functions to Field Offices in the light of recent restructuring of SBP BSC into three regions. GSD is also reviewing the existing SOPs regarding allotment of residential accommodation, though limited, at different offices of SBP BSC and SBP BSC Huts etc.

## 9.3 Engineering Services

### 9.3.1 Overview

Engineering Department serves SBP, SBP BSC and NIBAF as a common services department. Its main focus is to provide services relating to construction, renovation and maintenance of buildings, upgrade physical environment through renovation of existing infrastructure including repair/maintenance of equipment and installation of electrical, telecommunication and HVAC systems at building complex in Karachi and all the Field Offices. The department lays special emphasis to quality and timely completion of work and also makes extensive efforts to perform all jobs in a manner that ensures safe, comfortable and environment-friendly operations.

### 9.3.2 Initiatives during the year

During FY16, Engineering Department completed work on its all on-going and roll-over projects and also took various initiatives through new projects to improve the physical working environment and implement safety and security measures. Some of the major renovation work initiated during the period is enumerated below:

#### Box 9.1: Initiatives taken by Engineering Department during FY16

- The persistent issue of water seepage through the roof of Banking Hall of Karachi Office has been resolved by remedial work carried out at old terrace garden of the Main Building.
- Infrastructural support involving civil, electrical and HVAC work has been provided for installation of high speed Banknote Processing and Authenticating System (BPAS) at Karachi Office.
- The work for replacement of existing MS glazed windows with new double glazed UPVC windows was taken up at the Bank's Main Building, Karachi to improve its outlook, reduce heat and noise intrusion and provide better HVAC efficiency.
- To improve security arrangements at HOK and Field Offices, various works were taken up in coordination with the IBSD. These include construction of new gate offices/entrance lobbies at HOK to ensure visitor's management and to facilitate implementation of e-attendance systems.
- Development of meeting rooms in old barrack area adjacent to the SBP Health Club was commenced.
- Washrooms of toilet blocks of LRC, 3<sup>rd</sup> floor were renovated.
- Ladies Toilet Block at 2nd floor of Main Building, Examination Halls of Karachi Office and 4th floor of BSC House were also renovated.
- Passenger lift at BSC House has been replaced with a new lift.
- In order to adopt energy efficient system, LED lights were installed at boundary wall of the main building.
- Air conditioners have been installed in main building's Masjid so that *Namazees* could offer their prayers in a comfortable environment. Insulation treatment work at roof top of SBP BSC Islamabad has been completed and water proofing treatment for roof of SBP BSC Faisalabad is under progress.
- On completion of SBP Sports Complex at North Nazimabad, its landscaping work to further beautify and preserve the complex has also been completed.
- The existing old Central HVAC systems of NIBAF, Islamabad and SBP BSC Peshawar have been completed.

### 9.3.3 Future Outlook - Engineering Department

The Engineering Department will undertake the following mega projects involving construction of new buildings and major up-gradation work in existing buildings:

- a) Construction of SBP new office buildings at G-5/2, Islamabad, Gujranwala and D.I. Khan.
- b) Construction of purpose-built female hostel at Queens Road, Karachi.
- c) Construction of Learning Resource Centre and allied facilities at SBP BSC, Peshawar as well as family and bachelor accommodations at Quetta.
- d) Up-gradation/Replacement of HVAC System at Multan, Rawalpindi and Faisalabad.
- e) Up-gradation/Replacement of Electrical System at Lahore & Islamabad.
- f) Up-gradation of Fire Fighting System at Main Building Complex Karachi, Faisalabad and Islamabad.

## 9.4 Internal Bank Security

### 9.4.1 Overview

The operational priorities of Internal Bank Security Department (IBSD) are devised in line with the security intricacies for SBP & SBP BSC through effective management of available security resources. The role of IBSD has gained renewed importance in the backdrop of prevailing security situation in the country. In this regard, provision of secure work environment, leading towards safe and sound banking operations at all Field Offices, is ensured largely through sustained and cost-effective in-house security with the assistance of local police and other law-enforcement agencies (LEAs) on need basis.

### 9.4.2 Developmental Initiatives

IBSD has continued its efforts for strengthening the security at SBP, SBP BSC, HOK and all the Field Offices throughout the year. Salient initiatives include:

- Formulation of comprehensive Security Policy duly approved by the Security Committee of the management.
- Commissioning of Quick Response Force (QRF) from existing sources.
- Quality induction of armed forces security guards to complete existing deficiency of manpower.
- Periodical security vetting of employees from respective Special Branches of Police in all the provinces.
- Procurement of modern weapons with valid Arm Licences obtained from the respective Home Secretaries of Provincial Governments.
- Capacity-building through the on-job training, in-house firefighting practices and periodic Mock/Table Top exercises.
- Finalizing the Fire Fighting Consultancy Services for Field Offices.
- Procurement and maintenance of Hi-tech equipment, training and other miscellaneous steps for the improvement of security conditions.

### 9.4.3 Future Outlook – IBSD

IBSD intends to take a number of steps in order to enhance HR capacity of security staff by inducting trained ex-servicemen for QRF, training the existing personnel and ensuring availability of the latest suitable security equipment at various offices. The department collaborates with Police/Rangers/Civil Defence and Fire Brigade for strengthening its operational readiness to cope with various potential security challenges.

# Training and Development





# 10 Training and Development

*Training and Development Department (TDD) has been constantly striving towards capacity building by identifying and addressing skill gaps between the desired level of performance and the actual capabilities of SBP BSC employees. NIBAF, being the prime partner of TDD, mostly caters to designing and imparting quality training programs.*

## 10.1 Overview

Training and Development Department has identified and organized various training programs for capacity building of SBP BSC employees to bring their capabilities at par with organizational needs during FY16. Technical and soft skills of employees were enhanced through the best available domestic as well as international training programs. Training & Development Policy, duly approved by the Board of SBP BSC, was implemented in a phased manner. In order to strengthen the talent development of employees and to

Training Track	No. of Participants
Recruitment Driven Training/Orientation	165
NIBAF Function/Soft Skills Training	909
Management & Leadership Development	85
Mandatory Training Programs (promotion-linked)	130
External Institutions Training Programs	313
Foreign Trainings	24
<b>Total</b>	<b>1,626</b>

promote participatory approach for effective implementation of Training Policy, a Training Steering Committee was constituted under the Chairmanship of Managing Director, SBP BSC. The working of the Training Steering Committee is supported by its three Sub-committees, i.e. a) E-Learning Track, b) Function-specific Track and c) Executive Development Track.

Major policy-related accomplishments of the department include the formation of Training Steering Committee and a framework of training budget allocation to Field Offices, launching of E-learning portal and conducting the on-line exams under LAMS (Learning Activities Management System), besides providing secretarial support to the Training Steering Committee and its all Sub-committees.

## 10.2 Induction-Based Training

For developing the desired set of skills in new inductees through Young Professionals Induction Program (YPIP-5<sup>th</sup> Batch) and Officers Training Program (OTP-4<sup>th</sup> Batch), TDD, in coordination with HRMD & NIBAF, has been entrusted with a leading role in designing comprehensive training plans. During FY16, feedback from first four batches of officers inducted under YPIP was sought through an online Feedback Form which has helped the management to improve training curriculum for new batches. This has also helped TDD to enhance modular design of training curriculum. Overall training plans were enhanced by adding new training modules related to soft skills, practical attachments with Field Offices, rationalized function-specific modules and experiential learning at NIBAF, Islamabad such as dummy-bank exercise. During FY16, a total of 165 officers were

\* Effective 27<sup>th</sup> July 2016, the Training and Development Department has been merged with HRMD.

trained at pre-induction level by NIBAF under YPIP 5<sup>th</sup> Batch (86 inductees) and OTP 4<sup>th</sup> Batch (79 inductees).

Program	Duration	No. of Participants	Venue
YPIP – 5 <sup>th</sup> batch	12 Weeks (May 26 – August 17, 2016)	86	NIBAF Islamabad
OTP – 4 <sup>th</sup> batch	31 Days (January 18 – February 17, 2016)	79	NIBAF Islamabad
<b>Total</b>		<b>165</b>	

### 10.3 In-house/NIBAF-based Training Programs

Based on the analysis of PMS-based Training Need Assessment (TNA), on-line TNA from employees and validated feedback from HoDs/CMs, multiple priority training programs were conducted at NIBAF, Karachi and Islamabad so as to cater to the function-specific, professional and career development training needs at individual and organizational levels. In order to understand the requirements of key stakeholders, TDD coordinated various sessions of NIBAF team and functional Departmental Heads for better understanding of training needs from the perspective of each department. A total of 59 function-specific programs at NIBAF (Karachi & Islamabad Campus) for 909 employees of SBP BSC were conducted during FY16. NIBAF played a key role in trainers' selection, design and conduct of training programs. While designing technical skills programs, focus group discussion with trainers and trainees, were coordinated through TDD on need basis. Moreover, committed Training Mandays (TMDs) with NIBAF were completed in a timely manner.

### 10.4 Management and Leadership Development Program

On recommendations of Executive Development Sub-Committee, a 2-week flagship program namely, Management and Leadership Development Program (MLDP) was launched for middle-management (OG-4 & OG-5 officers) of SBP BSC at NIBAF, Islamabad. Considering the desired impact and target audience needs, senior management committee reviewed the design of program covering modules on linkages of SBP and SBP BSC, leadership skills, problem solving & decision making, emotional intelligence, strategic planning and leadership outbound activity. As a pre-requisite, DISC (Dominance, Influence, Steadiness, and Conscientiousness) profiling of all trainees was conducted through an external consulting firm. Eighty five officers (OG-4 and OG-5) participated in 4 iterations at NIBAF, Islamabad. Each module included various assessments by trainers through case studies, quizzes and group presentations.

### 10.5 Career Development Training Programs

Second and third iteration of 5-day Skills Development Program for 48 newly-promoted OG-3 officers were conducted at NIBAF, Islamabad with special focus on supervisory and team management skills. This workshop also included an outdoor activity for the participants where they had to perform certain team building and supervisory tasks while being monitored by an independent assessor. Similarly, in close coordination with HRMD, four customized training programs were designed for clerical and unionized staff of SBP BSC. A summary of these programs is provided in **Table 10.3**.

S. No.	Training Module	Participants	Duration	Venue
1	Professional Skills Development Program for Clerical Staff	20	03 Days	Islamabad
2	Skill Development Training for Assistants/Senior Assistants	21	01 Day	Karachi
3	Office Administration (Unionized Staff)	21	02 Days	Karachi
4	Communicational Skills (Unionized)	20	02 Days	Karachi
5	Skills Development Program for Newly-Promoted OG-3 Officers	48	05 Days	Islamabad
<b>Total</b>		<b>130</b>		

### 10.6 Training Programs at External Institutes

In addition to utilizing training facilities at NIBAF, SBP BSC management recognizes the need for nominating suitable officers to quality external training institutions (domestic as well as international). A brief summary of both tracks is given below.

#### 10.6.1 Domestic External Training Institutions

TDD identified quality local institutions including the Institute of Bankers Pakistan (IBP), Institute of Business Administration (IBA), Karachi and Pakistan Society for Training and Development (PSTD) and facilitated registration of suitable nominations from departments and Field Office, Karachi. These programs provided an excellent opportunity to develop soft skills and exposure to market practices and networking. During the year, 313 employees were sent to 91 training programs at external institutes. 32 employees including senior officials participated from across SBP BSC in professional development programs offered by Lahore University of Management Sciences (LUMS). Further, local Field Offices were also allocated training budget to explore and nominate relevant employees at local training institutions in regional proximity.

#### 10.6.2 Foreign Trainings/Exposure Visits

TDD facilitated the approval of suitable nominations from SBP BSC, through HR Coordination Committee, in various seminars/conferences offered by central banks. Taking into consideration the installation of high-end machines in currency management, timely support/coordination was extended in arranging study visits and seminars offered by central banks in the region. New learning opportunities at central banks were explored to provide international exposure to SBP BSC employees. A summary of these programs/visits is given in **Table 10.4**.

S. No.	Programs	Participants	Duration (In days)	Venue
1	Exchange of Information on Gold Vault Security System	2	3	Singapore
2	Exposure Visit of Currency Management Team	3	3	Federal Reserve Bank, New York, USA
3	Boulder Microfinance Training	1	19	Italy
4	Maintaining Financial Stability with Widening Financial Inclusion	1	2	Turkey
5	Training on High Securities Printing Conference	1	3	Indonesia
6	Human Resource Management of Central Banks	1	3	Turkey
7	Exposure visit to see prerequisites for installation of BPAS and Allied Equipment	3	19	Dubai, UAE
8	Operational Risk Management & Internal Audit	1	4	USA

9	Technical Staff Training at Temenos Training Centre Dubai	1	24	Dubai, UAE
10	Symposium on Bridging the Talent Gap & Masterclass	1	3	Malaysia
11	Seminar on Financial Inclusion at De Nederlandshe Bank	2	3	Netherlands
12	Internal Audit & Risk Management in Central Bank	1	8	France
13	Smallholders Diaries Research	1	1	Washington, USA
14	Cash Circulation Management	1	3	Czech Republic
15	Internal Audit Practices at Central Banks	1	3	Turkey
16	Bank Note Conference	1	4	Washington, USA
17	Human Resource Management at the CNB	2	4	Czech Republic
<b>Total</b>			<b>24</b>	

### 10.7 Internship Programs

TDD is fully committed to fulfilling Corporate Social Responsibility (CSR) of SBP BSC. In pursuance of this goal, internship programs were organized to provide students with an opportunity to get practical understanding of the working of SBP BSC and test their knowledge and skills in a challenging environment. For enhancing effectiveness of this program, on-line feedback from 153 interns of Summer Internship 2013 to 2015 was also sought.

Under this program, Special Summer Internship 2015 and Winter Internship 2016 were launched at SBP BSC Quetta Office, exclusively to provide more opportunities to the students of Balochistan. Summer Internship Program 2016 has also been launched for around 350 students (paid and unpaid) across 15 Field Offices. Summary of key internship programs during FY16 is given in **Table 10.5**.

S. No.	Internship Program	Duration	No. of Internees
1	Special Summer Internship at Quetta Office	6 Weeks (Aug 10 to Sep 21, 2015)	17
2	Winter Internship Program at Quetta Office	6 Weeks ( Jan 04 to Feb 12, 2016)	20
3	Summer Internship 2016 at Field Offices/HOK	6 weeks	350
<b>Total</b>			<b>387</b>

### 10.8 Policy & Development Initiatives

With a view to ensuring timely implementation of Training & Development Policy in an effective manner, following frameworks were initiated:

#### 10.8.1 On-line Training Need Assessment

On-line TNA form was introduced to consolidate the training needs of officers across SBP BSC through Training Coordinators at Field Offices and HOK Departments. Finally, these training needs were validated and prioritized by HoDs/CMs to develop quarterly training plans through NIBAF.

#### 10.8.2 Learning Activities Management System

In order to institutionalize newly-developed E-Learning portal Learning Activities Management System (LAMS), TDD played a lead role in the administration and operational management of portal in an effective manner.

During the year, three on-line examinations were conducted across 16 Field Offices and Head Office, Karachi. Around 403 officers of Grade 1 & 2 participated in these exams with the success ratio of 65%. A summary of these exams is provided in Table 10.6 below.

S. No.	Exam Date	Courses Offered	Total Attempts	Successful Attempts
1	Nov 16-19, 2015	4	57	42
2	Feb 15-22, 2016	6	189	131
3	May 16-23, 2016	6	157	90
<b>Total</b>			<b>403</b>	<b>263</b>

### 10.8.3 Learning Enhancement through Attachment Program

Exploring new/innovative tools and methodologies for capacity building and skill enhancement of human capital is one of the key objectives of TDD. In line with this objective, TDD proposed a mechanism to attach SBP BSC officers within and outside the organization. In this regard, a comprehensive framework, SOPs and MoU were devised with the coordination of departments at HOK. During FY16, 10 officers of FEOD participated in two attachment programs at Trade Centre of Standard Chartered Bank Pakistan, Karachi. The programs provided opportunity for experiential learning on trade operations from the perspective of a commercial bank. Post-attachment report submitted by the officers elucidated fruitful learning experience and skill enhancement. A summary of these attachments is provided in Table 10.7.

S. No.	Attachment Date	Days	No. of Officers
1	March 15-21, 2016	05	05
2	May 09-11, 2016	03	05
<b>Total</b>			<b>10</b>

### 10.8.4 Hiring of Consultants to design and run Management Development Centre

As provided in Training & Development Policy, management development needs are to be identified through assessment centres on need basis. Accordingly, Training Steering Committee approved the Terms of Reference (TORs)/Scope for engagement of services of external consultants to conduct Management Development Centre (MDC) for selected OG-4 & above officers of SBP BSC.

After passing through the approved due diligence procurement process and in compliance with PPRA rules, M/s Sidat Hyder Morshed Associates (Pvt.) Ltd. (SHMA) have been engaged for running the MDC at SBP BSC. The consultants will be required to design and run Management Development Centre for all the eligible officers deployed across SBP BSC at selected venues within regional proximity (Karachi, Lahore and Islamabad).

#### **Box 10.1: Highlights – Policy & Development Initiatives**

- Bank-wise On-line Training Need Assessment
- Institutionalization of E-Learning portal and exams
- Development and broadcast of Learning Enhancement through Attachment Program (LEAP) jointly with HRMD
- Hiring of Consultant for Management Development Centre.

The key deliverables of this consultancy will include leadership assessment for all targeted employees, individual development plans, readiness grids and management development framework to groom the potential officers for the leadership roles.

#### **10.8.5 Selection of Master Trainers**

For the effective delivery of function-specific trainings, TDD has established a pool of talented/knowledgeable officers across different functional areas of the Bank. Officers for this pool were identified through an extensive selection process paneled by senior officials in compliance with the SOPs for selection of Master Trainers. Thirty two Master Trainers have been identified including potential Master Trainers in Banking, Currency, Development Finance, Foreign Exchange, Enterprise Resource Planning etc.

#### **10.9 Future Outlook**

Consequent upon restructuring of SBP BSC, TDD has been merged into HRMD with effect from July 27, 2016. This will further synergize training focus and more closely align the HR structure with strategic objectives of SBP BSC. Going forward, training function will sustain operating performance as well as carry out initiatives to align policy with emerging business priorities. During FY17, broad focus areas will be:

- Design & conduct of Management Development Program for OG-3 officers in coordination with NIBAF.
- Structured training & development interventions at senior management level based on recommendations of consultants under Management Development Centre carried out for OG-4 & above officers.
- Streamline training & development functional structure at regional level in alignment with restructured business model.
- Development & launch of intermediate level courses under LAMS portal.
- Skill Development Programs for Cash Side officials at Field Offices.
- Identify and compile inventory of job-wise Core Knowledge & Skill Requirements (CKSR) in functional areas.

# Picture Gallery





## Picture Gallery



Governor State Bank of Pakistan  
presiding over the meeting of SBP BSC's Board held at Karachi.



Governor State Bank of Pakistan and Managing Director SBP Banking Services Corporation addressing the Chief Managers' Conference of SBP BSC held at Islamabad on 16<sup>th</sup> November 2015.



Group Photo of the participants of Chief Managers' Conference with the Governor SBP held at Islamabad on 16<sup>th</sup> November 2015.



Managing Director SBP BSC, Mr. Qasim Nawaz presides over 6<sup>th</sup> Meeting of Heads of Departments held at SBP BSC Karachi on August 11, 2016.



Farewell Lunch arranged in the honour of Mr. Mazharul Haq and Mr. Ali Ashraf Jafary hosted by Heads of Department (HoDs) Forum at their retirement from the Bank's service.



Photograph taken on the occasion of Governor SBP's visit to the BPAS Site of the SBP Banking Services Corporation



Governor SBP, Deputy Governor (Policy) SBP and Managing Director SBP BSC during their visit to the BPAS Site of the SBP Banking Services Corporation



Governor SBP, Deputy Governor (Policy) SBP, Executive Director (FRM), Managing Director SBP BSC and others during their visit to the BPAS Site of the SBP Banking Services Corporation



Group Photo of the (then) Chief Manager SBP BSC Karachi Office, Director ERD/ Chief Spokesman-SBP, Director Finance-SBP and Director CMD SBP BSC HOK during their visit to the BPAS Site of the SBP Banking Services Corporation



Deputy Governor (FM, IB & SI), Mr. Saeed Ahmad, inaugurates Housing Finance Awareness Session, conducted by SBP BSC Lahore at Faletti's Hotel, Lahore, on 20<sup>th</sup> January 2016.



Managing Director SBP BSC, Mr. Qasim Nawaz, visits stalls at SME Finance Mela, conducted by SBP BSC Sialkot at Heritage Club, Sialkot, on 15<sup>th</sup> December 2015.



Mr. Maqbool Ahmed Khan, the (then) Chief Manager SBP BSC Hyderabad Office presenting the Souvenir to the Chief Guest, Ms. Neelofar Hameed, Corporate Secretary/Director SCAD on the occasion of Awareness Program on Helping Women Bridge the Financial Literacy Gap held on 16<sup>th</sup> June 2016.



Group Photo of the Participants of SBP BSC Summer Internship Program 2016.



Mr. Najam Sethi, Chairman, Executive Committee PCB presenting the Winner Trophy to the Governor SBP on the occasion of Festival Match held at SBP BSC North Nazimabad, Karachi during January 2016. Mr. Zaheer Abbas, Former Test Captain and President ICC is also present.



Governor SBP and Deputy Governor (Policy) SBP and others sharing a light moment during the cricket match held at SBP BSC North Nazimabad, Karachi. Mrs. Governor can also be seen in the picture.



Mrs. Governor SBP along with other guests arrive on the occasion of cricket match held at SBP BSC North Nazimabad, Karachi



A picture of the newly inaugurated pavilion at the SBP BSC Cricket ground at North Nazimabad Office, Karachi.



Managing Director SBP BSC and Chief Manager SBP BSC Islamabad and others during the cricket match held as part of Governor Cup in Islamabad.



Players can be seen in action during a Badminton match held at SBP BSC Karachi Office during the tournament arranged by the Sports Committee.



Mr. Qasim Nawaz, Managing Director SBP BSC welcoming Mr. Ashraf Mahmood Wathra, Governor SBP during the Grand Fun Gala arranged for SBP and SBP BSC Employees and their Families held in the auspices of PAF Base Museum, Faisal Karachi.



A bird's eye view of the participants attending Grand Fun Gala arranged for SBP and SBP BSC Employees and their Families held in the auspices of PAF Base Museum, Faisal Karachi.



Participants stand in the honour of the National Anthem being played during the Grand Fun Gala arranged for SBP and SBP BSC Employees and their Families held in the auspices of PAF Base Museum, Faisal Karachi.



Mr. Rahim Shah performs during the Musical Event of Grand Fun Gala arranged for SBP and SBP BSC Employees and their Families in the auspices of PAF Base Museum, Faisal, Karachi.



Ms. Shazia Khushk performs during the Musical Event of Grand Fun Gala arranged for SBP and SBP BSC Employees and their Families in the auspices of PAF Base Museum, Faisal, Karachi.



Children enjoying their day out during the Grand Fun Gala arranged for SBP and SBP BSC Employees and their Families in the auspices of PAF Base Museum, Faisal, Karachi.



# Financial Statements of SBP BSC





# Financial Statements of SBP BSC

*Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30<sup>th</sup> June 2016, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.*

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

**EY FORD RHODES**  
Chartered Accountants  
Progressive Plaza, Beaumont  
Road  
P.O. Box 15541  
Karachi-75530

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the accompanying financial statements of SBP Banking Services Corporation (“the Corporation”) which comprise the balance sheet as at June 30, 2016, 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 a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the “financial statements”).

### ***Management’s Responsibility for the Financial Statements***

Management of the Corporation is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### ***Auditors’ Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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**A. F. Ferguson & Co.**  
Chartered Accountants  
Karachi

**Salman Hussain**  
Audit Engagement Partner

Date: October 29, 2016

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**EY Ford Rhodes**  
Chartered Accountants  
Karachi

**Omer Chughtai**  
Audit Engagement Partner

**SBP BANKING SERVICES CORPORATION**

**BALANCE SHEET**  
AS AT JUNE 30, 2016

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
<b>ASSETS</b>			
Current account with the State Bank of Pakistan		<b>47,810,651</b>	40,635,754
Investments	5	<b>525,525</b>	571,720
Employee loans	6	<b>10,853,432</b>	10,577,857
Advances, deposits and prepayments	7	<b>64,601</b>	39,107
Medical and stationery consumables	8	<b>138,878</b>	132,479
Property and equipment	9	<b>486,205</b>	284,665
<b>Total assets</b>		<u><b>59,879,292</b></u>	<u>52,241,582</u>
<b>LIABILITIES</b>			
Deposits and other liabilities	10	<b>5,332,294</b>	5,752,762
Deferred liabilities - unfunded staff retirement benefits	11	<b>53,546,998</b>	45,488,820
<b>Total liabilities</b>		<b>58,879,292</b>	51,241,582
<b>Net assets</b>		<u><b>1,000,000</b></u>	<u>1,000,000</u>
<b>REPRESENTED BY:</b>			
<b>Share capital</b>	12	<u><b>1,000,000</b></u>	<u>1,000,000</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	13		

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

\_\_\_\_\_  
**Qasim Nawaz**  
Managing Director

\_\_\_\_\_  
**Muhammad Habib Khan**  
Director Accounts

**SBP BANKING SERVICES CORPORATION**  
**PROFIT AND LOSS ACCOUNT**  
 FOR THE YEAR ENDED JUNE 30, 2016

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
Discount and interest earned	14	<b>38,008</b>	48,573
Net operating expenses	15	<b>13,955,950</b>	14,179,759
Reimbursable from the State Bank of Pakistan		<b>(7,544,251)</b>	(6,873,983)
Allocated to the State Bank of Pakistan		<b>(6,411,699)</b>	(7,305,776)
		-	-
Operating profit		<b>38,008</b>	48,573
Gain on disposal of property and equipment		<b>1,123</b>	1,263
Other income		<b>896</b>	655
Profit for the year		<b>40,027</b>	50,491

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

\_\_\_\_\_  
**Qasim Nawaz**  
 Managing Director

\_\_\_\_\_  
**Muhammad Habib Khan**  
 Director Accounts

**SBP BANKING SERVICES CORPORATION**  
**STATEMENT OF COMPREHENSIVE INCOME**  
 FOR THE YEAR ENDED JUNE 30, 2016

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
Profit for the year		<b>40,027</b>	50,491
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified subsequently to the profit and loss account:</b>			
Loss on remeasurements of defined benefit plans Allocated to the State Bank of Pakistan	15.1.5	(12,173,824)	(2,073,949)
		<b>12,173,824</b>	2,073,949
		-	-
<b>Total comprehensive income for the year</b>		<b>40,027</b>	50,491

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

\_\_\_\_\_  
**Qasim Nawaz**  
 Managing Director

\_\_\_\_\_  
**Muhammad Habib Khan**  
 Director Accounts

**SBP BANKING SERVICES CORPORATION**  
**STATEMENT OF CHANGES IN EQUITY**  
 FOR THE YEAR ENDED JUNE 30, 2016

	<b>Share capital</b>	<b>Unappropriated profit</b>	<b>Total</b>
	----- (Rupees in '000) -----		
<b>Balance as at July 1, 2014</b>	1,000,000	-	1,000,000
Total comprehensive income for the year	-	50,491	50,491
<b>Transaction with the owner</b>			
Profit transferred to the State Bank of Pakistan	-	(50,491)	(50,491)
<b>Balance as at June 30, 2015</b>	1,000,000	-	1,000,000
Total comprehensive income for the year	-	40,027	40,027
<b>Transaction with the owner</b>			
Profit transferred to the State Bank of Pakistan	-	(40,027)	(40,027)
<b>Balance as at June 30, 2016</b>	<b>1,000,000</b>	<b>-</b>	<b>1,000,000</b>

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

\_\_\_\_\_  
**Qasim Nawaz**  
 Managing Director

\_\_\_\_\_  
**Muhammad Habib Khan**  
 Director Accounts

**SBP BANKING SERVICES CORPORATION**  
**STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED JUNE 30, 2016

	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit after adjustment of non-cash items	16	30,071	33,116
Profit transferred to the State Bank of Pakistan		<b>(40,027)</b>	(50,491)
Income on Government securities received during the year		<b>28,577</b>	31,767
<b>(Increase) / decrease in assets</b>		<b>18,621</b>	14,392
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		<b>575,665</b>	290,276
Medical and stationery consumables		<b>(6,399)</b>	(7,418)
Employee loans		<b>(275,575)</b>	59
Advances, deposits and prepayments		<b>(25,494)</b>	(6,824)
<b>Increase / (decrease) in liabilities</b>			
Deposits and other liabilities		<b>31,319</b>	(120,761)
<b>Net cash generated from operating activities</b>		<b>318,137</b>	169,724
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investments - net		<b>26,451</b>	(17,926)
Capital expenditure		<b>(352,231)</b>	(154,608)
Proceeds from disposal of property and equipment		<b>7,643</b>	2,810
<b>Net cash used in investing activities</b>		<b>(318,137)</b>	(169,724)
<b>Net increase in cash and cash equivalents</b>		-	-
Cash and cash equivalents at beginning of the year		-	-
<b>Cash and cash equivalents at the end of the year</b>		<b>-</b>	-

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

\_\_\_\_\_  
**Qasim Nawaz**  
Managing Director

\_\_\_\_\_  
**Muhammad Habib Khan**  
Director Accounts

**SBP BANKING SERVICES CORPORATION**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**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 15.1 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, amendments and interpretations	Effective date (annual periods beginning on or after)
- IFRS 2: Share-based Payments - Classification and Measurement of Share-based Payments Transactions	January 1, 2018
- IFRS 9 - Financial Instruments: Classification and Measurement	January 1, 2018
- IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates - Investment Entities: Applying the Consolidation Exception - Amendment to IFRS 10, IFRS 12 and IAS 28	January 1, 2016
- IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendment to IFRS 10 and IAS 28	Date yet to be finalised
- IFRS 11 Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation - Amendments to IFRS 11	January 1, 2016
- IFRS 14 - Regulatory Deferral Accounts	January 1, 2016
- IFRS 15 - Revenue from Contracts with Customers	January 1, 2018
- IFRS 16 - Leases	January 1, 2019
- IAS 1 - Presentation of Financial Statements - Disclosure Initiative	January 1, 2016
- IAS 7 Financial Instruments: Disclosures - Disclosure Initiative	January 1, 2017
- IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized losses - Amendment to IAS 12	January 1, 2017
- IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization - Amendment to IAS 16 and IAS 38	January 1, 2016
- IAS 16 Property, Plant and Equipment and IAS 41 Agriculture - Agriculture: Bearer Plants - Amendments to IAS 16 and IAS 41	January 1, 2016
- IAS 27 - Separate Financial Statements - Equity Method in Separate Financial Statements - Amendment to IAS 27	January 1, 2016

#### Improvements to Accounting Standards Issued by the IASB

- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Servicing contracts	January 1, 2016
- IFRS 7 Financial Instruments: Disclosures - Applicability of the off-setting disclosures to condensed interim financial statements	January 1, 2016
- IAS 19 Employee Benefits - Discount rate: regional market issue	January 1, 2016

The Corporation expects that the adoption of the above standards and amendments will not have any material impact on the Corporation's financial statements in the period of initial application other than the initial application of IFRS 9, 'Financial instruments' and IFRS 15, 'Revenue from contracts with customers' as described below:

- IFRS 9, Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) sets out the principles of classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement' except for the recognition requirements. The adoption of the standard introduces expanded disclosure requirements and changes in presentation of the financial instruments which are expected to change the nature and extent of the Corporation's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The standard is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted (subject to local regulation requirements). The Corporation intends to adopt IFRS 9 on its mandatory date and the management is in the process of assessing the impacts of IFRS 9 on the financial statements of the Corporation.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The management is in the process of assessing the impact of IFRS 15 on the financial statements of the Corporation.

#### 4. SUMMARY OF 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 recognised at fair value while the transaction costs associated with these financial assets are taken directly to the profit and loss account.

##### 4.1.1.3 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows

##### a) Financial asset '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 these 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 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 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 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 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 benefit 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 fair value less cost to sell and value in use. In assessing the value in use, estimated future cash flows are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount.

**4.6 Compensated absences**

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

**4.7 Staff retirement benefits**

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

- a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme. The Corporation provided an option to employees covered under old scheme to join the funded Employer Contributory Provident Fund Scheme - ECPF (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 Employees Gratuity Fund (EGF) 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 EGF 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 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 is carried out as at June 30, 2016. 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 15.1 to the 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.

#### 4.9 Taxation

The income of the Corporation is exempt from tax under section 25 of the SBP Banking Services Corporation 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.

5. INVESTMENTS	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
<b>Held to maturity</b>			
Market Treasury Bills	<i>5.1</i>	<b>525,525</b>	524,942
Pakistan Investment Bond		<u>-</u>	<u>46,778</u>
		<u><b>525,525</b></u>	<u>571,720</u>

5.1 Market Treasury Bills carry mark-up at the rate of 6.00% to 6.26% per annum (2015: 6.79% to 9.48% per annum) and are due to mature by June 2017 (2015: March 2016).

6. EMPLOYEE LOANS	<i>Note</i>	<b>2016</b>	2015
		----- <b>(Rupees in '000)</b> -----	
Considered good		<b>10,853,432</b>	10,577,857
Considered doubtful		<b>7,610</b>	8,366
	<i>6.1</i>	<u><b>10,861,042</b></u>	<u>10,586,223</u>
Provision against doubtful loans	<i>6.2</i>	<b>(7,610)</b>	(8,366)
		<u><b>10,853,432</b></u>	<u>10,577,857</u>

6.1 This represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 13.487 million (2015: Rs. 43.178 million) that carry mark up at 10% per annum (2015: 10% per annum). Maximum maturity of loans is upto year 2056 (2015: year 2052).

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	2016 ----- <b>(Rupees in '000)</b> -----	2015
<b>6.2 Provision held against employee loans</b>			
Opening balance		<b>8,366</b>	9,021
Charge for the year		-	-
Reversals		<b>(756)</b>	(655)
Closing balance		<u><b>7,610</b></u>	<u>8,366</u>
<b>7. ADVANCES, DEPOSITS AND PREPAYMENTS</b>			
Advances, deposits and prepayments		<b>55,964</b>	30,483
Others		<b>8,637</b>	8,624
		<u><b>64,601</b></u>	<u>39,107</u>
<b>8. MEDICAL AND STATIONERY CONSUMABLES</b>			
Medical and stationery consumables	8.1	<b>139,845</b>	133,584
Provision against obsolete items		<b>(967)</b>	(1,105)
		<u><b>138,878</b></u>	<u>132,479</u>
<b>8.1</b> These include stocks of medicine, stationery, engineering items and printing press.			
<b>9. PROPERTY AND EQUIPMENT</b>	Note	<b>2016</b>	<b>2015</b>
		----- <b>(Rupees in '000)</b> -----	
Operating fixed assets	9.1	<b>440,381</b>	284,665
Capital work-in-progress		<b>45,824</b>	-
		<u><b>486,205</b></u>	<u>284,665</u>
<b>9.1 Operating fixed assets</b>			
The following is a statement of operating fixed assets:			

	2016							Annual rate of depreciation %
	Cost			Accumulated Depreciation			Net book value as at June 30, 2016	
	As at July 01, 2015	Additions / (deletions) /	As at June 30, 2016	As at July 01, 2015	Charge for the year / (deletions)	As at June 30, 2016		
	----- <b>(Rupees in '000)</b> -----							
Furniture and fixtures	137,562	10,965 (1,071)	147,456	92,757	10,283 (683)	102,357	45,099	10
Office equipment	989,159	116,443 (9,029)	1,096,573	844,132	62,097 (4,921)	901,308	195,265	20
EDP equipment	420,849	137,517 (7,779)	550,587	373,466	52,196 (5,755)	419,907	130,680	33.33
Motor vehicles	127,546	41,482 (809)	168,219	80,096	19,595 (809)	98,882	69,337	20
	<u>1,675,116</u>	<u>306,407 (18,688)</u>	<u>1,962,835</u>	<u>1,390,451</u>	<u>144,171 (12,168)</u>	<u>1,522,454</u>	<u>440,381</u>	

	2015							
	Cost			Accumulated Depreciation			Net book value as at June 30, 2015	Annual rate of depreciation %
	As at July 01, 2014	Additions / (deletions) / adjustment*	As at June 30, 2015	As at July 01, 2014	Charge for the year / (deletions) / adjustment*	As at June 30, 2015		
------(Rupees in '000)-----								
Furniture and fixtures	128,938	10,022 (1,323) (75)	137,562 *	83,716	9,669 (1,306) 678	92,757 *	44,805	10
Office equipment	933,340	60,231 (4,723) 311	989,159 *	787,112	56,357 (3,740) 4,403	844,132 *	145,027	20
EDP equipment	352,554	52,516 (94) 15,873	420,849 *	329,334	26,856 (91) 17,367	373,466 *	47,383	33.33
Motor vehicles	108,676	31,839 (13,214) 245	127,546 *	85,479	13,381 (12,670) (6,094)	80,096 *	47,450	20
	1,523,508	154,608 (19,354) 16,354	1,675,116 *	1,285,641	106,263 (17,807) 16,354	1,390,451 *	284,665	

\*Adjustments represents reclassifications within different categories of assets incorporated as a result of reconciliation exercise.

	Note	2016 ------(Rupees in '000)-----	2015
<b>10. DEPOSITS AND OTHER LIABILITIES</b>			
Provision for employees' compensated absences	15.1.9	4,923,839	5,375,626
Deposits		92,804	200,070
Others		315,651	177,066
		<b>5,332,294</b>	<b>5,752,762</b>
<b>11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS</b>			
Gratuity		2,327	1,580
Pension		37,457,883	30,780,494
Benevolent fund scheme		1,308,845	1,108,267
Post retirement medical benefits		13,911,141	12,628,628
Six months post retirement benefits		100,956	87,976
	15.1.3	<b>52,781,152</b>	<b>44,606,945</b>
Provident fund scheme		765,846	881,875
		<b>53,546,998</b>	<b>45,488,820</b>
<b>12. SHARE CAPITAL</b>			
		2016 (Number of shares)	2015
		<b>1,000</b>	1,000
<b>Authorised share capital</b>			
		Ordinary shares of Rs. 1,000,000 each	
		<b>1,000,000</b>	1,000,000
<b>Issued, subscribed and paid-up capital</b>			
		Fully paid-up ordinary shares of Rs. 1,000,000 each	
		- issued for cash	
		<b>509</b>	509,000
		- issued against consideration in kind	
		<b>491</b>	491,000
		<b>1,000</b>	1,000,000

<b>13.</b>	<b>CONTINGENCIES AND COMMITMENTS</b>			
<b>13.1</b>	<b>Contingencies</b>			
	Claims against the Corporation not acknowledged as debts	13.1.1	<u>2,962</u>	<u>2,962</u>
<b>13.1.1</b>	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.			
		<i>Note</i>	<b>2016</b>	2015
			----- <b>(Rupees in '000)</b> -----	
<b>13.2</b>	<b>Commitments</b>			
	Capital commitments	13.2.1	<u>548,624</u>	<u>47,508</u>
<b>13.2.1</b>	This represents amounts committed by the Corporation to purchase assets from successful bidders.			
<b>14.</b>	<b>DISCOUNT AND INTEREST EARNED</b>		<b>2016</b>	2015
			----- <b>(Rupees in '000)</b> -----	
	Discount income on Government securities		<b>37,410</b>	47,713
	Interest on employee loans		<u>598</u>	<u>860</u>
			<u><b>38,008</b></u>	<u>48,573</u>
<b>15.</b>	<b>NET OPERATING EXPENSES</b>	<i>Note</i>	<b>2016</b>	2015
			----- <b>(Rupees in '000)</b> -----	
	<b>Reimbursable from the State Bank of Pakistan</b>			
	Salaries, wages and other benefits		<b>6,153,682</b>	5,686,410
	Rent and taxes		<b>25,550</b>	20,952
	Insurance		<b>7,309</b>	6,197
	Electricity, gas and water		<b>304,736</b>	288,219
	Repair and maintenance		<b>189,716</b>	149,793
	Auditors' remuneration	15.2	<b>5,950</b>	5,950
	Legal and professional		<b>11,078</b>	6,266
	Travelling		<b>21,725</b>	16,918
	Daily expenses		<b>26,897</b>	29,397
	Passages / rest and recreational allowance		<b>198,127</b>	192,225
	Fuel		<b>3,002</b>	2,949
	Conveyance		<b>16,818</b>	12,913
	Postages and telephone		<b>12,898</b>	24,590
	Training		<b>146,112</b>	70,270
	Remittance of treasure		<b>92,744</b>	67,043
	Stationery		<b>9,444</b>	10,542
	Books and newspapers		<b>1,626</b>	1,504
	Advertisement		<b>32,011</b>	17,607
	Bank guards charges		<b>117,499</b>	124,618
	Uniforms		<b>28,493</b>	23,451
	Others		<b>138,834</b>	116,169
			<u>7,544,251</u>	<u>6,873,983</u>
	<b>Allocated to the State Bank of Pakistan</b>			
	Retirement benefits and employees' compensated absences	15.1 to 15.1.9	<b>6,267,528</b>	7,199,513
	Depreciation	9.1	<b>144,171</b>	106,263
			<u>6,411,699</u>	<u>7,305,776</u>
			<u><b>13,955,950</b></u>	<u>14,179,759</u>
<b>15.1</b>	<b>Staff retirement benefits</b>			
<b>15.1.1</b>	During the year the actuarial valuations of the defined benefit obligations were carried out under the Projected Unit Credit Method using following significant assumptions:			
			<b>2016</b>	2015
-	Discount rate for year end obligation	7.25% p.a.		9.75% -11.00% p.a.*
-	Salary increase rate (where applicable)	8.25% p.a.		9.75% p.a.
-	Pension indexation rate (where applicable)	4.75% p.a.		7.25% p.a.

- Medical cost increase rate	7.25% p.a.	11% p.a.
- Personnel turnover	18.1% p.a.	10% p.a.
- Normal retirement age	60 Years	60 Years

\* 11.00% has been used for post retirement medical benefits. For all other benefits rate of 9.75% is used.

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.

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

**Discount rate risks**

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

**Salary increase / inflation risks**

The risk that the actual salary increase is higher / lower than the expected where benefits are linked with final salary at the time of cessation of employment.

**Mortality risks**

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

**Withdrawal risks**

The risk of actual withdrawals experience is different from assumed.

**Medical inflation risks**

The risk of actual medical inflation experience is different from assumed.

**15.1.3 Change in present value of defined benefit obligation**

2016						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Present value of defined benefit obligation as on July 1, 2015	1,580	30,780,494	1,108,267	12,628,628	87,976	<b>44,606,945</b>
Current service cost	241	949,876	53,236	285,440	5,465	<b>1,294,258</b>
Interest cost on defined benefit obligation	154	2,580,604	91,062	1,358,758	8,216	<b>4,038,794</b>
Benefits paid	-	(8,625,521)	(348,601)	(552,570)	(7,415)	<b>(9,534,107)</b>
Liability Transferred from SBP	-	136,419	5,028	52,610	7,381	<b>201,438</b>
Remeasurements:						
Actuarial (gains)/losses from changes in demographic assumptions	-	4,592,822	186,113	776,061	(13,076)	<b>5,541,920</b>
Actuarial (gains)/losses from changes in financial assumptions	82	886,201	153,061	100,134	3,660	<b>1,143,138</b>
Experience adjustments	270	6,156,988	60,679	(737,920)	8,749	<b>5,488,766</b>
Present value of defined benefit obligation as on June 30, 2016	<b>2,327</b>	<b>37,457,883</b>	<b>1,308,845</b>	<b>13,911,141</b>	<b>100,956</b>	<b>52,781,152</b>

2015						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Present value of defined benefit obligation as on July 1, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659
Current service cost	226	955,681	49,896	245,213	4,669	1,255,685
Interest cost on defined benefit obligation	169	3,735,000	119,962	1,310,180	9,863	5,175,174
Benefits paid	-	(4,969,278)	(223,301)	(355,465)	(4,478)	(5,552,522)
Remeasurements:						
Actuarial (gains)/losses from changes in financial assumptions	-	-	-	-	-	-
Experience adjustments	(92)	382,179	144,688	1,545,930	1,244	2,073,949
Present value of defined benefit obligation as on June 30, 2015	<b>1,580</b>	<b>30,780,494</b>	<b>1,108,267</b>	<b>12,628,628</b>	<b>87,976</b>	<b>44,606,945</b>

**15.1.4 Amount recognised in the profit and loss account**

2016						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Current service cost	241	949,876	53,236	285,440	5,465	<b>1,294,258</b>
Interest cost on defined benefit obligation	154	2,580,604	91,062	1,358,758	8,216	<b>4,038,794</b>
Contribution made by employees	-	-	(8,471)	-	-	<b>(8,471)</b>
	<b>395</b>	<b>3,530,480</b>	<b>135,827</b>	<b>1,644,198</b>	<b>13,681</b>	<b>5,324,581</b>

2015						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Current service cost	226	955,681	49,896	245,213	4,669	1,255,685
Interest cost on defined benefit obligation	169	3,735,000	119,962	1,310,180	9,863	5,175,174
Contribution made by employees	-	-	(9,042)	-	-	(9,042)
	<b>395</b>	<b>4,690,681</b>	<b>160,816</b>	<b>1,555,393</b>	<b>14,532</b>	<b>6,421,817</b>

**15.1.5 Movement of present value of defined benefit obligation**

2016						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Net recognised liabilities at July 1, 2015	1,580	30,780,494	1,108,267	12,628,628	87,976	<b>44,606,945</b>
Amount recognised in the profit and loss account	395	3,530,480	135,827	1,644,198	13,681	<b>5,324,581</b>
Remeasurements	352	11,636,011	399,853	138,275	(667)	<b>12,173,824</b>
Benefits paid during the year	-	(8,625,521)	(348,601)	(552,570)	(7,415)	<b>(9,534,107)</b>
Employees contribution	-	-	8,471	-	-	<b>8,471</b>
Liability Transferred from SBP	-	136,419	5,028	52,610	7,381	<b>201,438</b>
Net recognised liabilities at June 30, 2016	<b>2,327</b>	<b>37,457,883</b>	<b>1,308,845</b>	<b>13,911,141</b>	<b>100,956</b>	<b>52,781,152</b>

2015						
Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total	
-----Rupees in '000-----						
Net recognised liabilities at July 1, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659
Amount recognised in the profit and loss account	395	4,690,681	160,816	1,555,393	14,532	6,421,817
Remeasurements	(92)	382,179	144,688	1,545,930	1,244	2,073,949
Benefits paid during the year	-	(4,969,278)	(223,301)	(355,465)	(4,478)	(5,552,522)
Employees contribution / amount transferred	-	-	9,042	-	-	9,042
Net recognised liabilities at June 30, 2015	<b>1,580</b>	<b>30,780,494</b>	<b>1,108,267</b>	<b>12,628,628</b>	<b>87,976</b>	<b>44,606,945</b>

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
-----Rupees in '000-----			
<b>Gratuity</b>			
Discount rate	1%	(160)	172
Future salary increase	1%	171	(161)
<b>Pension</b>			
Discount rate	1%	(2,536,800)	2,995,962
Future salary increase	1%	1,092,411	(1,032,914)
Future pension increase	1%	1,855,312	(1,561,164)
Expected mortality rates	1 Year	422,241	(419,446)
<b>Benevolent fund scheme</b>			
Discount rate	1%	(90,075)	75,385
<b>Post retirement medical benefits</b>			
Discount rate	1%	(2,005,025)	2,577,051
Future Post-Retirement medical cost increase	1%	2,554,017	(2,014,794)
Future salary increase	1%	55,227	(51,274)
Expected mortality rates	1 Year	(354,543)	358,336
<b>Six months post retirement benefits</b>			
Discount rate	1%	(5,106)	5,676
Future salary increase	1%	5,922	(5,429)

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

**15.1.7 Duration of defined benefit obligation**

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

**15.1.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2017**

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2017 would be as follows:

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
-----Rupees in '000-----						
Current service cost	298	807,936	2,599	244,963	6,529	1,062,325
Interest cost on defined benefit obligation	180	2,715,697	94,891	1,008,558	7,319	3,826,645
Amount chargeable to profit and loss account	478	3,523,633	97,490	1,253,521	13,848	4,888,970

**15.1.9 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. 4,923.839 million (2015: Rs. 5,375.626 million). An amount of Rs. 942.947 million (2015: Rs. 747.326 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, 2017 would be Rs. 578.367 million. The benefits paid during the year amounted to Rs. 1,464.415 million (2015: Rs. 774.374 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 182.239 million and Rs. 200.617 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. 217.301 million and Rs. 201.515 million respectively and the net liability would also be affected by the same amount.

**15.1.10 Charge for the year in respect of defined contribution plan amounted to Rs. 33.403 million (2015: Rs. 30.370 million).**

15.2 Auditors' remuneration

	2016			2015		
	EY Ford Rhodes	A.F.Ferguson & Co.	Total	EY Ford Rhodes	A.F.Ferguson & Co.	Total
----- (Rupees in '000) -----						
Audit fee	2,090	2,090	4,180	2,090	2,090	4,180
Out of pocket expenses	885	885	1,770	885	885	1,770
	<u>2,975</u>	<u>2,975</u>	<u>5,950</u>	<u>2,975</u>	<u>2,975</u>	<u>5,950</u>

2016      2015  
--- (Rupees in '000) ---

16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS

Profit for the year	40,027	50,491
Adjustments for:		
Amortisation of discount on Government securities	(8,833)	(16,112)
Gain on disposal of property and equipment	(1,123)	(1,263)
	<u>(9,956)</u>	<u>(17,375)</u>
	<u>30,071</u>	<u>33,116</u>

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 the 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 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).

Transaction and balances with related parties are as follows:

	2016	2015
--- (Rupees in '000) ---		
<b>Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity</b>		
<b>Balances at the year end - transferred to State Bank of Pakistan</b>		
Payable against training programs	51,760	34,658
<b>Transactions during the year - reimbursable from State Bank of Pakistan</b>		
Training expense charged during the year	114,845	67,561

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 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**

	2016			Grand Total
	Sovereign	Banks & Financial Institutions	Others	
----- (Rupees in '000)-----				
<b>Financial assets</b>				
Current account with the State Bank of Pakistan	-	47,810,651	-	47,810,651
Investments	525,525	-	-	525,525
Employee loans	-	-	10,853,432	10,853,432
Advances and deposits	-	-	13,049	13,049
	<u>525,525</u>	<u>47,810,651</u>	<u>10,866,481</u>	<u>59,202,657</u>
----- (Rupees in '000)-----				
	2015			Grand Total
	Sovereign	Banks & Financial Institutions	Others	
----- (Rupees in '000)-----				
<b>Financial assets</b>				
Current account with the State Bank of Pakistan	-	40,635,754	-	40,635,754
Investments	571,720	-	-	571,720
Employee loans	-	-	10,577,857	10,577,857
Advances and deposits	-	-	15,399	15,399
	<u>571,720</u>	<u>40,635,754</u>	<u>10,593,256</u>	<u>51,800,730</u>

**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:

	2016			Grand Total
	Sovereign (18.2.3.1)	Unrated		
----- (Rupees in '000)-----				
<b>Financial Assets</b>				
Current account with the State Bank of Pakistan	-	47,810,651		47,810,651
Investments	525,525	-		525,525
Employee loans	-	10,853,432		10,853,432
Advances and deposits	-	13,049		13,049
	<u>525,525</u>	<u>58,677,132</u>		<u>59,202,657</u>
----- (Rupees in '000)-----				
	2015			Grand Total
	Sovereign (18.2.3.1)	Unrated		
----- (Rupees in '000)-----				
<b>Financial Assets</b>				
Current account with the State Bank of Pakistan	-	40,635,754		40,635,754
Investments	571,720	-		571,720
Employee loans	-	10,577,857		10,577,857
Advances and deposits	-	15,399		15,399
	<u>571,720</u>	<u>51,229,010</u>		<u>51,800,730</u>

**18.2.3.1** Government securities and balances are rated as sovereign. The international rating of Pakistan is B- (as per Standards and Poor's).

**18.3 Details of financial assets impaired and provision recorded there against:**

	Gross amount		Impairment / Provision	
	2016	2015	2016	2015
	----- (Rupees in '000)-----			
Employee loans	<u>10,861,042</u>	<u>10,586,223</u>	<u>7,610</u>	<u>8,366</u>

**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.

	2016						Total
	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	
-----Rupees in '000-----							
<b>Financial assets</b>							
Current account with the State Bank of Pakistan*	-	-	-	47,810,651	-	47,810,651	<b>47,810,651</b>
Investments	516,692	-	516,692	8,833	-	8,833	<b>525,525</b>
Employee loans	1,036	12,451	13,487	1,739,077	9,100,868	10,839,945	<b>10,853,432</b>
Advances and deposits	-	-	-	4,412	8,637	13,049	<b>13,049</b>
	<u>517,728</u>	<u>12,451</u>	<u>530,179</u>	<u>49,562,973</u>	<u>9,109,505</u>	<u>58,672,478</u>	<b>59,202,657</b>
<b>Financial liabilities</b>							
Deposits and other liabilities	-	-	-	408,455	-	408,455	<b>408,455</b>
<b>On balance sheet gap</b>	<u>517,728</u>	<u>12,451</u>	<u>530,179</u>	<u>49,154,518</u>	<u>9,109,505</u>	<u>58,264,023</u>	<b>58,794,202</b>
-----Rupees in '000-----							
-----Rupees in '000-----							
<b>Financial assets</b>							
Current account with the State Bank of Pakistan*	-	-	-	40,635,754	-	40,635,754	40,635,754
Investments	571,195	-	571,195	525	-	525	571,720
Employee loans	12,543	30,635	43,178	1,729,358	8,805,321	10,534,679	10,577,857
Advances and deposits	-	-	-	6,775	8,624	15,399	15,399
	<u>583,738</u>	<u>30,635</u>	<u>614,373</u>	<u>42,372,412</u>	<u>8,813,945</u>	<u>51,186,357</u>	51,800,730
<b>Financial liabilities</b>							
Deposits and other liabilities	-	-	-	377,136	-	377,136	377,136
<b>On balance sheet gap</b>	<u>583,738</u>	<u>30,635</u>	<u>614,373</u>	<u>41,995,276</u>	<u>8,813,945</u>	<u>50,809,221</u>	51,423,594

\*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.

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.

	Carrying value		Fair value	
	2016	2015	2016	2015
	------(Rupees in '000)-----			
<b>Financial assets</b>				
Current account with the State Bank of Pakistan	47,810,651	40,635,754	47,810,651	40,635,754
Investments	525,525	571,720	525,970	575,472
Employee loans	10,853,432	10,577,857	10,853,432	10,577,857
Advances and deposits	13,049	15,399	13,049	15,399
<b>Financial Liability</b>				
Deposits and other liabilities	408,455	377,136	408,455	377,136

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2016		
	Loans and receivables	Held to maturity	Total
	------(Rupees in '000)-----		
<b>Financial assets</b>			
Current account with the State Bank of Pakistan	47,810,651	-	47,810,651
Investments	-	525,525	525,525
Employee loans	10,853,432	-	10,853,432
Advances and deposits	13,049	-	13,049
	<u>58,677,132</u>	<u>525,525</u>	<u>59,202,657</u>
	------(Rupees in '000)-----		
	------(Rupees in '000)-----		
<b>Financial assets</b>			
Current account with the State Bank of Pakistan	40,635,754	-	40,635,754
Investments	-	571,720	571,720
Employee loans	10,577,857	-	10,577,857
Advances and deposits	15,399	-	15,399
	<u>51,229,010</u>	<u>571,720</u>	<u>51,800,730</u>

	2016	
	Carried at amortised cost	Total
	------(Rupees in '000)-----	
<b>Financial liabilities</b>		
Deposits and other liabilities	408,455	<b>408,455</b>
	2015	
	Carried at amortised cost	Total
	------(Rupees in '000)-----	
<b>Financial liabilities</b>		
Deposits and other liabilities	377,136	377,136

**21. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on \_\_\_\_\_ 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.

**23. GENERAL**

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

\_\_\_\_\_  
**Qasim Nawaz**  
 Managing Director

\_\_\_\_\_  
**Muhammad Habib Khan**  
 Director Accounts