

Annual Performance Review

2016-17



SBP BANKING SERVICES CORPORATION

Annual Performance Review 2016-17



SBP Banking Services Corporation

Vision

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

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

2016-17

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 2016-17. 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 wings of SBP BSC
- Financial Statements of SBP BSC

Annual Performance Review is available at the following website:
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 provides banking services to governments and financial institutions, performs currency management functions (e.g., distribution of fresh currency notes and coins and lifting of soiled banknotes from the market), 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.*

SBP BSC's Field Offices

SBP BSC's Field Offices

State Bank of Pakistan, inaugurated by Quaid-e-Azam Muhammad Ali Jinnah on 1st 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:

A) Central Region

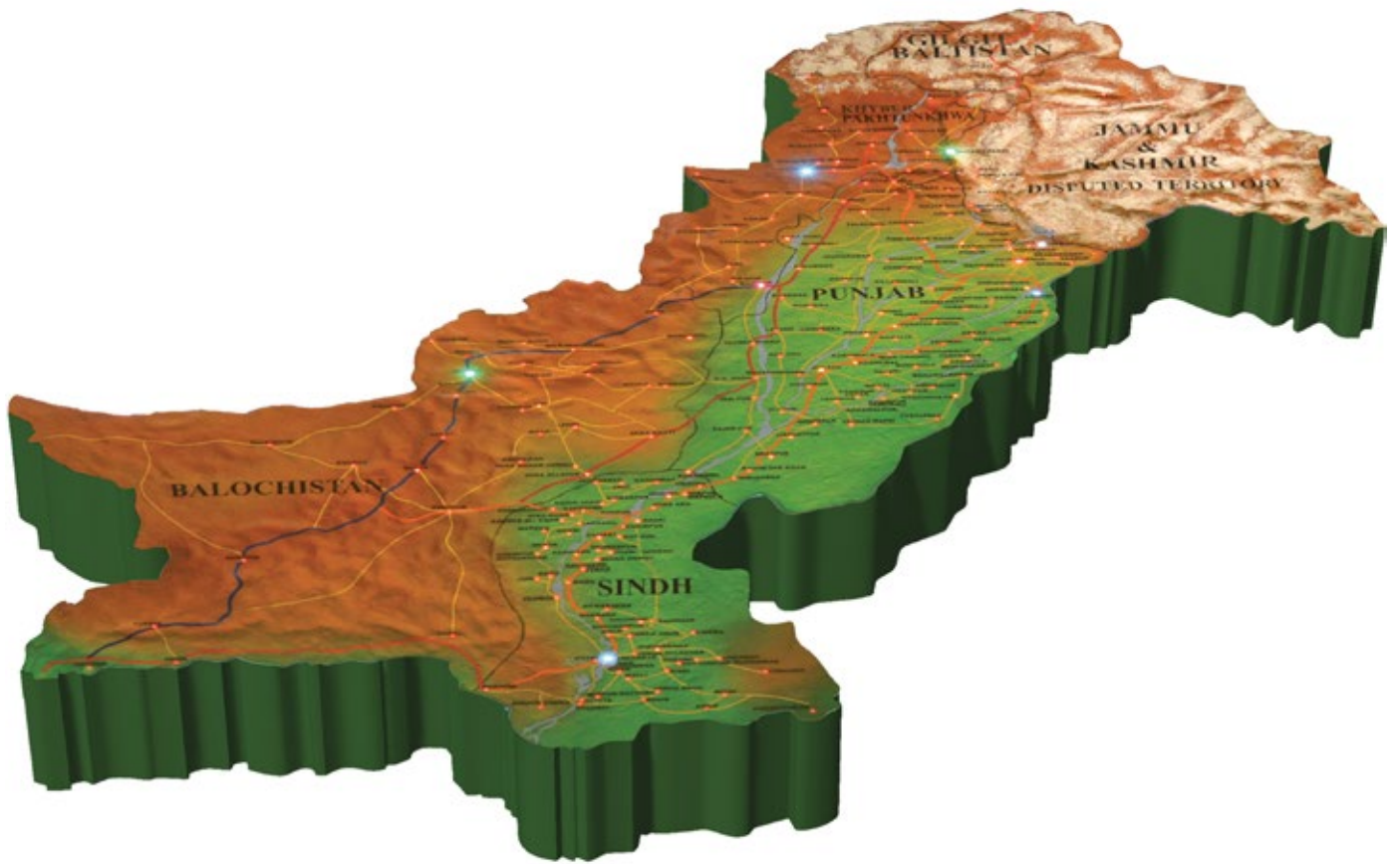
1. SBP BSC, Bahawalpur
2. SBP BSC, Faisalabad
3. SBP BSC, Gujranwala
4. SBP BSC, Lahore
5. SBP BSC, Multan
6. SBP BSC, Sialkot

B) North Region

1. SBP BSC, D. I. Khan
2. SBP BSC, Islamabad
3. SBP BSC, Muzaffarabad
4. SBP BSC, Peshawar
5. SBP BSC, Rawalpindi

C) South Region

1. SBP BSC, Hyderabad
 2. SBP BSC, Karachi
 3. SBP BSC, North Nazimabad (KHI)
 4. SBP BSC, Quetta
 5. SBP BSC, Sukkur
-
-



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The Team Appreciates ...

and expresses gratitude for the significant support/guidance, provided to it by all Group Heads,
Directors and all others including 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 would like to congratulate the management and employees of SBP Banking Services Corporation on completion of fifteen years of its existence as a subsidiary of State Bank of Pakistan. I consider SBP BSC as the face of State Bank in execution of its policies and provision of services across the country, in general, and SBP's agenda on financial inclusion, in particular. The presence of SBP BSC in all major cities of Pakistan also provides SBP an opportunity to have first-hand information and understanding of the local economies, allowing it to align its policies to ensure effective development across different regions of Pakistan and to meet the needs of its stakeholders. While SBP BSC is augmenting SBP's policy in an effective manner, however, I believe that there is still room to further explore the potential of the Corporation towards meeting the expectations of our stakeholders.



I am pleased to learn that with the rapidly evolving banking operations and increasing automation, SBP BSC has made significant progress to improve its performance, enhance efficiency of its work force and create synergy with the strategic goals under SBP Vision 2020. Here, I would like to emphasize upon the management of SBP BSC to continue with the realignment of its automation strategy and HR interventions with not only its own vision, but also with the Vision 2020 of SBP to enable both the institutions to reap maximum benefits.

The amendments recommended by the SBP BSC Board in the Corporation's Ordinance will go a long way in improving the overall efficiency of the SBP BSC. I am confident that these amendments, when enacted, will not only help improve the governance framework of SBP BSC, but will also allow the Corporation to enhance its footprints, outreach of its services and ensure swift implementation of the Currency Management Strategy, jointly developed by SBP and SBP BSC. The launch of registered National Prize Bond of Rs 40,000/- by SBP BSC, in collaboration with CDNS, is expected to go a long way towards documentation of the economy and encourage savings culture in the country. Going forward, I expect SBP BSC and SBP to make efforts for issuance of these bonds in a paper less manner.

SBP BSC, in collaboration with the concerned departments of SBP, has been making efforts to improve banking services to the Government and also make the role of NBP more efficient. However, the continued momentum towards automation of Government transactions, including collection of Government taxes through Electronic Fund Transfer, ATMs and Mobile Banking etc., needs to be put on a fast track basis. The expansion of agency functions for Government banking is another area where SBP and SBP BSC should augment their on-going efforts.

I am glad that SBP BSC has been playing its due role in administering and disseminating SBP policy initiatives regarding Islamic Banking, Agri. Finance, Microfinance, SME Finance, Housing Finance and Financial Inclusion Strategy including National Financial Literacy Program. The continuous efforts to penetrate into these areas are of paramount importance in terms of their contribution to inclusive and sustainable GDP growth, employment generation and development of the unbanked regions and sectors of the economy. The role of SBP BSC in administering the exchange regime and its automation is also praise worthy. The planned introduction of automated work flow management by Foreign Exchange Operations Department, as part of knowledge management initiative of SBP and SBP BSC, will further strengthen our efforts to create effectiveness and robustness in delivery of services to the stakeholders in foreign exchange area. I must also

acknowledge the role played by the Engineering, General Services and Internal Bank Security departments of SBP BSC towards meeting the common services requirements of SBP and NIBAF.

The conduct of Employee Engagement Survey, Workload Analysis, Management Development Centers and the development of subsequent action plans against their respective outcomes shall benefit the organization in the shape of a more productive and motivated workforce. It is encouraging to note that the results of HR interventions are being utilized to ensure efficient provision of workforce across the organization through a structured resourcing strategy using recruitments, promotions, deputations, absorptions and transfers/rotations etc.

I am glad to know that the management of SBP BSC with its forward looking approach has already drawn a long term strategy through its anticipated Strategic Plan 2016-2020. SBP BSC should continue to promote a performance and merit centric culture and improve upon the performance evaluation mechanism to motivate the employees to perform at higher levels. The employees must also increase their efforts to provide services to the customers in a cordial, friendly and efficient manner.

I would like to convey my appreciation for the hard work put in by the Managing Director and his team and hope that they would continue to strive for excellence and play their due role towards the progress of both the SBP and SBP BSC. The management of SBP BSC and its employees shall continue to have my full support to meet our common goals.

TARIQ BAJWA

Governor

State Bank of Pakistan

Message from Managing Director, SBP Banking Services Corporation

I am pleased to present the Annual Performance Review of SBP Banking Services Corporation for the financial year 2016-17 during which the Corporation made impressive strides in all spheres of its operations. The performance of SBP BSC during the year witnessed significant progress towards automation in its core business functions and various business process re-engineering initiatives. On the strategic front, the proposed amendments in SBP BSC Ordinance 2001 have been recommended by the Committee of the Cabinet for Disposal of Legislative Cases (CCLC) to the National Assembly for approval. The proposed Bill, when enacted will go a long way in improving the governance framework of SBP BSC and support it in meeting its strategic objectives. The year also witnessed major developments towards implementation of organizational restructuring of the Corporation as selection process for posting of Group Heads was completed, albeit only two have joined until now and the position of third Group Head is still vacant, which is likely to be filled in during next year. The management continued its efforts to make the office of the Regional Head more effective. Resultantly, the Regional Heads have started providing overall guidance to offices falling in their respective regions, in addition to providing their feedback on major issues relating to these offices to departments at Head Office. Implementation of restructuring arrangements of SBP BSC has started showing improvement in internal controls, enhancement in efficiency of our operations, besides allowing the Managing Director to focus more on strategic matters.



During the year, SBP BSC continued to provide banking services to the Federal, Provincial, Local Governments and their attached departments by processing around 7.04 million transactions. Moreover, the Federal Board of Revenue was facilitated in collection of taxes of Rs 3,394.8 billion, reflecting an increase of 7% over the previous year. In line with the Vision 2020 of SBP, major initiatives undertaken towards automation of banking transactions include: the implementation of e-cheques reconciliation of Financial Accounting & Budgeting System (FABS), payment of sales tax refund through consolidated authority and collection of Government taxes through Electronic Fund Transfer. Efforts were also initiated for use of alternate delivery channels for collection of government revenues. During the year, the State Bank approved one provincial bank as its agent for collection of provincial taxes.

With the roll-out of Currency Management Strategy, the outgoing financial year witnessed a paradigm shift in currency processing/handling across the banking sector as not only the central bank, but also the commercial banks embarked upon the journey of automating their cash handling practices. Further, in view of the changing business dynamics and to bring our practices at par with global standards, an immediate need was felt to undertake further measures within SBP BSC on priority basis to handle increased influx of soiled bank notes as a sequel to automation of currency management by banks. In order to fully automate front and back-end cash processing, the management carried out a comprehensive Need Assessment for the requirements of cash handling machines. Accordingly, it proposed a three-phased strategy for installation of a mix of high-end and medium sized banknote processing machines and off-line banknote destruction systems which was approved by the Board of Directors of SBP BSC. We are now initiating phase II of the project which envisages procurement of four Banknote Processing and Authentication System (BPAS) machines and four Banknote Destruction Systems (BDS) along with other machines by December 2018.

Another major milestone was issuance of fresh notes through 8877-SMS service for the third consecutive year. During Eid-ul-Fitr 2017, the scope of SMS-based service for issuance of fresh

notes was broadened to 1,002 branches of banks in 120 cities across the country. The service received an overwhelming response from the general public which can be gauged from the fact that around 90% of branches in big cities like Karachi, Lahore, Faisalabad and Multan had reached their maximum limit in first four days of the launch of the service. Later, the limits for majority of branches were enhanced. Through this service, Rs 25 billion worth of small denomination notes were issued to around 1.5 million people. The cooperation extended by Pakistan Banks' Association in implementation of this service remained encouraging and forward looking. Another worthwhile achievement is the migration of Currency Globus system to T-24 platform, for which our teams at Field Offices and Head Office worked tirelessly with the teams of the Information Systems Department of SBP. The T-24 module for banking is also likely to go live in due course.

As an agent to the Government, the SBP BSC has been actively engaged in managing operations of various public debt schemes of the Central Directorate of National Savings (CDNS), particularly National Prize Bond (Bearer) for sale, encashment, conducting draws and prize money payments etc. During the year 2017, a new registered prize bond scheme called "Premium Prize Bond (Registered)" worth Rs 40,000/- was launched by CDNS, through offices of SBP BSC. The SBP BSC team provided active support and guidance to CDNS in the development and implementation of this scheme. Likewise, efforts are also underway, in coordination with the management of CDNS, for launch of Rs 100,000/- denomination Registered Prize Bond. Further, opportunities are also being explored to enhance the outreach of this scheme by utilizing branch network of commercial banks, in addition to consideration for SCRIPLESS structure.

Foreign Exchange Operations Department, which was traditionally reliant on manual work management, has embarked upon a transformation process, shifting its focus from manual transaction processing to an automated workflow management. In this regard, it has taken various initiatives for establishing efficient oversight on trade/foreign exchange transactions on off-site basis. After the issuance of electronic 'E' and 'I' forms, the Department has been endeavoring towards the automation of verification of performance of exporters in an efficacious manner that will result in verification of more than half a million entries in an automated manner, thus achieving significant reduction in turnaround time. An automated Airport Booth System has been developed for capturing the data of Export and Import of foreign currency by Exchange Companies, against permission granted by Exchange Policy Department of SBP, through SBP-Customs booths in order to ensure timely repatriation of foreign exchange against the export of different currencies.

Going forward, there are plans to pursue multi-pronged strategy to strengthen FX framework through automation of work flows, transformation from management of FX transactions to off-site monitoring, development of a smart reporting system and a database accessible to Authorized Dealers for evaluating performance of exporters. FEOD approved 17,000 cases of commercial, private and trade related remittances during the FY17. Automation of work flows is a step forward towards implementing an integral component of Strategic Goal (SG6) and corresponding Tactical Objective (TO6) of SBP Vision 2020. The program envisages improving work environment in SBP and SBP BSC by capturing, storing and sharing knowledge of the Bank, facilitating easy access to documents and reducing document search time by designing, building and managing centralized repository of information and knowledge. This project has been made part of the Knowledge Management framework of the Corporation.

A system of monitoring of trade based transactions has also been put in place. In addition to centralized monitoring, a unit at Lahore has been established to coordinate with Authorized Dealers of North and Central regions. As a result of monitoring, FEOD has unearthed duplicate import payment of USD 40.5 million, out of which USD 21 million, got repatriated. The FEOD also

referred instances of export on fake E-forms of USD 130 million to FIA. The enhanced monitoring of FX trade transaction as reported in International Transactions Reporting System and Export Overdue Reporting System helped FEOD in identifying thousands of incidents of non reporting of export overdue, which were effectively followed by both FEOD and FEAD. These efforts helped in repatriation of around USD 317.67 million from overdue export proceeds by FEOD without resorting to litigation. The effective and persistent foreign exchange adjudication process has also led to realization of stuck up export proceeds of around USD 78.7 million in FY17, which was 36% higher than the stuck up export proceeds realized by FEAD during last year.

FEOD efficiently managed around 12 different subsidy schemes of the Federal Government for exporters and disbursed Rs 30 billion during FY17. FEOD team worked very hard to ensure that exporters receive their claims on time and managed to disburse the budget received just a few working days before the close of the financial year.

Besides improving the internal processes, attention has also been given to capacity building not only of the Department, but also of Authorized Dealers. FEOD launched a 12-day Foreign Trade Certification Program with the help of National Institute of Banking & Finance (NIBAF), besides conducting various short programs during FY17.

During the year, SBP BSC Field Offices conducted 26 meetings of the focus group on agricultural finance, which contributed effectively in helping the commercial banks to disburse an amount of Rs 704.5 billion to the agricultural sector as against the set target of Rs 700 billion. The Field Offices also held a number of such meetings in the areas of SME Finance, Microfinance, Islamic Banking and Housing Finance. Likewise, Rs 481 billion and Rs 92 billion were disbursed by Field Offices to commercial banks as refinance under the Export Finance Scheme and Islamic Export Refinance Scheme respectively. The compliance to SBP's instructions issued under these schemes was also ensured through on-site verification of more than 13,000 cases during the year. Moreover, a number of initiatives, including the conduct of various training sessions at NIBAF, Islamabad and dissemination of Development Finance Group of SBP policy initiatives regarding Islamic Banking, Agricultural Finance, Microfinance, SME Finance and Housing Finance helped us to expand outreach of financial services at grassroots level. Further, there was significant progress regarding National Financial Literacy Program (NFLP) during the year under review, with the successful conduct of a week-long Training of Trainers (TOT) for SBP BSC officers where 23 Master Trainers were identified. These Master Trainers conducted 14 mock sessions for over 200 community members and further facilitated in imparting training to 87 Field Trainers from banks.

In order to meet the HR Gap created due to early retirements, 276 officers have been inducted into SBP BSC during the year under its management trainee schemes in OG-1 and OG-2 grades, besides induction of specialized professionals in the Forex Trade, Engineering, Procurement and Security areas. Further, various Organization Development initiatives were successfully undertaken that broadly included the review of our HR policies, merger of Cash and General Sides, conduct of Workload Analysis through independent external consultants with the objective to systematically identify the HR needs, strengthening of PMS, including automation and successful implementation of Mid-year Performance Review, conduct of Management Development Centers through external consultants to identify Management Development needs in a structured manner etc. The management has consistently focused on capacity building of HR through participation of suitable employees in training programs at NIBAF, renowned domestic training institutions like IBA, LUMS, PSTD, IBP etc., as well as foreign training institutes/conferences and seminars. As a result of these initiatives, a total of 2,277 participants attended various training programs during the year, including pre-induction trainings.

I must acknowledge the continuous improvement initiatives undertaken in Support Services cluster including Engineering, General Services and Internal Bank Security departments which are providing common services to SBP, SBP BSC and NIBAF. The procurement management framework has been streamlined to meet the desired procurement needs and timelines across multiple areas like IT, consultancy, general services and goods in compliance with PPRA rules. Further, Bank's security framework has been strengthened through multiple security arrangements that included the establishment of fire and safety mechanism. Initiatives are also being undertaken to upgrade the security systems through IP-based surveillance system and e-fencing of SBP buildings. Moreover, several re-construction, renovation of existing buildings as well as work on new buildings are being carried out to improve the housing of SBP BSC offices.

A number of activities are being performed by SBP BSC in pursuance of Corporate Social Responsibility (CSR) which include: (i) Summer/Winter Internship Programs offered to the students of Pakistani universities/institutes, which provide students an insight about our core functions and working (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 both the State Bank and SBP BSC. The notable activities in the arena of sports & recreational activities included the holding of SBP Governor's Cup Interbank Regional Cricket at seven offices, SBP Governor's Cup Interbank Super Series Cricket Tournament 2016-17 at Islamabad and also some other tournaments, display of outstanding performance by SBP cricket team at various national level tournaments and holding of a grand Fun Gala and musical event during FY17.

I feel happy to note that SBP BSC has been successful in making significant progress, not only in line with its own Mission and Vision, but it also fully supported the State Bank by performing the role assigned to it, in an efficient and effective manner. I would like to acknowledge the hard work and commitment of the management team, officers and the staff of SBP BSC towards achievement of our strategic objectives. Finally, I would like to place on record my deepest appreciation to the Governor and the members of SBP BSC Board for their continued support and guidance provided to the Corporation without which it would have been difficult to achieve various milestones during the outgoing year.

QASIM NAWAZ

Managing Director

SBP Banking Services Corporation

Governance Structure

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 finance schemes and performing functions like sale/purchase of Prize Bond 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. During the year, one vacant position on the Board emerged consequent to resignation of Mr. Zafar Masud in August 2016.

The Board of Directors of SBP BSC is comprised of:

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

The members of SBP Board of Directors 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.

During the year, Mr. Ashraf Mahmood Wathra completed his 3 year term as Governor on April 28, 2017 and Mr. Riaz Riazuddin, Deputy Governor (Policy) was appointed as Acting Governor till appointment of the Governor. Subsequently, Mr. Tariq Bajwa, the present Governor, was appointed on July 7, 2017 for a 3 year term. Mr. Riaz Riazuddin and Mr. Jameel Ahmad are serving as Deputy Governors since March 30, 2015 and April 11, 2017 respectively. Mr. Jameel Ahmad was serving as Executive Director (Banking Supervision Group) before assuming responsibilities as DG. Earlier, Mr. Saeed Ahmad remained Deputy Governor till March 2017. He was reappointed after completing his first term as DG on January 21, 2017, but he resigned afterwards consequent to his appointment as president National Bank of Pakistan.

The Board of SBP BSC met five times during FY17 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



Mr. Tariq Bajwa, Governor/Chairman Board of Directors

Mr. Tariq Bajwa, who took over as Governor, State Bank of Pakistan on July 7, 2017 for a three-year term, is a career civil servant. Mr. Bajwa joined the Civil Service of Pakistan in 1981 and held various Secretariat, Field and Staff assignments including, among others, General Manager PIA, Head of Pakistan's Trade Mission in Los Angeles, Finance Advisor to the United Nations Development Program and Secretary Finance, Government of Punjab. Mr. Bajwa was appointed Chairman, Federal Board of Revenue (FBR) in July 2013 where he worked till October, 2015. Later, he took charge as Secretary, Economic Affairs Division and then as Federal Finance Secretary from where he retired on June 18, 2017. As Secretary Finance, he served as Director on SBP Board during February-June 2017. Mr. Bajwa's appointment as SBP Governor was notified by Finance Division on July 7, 2017. He holds a Master's degree in Public Administration from Kennedy School of Government, Harvard University, where he was awarded the prestigious Littauer Fellowship, and an LLB from the University of the Punjab, Lahore.



Mr. Shahid Mahmood (Member, SBP Board since June 19, 2017)

Secretary, Finance Division, Government of Pakistan and ex-officio member of the Board of Directors of SBP, Mr. Shahid Mahmood has served as Additional Secretary (External Finance)/Special Assistant to the Finance Minister, Special Secretary, Finance Division, and Principal Secretary to the Chief Minister, Punjab. He holds a Master's degree in English Literature from the Government College, Lahore and a Bachelor's degree in Economics & Statistics from the same institution.



Dr. Tariq Hassan (Member, SBP Board since March 22, 2016)

Attorney and Advocate, Supreme Court of Pakistan, Dr. Hassan is a former Chairman, Securities and Exchange Commission of Pakistan. He had previously served as Advisor to the Finance Minister of Pakistan. He has also been associated as legal counsel with the World Bank in Washington, DC, International Fund for Agriculture Development in Rome and Shearman & Sterling in New York. In addition to practicing law, he has been teaching law as an Adjunct Professor at George Washington University and Fletcher School of Law & Diplomacy, USA and Departments of Law at LUMS and International Islamic University, Pakistan. 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 SECP Board as its member. He was also the President of the Institute of Chartered Accountants of Pakistan, besides holding other important responsibilities. He is a Fellow Member of the Institute of Chartered Accountants of Pakistan (FCA).



Mr. Zubyr Soomro (Member, SBP Board since March 22, 2016)

Educated at the London School of Economics and School of Oriental & African Studies, Mr. Zubyr Soomro is a career international banker with over 40 years experience at Citibank with assignments in the Middle East, Turkey, UK and Pakistan. He also served the United Bank as its Chairman and President. Later, he headed Citibank's Pakistan franchise. He has been Chairman / President of Pakistan Banks' Association, American Business Council and OICCI. Currently, he is the Chairman of Pakistan Microfinance Investment Company and on the Boards of Acumen, Grameen Foundation USA, LRBT and Aitchison College and a member of Finance Minister's Economic Advisory Council.



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 36 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 in 2008.



Mr. Ardeshir Khursheed Marker (Member, SBP Board since March 22, 2016)

A businessman by profession, Mr. Ardeshir Khursheed Marker is Partner and Director 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 Master's degree in Economics from the 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, 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 Master's degree in Development Economics from Williams College, USA.



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 has remained 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 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 29 years of association with the Bank, he served in various 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 5th September, 2009 to 17th September, 2012. He is also a member of Board of Directors of Pakistan Security Printing Corporation.

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. Mohammad Riaz	Member
3. 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 five meetings and is comprised of the following members:

1. Hafiz Muhammad Yousaf	Chairman
2. Khawaja Iqbal Hassan	Member
3. Mr. Ardeshir Khursheed Marker	Member
4. Mr. Sarmad Amin	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 Group Heads, Directors, Heads of Department, Regional Heads 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 15 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.

Network and Financial Management



Banking Services to Governments and Banks



1 Banking Services to Governments and Banks

As a statutory obligation on behalf of State Bank of Pakistan (SBP), 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 authorized branches of National Bank of Pakistan (NBP). Moreover, Bank of Punjab (BoP) is also providing collection service to the Government of Punjab. SBP BSC's Accounts Department prepares Annual Accounts of the Corporation, besides managing and monitoring its budget making process.

1.1 Overview

SBP BSC provides banking services to the Federal, Provincial and District Governments through its Field Offices, National Bank of Pakistan and Bank of Punjab. Further, it provides banking services to banks falling within the domain of each Field Office.

(Reference: Section 21 of SBP Act 1956, read with Section 15 (3) e of SBP BSC Ordinance 2001)

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

- a) Collection of revenues and payments on behalf of departments of Federal and Provincial Governments.
- b) Reporting of transactions to Federal Board of Revenue (FBR) on daily basis vide Collection Automation Program (CAP).
- c) Facilitating Government departments for settlement of payments and receipts through agents of SBP i.e. National Bank of Pakistan and Bank of Punjab.
- d) Operational work relating to public debt transactions.
- e) Maintenance of current accounts of Commercial Banks and Non-bank Financial Institutions (NBFIs).
- f) Remittance facilities to Governments and financial institutions regarding transfer of funds.

1.2 Management of Governments' Accounts

As part of its core functions, SBP BSC maintains the accounts of Federal, Provincial & Local Governments and is responsible for consolidation of receipts and payments made on their behalf. Data pertaining to Governments' transactions is reported to the concerned stakeholders i.e. Finance Department-SBP, Accountant General of Provinces, Accountant General Pakistan Revenue (AGPR) and Pakistan Railways etc.

Being an operational arm of SBP and facilitator of payment and settlement system, the Accounts Department provides operational support to Payment Systems Department (PSD) - SBP. As part of SBP's Vision 2020, the Accounts Department and SBP's Finance and Payment Systems Departments are jointly working to introduce:

- a) Collection of Government taxes through Alternative Delivery Channels (ADCs) like Automated Teller Machines (ATMs), Internet and Mobile Banking etc.
- b) Integration and interoperability of various payment systems for establishing industry standards to ensure ongoing security.

In this regard, Sindh Revenue Board (SRB) has already started collection of its taxes through ADCs. FBR and Customs authorities collection through ADCs will be initiated shortly.

Accounts Department is working to strengthen the internal controls and bring about efficiency by obtaining Government payment schedules through Data Acquisition Portal (DAP), consolidation of cheques, standardization of Government instruments and enhancement of their security features.

Further, it is also coordinating with Finance Department and AGPR with a view to implementing a single solution for issuance of cheques by different Government departments and real time reporting & reconciliation of payment made against these cheques by different Field Offices. This E-cheque reconciliation system has been introduced across SBP BSC on test basis, which will not only improve the operational efficiency of SBP BSC, but also enable the Government to have the desired information on real-time basis.

During FY17, around 7.04 million transactions of Government payments/receipts were processed by SBP BSC Field Offices as compared to 8.01 million in FY16. (Table 1.1).

Transactions	2016-17	2015-16	2014-15
Receipts	2.74	3.74	2.97
Payments	4.30	4.27	4.09
Total	7.04	8.01	7.06

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 being performed by SBP BSC, especially after the 18th Constitutional Amendment, as the data is to be prepared/reported as per the source of deduction of Zakat by the authorized institutions. During the year under review, around Rs 8.14 billion Zakat was collected and deposited with SBP BSC by various institutions as compared to Rs 7.48 billion last year, showing an increase of 9%.

1.4 Reporting to Federal Board of Revenue

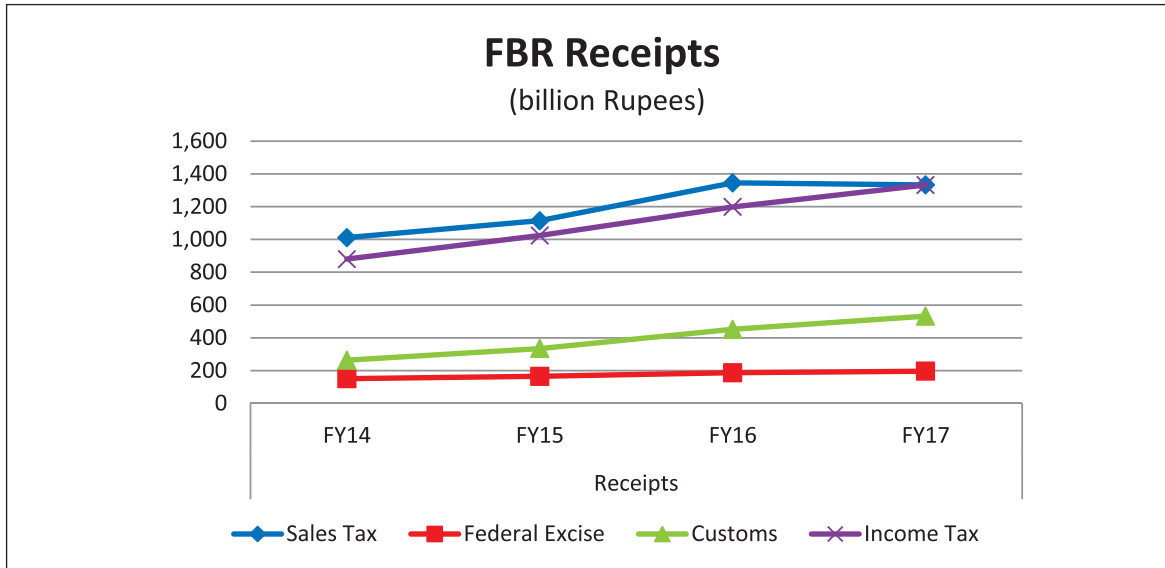
One of the vital tasks performed by SBP BSC is collection, consolidation and reporting of data pertaining to FBR taxes. In order to streamline the reporting of tax collected by the Field Offices as well as to facilitate the tax payers in obtaining evidence of tax deposit promptly, the SBP BSC has been using Collection Automation Project II (CAP-II) – a system of FBR – 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 Federal Government during FY17 was around Rs 3,395 billion as compared to Rs 3,183 billion in FY16, depicting an increase of about 7%. Details are as under:

Head of Account	Receipts			
	FY14	FY15	FY16	FY17
Sales Tax	1,011	1,114	1,345	1,333
Federal Excise	151	165	187	197
Customs	263	335	452	532
Income Tax	880	1,024	1,199	1,332
Total	2,305	2,638	3,183	3,395

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

Figure 1



1.5 Banker to Banks

SBP BSC operates current accounts of banks to facilitate both cash reserve computations by SBP and their (banks) day-to-day operational requirements. 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 respective bank. In order to make the POA a sound legal document, a standardized Power of Attorney has been developed, which is under continuous review for improvement. By and large, this initiative has been appreciated widely by banks since various ambiguities pertaining to POA have now been resolved to a considerable extent.

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 FY17, around 64.5 million instruments were processed through NIFT as against 66.9 million in FY16.

With a view to further integrating the financial and banking infrastructure, Clearing House membership has also been allowed to Central Directorate of National Savings (CDNS), which is a milestone achievement. Earlier, only the banks were allowed membership of the Clearing House.

1.7 GL/Reconciliation

Accounts Department, which is responsible for accounting and financial functions, issued the International Financial Reporting Standards (IFRS) compliant financial statements for FY16 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 and Internal Monitoring etc.

1.8 Major Achievements:

Major achievements of Accounts Department during the year under review are mentioned below:

Box 1.2: Major Achievements

1. Implementation of E-Cheque Reconciliation System of Financial Accounting and Budgeting System (FABS) throughout SBP BSC. The system is expected to provide multiple benefits to Government & SBP BSC such as efficiency in business process, better time - saving, enhanced internal control and rationalization of workload.
2. Submission of Schedules in soft form through Data Acquisition Portal (DAP) by CDNS resulting in business process efficiency, prompt clearance of cheques, enhanced internal control and workload rationalization.
3. Consolidation of Controller Naval Accounts cheques whereby thousand of cheques would be reduced to less than hundred. Also developed Standard Operating Procedures (SOPs) for this consolidation.
4. To improve the cheque security features and standardizing Government instructions, Finance Division, Government of Pakistan (GoP) and Finance Departments of all provinces were approached.
5. Got approval for opening sub office/booth of SBP BSC at Custom House, Karachi.
6. Got approval for collection of custom duty at SBP BSC, Karachi Office.
7. Started collection of sales tax at SBP BSC Field Offices which resulted in saving of commission amounting to Rs 30 million for the Government.
8. Re-engineered the process of Online Transfer and Inter Account transfer for NBP to ensure early settlement of Government receipts.
9. Strengthened monitoring system to ensure timely submission of Government receipts by NBP and imposed significant penalty on delayed settlements.
10. Continuous liaison & monitoring of NIFT which resulted in considerable reduction in clearing time.
11. To get the schedules of military instruments through DAP, a meeting with Military Accountant General (MAG) and Controller Military Accounts-Officers' Pension (CMA-OP) was conducted and is likely to reduce significant workload and bring about efficiency.
12. Provided facilitation to Pakistan Railways through ensuring payment of monthly salary to railway employees and their pensioners across Pakistan in one day before Eid ul Fitr 2016. The entire payment was made through managing and ensuring all internal and other controls by working after office hours.

1.9 Future Outlook:

The future outlook of SBP BSC in Banking, Payment Systems, Accounting and Finance is primarily derived from SBP's Strategic Plan for 2016-20. Some of the initiatives already undertaken and aimed to be undertaken by the Accounts Department would be in respect of following projects:

1. Opening of SBP BSC Booth at Custom House, Karachi.
2. Implementation of E-cheque reconciliation system for Government banking in coordination with Financial Accounting and Budgeting System Directorate of Controller General of Accounts.
3. Using Data Acquisition Portal to obtain confidential information such as schedules etc.
4. Standardization of Government cheques with adequate security features.
5. Appointing new agent(s) of SBP for conducting Government business.

Currency Management



2 Currency Management

Currency Management Department (CMD) ensures uninterrupted supply of good quality banknotes and coins across the country by managing their stocks efficiently and effectively. The CMD performs this task with the help of four Issue Offices. Taking stock of latest developments and international best practices regarding currency processing, CMD has been striving to upgrade currency operations in Pakistan through introduction of comprehensive, state-of-the-art solutions, commensurate with our environment and challenges. The Department also manages the sale, encashment and prize draws of National Prize Bond on behalf of the Central Directorate of National Savings (CDNS).

2.1 Overview

Currency Management Department maintains close liaison with SBP's Finance Department, and Central Directorate of National Savings for seeking policy directions and dealing with matters relating to currency management and executing National Savings Schemes. CMD's utmost objective is to ensure: i) smooth and equitable issuance of fresh/re-issuable bank notes through 16 Field Offices, 224 NBP chests/sub-chests and commercial banks; ii) sale, encashment of Prize Bonds and Savings Certificates and conduct of Prize Bond draws as per laid down procedures; iii) implementation of SBP's Clean Note Policy through a comprehensive and fair system of onsite monitoring mechanism; and iv) alignment of the existing currency management framework with the prevailing best international practices.

CMD maintains close coordination with concerned SBP departments to facilitate the Law Enforcement Agencies (LEAs) in combating the counterfeiting of currency notes and National Prize Bond etc. This objective is being achieved through a multi-pronged strategy that includes procurement of sophisticated authentication and sorting solutions, working with Finance Department to introduce even more advanced security features in currency notes and conducting awareness sessions across the country for a wide range of audiences. Further, CMD is also restarting spadework for the establishment of a Currency Forensic Laboratory to enhance its internal capabilities for evaluating the type and ratio of counterfeiting.

CMD believes that the security features of bank notes are beneficial as long as the end users are fully cognizant of their significance. To ensure that all stakeholders are aware of the sophisticated security features updated in bank notes and Prize Bonds from time to time, the Department, with the help of 16 Field Offices, conducts awareness programs regarding their security features across Pakistan. This information is also disseminated through posters and brochures which are provided free of charge to commercial banks and other stakeholders for awareness of general public.

Box 2.1: Achievements during FY17

- Successful installation of Banknote Processing and Authentication System (BPAS) and allied destruction solutions;
- Successful installation of desktop note sorters at Field Offices;
- Approval and Initiation of 2nd Phase of SBP BSC Automation Strategy;
- Issuance of instructions pertaining to "Banknote Packing" and "Interbank Exchange of Cash", in collaboration with Finance Department, SBP;
- Successful launch and management of "Interbank Exchange of Cash" through 16 Field Offices;
- Introduction and successful management of "Premium Prize Bond (Registered) Scheme";
- Introduction and successful implementation of 8877 SMS tool for distribution of fresh currency notes on Eid-ul-Fitr and Eid-ul-Azha;
- Active support during up-gradation of Currency Globus to T-24 Platform.

CMD provides input to Finance Department for demand forecast pertaining to annual indent for printing of bank notes and minting of additional coins. Further, this year CMD remained actively involved in both policy and operational aspects of the First Phase of Currency Management Strategy which was issued in 2015. CMD has worked in close collaboration with the Finance Department for developing policy frameworks for “Bank note Packing Instructions” and successfully launched and managed the initial phase of “Interbank Exchange of Cash” through SBP BSC Field Offices.

SBP and SBP BSC not only believe in use of efficient IT solutions in all business aspects, but also actively pursue installation/updation of such interventions regularly. In line with this vision, FY17 witnessed updation and rollout of T-24 – an updated, faster and more efficient version of Currency Globus. CMD was actively involved throughout the process by evaluating the new environment and providing input/feedback for new developments. Further, CMD also took active part in the User Acceptance Testing (UAT) before rollout and on the rollout date i.e. May 12, 2017, CMD remained in close coordination with Systems and Procedures Division (SPD) of Strategic and Corporate Affairs Department (SCAD) and all Field Offices for timely communication and resolution of any issues pertaining to T-24 environment.

2.2 Circulation of Banknotes

With the advent of new technologies and proliferation of the internet age, Pakistan is experiencing a significant increase in usage of online banking channels and reliance on plastic money. However, as Notes-in-Circulation (NIC) have been steadily increasing, it is quite clear that Pakistan is still very much a cash centric economy. The NIC as a percentage of Gross Domestic Product (GDP) stood at 13.2 percent in FY17, which is slightly higher than 11.8 percent recorded in FY16. The trend in the movement of NIC during the last few years is presented in **Table 2.1**.

Years	Nominal GDP (MP) (Billion Rupees) ¹	NIC ² (Billion Rupees)	NIC as % of GDP	Percentage (%) Change in NIC Over Previous Year
FY11	18,276.4	1,600.0	8.8	16.2
FY12	20,046.5	1,777.1	8.9	11.1
FY13	22,385.7	2,042.5	9.1	14.9
FY14	25,168.8	2,309.2	9.2	13.1
FY15	27,433.0	2,726.5	9.9	18.1
FY16	29,102.6	3,424.5	11.8	25.6
FY 17	31,862.1	4,199.0	13.2	22.6

2.3 Issuance of Fresh Notes

With a view to upholding the objectives of SBP’s Clean Note Policy, CMD has been consistently striving to improve the quality of bank notes in circulation. This is ensured through prompt and uninterrupted supply of fresh bank notes to all stakeholders throughout the year, in general, and on the eve of religious occasions, in particular. This supply is managed through the active support of 16 SBP BSC Field Offices and 224 NBP Chest Branches across the country.

¹ Pakistan Bureau of Statistics—GDP of Pakistan (http://www.pbs.gov.pk/sites/default/files//tables/table_04.pdf)

² Statement of Affairs—June 23, 2016 (<http://www.sbp.org.pk/publications/statements/2017/23-Jun-2017-issue.pdf>)

2.3.1 Distribution of Fresh Notes to Public on Religious Occasions

SBP BSC puts in place special measures every year to meet the enhanced demand of fresh cash on the eve of Eid festivals. SBP BSC, in collaboration with its Field Offices and commercial banks, manages issuance of lower denomination fresh bank notes to the general public on religious occasions. Since FY13, SBP BSC has issued fresh bank notes amounting to Rs 981 billion to different stakeholders.

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	2,610	12.0	911,345	59.0
FY 17 ³	3,139	20.3	981,459	7.7

SBP BSC, in collaboration with Pakistan Banks' Association (PBA), introduced a new SMS-based service in 2015 for issuance of smaller denomination fresh notes (i.e. Rs 10/-, Rs 50/- and Rs 100/-) to the general public on Eid Festivals through designated branches of commercial banks. Running successfully for the last two years, this service was expanded to 1002 branches of commercial banks in 120 cities for Eid-ul-Fitr 2017. The service has attracted overwhelmingly positive response from the general public, with 1.5 million people availing this facility for a total value of Rs 25 billion of small denomination notes, from June 12-June 23, 2017. Due to SBP BSC's timely communication to general public, pertaining to the service launch and detailed process of obtaining fresh cash through SMS tool, the response was quick and active to the extent that 40% of the total booking was redeemed by June 16, 2017. To ensure prompt and responsive customer service, CMD also set up Helpdesk in order to facilitate the general public.

2.4 Automation of Currency Management Operations

In view of sensitivity and complexity of currency management process, CMD has been continuously striving to bring currency operations in Pakistan at par with international best practices by paying special emphasis on automation at all steps. This objective is being achieved through various measures, most significant being successful Operational Acceptance Testing and regular usage of high-end one-stop Banknote Processing and Authentication System (BPAS) and Banknote Destruction System (BDS) at SBP BSC, Karachi Office. Further, CMD is overseeing the installation of Desktop and Countertop Note Sorting Machines at all Field Offices. Moreover, the Department has also been actively collaborating with Finance Department for short listing of acceptable banknote sorting and authentication machines for procurement by commercial banks.

2.5 Monitoring of Currency Operations

As part of overall Currency Management, CMD oversees onsite examinations of commercial banks' branches through 16 Field Offices in order to ensure that instructions relating to currency and Prize Bonds, issued by SBP and SBP BSC from time to time, are complied with. During the year under review, Field Offices examined 2,500 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 as an agent on behalf of the Central Bank through its 224 designated Chest branches linked with the Field Offices of the Corporation. The monitoring of compliance to operational requirements by NBP Chest branches has been assigned to SBP BSC by SBP.

2.6 National Prize Bond

National Prize Bond (NPBs) are bearer-type securities available in eight denominations as elaborated in **Table 2.3**. 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 CDNS.

³ Globus Figures as on June 30, 2017

As on 30th June, 2017, the overall value of NPBs held by the general public increased by Rs 97.78 billion (15%) to reach Rs 743.3 billion.

Denom.	FY16				FY17				
	Sale	Encashment	Prize Money Payment	Value of NPB held by Public	Sale	Encashment	Prize Money Payment	Value of NPB held by Public	Net Outstanding Amount
100	1,130	355	583	774	1,017	290	566	727	8,404
200	3,675	1,959	1,866	1,716	3,065	1,308	1,918	1,757	25,828
750	14,669	4,512	5,926	10,157	12,740	3,457	6,709	9,283	80,290
1,500	18,140	6,290	6,857	11,850	7,136	3,768	7,492	3,368	85,883
7,500	18,157	6,872	5,835	11,285	7,573	4,016	6,214	3,557	75,291
15,000	34,125	12,968	9,087	21,158	32,015	10,878	10,634	21,136	133,402
25,000	35,667	8,899	6,785	26,769	35,589	10,678	8,636	24,911	118,233
40,000	54,662	14,468	13,910	40,194	46,806	13,756	16,522	33,049	216,029
Total	180,225	56,323	50,849	123,903	145,941	48,151	58,691	97,788	743,360

Further, prize money payment has also increased, mainly on account of: (a) 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 by CDNS in 1966, 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 one million. The feature which makes this investment option lucrative is the automatic re-investment 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 the 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 2.4**.

S. No.	Office	FY15			FY16			FY17		
		Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment
1.	Bahawalpur	3	40	4	97	0	0	6	0	0
2.	D. I. Khan	12	1	1	3	0	0	4	1	1
3.	Faisalabad	401	539	539	269	453	453	20	69	69
4.	Gujranwala	0	1	5	36	0	0	4	0	0
5.	Hyderabad	53	119	55	133	117	113	80	189	174
6.	Islamabad	59	171	276	107	272	272	25	220	195
7.	Karachi	46,240	29,011	0	6,105	31,506	1,540	2,476	4,024	4,024
8.	Lahore	494	925	1,252	2,880	723	723	181	691	691
9.	Multan	0	0	0	0	0	0	0	0	0
10.	Muzaffarabad	24	4	4	23	8	8	0	16	16
11.	N.Nazimabad	375	390	390	723	1,889	761	135	405	380
12.	Peshawar	87	30	30	26	61	47	35	57	54
13.	Quetta	99	145	145	35	237	237	66	103	103
14.	Rawalpindi	710	756	1,333	847	828	719	184	369	316
15.	Sialkot	25	16	15	188	89	89	24	53	53
16.	Sukkur	29	54	54	148	144	46	12	18	18
Total:		48,611	32,202	4,103	11,620	36,327	5,008	3,252	6,215	6,094

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 one 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 2.5**.

S. No.	Office	FY15			FY16			FY17		
		Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment
1.	Bahawalpur	0	1	3	38	5	5	0	1	7
2.	D. I. Khan	0	0	0	0	0	0	0	0	0
3.	Faisalabad	1,263	1,151	4,215	433	907	907	47	153	247
4.	Gujranwala	4	1	1	8	4	4	0	0	0
5.	Hyderabad	579	479	288	260	1,047	1,047	220	286	547
6.	Islamabad	62	151	438	195	306	306	21	91	158
7.	Karachi	84,788	38,179	127,933	36,594	46,496	46,496	4,291	7,356	12,380
8.	Lahore	1,834	2,967	2,376	5,872	1,599	1,599	671	1,549	3,242
9.	Multan	0	6	8	0	3	3	0	0	0
10.	Muzaffarabad	10	18	20	0	4	4	0	6	6
11.	N. Nazimabad	3,808	2,787	5,010	3,757	5,670	5,670	1,054	1,852	2,345
12.	Peshawar	82	143	301	125	41	41	61	179	279
13.	Quetta	55	42	63	10	18	18	35	55	99
14.	Rawalpindi	2,417	942	836	1,803	702	702	267	460	1,526
15.	Sialkot	30	67	67	62	144	144	8	37	54
16.	Sukkur	17	40	56	154	40	40	2	8	20
Total:		94,949	46,974	141,615	49,311	56,986	56,986	6,677	12,033	20,910

2.9 Premium Prize Bond (Registered) Scheme

SBP BSC, in collaboration with CDNS, introduced a new Rs 40,000/- denomination “Premium Prize Bond (Registered) Scheme” from March 10, 2017. This initiative is aimed at formalizing investments in Government bonds, enhancing financial inclusion and a step towards documentation of economy as holding a bank account is mandatory for investment in the above scheme. In this unique scheme, the Prize Bond are eligible for both prize money and profit payment at 3% per annum. The 1st prize for Rs 40,000/- denomination Premium Prize Bond (PPB) is Rs 80 million. The first draw for Rs 40,000/- PPB was held at Peshawar on June 12, 2017 and the prize money amounts against prize winning bonds were directly credited into the bank accounts of respective investors within 3 working days from the date of draw. A snap shot of the business conducted for Rs 40,000/- PPB is given in Table 2.6.

Sr. No.	Denom	Sale	Encashment	Prize Money Payment	Value Held by the Public
1.	40,000/-	3,001.8	80.1	12.0	2,921.7
Total:		3,001.8	80.1	12.0	2,921.7

2.10 HR Capacity Building

In line with SBP BSC’s efforts to broaden the officers’ knowhow about 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 and Currency Conference in Malaysia etc. Further, officers have also been nominated for function-specific and soft skills training programs conducted by the National Institute of Banking and Finance (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.

2.11 Future Outlook

Since its inception, CMD has consistently endeavored to raise the standards of cash handling across SBP BSC and the country. Further, CMD has been an active participant in successful and smooth implementation of Currency Management Strategy through introduction of sophisticated cash handling solutions to streamline currency operations, both in SBP BSC and commercial banks.

The most strategically significant measures undertaken recently by SBP and SBP BSC have been the acquisition of Pakistan Security Printing Corporation (PSPC) and the approval and initiation of 2nd Phase of SBP BSC Automation Strategy. Assuming operational control of PSPC will allow mitigation of supply side constraints through phased enhancement of printing capacity and infrastructure. This will enable SBP BSC to improve quality of notes in circulation and satisfy public demand for fresh cash in a more strategic manner.

It may be recalled here that during last year, SBP BSC, Karachi Office was equipped with high-end banknote processing and destruction systems. The machines have now been running successfully for one year and their results are encouraging in all aspects, including sorting, authentication, counterfeit detection and both online and offline destruction. Bolstered by these positive results, SBP BSC has now entered the 2nd Phase of its internal automation strategy. SBP BSC, which has earlier installed two high-speed Banknote processing units along with briquetting plant in Karachi Office, now intends to equip more Field Offices with high-end, one-stop Banknote Processing and Authentication Solutions (BPAS) and Banknote Destruction Systems (BDS).

The variety of initiatives undertaken by CMD, as outlined above, are focused on both improving the quality of bank notes in circulation and enhancing the role of commercial banks in all aspects of currency management in a phased manner. To achieve a fully automated environment, wherein SBP BSC will handle fresh and unfit banknotes only and the major exchange of re-issuable currency notes shall take place between commercial banks directly. CMD has already introduced “Interbank Exchange of Cash” through all the 16 Field Offices. It is heartening to note that banks are actively using this platform and so far, Rs 94 billion worth of business has been conducted under this initiative. In addition to strategically motivated measures put in place on the currency side for both long and short run, CMD is also actively coordinating with CDNS and PSPC for automation of Prize Bonds operations.

Forex and Development Finance



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, along with its Development Finance Divisions (DFDs) at 15 SBP BSC Field Offices, performs a crucial role in implementing and monitoring of SBP's policies and initiatives for the promotion of an inclusive financial system in the country. SBP BSC Field Offices provide a platform for information dissemination, collaboration with regional stakeholders, and obtain grassroots level feedback for consideration and realignment of policy interventions by SBP, if required.

3.2 Access to Finance

The ongoing commitment of SBP to encourage flow of credit to the agriculture sector can be gauged from the fact that disbursement target of Rs 700 billion was set for 52 Participating Financial Institutions (PFIs) in FY17, an increase of around 17 per cent over the previous year's target. It is pertinent to mention here that, for the first time, these targets were also allocated to 16 Microfinance Institutions (MFIs). Performance of PFIs was actively monitored by 13 SBP BSC Field Offices through regular meetings along with rigorous follow-up.

Box 3.1: Performance Highlights for FY17 – Access to Finance

- Facilitated AC&MFD-SBP through periodic follow-up and review meetings with PFIs for monitoring the achievement of Rs 700 billion indicative target set by SBP for the agriculture sector in FY17. Disbursement during the year was Rs 704.5 billion, which is around 18 per cent higher than in FY16.
- Conducted four awareness sessions for promotion of Housing Finance in different regions of the country as advised by IH&SMEFD-SBP. These sessions were collectively attended by more than 1,000 participants.
- Facilitated IBD-SBP in conducting 5-day awareness sessions on Islamic Banking through each of the four SBP BSC Field Offices.
- Facilitated IH&SMEFD-SBP in conducting half-day awareness sessions on Green Banking and Finance at two SBP BSC Field Offices to support SBP initiative for promotion of green/ sustainable banking as a tool for addressing energy shortfall and climate change.
- Management Information System (MIS) for biannual Focus Group meetings was developed for improved monitoring.
- Facilitated NIBAF and AC&MFD in conducting 3-day Executive-level Training Programs on Agri-financing at six SBP BSC Field Offices.
- 86 Focus Group meetings were organized, which included 21 for Islamic Banking, 19 for Agri. Finance, 17 for Microfinance, 15 for SME Finance, 7 Joint sessions and 7 for Housing Finance.

The year under review also witnessed significant progress regarding the National Financial Literacy Program (NFLP), which is a five-year project with a target of one million beneficiaries, of which 100,000 are to be targeted in the first year. This project, which was piloted earlier, has been planned in collaboration with banks across all districts of Pakistan. The measures taken this year included bringing all banks selected for NFLP on board, collecting their views regarding the program and obtaining nominations for lead and regional focal persons. Moreover, 336 Field Trainers and 23 Master Trainers, identified from SBP - BSC Offices, facilitated in imparting training to 87 Field Trainers from banks in three programs held at NIBAF, Islamabad. The NFLP is now scheduled to commence in FY18.

DFSD also developed an implementation plan for NFLP Student Ambassador Plan. The plan proposed to engage university students during their summer and winter vacations in order to deliver the NFLP

finalized curriculum to the target beneficiaries. Chief Managers of SBP BSC Field Offices also held meetings with the Vice Chancellors of selected universities to introduce and discuss the modalities of the program in order to facilitate its commencement in their areas during FY18.

The Development Finance Coordination Committee (DFCC) remained active and held three meetings during FY17 in which issues of common interest between DFSD and DFG were deliberated upon that included making a country-wide list of progressive farmers, economic mapping at Union Council-level, NFLP etc.

Holding of biannual meetings of Focus Groups for each of the five priority sectors (i.e. agriculture finance, SME finance, housing finance, microfinance and Islamic banking) is one of the key activities of SBP BSC Field Offices. In order to improve conduct of the same, DFSD wrote letters to the CEOs/ Presidents of all banks to seek nominations for Senior Focal Persons from their Head Office. These Focal Persons are contacted by DFSD for resolution of issues/ concerns with regard to the regional management of banks from time to time.

The Department, in order to promote the housing finance sector, also initiated the formation of Housing Finance Focus Groups at five more SBP BSC Field Offices, based on the housing finance portfolios of banks in those regions.

Throughout the year, DFSD facilitated DFG in the implementation of various programs and initiatives through SBP BSC Field Offices (**Box 3.1** and **Table 3.1**).

3.3 Management of Refinance Schemes

To fulfill credit requirements of the 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. DFSD ensures implementation and monitoring of proper utilization of funds disbursed under these schemes with the help of SBP BSC Field Offices across the country. The provision of refinance facility to commercial banks/Development Finance Institutions (DFIs) and timely recovery of principal and mark-up are the responsibilities of respective disbursing office of SBP BSC.

3.3.1 Export Finance Scheme

Export Finance Scheme (EFS) is the most prominent among all refinance schemes of SBP. It was introduced with the objective to boost country's value added exports by providing access to low cost funds to the exporters in order to meet their short-term financing needs. Further, to facilitate exporters, who wish to avail financing under Islamic banking principles, the Islamic Export Refinance Scheme (IERS) has also been in operation since 2002-03.

During FY17, SBP BSC Field Offices disbursed a total amount of Rs 605.29 billion under different financing schemes of SBP. Rs 506.74 billion were disbursed under EFS, while Rs 98.55 billion under IERS.

Table 3.1: Summary of Activities Arranged and Participated by SBP – BSC Field Offices during FY17

S. No.	Activity	No.
1	Focus Group Meetings	86
2	Awareness Programs	81
3	Capacity Building	63
4	Agri. Target related meetings	12
5	Fair, Conference, Exhibition etc.	13
6	Seminars and Workshops	21
7	Linkages with Academia	12
8	Linkages with Govt. and Others	36
9	Others	7
Total		331

Box 3.2: Performance Highlights for FY17 – Management of Refinance Schemes

- Total Rs 605.29 billion disbursed under Export Refinance Schemes:
 - Rs 506.74 billion under EFS
 - Rs 98.55 billion under IERS
- Rs 17.59 million charged as penalty to 27 participating banks on account of violation of EFS/IERS instructions against loans disbursed during FY15.
- Rs 47.25 billion disbursed under LTFF.

To ensure that banks and exporters availing the facility are strictly complying with the instructions issued by SBP on the subject and that the funds disbursed are utilized for value-added export purposes, DFSD supervises the onsite verification process every year. During FY17, onsite verification teams completed compliance verification of 13,068 loans, whose amount of refinance stood at Rs 516.61 billion that was disbursed to twenty seven banks in FY15.

As a result of various violations of instructions of the Scheme observed during onsite verification visits, SBP BSC Field Offices charged a total penalty of Rs 17.59 million. Penalty against violations pertaining to Part-I category of EFS/IERS accounted for 35.5% (Rs 6.24 million) of the total amount, while the remaining 64.5% (Rs 11.35 million) was against Part-II category. The total amount of penalty charged in FY16 has decreased by 66.7% compared to last year when Rs 52.80 million were charged, showing that the purpose of conducting compliance verification is, by and large met, as banks have been ensuring compliance to the instructions issued by SBP under the Export Finance Scheme.

3.3.2. Long Term Financing Facility

The Long Term Financing Facility (LTFF) provides finance to exporters for adopting new technology in production process and/or upgrading their existing plants and machinery. This scheme is also available to Islamic banks, but is subject to approval of SBP Shariah Board. Loans are repayable within 3, 5 or maximum 10 years. During FY17, Rs 47.25 billion were disbursed via banks under LTFF.

3.4 Financial Inclusion Scheme Management

In order to motivate financial institutions for lending to priority, marginalized and collateral deficient segments, one way is to share their credit risk, for which Credit Guarantee Schemes have been launched by SBP, with the funding support of UK's Department for International Development (DFID), Provincial and Federal Governments. The purpose of these schemes is to induce banks to take risk by granting loans to priority sectors like agriculture, infrastructure, housing, SME, microfinance and Islamic banking. Details of Credit Guarantee and Subsidy Schemes managed/ implemented by DFSD are given below:

3.4.1 Credit Guarantee Scheme for Small & Rural Enterprises

With a view to motivating the banks to lend towards collateral deficient borrowers, which 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 FY17 (July-Dec), 7,463 loans for a financing amount of Rs 6,049 million were issued guarantees to 15 Participating Financial Institutions (PFIs) as per PFI limits approved by the Technical Committee on Credit Guarantee (TCCG). So far, 194 claims of Rs 23.7 million have been reimbursed to concerned PFIs since inception of the Scheme. Highlights of CGS are presented in **Box 3.3**.

Box 3.3: Highlights relating to Credit Guarantee and Subsidy Schemes

- 37,356 PMYBL related transactions have been processed by DFSD for subsidy amounting to Rs 495.1 million
- 7,463 loans for financing amount of Rs 6,049 million were issued guarantees to 15 Participating Financial Institutions (PFIs) under CGS for Small and Rural Enterprises.
- 107 claims amounting to Rs 12 million have been disbursed to concerned banks under CGS.
- Financing of Rs 1,850 million have been disbursed by various banks/DFIs to MFBs/MFIs under MCGF.
- Guarantees were issued to six PFIs under CGSMF for 44,694 loans with a total financing amount of Rs 1,450 million.
- A comprehensive Developmental Impact Review of CGS was prepared by DFSD and presented to TCCG
- Funds on account of CGS, MCGF, CGSMF and RHMS amounting to Rs 9.2 billion approximately were managed by DFSD.

The comprehensive Developmental Impact Review of CGS presented to TCCG showed that loans were granted to mainly 52 different sectors to borrowers from 108 districts of Pakistan. Fresh borrowers constituted 91% of the total borrowers and 98% of the loans were sanctioned to Sole Proprietors/Small Enterprises in CY16 by PFIs. Farmers, Small Enterprises and Microenterprises constitute 62%, 11% and

27% of the total loans sanctioned respectively. Rural versus Urban sanctioned loans remained at 47% and 53% respectively. Since inception of CGS in 2010, 25,860 guarantees were issued against lending of Rs 18,387 million to 16 PFIs.

3.4.2. Credit Guarantee Scheme for Small and Marginalized Farmers

To enhance access of small and marginalized farmers to formal credit, SBP launched the Credit Guarantee Scheme for Small and Marginalized Farmers (CGSMF) with the funding support of Government of Pakistan in FY17. The scheme offers 50% partial guarantee on the outstanding amount of loan, which is classified as substandard as per Prudential Regulations (PRs), to banks for their lending to eligible borrowers.

The limit of Rs one billion for CY17 has been allocated to seven PFIs by Agricultural Credit and Microfinance Department (AC&MFD) of SBP. During Q2, Q3 and Q4 of CY16 and Q1 of CY17, 44,694 loans for a financing amount of Rs 1,450 million were issued guarantees by six PFIs.

3.4.3. Microfinance Credit Guarantee Facility

Microfinance Credit Guarantee Facility (MCGF) was launched by SBP in December 2008 to incentivize commercial banks and DFIs towards provision of commercial capital to microfinance providers for onward lending to their clients with funding support from DFID (UK-AID). During FY17, the focus of MCGF lending remained towards the weaker Microfinance Providers (Tier-II). Guarantees were issued against a financing amount of Rs 1,850 million to banks/DFIs against their wholesale lending to six MFBs/MFIs.

After the establishment of Pakistan Microfinance Investment Company (PMIC) to meet the funding needs of microfinance sector, the SBP has ceased to issue MCGF guarantees effective from April 13, 2017. Highlights of MCGF are presented in Box 3.4.

Box 3.4: Successful Closure of Microfinance Credit Guarantee Facility (MCGF):

- Since Inception of MCGF in 2008, a total of 61 guarantees have been issued against lending of Rs 21,850 million to 12 Microfinance Banks/Institutions.
- Among MFBs/MFIs, 7 were Tier-I institutions while 5 were Tier-II Institutions.
- 21 Banks/DFIs availed MCGF by sanctioning bilateral as well as syndicated finance facility, thus familiarizing them with Microfinance Sector.
- Two Term Finance Certificates for Rs 1,000 million were also issued backed by MCGF funding.
- More than 75% of the funding was availed for medium to long term loans, thus reflecting developmental impact and better planned availment by MFBs/MFIs.
- As per maturity profile, all existing guarantees are expected to expire by March, 2020.

3.4.4. Prime Minister's Youth Business Loan Program

DFSD is entrusted with the responsibility to process claims of banks under Prime Minister's Youth Business Loan (PMYBL) Program launched by GoP in the light of instructions from SBP. During FY17, twelve banks submitted their subsidy claims under PMYBL, while few more banks have shown their interest in disbursing loans under PMYBL. During the year, 37,356 PMYBL related transactions have been processed for subsidy amounting to Rs 495.1 million for onward submission to Finance Division, Government of Pakistan.

3.4.5. Mark-up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh

SBP launched the Mark-up Subsidy & Guarantee Facility (MS&GF) for Rice Husking Mills in Sindh during March 2013 with a view to modernizing and upgrading rice husking mills of Sindh through funding support from Sindh Enterprises Development Fund (SEDF). During FY17, a financing amount of Rs 10 million has been processed by SBP BSC, Sukkur Office.

3.4.6. Fund Management

DFSD manages funds of Rs 9.2 billion (approximately) under various credit guarantee and mark-up subsidy schemes. These funds along with profit earned are invested/reinvested in T-bills at given

maturities. There are significant funds available to be used as a cushion against the guarantees issued to PFIs. Sixty-one investments on account of these funds have been undertaken in FY17. So far, total value of funds received has increased to 64% to reach 9.1 million from 5.6 million.

3.4.7. Developmental Initiatives

1. A project to prepare feasibility studies for establishing fruit pulp-making units for two fruits (mangoes in Sindh and apricots in Gilgit-Baltistan) was undertaken during the year. The feasibility study on mangoes was developed by DSFD with assistance from SBP BSC, Multan whereas the one on apricots was prepared by SBP BSC, Peshawar and supervised by DFSD. Based on the information gathered through interaction with external stakeholders as well as desktop research, both feasibility studies contain detailed information regarding project inputs/ requirements, pulping process, project economies etc.
2. A project titled 'Economic Mapping' was also initiated to carry out detailed mapping of the country at union council level in order to facilitate policy makers, researchers, business owners and other stakeholders in decision-making process. Further possibilities, such as collaboration with external stakeholders, are being explored.
3. A project to encourage preservation of artisans' craft through banking sector support was initiated with the objective of encouraging the financial sector to develop a market for artisans' products. The project was worked out in detail with execution plan and identification of artisans at regional level with the help of external stakeholders. The idea will be taken up at Pakistan Banks' Association (PBA) meeting for implementation.
4. DFSD has also developed a Business Requirement Document (BRD) to help in the creation of an interactive portal, comprising agriculture credit disbursement targets and achievement, to be updated on a monthly basis. The portal will contain regional-level target achievement details across different sectors and will be available for AC&MFD-SBP, DFSD and SBP BSC Field Offices to facilitate monitoring and can also be used for reference purpose.
5. SME Finance Mela to promote SME sector was arranged at Bahawalpur, Sukkur, Peshawar, and Quetta in collaboration with respective Field Offices. The events were well-attended and brought together stakeholders from chambers, trade bodies, SMEs, banks and academia etc.
6. DFSD has developed a comprehensive Manual on On-site Verification Process for SBP BSC officials to ensure consistency and improve the level of quality in onsite verification of EFS cases.
7. DFSD provided important feedback to DFG for various existing/ upcoming schemes since it has first-hand experience of managing such schemes/programs, which included:
 - a. Revamping the Credit Guarantee Scheme for Small & Rural Enterprises for better targeting and enhanced developmental impact.
 - b. Finalization of Frequently Asked Questions (FAQs) on PMYBL and CGSMF
 - c. Preparation of data reporting formats under CGSMF which include socio-economic indicators as well.
8. Automation project was initiated for soft loans under Prime Minister's National Health Program.
9. A developmental impact analysis of Credit Guarantee Scheme for Small & Rural Enterprise was prepared.
10. Awareness Sessions were conducted for commercial banks as under:
 - a. CGS at Sialkot, Multan and Faisalabad for 90 participants.
 - b. CGSMF at Learning Resource Centre, Karachi.

3.4.8. Future Outlook

1. With a view to implementing SBP's aim of increasing financial literacy in the country, DFSD through the help of PFIs, plans to achieve the target of 100,000 beneficiaries in the first year of NFLP.

2. The project to encourage preservation of artisans' craft through support of banking sector will be pursued further by taking up the matter at the next PBA meeting.
3. The need for capacity-building of commercial bankers and other relevant stakeholders has been re-emphasized and for this purpose DFSD has written a letter to NIBAF seeking its support in this regard.
4. DFSD plans to organize and conduct awareness sessions regarding various refinance facilities across the country especially in the underutilizing areas.
5. To increase operational efficiency and reduce workload of Field Offices, DFSD has undertaken automation projects pertaining to the verification of EE/EF-1 statements, which is under testing phase. Further, Business Requirement Document automated offsite monitoring of EFS cases has already been submitted to the Information Systems Department (ISD)-SBP.
6. The reporting/processing under every credit and subsidy scheme is being automated with a view to meeting the existing resource of HR and increasing number of schemes as well as workload challenges in coordination with Information Technology Department-SBP.
7. PMNHP launched by GoP with the prime objective of extending health insurance facility to the poorest segment of population.
8. 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.
9. DFSD is also expected to initiate operational implementation of various initiatives announced through Federal Budget for FY18.
10. On overall basis, DFSD will be performing its due role in augmenting SBP's efforts aimed at implementation of National Financial Inclusion Strategy.

Foreign Exchange Operations



4 Foreign Exchange Operations

Foreign Exchange Operations Department (FEOD) of SBP Banking Services Corporation has been established to manage the requests from different stakeholders in area of foreign exchange. FEOD monitors the landscape of foreign exchange operations with the aim to curb unethical practices and undertake actions against unscrupulous entities, persons and Authorized Dealers (ADs) under the Foreign Exchange Regulation Act. Another important task it performs is to grant approval to the delegated transactions as per Foreign Exchange Manual.

4.1 Foreign Exchange Operations Department

Foreign Exchange Operations Department's prime functions include granting of approvals for Government, private and commercial foreign exchange remittances, besides monitoring of FX transactions and follow up with delinquent exporters to ensure repatriation of export proceeds. The Department is also entrusted with the responsibility of making payment to exporters under various subsidy schemes of the Government. FEOD provides services to Development Finance Group of SBP in ensuring compliance to instructions relating to Part II of the Export Finance Scheme by verifying EE-1 and EF-1 statements submitted by exporters through banks. Further, implementation of Web-Based One Customs (WeBOC) – a joint project of SBP and Pakistan Customs – and operations of SBP and Customs joint booths at airports for facilitating the export of currencies other than US\$ and import of US\$ has led to potential enhancement of FEOD's role.

4.2 Developmental Initiatives

FY17 has remained an eventful year due to significant changes in the regulations, considerable rise in operational assignments and momentous changes in the management at divisional as well as group level. The evolving FX landscape resulted into issuance of instructions and guidelines to ADs for ensuring compliance with the foreign exchange regime by all stakeholders. Further, FOED provides feedback to the Exchange Policy Department of SBP and other Government agencies in the light of experience it encountered in FX operations.

During FY17, FEOD has accomplished key milestones with the collective efforts of various stakeholders in the areas of automation, capacity building and process improvement. The performance highlights of FEOD's operations during the year are embodied in **Box 4.1**.

Box 4.1: Performance Highlights for FY17

- Strengthened the process regarding monitoring of FX trade transactions by using WeBOC, Export Overdue Reporting System and International Transaction Reporting System.
- Established a dedicated Unit at Lahore for monitoring of trade related transactions.
- Initiated the automation of workflows and prepared the Business Requirement Document (BRD) for the Knowledge Management System.
- Approved around 17,000 cases of commercial, private and trade related remittances.
- Lodged 2,061 cases to FEA Courts, besides referring 71 cases to FIA against delinquent exporters, importers and ADs for legal proceedings.
- Identified and recovered US\$ 18.25 million of duplicate import payment and levied penalties of Rs 45.08 million against import advance payment.
- Repatriation of US\$ 317.67 million from overdue export proceeds through effective follow up at the departmental level.
- Disbursement of Rs 30 billion on account of all subsidy schemes of Government.
- Verification of 577,478 entries of EE-1/EF-1 Statements.
- Approved 11,341 cases of Government's FE allocation valuing Rs 205 billion.
- Verified genuineness and status of 39,021 E-Forms forwarded by Pakistan Customs.
- Developed and conducted capacity building training programs for ADs, SBP and SBP BSC employees in order to improve their technical capacity regarding FX operations.

4.2.1. Emphasis on Automation

With the increase in international trade transaction on an overall basis, the quantum of workload at FEOD has increased manifold during the last few years. Though the Department has been making all endeavors to cope with the increased quantum of work, the fact remains that without automation of the departmental workflows, it will not be possible to achieve optimal efficiency, particularly with regard to monitoring of FX transactions. Taking this fact into consideration, the automation project regarding verification of EE-1/EF-1 statements was initiated by FEOD in FY16, in coordination with Development Finance Support Department (DFSD), Statistics & Data Warehouse Department (S&DWD) and Information Systems Department (ISD). The project, which has completed its development this year, was conceived to eliminate the arduous process of manual verification of EE-1/EF-1 statements and improve the efficiency in the assessment of the export performance of exporters and allocation of limit for Export Finance Scheme Part-II. The project is ready and shall be made fully operational in FY18.

In order to enhance the monitoring of international trade through Electronic Import Form (EIF) and Electronic Export Form (EEF), the Department has initiated efforts to establish Electronic Data Interchange (EDI) with Custom's WeBOC System. The EDI is expected to facilitate not only in monitoring, but will also be used for radically changing the procedures adopted for subsidy schemes and export overdue reporting etc. For this purpose, numerous meetings have taken place between FEOD and ISD team with Customs Department and initial documentation has been completed for setting up EDI.

Similarly, in order to improve the control environment and efficiency, a project has been initiated to automate certain functions of the Department related with the processes of approving commercial & private remittances and payments of Government subsidy schemes. FEOD, in coordination with IT Strategy & Project Management Department (ITS & PMD), is in the process to automate end-to-end process through acquisition of off-the-shelf software solution.

Moreover, SBP and the Customs Department have four joint booths at Karachi, Lahore, Islamabad and Peshawar Airports for monitoring of export/import of bank notes by Exchange Companies in accordance with the prescribed procedure. During FY17, Airport booths processed FX transactions involving around US\$ 830 million (export and subsequent import). In order to improve the control over booth operations, FEOD has been trying to develop, with the coordination of ISD, Airport Booth System (ABS). ABS is a system used for recording and maintenance of database of FCY cash currency export and equivalent US\$ cash Import from joint SBP and Customs Airport booths by Exchange Companies. The beta testing of ABS is under process, which is expected to be functional at Airport booths by September, 2017.

4.2.2. Process Improvement for Quick Disposal of Private & Commercial Remittances Cases

The Department has been working strenuously towards bringing greater efficiency and accountability to work. To this end, it managed to improve its disposal rate by ensuring the implementation and compliance of standardized formats for submission of cases by ADs, which was introduced during FY16. Operations Division has carried out rigorous reinforcement and sensitization of ADs to perform proper due diligence before referring cases to SBP BSC so that these are free from discrepancies when submitted. The Department has actively put in place a suitable evaluation process with a view to assessing the genuineness and admissibility of different requests of ADs for various outward remittances in compliance with the instructions of EPD and generally accepted business practices. A project was undertaken with the objective to define Turn-Around Time (TAT) or Benchmark Days required for processing of cases taking into consideration all the ancillary factors affecting disposal. Moreover, activity-based analysis of Operations Division was carried out to develop a model, so as to determine the minimum days required for processing of different cases. The analysis has provided better understanding of the procedure involved for case processing and hence improved the resource utilization.

4.2.3. Monitoring of all functions of FEOD at Country Level

An initiative to maintain Management Information System (MIS) of all functions of FEOD at the country-level was taken, thereby developing adequate formats to capture data regarding work performed by the entire Department and Foreign Exchange Operation Units at eleven Field Offices. The MIS includes information related to cases pertaining to Commercial/Private Remittances, Payment of Subsidies, Returns, Import Advance Payment, Open Account Remittance received at FEOD and their disposal as well as aging of outstanding cases at the end of each month. Performance of each division is being monitored and corrective actions are taken, if required. Further, this has enabled the development of a Centralized Database of information readily available for the management, as and when required, besides improving turnaround time through effective follow up of outstanding cases.

4.2.4. Capacity Building Initiatives

The skill set and capacity of officers dealing in foreign exchange appeared to have misaligned with the changing dynamics over a period of time, resulting in exploitation by the unscrupulous elements. This, at times, not only adversely affects the flow of foreign exchange in interbank market, but is also a violation of instructions of EPD. In order to improve the capacity of officers working in SBP BSC and also for those assigned the responsibility in the areas of trade finance and FX by ADs, FEOD had arranged various training programs to equip them with the existing FX knowledge and complexities of the fast-changing scenario in the arena of international trade as well as foreign exchange regime of Pakistan. For the purpose, a 12-day Foreign Trade Certification Program was introduced with the help of National Institute of Banking & Finance (NIBAF). In this regard, two sessions have successfully been organized at Karachi and Islamabad. More than 50 participants attended these sessions who completed necessary training leading to award of the required certification. In order to bring synergy in FX operations, FEOD has planned to suggest to SBP that this certification may be made mandatory for officers of banks to work in foreign exchange related assignments to bridge the gap between the regulators and ADs in respect of trade issues. FEOD had also arranged 'short duration training programs' for officers of ADs and trade associations. Moreover, efforts have been made to enhance knowledge-base of officers of both SBPBSC and ADs regarding the issues having indirect forward and backward linkages with foreign exchange operations. FEOD has also arranged attachment program for its officers with commercial banks.

4.3 Monitoring & Enforcement

The Department has continuously been making endeavors to properly follow-up the cases of export overdue to ensure repatriation of export proceeds. Further, concerted 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 SBP's instructions, exporters are required to realize exports proceeds within the stipulated time from the date of shipment. In this regard, 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 US\$ 317.67 million from overdue export proceeds in FY17 as compared to US\$ 301 million during FY16. Complaints against 1,737 delinquent exporters were filed with the Foreign Exchange Adjudication Department (FEAD) under Section 12 (1) of FERA, 1947. For the last few years, FEOD is filing complaints against the Authorized Dealers who have failed to submit shipping documents and ensure due diligence required by FE Manual and SBP instructions. During FY17, FEOD has filed 324 complaints with FEAD against ADs.

4.3.2. Monitoring of Import Payments

As a result of monitoring and verification of import data, especially import against open account, duplicate payments of US\$ 128 million have been identified. Out of this, US\$ 40 million has been

established with related shipping documents and US\$ 20.8 million has been repatriated. For the remaining amount, documents are being called from banks for further investigation. Further, as a corollary, regulations were revised and strengthened with the help of EPD and banks were advised to send all cases for approval to FEOD where original transport documents were missing. Therefore, 5,972 cases were approved by FEOD during FY17. The automation of I-Form has further eased the monitoring process and reduced the occurrence of duplicate import remittance against the same set of documents. Automation of import form enables the FEOD to effectively monitor advance payment and ensure imports of goods within the regulatory time frame as well as for valid purposes. During FY17, a penalty of Rs 45.08 million has been recovered from importers through banks upon their failure to import goods/repatriate advance payment within four months from the date of advance payment.

FEOD identified that ADs allowed importers to send remittances on the assessed value by Customs, instead of declared value. Since no FX regulation was in place to prosecute such importers, FEOD recommended to the EPD to issue regulation which has now been incorporated in FE instructions issued in August 2016.

4.3.3. Verification of E-Forms Forwarded by Customs Authorization

During FY17, a total of 39,069 E-Forms forwarded by Customs has been verified from Authorized Dealers and appropriate actions already taken against delinquent exporters/ADs under provisions of FERA, 1947.

4.3.4. 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. During FY17, twelve subsidy schemes were effectively handled with limited HR, which is the highest number of schemes ever handled by FEOD. These schemes vary in nature, scope and processing cycle. Some schemes were based on exports whereas remaining on imports; few schemes were based on individual transactions such as:

- Drawback on export of textile products,
- Drawback on export of non-textile products,
- Subsidy on export of wheat and sugar,
- Support on import of plant and machinery,
- Subsidy on import of fertilizer and subsequent local sale etc.

Other schemes were of incremental nature wherein entire exports of one year were compared to the previous year to determine admissibility of drawback. Under this category, a case may contain several thousand individual transactions which are to be verified separately from various documents. An amount of approximately Rs 30 billion was disbursed in FY17 against Government subsidy schemes as compared to Rs 5.94 billion in FY16, in line with the policy announcements by the respective Ministries. Out of Rs 30 billion, Rs 21.7 billion alone were disbursed against fertilizer subsidy on behalf of Ministry of National Food Security & Research. During the year, FEOD had to augment HR strengths of its units working in different fields to ensure timely payments. Special arrangements were also made to process and disburse subsidy payments of Rs 1.5 billion, budget for which was released by the Federal Government only two working days prior to close of FY17.

4.3.5. Monitoring and Verification of FE Returns:

With the growth of international trade in Pakistan, the volume of FE returns with supporting documents has continued to rise. During FY17, a total of 1.505 million forms (E, I, M, R/IRV, T-1, Hajj) along with supporting documents was received and archived by FEOD. Out of these, 194,438 'M' & 'I' forms were scrutinized as per laid down criteria. On a test check basis as all other transactions were reviewed on risk-based monitoring criteria in terms of which the soft data submitted by banks is reviewed by the Department on electronic basis. Therefore, a proposal for non submission of paper-based forms and returns has been moved and a circular was issued for discontinuation of submission of returns. The

Department also verified 577,478 EE-1/EF-1 entries during FY17 for assessment of the export performance of exporters as compared to 569,878 in FY16.

This year, the Department intensified its focus on the use of FE data reported by banks to Statistics & Data Warehouse Department of SBP as part of its International Transaction Reporting System (ITRS). Discrepancies including wrong reporting of E-Form number, I-Form number, Uniform Identification Number (UIN) of export advance payment vouchers and National Tax Number (NTNs) were identified in monthly ITRS reporting and communicated to ADs for rectification. Besides, the Department completed more than 5,800 revisions in ITRS requested by banks. As a result of persistent efforts made during the year, discrepancies in ITRS data have been reduced by a large margin in the data reported by banks during July 2016 to May 2017.

4.4 Future Outlook

While 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 process efficiencies and capacity building.

The Department is moving towards a paperless work environment to the maximum extent, thereby initiating the numerous IT-based projects. Above all, it is destined to fetch a prominent position among those departments in SBP and SBP BSC where concept of knowledge management will be implemented in processing of various cases referred to it by its stakeholders, particularly banks and private and public companies. FEOD has also initiated a data integration project which collates the information residing at different FX data sets on SBP servers that will enable the Department to monitor foreign exchange transactions, including realization of export proceeds, remittances against import and other inward/outward remittances etc. The project is going to potentially create a paradigm shift in the monitoring of trade and remittances, providing a broad and comprehensive view of all foreign exchange activities undertaken by a particular business entity.

FEOD is also working on a project for development of Exporters Information Portal duly integrated with Export Overdue Reporting System (EORS) application with the collaboration of Information Systems Department and Statistics & Data Warehouse Department. This portal would help banks to view the total outstanding position of overdue and certified E-Forms of exporters as well as to take informed decision before issuance and certification of E-Form to them. The proposed system would also enable the banks to conduct enhanced due diligence before acceding to the request of exporters for certification of E-Forms.

In order to facilitate ADs' learning and knowledge of FE rules and regulations, an FAQs (Frequently Asked Questions) Document would be compiled on FX operations, addressing areas of FE Manual that need clarification with regard to interpretation of FE rules and regulations.

FEOD will continue to improve its partnerships with all stakeholders for ensuring better foreign exchange management and compliance of regulatory instructions. A comprehensive record management plan has been initiated by FEOD to efficiently manage its record placed at various locations of Karachi. Since all FE returns are submitted electronically including 'E' and 'I' form, therefore, it has been decided with the concurrence of EPD that going forward submission of hard copies of various returns/forms by commercial banks would be done away with. These hard copies may be kept by banks themselves. FEOD may call these return/forms (hard copies), in case of need.

Foreign Exchange Adjudication



5 Foreign Exchange Adjudication

Foreign Exchange Adjudication Department (FEAD) adjudicates cases relating to violations of different sections of Foreign Exchange Regulation Act (FERA), 1947 as per powers vested in it under Section 23B of the Act. The Adjudicating Officers are appointed by the State Bank Governor through Gazette Notifications in terms of Section 19 of SBP BSC Ordinance, 2001.

5.1 Foreign Exchange Adjudication Department

Foreign Exchange Adjudication Department manages Foreign Exchange Adjudication Courts established under Foreign Exchange Regulation Act, 1947. These courts adjudicate complaints filed by the complainant i.e. Foreign Exchange Operations Department (FEOD) against the delinquent exporters and importers under relevant provisions of Foreign Exchange Regulation Act, 1947. The courts are empowered to impose penalties, if prosecution (FEOD of SBP BSC) proves that the contravention was willful, and subsequently direct the relevant authorities for recovery of these penalties as per Section 23-J of FERA. The proceedings are conducted under Adjudication Proceedings and Appeal Rules, 1988.

Box.5.1: Major Initiatives/Achievements

1. With a view to improving the working of the Department, especially to ensure prompt judicial process, new courts have been established at Karachi and Lahore during FY17. Another Adjudication Court in Rawalpindi has been approved by the Competent Authority which will be operational shortly.
2. The Department took steps to enhance recovery mechanism by instructing banks through emails to recover penalties.
3. Guidelines are now being given to all commercial banks regarding recovery. Previously, instructions were given to only those banks who endorsed E-Forms for exporters. This move has significantly enhanced the recovery mechanism.
4. To further enhance the performance of the Department, Adjudicating Officers were assigned realization and disposal targets during FY17. The initiative served as a key contributor towards the increase in Foreign Exchange realization during the year.
5. A four-day comprehensive training of Adjudicating Officers, allied staff and FEOD officials, in coordination with NIBAF was arranged at NIBAF, Islamabad during the year under review.

In order to ensure prompt judicial process, justice, smoothness, effective and efficient data-base compilation and follow up of the closed cases, the Department has been divided into four wings at Head Office, Karachi. The function is supported by ten offices of Adjudicating Officers (four at Karachi, three at Lahore, and one each in Faisalabad, Multan and Sialkot) established across Pakistan.

Since establishment of the Foreign Exchange Adjudication mechanism in 1990 till end-June, 2017, the FEAD has managed repatriation of a considerable sum of US\$ 543.8 million from the exporters, who had violated section 12(1) of FERA, 1947 and failed to realize export proceeds within the time limit as per instructions issued by the State Bank of Pakistan.

Table 5.1: Realization of Export Proceeds

Adjudication Courts	Export Proceeds Realized in Million US\$		% Change
	FY16	FY17	
Karachi	24.3	35.2	45%
Lahore	13.5	26.3	95%
Faisalabad	14.8	6.1	-59%
Multan	0.8	1.6	100%
Sialkot	4.4	9.5	115%
Total	57.8	78.7	36%

5.1.1 Performance Highlights

During FY17, export proceeds equivalent to US\$ 78.7 million (highest ever in a year) were realized as compared to US\$ 57.8 million in FY16. (Table 5.1).

The share of four Adjudicating Courts at Karachi (out of total ten courts) stood at 45% in overall realization of stuck-up proceeds during FY17.

The total number of complaints pertaining to the delinquent exporters/Authorized Dealers (Banks) received from FEOD on a country-wide basis stood at 2,503; of which 3,308 complaints were disposed of during FY17 as compared to 2,784 in FY16, depicting an increase of 19% (Table 5.2).

A total amount of Rs 4.873 million was also recovered from the defaulting exporters during FY17 in terms of penalty imposed under Section 23-J of FERA, 1947 (Table 5.3).

Table 5.2: Disposal of Complaints

Adjudication Courts	Number of Cases		% Change
	FY16	FY17	
Karachi	1,367	1,585	16%
Lahore	633	935	48%
Faisalabad	537	370	-31%
Multan	30	81	170%
Sialkot	217	337	55%
Total	2,784	3,308	19%

Table 5.3: Recovery of Penalty

Adjudication Courts	Amount
	(in '000 Rs) FY17
Karachi	2,625
Lahore	618
Faisalabad	1,620
Multan	10
Total	4,873

5.2 Future Outlook

Continuous improvements are being ensured in the functioning of the Foreign Exchange Adjudication Department. Efforts are being made by FEAD to focus on automation of its processes and development of an interactive database. A project regarding “Development of Electronic Complaint Lodgement & Management System” is under preparation, which is supposed to facilitate the Bank in exercising efficient and effective monitoring of complaints, thereby moving forward to the paperless environment in adjudication proceedings.

Furthermore, recovery of penalties, which is one of the key functions of Adjudicating Officers, still features a number of issues that are affecting the smoothness of recovery process. This is despite the fact that the Department is working effectively to ensure excellent performance for achieving the responsibilities assigned to it. Accordingly, with a view to removing the residual log jam, a forthcoming Working Paper will address those bottle-necks. The Paper would empirically analyze ways and means to improve the recovery of penalties and also propose amendments in legal framework to remove impediments in recovery of penalties.

Human Resource and Support Services



Human Resource Management



6 Human Resource Management

Human Resource Management Department (HRMD) is the backbone of organizational change management initiatives. The Department facilitates in creating a desirable work environment for employees, thereby enabling them to make effective contribution to achieve organizational objectives.

6.1 Overview

Human Resource Management Department continued to advance its strategic contribution during FY17 wherein focus remained on HR Policy Review, Talent Resourcing, Career Development, Performance Management, Training & Development and Employee Relations.

6.2 HR Profile

In view of ongoing automation and business process re-engineering, workforce rationalization is moving in the desired direction. Consequently, a reduction of around 54% has taken place in the working strength of SBP BSC since its inception. The resulting mismatch arising out of the early retirements is managed through fresh inductions in a rational manner. The grade-wise comparison of headcount for FY16 and FY17 is illustrated in **Table 6.1**.

Grade	No. of Employees			
	FY 16		FY 17	
	Total Strength	Percentage	Total Strength	Percentage
OG-7	1	0.04%	1	0.04%
OG-6	9	0.33%	8	0.29%
OG-5	35	1.27%	40	1.47%
OG-4	73	2.66%	82	3.01%
OG-3	241	8.78%	283	10.43%
OG-2	847	30.84%	899	33.19%
OG-1	836	30.44%	833	27.91%
Below OG-1	704	25.64%	639	23.66%
Total	2,746	100%	2,785	100.00%

6.3 Policy Review and Development

During the year under review, various organizational development initiatives have been undertaken as part of a continuous improvement plan.

6.3.1. Development of Promotion Policy for OG-1 & Above Officers (Technical Side)

This policy aims to streamline promotion process for the officers on Technical Side and provide them career development opportunities through a competitive and transparent selection process.

6.3.2. Development of Policies to Strengthen Employee Relations Framework & Leave Policy

In line with management commitment to reinforce employee engagement and motivation, Reward and Recognition, Communication Policy, Whistle Blowing Policy and Code of Conduct were introduced. A comprehensive Leave Policy was issued to cater to various needs/circumstances of employees.

6.3.3. Review of HR Policies for Cash & Other Sides Officers

As an initiative to improve organizational performance and provide career progression opportunities, HR Resourcing Strategy was realigned through consolidation of business functions. Accordingly, Cash, General and other Sides have been merged so that General Side policies are applicable on Cash and other Sides as well. This will also provide opportunities to the talented officers from former Cash Side for career progression through promotion to higher grades.

6.3.4. Development of Policy for Performance Improvement and Separation

The policy provides opportunities to improve performance through a structured approach. For those officers, who do not achieve prescribed performance standards within the stipulated time period, a separation mechanism from the Bank's service has been put in place. In this regard, necessary amendments in SBP BSC Staff Regulations (2005) have also been incorporated.

6.3.5. Development of Event Management Team

In order to facilitate effective management of events (particularly the mega events) hosted by SBP BSC, Event Management Team (EMT) comprising officers from SBP and SBP BSC, who possess desired competencies for the purpose, has been constituted.

6.3.6. Brief on Instructions issued on Major HR Matters

A comprehensive brief on various instructions issued on HR matters is given in **Box 6.1**.

Box 6.1: Brief on instructions issued on HR Matters

- (1) Standardization of Key Performance Indicators for Group Heads, Regional Heads and Chief Managers
- (2) CMT-HOD Instructions on Departmental/Field Office Administration and Record Management
- (3) Photo ID Medical Cards (jointly with GSD)
- (4) Revision in Rates of Daily Allowance
- (5) Revision in Rates of Stipend for Interns
- (6) Formation of Health, Safety & Environment Committee
- (7) Resolution of issues regarding Cash Department

6.3.7. Initiation of Salary Survey

After carrying out due process, the contract for conducting salary survey was awarded to M/s Ernst & Young Ford Rhodes Sidat Hyder. Going forward, as per Board approved methodology and completion of salary survey, Compensation and Benefits of Officers will be reviewed accordingly after necessary approvals.

6.4 Workload Analysis

An organization-wide Workload Analysis (WLA) project has been undertaken through external consultants i.e. M/s. Mazars Consulting. The purpose was to determine ideal headcount/manpower required to perform business functions against benchmark positions across SBP BSC. The consultants used a blend of qualitative and quantitative tools/techniques including data collection sheets, focused group discussions, executive interviews, physical observation of procedures etc., which enabled them to develop understanding of the organization and work volumes vis-à-vis respective staffing levels. Finally, the workload assessment methodology was applied following time and motion study to determine the required headcount against identified benchmark positions ranging from OG-1 to OG-7. In future, the annual manpower planning process shall be based on the results obtained from WLA.

6.5 Talent Resourcing

During FY17, prime focus of HRMD was directed towards organization-wide strengthening of HR base through induction of qualified resources. For the purpose, inductions were made across multiple hierarchical levels under various recruitment initiatives. The short-term HR needs were also being met through contractual personnel. Brief on major initiatives is given in **Box 6.2**.

Box 6.2: Brief on Recruitment Initiatives during FY17**(1) Young Professionals Induction Program-6th Batch**

A batch of 75 trainees was selected under 6th Batch of Young Professionals Induction Program (YPIP), which after successful completion of pre-induction theoretical training, shall formally join the Bank's service during 1st quarter of FY18 as Officers Grade-2.

(2) Officers Training Programs-5th & 6th Batch

Eighty-two and seventy-five officers were hired under 5th and 6th Batch of Officers Training Program (OTP) respectively, who have been posted in Departments/Field Offices. Further, recruitment process for 7th Batch has also been initiated.

(3) Hiring of Professional Engineers

Keeping in view the shortage of technical staff, future business needs and upcoming mega projects, 26 Assistant Executive Engineers from civil, electrical and mechanical side were inducted. Two Executive Engineers also joined the Bank's service.

(4) Hiring of Security Guards

In order to beef up the Bank's security function, HRMD initiated recruitment drive for hiring of ex-servicemen as Security Guards on contractual basis. A total of 157 Security Guards was inducted in FY17 while another recruitment drive for future needs in Balochistan has been initiated to augment security of the upcoming and current installations in the Bank.

(5) Hiring of Procurement Specialists for General Services Department

In order to enhance expertise in procurement area of General Services Department (GSD), an exclusive drill for the recruitment of two Procurement Specialists, has been initiated.

6.6 Career Development

One of the key objectives of HRMD is to provide career development opportunities to talented employees along with proper succession planning. Taking this very fact into consideration, HRMD successfully completed the Promotion Cycle during FY17 (**Table 6.2**). Further, the Bank's Clerical/Non-Clerical employees were offered option for change of Side/Cadre so as to provide them an opportunity to further their careers. After an exhaustive evaluation process, 50 employees were re-designated in their new Grades/Sides.

Cadre	No. of Employees Promoted
Officers	165
From Clerical/Non-Clerical Staff to Officer Cadre	7
Clerical/Non-Clerical Staff (Scale Promotions)	137
Total	309

6.7 Performance Management System

In order to improve effectiveness of Performance Management System (PMS) processes, various initiatives have been undertaken. The Bell-Curve quota distribution observed for performance year 2016-17 is given in **Table 6.3**.

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

6.7.1. Annual Merit Increase Budget

Annual Merit Increase (AMI) budget for officers was allocated at 10% of salary budget and it was tailored according to pay-for-performance principle (**Table 6.4**). Moreover, Performance Appraisal Guidelines for Employees on Extended Leave, Deputation, Leave Till Retirement (LTR) and Leave Preparatory to Retirement (LPR) etc., have also been simplified.

A	B+	B	C	D
12 percent	10 percent	8 percent	5 percent	NIL

Similarly, Clerical/Non-Clerical employees were awarded 7% performance increase across the board. Further, on the basis of rendering satisfactory performance, one-time performance award of 3% of monetized salary for the year 2016-17, as evaluated in their Performance Evaluation Reports, was given as detailed in **Table 6.5**.

Performance Categories	PER Range of Marks	Rate of one-time Performance Award per employee per year
Very Good	41-50	Rs 41,000/-
Good	31-40	Rs 34,000/-
Satisfactory	11-30	Rs 31,000/-
Unsatisfactory	0-10	Nil

6.7.2. Automation of Performance Management System

The online Performance Management System (PMS) Planning and Performance Review applications (mid-year review and appraisal phase) have been successfully implemented for the performance year 2016-17.

6.8 Employee Relations

HRMD is looking after various HR related legal matters, including verification & confirmation of employees, disciplinary matters, retirement & benefits etc. In order to foster better relations with separating employees, letter of appreciation and acknowledgement has been introduced to honor their long-term commitment. Further, confirmation/verification procedure has been streamlined wherein services of more than 116 employees have been confirmed while around 225 cases of retirement, superannuation and resignation have been finalized in FY17.

6.9 Training and Development

SBP BSC recognizes the need for development of its officers and, therefore, is committed to providing them opportunities for personal growth in line with business needs of the Bank. In line with this broad objective, HRMD continued to focus on providing a sustained and robust mechanism for meeting the capacity development needs of the Bank in terms of availability of current and future skill set, talent development and succession planning.

Training Tracks	No. of Participants
In-house/NIBAF Function Specific Training	2,040
External domestic Institutions Training Programs	225
Foreign Training	36
Total	2,301

During FY17, capacity building opportunities were provided through participation of promising employees in training programs at NIBAF, domestic institutions of repute (IBA, LUMS, PSTD, IBP etc.) and foreign training institutes. Further, Training budget to all Field Offices has been allocated for conducting in-house training sessions. Brief summary of various training tracks is given in **Table 6.6**. Major Initiatives in this regard are briefly mentioned in **Box 6.3**.

Box 6.3: Brief on Training Initiatives during FY17

(1) Conduct of Management Development Centre for OG-4 to OG-7 by SHMA Consultants

Sidat Hyder Morshed Associates (SHMA) conducted the Management Development Centre (MDC) during Q1 of FY17 (July-September 2016) for 108 officers (OG-4 to OG-7) across SBP BSC. SHMA also conducted training program for 11 selected officers of SBP BSC identified as potential Assessors to conduct in-house MDC and for 13 officers to administer the Centre in future.

(2) Management Development Program for OG-3 Officers

A specialized program was designed for OG-3 officers of SBP BSC, which comprehensively covered technical and soft skills areas e.g. cross-functional linkages of SBP and SBP BSC, leadership & managerial communication, problem solving and decision making etc. Six iterations of Management Development Program (MDP) have been successfully completed covering 135 OG-3 officers.

(3) Online exams through Learning Activity Management System

Three online exam sessions had taken place during FY17, in which 382 officers participated from across SBP BSC with a success ratio of 63.6%. Among six basic level courses offered, Issue & Treasury remained the most opted course with overall share of 24.3% (93 participants). Further, new features have now been added to the Learning Activity Management System (LAMS) Portal for easy navigation and better user experience.

(4) Skill Enhancement of Unionized Staff

Various specialized trainings were designed by HRMD, in coordination with CBA, for unionized staff. Trainings were aimed at enhancing the skills of employees such as writing, MS Excel, communication, cash operations, duties of workers as described in IRA-2012 etc.

(5) Pre-Induction Training Program of Young Professionals Induction Program-5th Batch

A 12-week training program for trainees under Young Professionals Induction Program (YPIP)-5th Batch was organized at NIBAF, Islamabad. Curriculum was reviewed and necessary amendments were made to increase effectiveness of the training program. A 6-week Hands-on-training at HOK was also arranged for these employees in four iterations.

(6) Training of Super Users for PMS Application

Training sessions for newly developed online PMS Application were organized for participants selected from Field Offices and HOK.

(7) Summer/Winter Internship Program

Internship programs for 394 students of HEC Recognized Universities were organized at 16 Field Offices and HOK.

(8) Globus Super user Training – Globus T-24 upgrade project

Globus T-24 Up-gradation Project has been successfully completed at SBP BSC with guidance & support from Information Systems Department (ISD). In this regard, a total of 1,209 officers has been trained in their respective Field Offices.

(9) Enterprise Risk Management initiative at SBP BSC

Orientation of SBPBSC employees on Enterprise Risk Management (ERM) is part of business goals of Risk Management Department (RMD) - SBP. From SBP BSC's side, HRMD is coordinating to complete the process in the most effective & efficient manner. In FY17, twenty two sessions on ERM were arranged and a total of 637 officers participated in these sessions.

6.10 Future Outlook

The prime objectives of HRMD are streamlining the HR processes, facilitating organizational change management process, creating a congenial work environment for employees as well as to attract, develop and retain highly capable human resources. In order to maintain an optimal balance of human resources, the inflow of human resources and early retirements are being monitored regularly. Moreover, workload analysis conducted through the support of an external HR consultant, will also help in determining the ideal headcount necessary to perform business functions. The Department aims to focus on skills up-gradation, leadership development, credible succession planning etc.

General Services



7 General Services

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

7.1 Overview

The provision of sustained and cost effective support services plays a crucial role towards smooth conduct of business by an organization. Presently, this job is being performed jointly by three departments of SBP BSC: General Services Department, Engineering Department and Internal Bank Security Department. They are providing common services to State Bank of Pakistan, SBP Banking Services Corporation and National Institute of Banking and Finance. They extend support services in the multifaceted areas such as procurement, consultancy, vehicles, furniture & fixtures, medical, security, travel and printing etc. The entire work related to construction of any new building for SBP (i.e. its plan, supervision and consultancy to ensure timely completion), besides renovation and maintenance of existing buildings is carried out by the Engineering Department.

7.2 General Services Department

7.2.1 Overview

Provision of cost effective, timely and quality support services to SBP and SBP BSC is a key mandate of GSD, which employs dedicated efforts to ensure the best standards of “Customer Services”. The procurement of goods and services, in accordance with Public Procurement Regulatory Authority (PPRA) 2004 and Procurement of Consultancy Services Regulations (PCSR) 2010 rules, is one of the major responsibilities of GSD. The Department provides quality services in travel, health care, salary & related benefits disbursement and printing. Moreover, GSD also provides policy inputs to various types of requests coming from SBP and SBP BSC Field Offices, relating to the procurement of different assets and services.

7.2.2 Procurement of Equipment and Services

7.2.2.1 Procurement of IT Equipment and Services

IT Equipment & Services are considered to be the lifeline of a dynamic and efficient organization. It needs not be overemphasized that the cost-effective technical up-gradation through procurement of IT Equipment & IT Consultancy Services is a major challenge. In order to meet this task, 34 major IT procurement projects covering the areas of Software, Hardware & Networking Accessories were successfully carried out during FY17. The major projects include: Real-Time Gross Settlement (RTGS) upgrade, Very Small Aperture Terminal (VSAT) Satellite Bandwidth, Call Centers equipment for Banking Conduct & Consumer Protection Department (BC&CPD) and Pakistan Remittance Initiative (PRI), Corporate Desktop IT Equipment, IT Infrastructure Servers, Countrywide Local Area Network (LAN) switches replacement, Network Intrusion Detection & Prevention System, Voice Recording Solution for Treasury Operations Department and procurement of various software / licenses renewals for different departments of SBP.

7.2.2.2 Procurement of Furniture, Fixtures, Office Equipment & Stock Items

An uninterrupted supply of frequently used goods and services by stakeholders of SBP, including general public, is crucial for the smooth functioning of the Bank and its subsidiaries. Accordingly, procurement of these items is being carried out in a productive and efficient manner. In this regard, procurement of more than 45 different indents required by departments of SBP and SBP BSC were completed during FY17. A brief description of major procurements made has been given in **Box 7.1**.

Box 7.1: Major Projects Completed

- Cash Handling Machines, Countertop and Desktop Banknote Sorters for all the Field Offices;
- Security related items including CCTV Surveillance System, Walkthrough Gates, Hydraulic Road Blockers, Baggage Scanners, Speed Gates and Turnstile, Walkie Talkies, Metal Detectors, Bullet Proof Jackets and Helmets, Security Guard Uniforms for HOK and all Field Offices;
- Fire Suppression Systems for Banknote Processing and Authentication Systems (BPAS);
- Furniture and fixtures for SBP and SBP BSC, including Heritage Meeting Rooms;
- Stock items including Stationery of all kinds, Consumables of Computer, Non Computer and Communication Items, printing material (chemicals, printing plates) paper & cards for SBP Printing Press.

Provision of services for repair and maintenance, relating to furniture & fixtures and office equipment of SBP and SBP BSC, is another function performed by GSD. During FY17, around 600 jobs were completed. Other noteworthy jobs performed by the Department included: (i) maintenance of Day Care Centre, Gymnasium and SBP Guest Houses, (ii) allotment of KDA Bungalows, Male & Female Hostels and SBP Flats at Islamabad, and (iii) arrangement of drinking water for SBP and SBP BSC HOK, etc.

7.2.2.3 Procurement of Consultancy & Services

An important segment of GSD's responsibilities consists of procurement of a broad range of consultancy services, which include Human Resource (HR), Information Technology (IT), Engineering, Financial Advisory, General Consultancy etc. During the period under review, 27 major contracts were awarded / signed. A good number of procurements which were initiated in FY17 would be finalized during FY18.

The Department takes pride in owning the role to serve as the pioneer for conducting "Regionalized Procurement". The idea of decentralization, aligned with the management philosophy, was successfully materialized through engagement of Security Firms providing services of Security Guards & Lady Searchers separately for Northern, Central and Southern Regions.

In addition to regular procurements, a number of similar jobs pertaining to Field Offices were dealt with included: seeking approvals at different stages i.e. for initiation of procurement, advertisement, payment of advertisement charges and subsequently award of different contracts. Another significant function performed by GSD is to serve as the custodian of Governor and Staff Huts. Their regular maintenance, repairs, safekeeping, booking and record maintaining etc. are being performed by GSD.

7.2.2.4 Vehicle Procurement and Maintenance

There may not be two opinions about the fact that procurement and maintenance of vehicles is a crucial task by any means. Importance of this function gets reinforced when seen in the backdrop of quantum of work to be handled for the entire SBP and SBP BSC. In this regard, vehicles amounting to Rs 69 million were procured during FY17. This procurement process encompasses multiple aspects, ranging from the purchase of entire vehicle to the issuance of number plates and other statutory requirements, if any. All these procurements have taken place with due diligence and in accordance with stringent budgetary requirements as well as PPRA rules.

GSD functions regarding maintenance of vehicles also include: (i) acting as a liaison between the Bank employees and the vendor; (ii) timely addressing the concerns of officers regarding services of the

vendor; (iii) issuance of insurance claims; (iv) payment of outstanding bills, if any; and (v) settlement of issues regarding surveyors and providing the requisite feedback, if needed.

7.2.3 Health Care and Medical Services

Continuous efforts are being made to provide the best available medical facilities with regard to Hospitals, Consultants, Laboratories and Medicines etc. Local purchase of medicines has been automated, thereby enabling the concerned officials to track the trend of local purchase issuance, if required. Project concerning the issuance of Digital Photo ID Medical Cards, initiated during the year 2014, has been completed for the active employees, whereas for retired employees, it is in the final stage. Further, in order to enhance awareness about health-related issues, various consultancy sessions & screening camps regarding multiple diseases were arranged at Head Office and Field Offices. During these sessions, renowned Consultants were invited to share their valuable knowledge on the relevant subject(s). Moreover, On-line Queue Management System for “Doctor’s Appointment” has also been installed successfully for smooth provision of Out Patient Department (OPD) services. Reconstitution of Medical Committee as Medical Review Committee is also a milestone achieved, thereby leading towards potential improvements in the medical facility extended to the serving employees / ex-employees and their dependents, besides providing an institutionalized forum for appeals against Medical Board’s decisions.

7.2.4 Printing and Publication Services

GSD is providing printing services to SBP, SBP BSC and NIBAF through the Bank’s state-of-the-art, printing press, which is equipped with new and old blend of true Offset Lithographic Technology to perform designing, printing, finishing and binding of publications. Moreover, in order to consistently manage quality standards and keep pace with the modern printing technology, a most modern Computer to Plate (CTP) machine with high resolution, crisp clear photos and brilliant colors, has been installed in the printing press.

The Bank’s Printing Press carried out printing of 1,012 jobs out of 1,020 received during FY17. A brief list of the major publications has been provided in **Box 7.2**.

Box 7.2: List of Major Publications Printed by the Printing Press

- SBP Annual Report (Volume I & II)
- SBP BSC Annual Performance Review (APR)
- Import / Export of Goods & Services
- Monthly Inflation Monitor
- Quarterly Report on the State of Pakistan’s Economy
- Performance Review of Banking System in Pakistan
- Monthly SBP Newsletter
- Miscellaneous printing jobs e.g., letter heads, certificates, forms, receipt books, invitation cards, visiting cards, greeting cards etc.

7.2.5 Employee Benefits

An important contributory factor towards successful operations of a progressive organization consists of appropriate benefits’ provision to its employees. Besides exerting a pull and retention of paramount talent, these benefits generate constructive impacts on employees’ loyalty, work habits as well as efficiency enhancement. In this regard, the following key functions are being performed by GSD in an efficient and smooth, error free/transparent manner, thereby resulting in the enhanced satisfaction of stakeholders:

- Salary disbursement to the entire staff of SBP BSC Head Office.
- Disbursement & administration of loans/advances for the entire staff of SBP BSC HOK and Chief Managers of Field Offices.
- Pension payments to the retired staff of SBP BSC.
- Payments of fund balances upon final settlement.
- Processing fund-related cases like temporary advance, NR advance and insurance etc.
- Management of leave record.
- Education benefits to the clerical / non clerical staff of SBP BSC.
- Administration of SBP BSC Merit Scholarship Scheme.

7.2.6 Travel Helpdesk Services

Provision of round-the-clock travel services to Bank Employees for their official tours, as well as private travel, if desired, is one of the major activities performed by GSD. This window offers an extensive range of services including ticketing, hotel booking, visa arrangements and travel insurance etc. Besides being cost effective, the facility is a good source of facilitation towards the officers of SBP & BSC to plan their travel requirements. The Travel Help Desk has served more than 3,000 employees of SBP and SBP BSC during FY17. Air tickets having value of around Rs 125 million were purchased, with a saving of about Rs 4 million in the form of corporate discounts / service charges etc. during FY17.

7.2.7 Future Outlook – GSD

In line with the commitment and strive for the continuous improvement and enhancement in the operational excellence, GSD plans to capitalize on IT-intensive solutions for acquiring the efficiency gains. In this regard, forthcoming major focus areas include, among others, the following:

- Introduction of system-based procurement mechanism so as to adopt the e-procurement strategy, instead of existing manual procurement system. This initiative is aimed at bringing more efficiency in the tendering process through enhanced competition, increased efficiency in payment cycle and ultimately towards greater user satisfaction.
- Improvement in the Management Information System (MIS) through broadening of the customized reporting network.
- Further decentralization of operational functions to Field Offices in alignment with the recent restructuring of SBP SBC into three regions. This initiative would facilitate efficient decision making in the organization.

7.3 Engineering Services

7.3.1 Overview

Engineering Department serves as a common services Department for SBP, SBP BSC and NIBAF with the prime objective of upgrading the physical environment through renovation of the Bank's buildings and existing infrastructure, repair/maintenance of equipment, installations of electrical, telecommunication and HVAC systems etc. It lays distinct importance to quality and timely completion of works, procures all works / services in accordance with the Public Procurement Regulatory Authority (PPRA) in a transparent manner.

7.3.2 Initiatives

During FY17, Engineering Department completed works on all its on-going and roll-over projects and, at the same time, also started new projects to improve physical working environment and enhance safety and security of workplace.

Some of the major renovation works initiated during the period are elaborated below:

Box 7.3: Initiatives

- Replacement of existing MS glazed windows with new double glazed UPVC windows at the Bank's main building in Karachi to reduce heat, noise intrusion and provide better HVAC efficiency as also to improve its outlook. Majority of the work has been completed.
- Up-gradation of physical environment of 5th floor of the main building. The job included replacement of cotton-based tiles with porcelain tiles, replacement of old false ceiling & lights with new false ceiling and LED lights.
- Re-arrangement of Seating Plan on 4th floor of the main building in order to facilitate optimization of space utilization and proper organization (work in progress).
- Improvement of security arrangements at HOK and Field Offices through various works in coordination with IBSD. These included construction of new gate offices/entrance lobbies at HOK to ensure visitors' management and facilitate implementation of e-attendance system.
- Rehabilitation of old stone building located behind the Museum & Art Gallery (M&AG) building, adjacent to SBP Health Club so as to preserve its "Cultural Heritage Site" status. The premises, now called as "Heritage Meeting Rooms", was formally inaugurated by SBP Governor on April 17, 2017.

- Resolution of more than 3000 complaints received from different internal stakeholders related to telecommunication, electrical, mechanical, civil, janitorial works etc. during the year.
- Roof treatment works of auditorium of NIBAF, Islamabad & main and annexe buildings of SBP BSC, Muzaffarabad.
- Up-gradation work of toilet blocks at five floors of the main building in Karachi. With this up-gradation, all toilet blocks of the main building have been remodeled.
- Up-gradation of toilet blocks of 2nd floor of LRC building and 3rd floor of BSC House.
- Up-gradation of bathrooms of annexe buildings at NIBAF, Islamabad.
- Installation of New Audio Conference System at LRC, Room # 101.
- Replacement of old transformer 1000KVA at Electric Substation with a larger capacity transformer of 1500KVA.
- Procurement of new diesel generating sets for HOK, Faisalabad Office, Rawalpindi Office and NIBAF, Islamabad
- Commencement of work for construction of boundary wall of SBP BSC Gwadar and Residential Block (Bachelor/Family) of SBP BSC, Quetta.
- Commencement of work for up-gradation of bathrooms of all hostel rooms at NIBAF, Islamabad.

7.3.3 Future Outlook – Engineering Department

Engineering Department shall undertake the following Mega Projects which have been approved, in principle, by the SBP Board:

Construction of SBP New Office Buildings at G-5/2, Islamabad.

Construction of SBP Office Building at Gwadar.

7.4 Internal Bank Security Department

7.4.1 Overview

The operational priorities of Internal Bank Security Department (IBSD) are devised as per the prevailing security milieu of the country and dictates of SBP and SBP BSC through effective utilization of available resources. The role of IBSD has gained prominence during recent times in the backdrop of prevailing security situation of the country. In this regard, provision of safe, secure and conducive work environment, leading to the uninterrupted banking operations at all Field Offices, is ensured through sustained in-house security mechanism and in close coordination with relevant law enforcement agencies (LEAs). For the purpose, a close liaison is also being maintained with local Police/Rangers/Civil Defence/Fire Brigade and other law-enforcement agencies for assistance on need basis.

7.4.2 Developmental Initiatives

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

- a. The first ‘Safety and Security Week’ was observed from 20 - 24 February, 2017 at HOK. The same was approved for implementation at all Field Offices.
- b. Security Policy Implementation Guidelines approved by the Implementation Committee on Security Policy and disseminated to all Field Offices.
- c. Periodical security vetting of Bank’s employees has been in process and so far 88% of verifications have been completed.
- d. Quality induction of ex - Armed Forces Security Guards in order to meet the existing deficiency of manpower.
- e. Conduct of regular Physical Efficiency Test (PET) of security personnel and firing practice were ensured.
- f. Capacity-building through on-the-job training, in-house firefighting practices and periodic Mock/Table Top exercises.
- g. Procurement and maintenance of Hi-tech equipment, training and other miscellaneous steps for the improvement of security conditions.

7.4.3 Future Outlook – IBSD

IBSD is undertaking a number of steps in order to enhance HR capacity of the Security Staff through induction of trained ex-servicemen for Quick Response Force (QRF), training the existing personnel and ensuring availability of the latest suitable security equipment at various Field Offices. Some of the future endeavors include the following:

- a. A comprehensive case for raising of QRF along with arms/ ammunition and transport for HOK and all Field Offices is being processed.
- b. Incentives and Reward for Security Guards System including “Best SG of the Month”, and Monetary Award for “Extraordinary Performance/ Act of Valor etc.” is being instituted.
- c. Procurement process of “IP-Based Cameras and Surveillance System” for HOK is being evaluated in close coordination with HRMD.
- d. E- Fencing System for Islamabad and Quetta Offices is being procured.
- e. Re-organization of IBSD, including induction of Chief Security Officer (CSO) is also being evaluated, in close coordination with HRMD.
- f. Regular coordination with Police/Rangers/Civil Defense and Fire Brigade for strengthening the operational readiness, so as to cope with potential safety/ security challenges.
- g. SBP BSC Security Manual is being compiled/ finalized.
- h. In order to improve quality of the available HR, training of personnel at various institutions is being processed.

Other Functions



Internal Audit



8 Internal Audit

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

8.1 Overview

The role of internal audit in SBP BSC is to focus on examining and evaluating whether the Organization's framework of risk management, internal controls and governance processes is adequate and functioning properly. The Internal Audit Department's responsibilities also include, among others, advising and recommending the senior management on improving internal control and risk management systems.

8.2 Working Performance

During FY17, IAD carried out annual audits of nine departments at HOK and all the Field Offices of SBP BSC. Further, 63 audit engagements were performed by Audit Hubs located at Karachi and Lahore. IT Audits of different business applications and Business Continuity Plan (BCP) were also carried out during the year. The results of audit activities have led to further improvements in the internal control environment, which would go a long way towards supporting the SBP BSC in achieving its organizational objectives.

The observations made during audit engagements were rigorously followed up by the Review and Enforcement Division of IAD. The compliance of audit observations made in audit reports and briefs of respective HOK Departments and Field Offices have been meticulously ensured so that adequate response and regularization is accomplished in a minimum time period.

8.3 Developmental Initiatives

In line with IAD's Charter, the following developmental projects have been planned and proposed by the Department for FY18:

- (1) Development of an Organization-wide Risk Rating Framework.
- (2) Development of a Risk Assessment Framework for specialized auditable areas, such as Energy, Security, HR, Health & Safety etc.
- (3) Initiation of the Thematic / Process Audits.
- (4) Development of Audit Operations Manual.

Moreover, the Internal Audit and Compliance Department (IACD) of SBP will be conducting a peer review of IAD practices against standards prescribed by the Institute of Internal Auditing (IIA). The completion of this exercise would facilitate in identification and subsequent reduction of any gaps between IAD's processes and procedures with those of IIA standards. This peer review would pave the way for an even more meticulous and independent external evaluation.

With a view to improving efficiency and reducing the redundant workload of audit management activities, a joint initiative has been taken by IAD and IACD-SBP to introduce Audit Management Software so as to automate the working of audit.

Control Environment Assessment for all auditable functions of SBP BSC have been formulated that would enable the auditors to understand the underlying controls of various processes. They (auditors) would now be able to focus more on the comprehensive control evaluation of the audited areas rather than observation-hunting.

8.4 Risk-Based Annual Audit Plan

Before the beginning of FY17, a risk-based annual audit plan was prepared for audit activities, keeping in view the organizational goals and objectives. The plan was devised by taking into account the risk factors from the risk inventory as well as inclusion of thematic / process audits. Further, the work load analysis and assessment of internal controls, based on last year's audit reports of Field Offices and Departments, was also used in preparing the plan.

8.5 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.

During FY17, the Audit Hubs conducted 63 short and targeted audits that helped in accomplishing effective monitoring of internal controls. Frequently observed weaknesses in controls, identified during audits, were highlighted in order to facilitate the management to focus on them.

8.6 Capacity Building of Internal Auditors

Enhancement of auditors' skill set and proficiency is one of the prime focus areas of IAD. Training programs, based on priority and requirement, were arranged throughout FY17. IAD personnel participated in 27 trainings during the year under review, which helped diversify skill set of the auditors, thereby enabling them to work efficiently in a variety of key areas. These capacity building initiatives also helped to inculcate latest audit techniques among officers of IAD, besides making improvements in audit practices in line with international best practices. Four specialized trainings relating to Energy Management Audit and Health & Safety Audit, were also conducted so as to enable the IAD staff to carry out audit review in such specialized areas.

8.7 Future Outlook

Looking forward, IAD has taken the initiative of adopting a more automated environment for its activities. The Department will shortly be implementing audit management software for this purpose. System requirements in this regard have already been formulated. Further, thematic / process audits are being embarked upon from this year as first of its kind activity, which will be included to the normal mix of audit assignments from the next year onwards.

IAD also plans to get its practices independently reviewed, initially by IACD and subsequently through an external third party, which will help in identifying the gaps with regard to international best practices and propose appropriate effective measures to plug those gaps.

Corporate Governance



9 Corporate Governance

Strategic & Corporate Affairs Department (SCAD) is entrusted with the responsibility to facilitate and support the Corporate Governance Framework at SBP Banking Services Corporation. The Department is responsible to steer the implementation of the Strategic Plan of SBP BSC in accordance with the Bank's Vision. Additionally, SCAD coordinates system enhancement/development and provides first-level helpdesk support relating to Globus Banking and Globus Currency Modules to all Field Offices across the country.

9.1 Overview

The prime function performed by SCAD consists of facilitating and supporting the Corporate Governance Framework at SBP Banking Services Corporation. The Department reinforces management's efforts aimed at cultivating strategic plans, delineating business goals and implementing the same in accordance with the Bank's Vision.

Corporate Secretary Division (CSD) of SCAD, facilitates holding of meetings of different forums which include, SBP BSC Board, SBP BSC Board Committees on Audit and Human Resource, Heads of Department (HoDs) Forum, Chief Managers (CMs) Conference as well as Management Committees on various areas of operations. The Department's charter permits it to serve as the repository of corporate information and records as well as to act as a proponent for the improved corporate governance.

Systems and Procedures Division (SPD) of SCAD has been assigned the task to coordinate and monitor the Business Planning exercise, in addition to facilitating Business Process Reengineering (BPR) activity. Since business processes at SBP BSC are largely driven by Globus and Oracle ERP Applications, there is a continued effort for improvement in the processes in which SCAD plays a significant role. SCAD also finalizes and updates the web content relating to SBP BSC, placed on both the internal and external websites of SBP.

Box 9.1: Highlights

- Organization of meetings relating to SBP BSC's Board and its Committees on Audit and Human Resource (HR).
- Organization of meetings relating to Heads of Department (HoDs) and Chief Managers' Forums.
- Compliance of decisions of the Board of Directors of SBP BSC and the CMT of SBP by the concerned departments of SBP BSC.
- Serving as the Secretariat for Management Committees on: (a) Business Process Re-engineering, (b) Strategy Development, (c) Publications and (d) Urdu Cooption Committee (UCC).
- Coordinating, Finalizing and Publishing of the Annual Performance Review (APR) of the Corporation.
- Steering the Strategic Planning Process at SBP BSC.
- Coordination of Business Planning Process of the Corporation.
- Streamlining BPR activities under a single domain, removing redundancy and delays.
- Centralized business applications system support for operational functions in Field Offices and HOK in coordination with Information Systems Department.
- Successful implementation of Globus T-24 Currency upgrade.
- Successful launching of Premium Prize Bond module.
- Ensured effective utilization of Globus Banking and Currency systems and Oracle application across the Corporation.

9.2 Performance Review of Strategic and Corporate Affairs Department

9.2.1 Board and its Committees

Since the establishment of the Office of Corporate Secretary (OCS) in 2015, the Department has been the focal point in facilitating the meetings of SBP BSC Board and its two Committees i.e. Audit Committee and Human Resource Committee. The Department's role is to ensure that a robust governance framework is in place, including proper documentation of policies and procedures, to facilitate the Board

and Managing Director in taking appropriate decisions towards sustainable growth of SBP BSC. SCAD acts as a conduit between the Board members, senior management and stakeholders and works towards sustainable development of the Corporation through compliance of 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 9.1**.

9.2.2 HoDs Forum/CMs Conference

The management believes in a collaborative approach towards decision making process. Heads of Department (HoDs) Forum and Chief Managers' (CMs) Conference serve as important forums for deliberating upon various significant issues and policies relating to the operations of SBP BSC. In this regard, SCAD has successfully performed all necessary functions like issuing notifications, circulating agenda, drafting / disseminating minutes and ensuring compliance of the decisions taken during the meetings of these two forums. During FY17, the HoDs and CMs forums met six times as against nine in FY16.

Sr. No.	Name of the Forum	Number of Meetings held
1.	SBP BSC's Board of Directors	05 ⁴
2.	Audit Committee of the Board	05
3.	Human Resource Committee of the Board	04 ⁵

9.2.3 Management Committees Secretariat

SCAD has also been entrusted with the responsibility of spearheading the major operational functions to support collective decision-making process of the management. The Department 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. Urdu Cooption Committee.

The meetings of these committees are held on periodical/need basis. During FY17, the Management Committees met seven times.

9.2.4 Strategic Planning at SBP BSC

Strategic planning is considered to be one of the most important tools employed for the success of an organization. The prime goal of a corporate strategic plan is the identification of the organization's objective in a lucid manner, thereby expounding an approach/system for optimal utilization of resources to accomplish them. The task regarding formulation of Strategic Plan for SBP BSC rests with SCAD. In this regard, the management has taken various key initiatives such as: a) modification in SBP BSC Ordinance; b) restructuring of the Corporation into Groups and Regions; and c) new business processes for expanding the outreach of SBP BSC. The amendments in the Ordinance have been proposed with a view to inculcating best Corporate Governance practices by strengthening the role of Board of Directors towards the appointment of Managing Director and Auditors. These amendments will provide adequate protection to the officers/staff of SBP BSC for actions taken by them in good faith. The proposed amendments would also clarify the operational role of the organization in improving the Payment Settlement System in line with the global best practices.

Moreover, the management intends to develop SBP BSC Strategic Plan with the help of a facilitator, based on various significant initiatives taken so far by it. The basic objective of this exercise is to align the SBP BSC's strategic orientation with the strategy goals defined in SBP Vision 2020.

⁴Including one exclusive meeting of SBP BSC

⁵ Including two exclusive meetings of SBP BSC

9.2.5 Business Planning at SBP BSC

Another crucial function entrusted to SCAD is to hold the annual Business Planning Exercise, where the Department not only serves as a facilitator, but also as a planning coordinator. In addition to planning, SCAD ensures continuous monitoring and manages follow-up action with departments to seek compliance on a quarterly basis. In this regard, the Department endeavors to facilitate each department in the process of monitoring the progress of an array of activities and projects approved in the Annual Business Plan. As the Business Planning Exercise entails involvement of all stakeholders throughout the process for finalization of Annual Plan, therefore, Regional Heads were also allowed to oversee Exercise of all Field Offices in their region. During the year under review, the Exercise was revamped and expanded at the Regional Level for half-yearly review meeting and approval of Business Plan for next year. Each Field Office conceptualizes projects and once cleared by the Regional Head, these are then shared with their parent Department at HOK for initial review and approval. After seeking clearance from respective Group Heads, the projects are presented to Managing Director for final approval. Once approved, the entire Business Plan is disseminated to all stakeholders in the shape of a business plan booklet. During Business Plan Exercise of FY17, a total of 290 projects of all HOK Departments and Field Offices was reviewed. **Table 9.2** shows a region-wise comparison of projects (HOK Departments, South, Central and North Regions) reviewed in the Business Plan Exercise of FY16 and FY17. Developmental Projects Booklet FY18 is in the advanced stage of finalization and is expected to be published soon.

Sr. No.	Regions	FY16	FY17
1.	HOK Departments	63	63
2.	North Region Field Offices	39	57
3.	Central Region Field Offices	60	84
4.	South Region Field Offices	43	86
Total		205	290

9.2.6 Annual Performance Review

Annual Performance Review (APR) is the flagship publication of SBP BSC which encapsulates detailed appraisal of the activities performed by different organs of the Corporation during a particular financial year. The preparation of APR includes soliciting the input/feedback from all departments regarding their key achievements, its compilation as a single comprehensive document after doing necessary editing and proofreading etc. The Management Committee on Publications supervises the finalization of APR contents and its design. SCAD, in close coordination with the printing press of SBP BSC, ensures timely printing and distribution of APR to the stakeholders.

9.2.7 Systems and Procedures

SCAD provides support and services for effective utilization of Globus Banking and Globus Currency Systems and Oracle Applications across the Corporation, which enable the senior management to review the day-to-day operations on Dashboard. For the purpose, SCAD, in close coordination with Information System Department (ISD)-SBP, continues to liaison with all departments for their active feedback, which is aimed at making periodic improvements in the operational/transactional activity and strengthening of system-based internal controls.

Area	FY17	FY16
Globus Banking	11,550	10,570
Globus Currency	4,253	3,446

The Department 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 Bond, National Savings Schemes and Export Refinance etc.) and Globus Currency until the Close of Business signal is received from all the Field Offices. A comparison of the number of incidents resolved during

FY17 and FY16 is shown in **Table 9.3**. An upsurge in incidents resolution suggests that an increasing number of employees have now been making an effective use of core Banking Solutions as also the Oracle and other applications installed across SBP BSC.

SCAD also ensures close coordination with the users throughout the process of business planning, business process re-engineering activities and improvements in the monitoring processes. As a first step, a booklet on Business Developmental Plans for FY17 was drafted, got approved from the management, and subsequently printed & disseminated across SBP BSC. Moreover, formats for recording and monitoring of Business Plan projects were modified and improved. Additionally, the modus operandi of Business Planning Exercise was also revised to incorporate the restructuring of SBP BSC with the inclusion of Group and Regional Heads.

SCAD Helpdesk facilitated in the integration of Banknote Processing and Authentication System (BPAS) Machine with the Currency Globus System as well as in the development, testing, and implementation of the new Premium Prize Bond Scheme. It also facilitated the development / testing of applications for treatment of deductions of Tax from filers/non-filers for the National Prize Bond. Various developments undertaken by SCAD team included incorporating Rs 10/- Regular coin and Rs 50/- Commemorative coin of Mr. Abdul Sattar Edhi in the system. Other significant contributions included development and testing of a new finance scheme, Prime Minister's Youth Business Loan (PMYBL) in Globus Banking and Globus Currency environments, while providing continuous system support.

9.2.8 Globus T-24 Currency Upgrade

During the year, T-24 Currency up-gradation was successfully completed across the Corporation and is live since 12th May 2017. SCAD played an active role as a part of testing/training/ implementation team for the aforementioned project. It, being part of the T-24 Project Steering Committee, continuously monitored the process. It is pertinent to mention here that Currency Helpdesk - Information System Department (ISD) and Globus Helpdesk - Systems and Procedures Division (SPD) participated in Super Users Training of T-24 across the Corporation, without impacting the daily Helpdesk Support by working for extended hours. Moreover, T-24 Banking is currently under User Acceptance Testing and is scheduled to go live in September 2017.

9.3 Going Forward

SCAD endeavors to continue its role as the neuro-center for the Bank operations and to play its part in devising effective Decision Support System (DSS) for the senior management by way of augmenting its diversified and challenging activities. One of the significant projects planned for FY18 is the development of SBP BSC Strategic Plan; for which the management has already taken significant strides in aligning it with the strategic initiatives defined under SBP 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 Globus T-24 Banking Module Application during FY18.

Financial Statements of SBP BSC



10 Financial Statements of SBP BSC

Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30th June 2017, profit and loss account, statement of comprehensive income, statement of change in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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Independent Auditor's Report

To the Board of Directors and State Bank of Pakistan

Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2017, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

A. F. Ferguson & Co.

Chartered Accountants
Karachi

Salman Hussain

Audit Engagement Partner

Dated: October 27, 2017

EY Ford Rhodes

Chartered Accountants
Karachi

Omer Chughtai

Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2017

	<i>Note</i>	2017	2016
----- (Rupees in '000) -----			
ASSETS			
Current account with the State Bank of Pakistan		50,746,464	47,810,651
Investments	5	532,178	525,525
Employee loans	6	9,481,894	10,853,432
Advances, deposits and prepayments	7	49,581	64,601
Medical and stationery consumables	8	164,822	138,878
Property and equipment	9	880,477	486,205
Total assets		61,855,416	59,879,292
LIABILITIES			
Deposits and other liabilities	10	5,657,276	5,332,294
Deferred liabilities - unfunded staff retirement benefits	11	55,198,140	53,546,998
Total liabilities		60,855,416	58,879,292
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	12	1,000,000	1,000,000
CONTINGENCIES AND COMMITMENTS	13		

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

Qasim Nawaz
 Managing Director

Muhammad Habib Khan
 Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2017

	<i>Note</i>	2017	2016
		----- (Rupees in '000) -----	
Discount and interest earned	14	31,352	38,008
Net operating expenses	15	12,495,138	13,955,950
Reimbursable from the State Bank of Pakistan		(7,423,955)	(7,544,251)
Allocated to the State Bank of Pakistan		(5,071,183)	(6,411,699)
		-	-
Operating profit		31,352	38,008
Gain on disposal of property and equipment		10,220	1,123
Other income		-	896
Profit for the year		41,572	40,027

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, 2017

	<i>Note</i>	2017	2016
		----- (Rupees in '000) -----	
Profit for the year		41,572	40,027
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Loss on remeasurements of defined benefit plans Allocated to the State Bank of Pakistan	15.2.6	(1,667,758)	(12,173,824)
		1,667,758	12,173,824
		-	-
Total comprehensive income for the year		41,572	40,027

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, 2017**

	Share capital	Unappropriated profit	Total
	-----	(Rupees in '000)	-----
Balance as at July 1, 2015	1,000,000	-	1,000,000
Total comprehensive income for the year	-	40,027	40,027
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(40,027)	(40,027)
Balance as at June 30, 2016	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total comprehensive income for the year	-	41,572	41,572
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(41,572)	(41,572)
Balance as at June 30, 2017	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>

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, 2017

	<i>Note</i>	2017	2016
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	<i>16</i>	15,868	30,071
Profit transferred to the State Bank of Pakistan		(41,572)	(40,027)
Income on Government securities received during the year		15,201	28,577
(Increase) / decrease in assets		(10,503)	18,621
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		(1,535,308)	575,665
Medical and stationery consumables		(25,944)	(6,399)
Employee loans		1,371,538	(275,575)
Advances, deposits and prepayments		15,020	(25,494)
Increase in liabilities			
Deposits and other liabilities		793,505	31,319
Net cash generated from operating activities		608,308	318,137
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		(6,370)	26,451
Capital expenditure		(620,765)	(352,231)
Proceeds from disposal of property and equipment		18,827	7,643
Net cash used in investing activities		(608,308)	(318,137)
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

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

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, 2017

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 Retirement benefits

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

3.3.2 Useful life and residual value of property and equipment

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

3.3.3 Provision against obsolete medical and stationery consumables

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

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

The following standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standards	Effective date (annual periods beginning on or after)
- IFRS 9 - Financial instruments	January 1, 2018
- IFRS 15 - Revenue from contracts with customers	January 1, 2018
- IFRS 16 - Leases	January 1, 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time.
- IFRS 17 - Insurance contracts	January 1, 2021
Amendments	
- IAS 7 - Statement of cash flows: on disclosure initiative	January 1, 2017
- IFRS 2 - Share-based Payments: clarifying how to account for certain types of share-based payment transactions	January 1, 2018
- IFRS 4 - Insurance contracts: regarding the implementation of IFRS 9, 'Financial instruments'	January 1, 2018
- IAS 40 - Investment property: relating to transfers of investment property	January 1, 2018
- IFRS 10 - Consolidated Financial Statements and IAS 28 - Investment in Associates and Joint Ventures: regarding sale or contribution of assets between an investor and its associate or joint venture	Date yet to be finalised
- IAS 12 - Income Taxes: on recognition of deferred tax assets for unrealised losses	January 1, 2017
Interpretations	
- IFRIC 22 - Foreign currency transactions and advance consideration	January 1, 2018
- IFRIC 23 - Uncertainty over income tax treatment	January 1, 2019
Improvements	
- IFRS 1 - First-time adoption of IFRS: regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10	January 1, 2018

- | | | |
|---|--|-----------------|
| - | IFRS 12 - Disclosure of interests in other entities: regarding clarification of the scope of the standard. | January 1, 2017 |
| - | IAS 28 - Investments in associates and joint ventures: regarding measuring an associate or joint venture at fair value | January 1, 2018 |

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.

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

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2016 but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are, therefore, not disclosed in these financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented.

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

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

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

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

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise of current account with the State Bank of Pakistan, employee loans and other advances and deposits.

c) Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation has a positive intent and ability to hold till maturity.

d) Available for sale financial assets

These are the non derivative financial assets which are either designated in this category or which do not fall in any of the other categories.

4.1.1.2 Initial recognition and measurement

All financial assets are recognised at the time the Corporation becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Corporation commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value while the transaction costs associated with these financial assets are taken directly to the profit and loss account. Any difference between the fair value of consideration given and the amount determined using the valuation techniques detailed in note 4.1.4 to these financial statements is recognised in the profit and loss account.

4.1.1.3 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

a) Financial 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 the profit and loss account.

b) Assets classified as 'available for sale'

In case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any evidence for impairment exists, the cumulative loss is removed from other comprehensive income and recognised in the profit and loss account. For investments, other than equity instruments, the increase in fair value in a subsequent period thereby resulting in reversal of impairment is reversed through profit and loss account. Impairment losses recognised in profit and loss account on equity instruments are not reversed through profit and loss account.

4.1.2 Financial liabilities

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits and other liabilities.

4.1.3 Derecognition of financial assets and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.1.4 Fair value measurement principles

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

4.1.5 Offsetting of financial assets and financial liabilities

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

4.2 Employee loans

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

4.3 Medical and stationery consumables

Medical and stationery consumables are valued at lower of weighted average cost and the net realisable value.

Provision for obsolete items is determined based on the management's assessment regarding their future usability.

Net realisable value represents estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

4.4 Property and equipment

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

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

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

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic 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. Under this scheme, contribution is made both by the Corporation and employee at the rate of 6% of the monetized salary. The Corporation provided an option to employees covered under old scheme to join the funded New Contributory Provident Fund Scheme - NCPF (new scheme) effective from July 1, 2010. Under this scheme contribution is made by both the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new scheme.
- b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for this new scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.
- c) the following other staff retirement benefit schemes:
 - an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
 - a funded New Gratuity Fund (NGF) which was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
 - an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of 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 fund plans are recognised as an expense in the profit and loss account as and when incurred.

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 2017. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur. The amount arising as a result of remeasurement is allocated to the State Bank of Pakistan however, the liability is retained in the balance sheet of the Corporation.

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

4.8 Revenue recognition

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

4.9 Taxation

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

4.10 Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable

estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

	Note	2017	2016
----- (Rupees in '000) -----			
5. INVESTMENTS			
Held to maturity			
Market Treasury Bills	5.1 & 5.2	<u>532,178</u>	525,525
		<u>532,178</u>	525,525

5.1 Market Treasury Bills carry mark-up at the rate of 5.91% to 5.99% per annum (2016: 6.00% to 6.26% per annum) and are having maturities from August 3, 2017 to September 14, 2017 (2016: August 18, 2016 to June 8, 2017).

5.2 The fair value of these investments as at June 30, 2017 is Rs. 532.062 million (2016: Rs. 525.970 million). Market Treasury Bills have been revalued on the basis of yields published by Reuters (PKRV) for Government securities.

	Note	2017	2016
----- (Rupees in '000) -----			
6. EMPLOYEE LOANS			
Considered good		9,481,894	10,853,432
Considered doubtful		<u>7,737</u>	7,610
	6.1	9,489,631	10,861,042
	6.2	<u>(7,737)</u>	(7,610)
Provision against doubtful loans		<u>9,481,894</u>	10,853,432

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. 12.974 million (2016: Rs. 13.487 million) that carry mark up at 10% per annum (2016: 10% per annum). Maximum maturity of loans is upto year 2056 (2016: year 2056).

These loans have been given in respect of:-

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

	Note	2017	2016
----- (Rupees in '000) -----			
6.2 Provision held against employee loans			
Opening balance		7,610	8,366
Charge for the year		127	-
Reversals during the year		-	(756)
Closing balance		<u>7,737</u>	7,610

Annual Performance Review of SBP BSC - FY17

7. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances, deposits and prepayments	40,844	55,964
Others	8,737	8,637
	49,581	64,601

8. MEDICAL AND STATIONERY CONSUMABLES

Note

Medical and stationery consumables	8.1	165,894	139,845
Provision against obsolete items		(1,072)	(967)
		164,822	138,878

8.1 These include stocks of medicine, stationery, engineering items and printing press.

Note

2017
------(Rupees in '000)-----

2016

9. PROPERTY AND EQUIPMENT

Operating fixed assets	9.1	880,477	440,381
Capital work-in-progress		-	45,824
		880,477	486,205

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2017							Annual rate of depreciation %
	Cost		Accumulated Depreciation				Net book value as at June 30, 2017	
	As at July 01, 2016	Additions / (deletions)	As at June 30, 2017	As at July 01, 2016	Charge for the year / (deletions)	As at June 30, 2017		
	------(Rupees in '000)-----							
Furniture and fixtures	147,456	11,086 (30,866)	127,676	102,357	9,426 (30,655)	81,128	46,548	10
Office equipment	1,096,573	567,498 (31,959)	1,632,112	901,308	113,496 (31,587)	983,217	648,895	20
EDP equipment	550,587	12,328 (32,653)	530,262	419,907	66,031 (32,314)	453,624	76,638	33.33
Motor vehicles	168,219	75,677 (33,827)	210,069	98,882	28,933 (26,142)	101,673	108,396	20
	1,962,835	666,589 (129,305)	2,500,119	1,522,454	217,886 (120,698)	1,619,642	880,477	

	2016						Net book value as at June 30, 2016	Annual rate of depreciation %
	Cost		Accumulated Depreciation					
	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		
------(Rupees in '000)-----								
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
	1,675,116	306,407 (18,688)	1,962,835	1,390,451	144,171 (12,168)	1,522,454	440,381	

	Note	2017	2016
------(Rupees in '000)-----			
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	15.2.10	4,455,316	4,923,839
Deposits		637,791	92,804
Others		564,169	315,651
		<u>5,657,276</u>	<u>5,332,294</u>
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
Gratuity		2,815	2,327
Pension		38,656,505	37,457,883
Benevolent fund scheme		1,194,678	1,308,845
Post retirement medical benefits		14,491,690	13,911,141
Six months post retirement benefits		113,160	100,956
	15.2.4	<u>54,458,848</u>	<u>52,781,152</u>
Provident fund scheme		739,292	765,846
		<u>55,198,140</u>	<u>53,546,998</u>
12. SHARE CAPITAL			
		2017	2016
(Number of shares)		------(Rupees in '000)-----	
Authorised share capital			
Ordinary shares of Rs. 1,000,000 each		<u>1,000,000</u>	<u>1,000,000</u>
Issued, subscribed and paid-up capital			
Fully paid-up ordinary shares of Rs. 1,000,000 each			
- issued for cash		509,000	509,000
- issued against consideration in kind		491,000	491,000
		<u>1,000,000</u>	<u>1,000,000</u>

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13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

Claims against the Corporation not acknowledged as debts	13.1.1	<u>2,962</u>	<u>2,962</u>
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13.1.1 These mainly represent various cases filed by ex-employees of the Corporation on account of computational differences in settlement of their retirement benefit amounts. The management believes that these cases will be decided in favour of the Corporation and hence no provision has been recognised in these financial statements.

<i>Note</i>	2017	2016
	----- (Rupees in '000) -----	

13.2 Commitments

Capital commitments	13.2.1	<u>68,840</u>	<u>548,624</u>
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13.2.1 This represent amounts committed by the Corporation to purchase assets from successful bidders.

14. DISCOUNT AND INTEREST EARNED

		2017	2016
		----- (Rupees in '000) -----	
Interest income on Government securities		30,685	37,410
Interest on employee loans		<u>667</u>	<u>598</u>
		<u>31,352</u>	<u>38,008</u>

15. NET OPERATING EXPENSES

	<i>Note</i>	2017	2016
		----- (Rupees in '000) -----	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		5,709,601	6,153,682
Rent and taxes		37,604	25,550
Insurance		12,979	7,309
Electricity, gas and water		323,968	304,736
Repair and maintenance		218,083	189,716
Auditors' remuneration	15.1	7,000	5,950
Legal and professional		9,270	11,078
Travelling		16,864	21,725
Daily expenses		30,638	26,897
Passages / rest and recreational allowance		258,419	198,127
Fuel		2,810	3,002
Conveyance		17,456	16,818
Postages and telephone		11,399	12,898
Training		203,964	146,112
Remittance of treasure		132,636	92,744
Stationery		10,408	9,444
Books and newspapers		1,813	1,626
Advertisement		11,028	32,011
Bank guards charges		147,587	117,499
Uniforms		34,984	28,493
Others		<u>225,444</u>	<u>138,834</u>
		7,423,955	7,544,251
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	15.2 to 15.2.10	4,853,297	6,267,528
Depreciation	9.1	217,886	144,171
		<u>5,071,183</u>	<u>6,411,699</u>
		<u>12,495,138</u>	<u>13,955,950</u>

15.1 Auditors' remuneration

	2017			2016		
	EY Ford Rhodes	A.F.Ferguson & Co.	Total	EY Ford Rhodes	A.F.Ferguson & Co.	Total
	----- (Rupees in '000) -----					
Audit fee	2,500	2,500	5,000	2,090	2,090	4,180
Out of pocket expenses	1,000	1,000	2,000	885	885	1,770
	3,500	3,500	7,000	2,975	2,975	5,950

15.2 Staff retirement benefits

15.2.1 Charge for the year in respect of defined contribution plan amounted to Rs. 42.187 million (2016: Rs. 33.403 million).

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

	2017	2016
- Discount rate for year end obligation	7.75% p.a.	7.25% p.a.
- Salary increase rate (where applicable)	8.75% p.a.	8.25% p.a.
- Pension increase rate (where applicable)	6.25% p.a.	4.75% p.a.
- Medical cost increase rate (where applicable)	7.75% p.a.	7.25% p.a.
- Petrol price increase rate (where applicable)	8.75% p.a.	8.25% p.a.
- Personnel turnover	9.2% p.a.	18.1% p.a.
- Normal retirement age	60 Years	60 Years

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

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

Discount rate risk

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

Salary increase / inflation risk

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

Mortality risk

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

Withdrawal risk

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

Pension Increase risk

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

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15.2.4 Change in present value of defined benefit obligation

	2017					Total
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
-----Rupees in '000-----						
Present value of defined benefit obligation as on July 1, 2016	37,457,883	2,327	13,911,141	1,308,845	100,956	52,781,152
Current service cost	807,936	297	244,963	2,599	6,529	1,062,324
Interest cost on defined benefit obligation	2,570,905	169	987,219	89,143	7,244	3,654,680
Benefits paid	(3,994,261)	-	(588,656)	(158,576)	(2,064)	(4,743,557)
Liability transferred from SBP	15,507	-	17,763	1,121	2,100	36,491
Remeasurements:						
Actuarial(gains)/ losses from changes in financial assumptions	1,894,062	-	244,469	(30,690)	8,517	2,116,358
Experience adjustments	(95,527)	22	(325,209)	(17,764)	(10,122)	(448,600)
Present value of defined benefit obligation as on June 30, 2017	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848

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

15.2.4.1 Amount recognised in the Statement of Comprehensive Income

	2017					Total
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
-----Rupees in '000-----						
- Actuarial(gains)/ losses from changes in financial assumptions	1,894,062	-	244,469	(30,690)	8,517	2,116,358
- Experience adjustments	(95,527)	22	(325,209)	(17,764)	(10,122)	(448,600)
						1,667,758

	2016					Total
	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
-----Rupees in '000-----						
- Actuarial(gains)/ losses from changes in demographic assumptions	4,592,822	-	776,061	186,113	(13,076)	5,541,920
- Actuarial losses from changes in financial assumptions	886,201	82	100,134	153,061	3,660	1,143,138
- Experience adjustments	6,156,988	270	(737,920)	60,679	8,749	5,488,766
						12,173,824

15.2.5 Amount recognised in the profit and loss account

2017						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
Current service cost	807,936	297	244,963	2,599	6,529	1,062,324
Interest cost on defined benefit obligation	2,570,905	169	987,219	89,143	7,244	3,654,680
Contribution made by employees	-	-	-	(15,748)	-	(15,748)
	3,378,841	466	1,232,182	75,994	13,773	4,701,256

2016						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
Current service cost	949,876	241	285,440	53,236	5,465	1,294,258
Interest cost on defined benefit obligation	2,580,604	154	1,358,758	9,1062	8,216	4,038,794
Contribution made by employees	-	-	-	(8,471)	-	(8,471)
	3,530,480	395	1,644,198	135,827	13,681	5,324,581

15.2.6 Movement of present value of defined benefit obligation

2017						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
Net recognised liabilities at July 1, 2016	37,457,883	2,327	13,911,141	1,308,845	100,956	52,781,152
Amount recognised in the profit and loss account	3,378,841	466	1,232,182	75,994	13,773	4,701,256
Remeasurements	1,798,535	22	(80,740)	(48,454)	(1,605)	1,667,758
Benefits paid during the year	(3,994,261)	-	(588,656)	(158,576)	(2,064)	(4,743,557)
Employees contribution	-	-	-	15,748	-	15,748
Liability transferred from SBP	15,507	-	17,763	1,121	2,100	36,491
Net recognised liabilities at June 30, 2017	38,656,505	2,815	14,491,690	1,194,678	113,160	54,458,848

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

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
----- (Rupees in '000) -----			
Pension			
Discount rate	1%	(2,735,883)	3,257,576
Salary increase rate	1%	965,929	(915,824)
Pension increase rate	1%	2,244,404	(1,881,937)
Expected mortality rates	1 Year	417,095	(415,063)
Gratuity Scheme			
Discount rate	1%	(167)	177
Salary increase rate	1%	181	(167)
Post retirement medical benefits			
Discount rate	1%	(2,057,144)	2,638,715
Medical cost increase rate	1%	2,664,168	(2,100,552)
Salary increase rate	1%	51,765	(47,817)
Expected mortality rates	1 Year	267,936	(265,178)
Benevolent fund scheme			
Discount rate	1%	(56,242)	63,318
Six months post retirement facility			
Discount rate	1%	(5,500)	6,126
Salary increase rate	1%	6,379	(5,838)
Petrol Increase Rate	1%	6,379	(5,838)

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

15.2.8 Duration of defined benefit obligation

Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
8 Years	6 Years	16 Years	5 Years	5 Years

The weighted average duration of the defined benefit obligation is

15.2.9 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2018

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2018 would be as follows:

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
----- Rupees in '000 -----						
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,995,879	218	1,123,106	92,588	8,770	4,220,561
Amount chargeable to profit and loss account	3,737,104	553	1,454,389	95,274	16,214	5,303,534

15.2.10 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 4,455.316 million (2016: Rs. 4,923.839 million). An amount of Rs. 109.854 million (2016: Rs. 942.947 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, 2018 would be Rs. 566.161 million. The benefits paid during the year amounted to Rs. 589.822 million (2016: Rs. 1,464.415 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 166.057 million and Rs. 184.907 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. 199.215 million and Rs. 182.852 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 4 years.

	2017	2016
	----- (Rupees in '000) -----	
16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS		
Profit for the year	41,572	40,027
Adjustments for:		
Interest income on Government securities	(15,484)	(8,833)
Gain on disposal of property and equipment	(10,220)	(1,123)
	(25,704)	(9,956)
	15,868	30,071

17. RELATED PARTY TRANSACTIONS

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

The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by 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:

	2017	2016
	----- (Rupees in '000) -----	
Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity		
Balances at the year end - transferred to State Bank of Pakistan		
Payable against training programs	32,849	51,760
Transactions during the year - reimbursable from State Bank of Pakistan		
Training expense charged during the year	132,820	114,845

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

	2017			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
Financial assets				
----- (Rupees in '000)-----				
Current account with the State Bank of Pakistan	-	50,746,464	-	50,746,464
Investments	532,178	-	-	532,178
Employee loans	-	-	9,481,894	9,481,894
Advances and deposits	-	-	14,049	14,049
	<u>532,178</u>	<u>50,746,464</u>	<u>9,495,943</u>	<u>60,774,585</u>
2016				
	Sovereign	Banks & Financial Institutions	Others	Grand Total
----- (Rupees in '000)-----				
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>

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:

	2017		
	Sovereign (18.2.3.1)	Unrated	Grand Total
Financial Assets			
----- (Rupees in '000)-----			
Current account with the State Bank of Pakistan	-	50,746,464	50,746,464
Investments	532,178	-	532,178
Employee loans	-	9,481,894	9,481,894
Advances and deposits	-	14,049	14,049
	<u>532,178</u>	<u>60,242,407</u>	<u>60,774,585</u>

	2016		
	Sovereign (18.2.3.1)	Unrated	Grand Total
Financial Assets	----- (Rupees in '000)-----		
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>

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

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

	Gross amount		Impairment / Provision	
	2017	2016	2017	2016
	----- (Rupees in '000)-----			
Employee loans	<u>7,737</u>	<u>7,610</u>	<u>7,737</u>	<u>7,610</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.

	2017						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)-----						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	50,746,464	-	50,746,464	50,746,464
Investments	516,694	-	516,694	15,484	-	15,484	532,178
Employee loans	1,006	11,968	12,974	1,657,173	7,811,747	9,468,920	9,481,894
Advances and deposits	-	-	-	5,312	8,737	14,049	14,049
	<u>517,700</u>	<u>11,968</u>	<u>529,668</u>	<u>52,424,433</u>	<u>7,820,484</u>	<u>60,244,917</u>	60,774,585
Financial liabilities							
Deposits and other liabilities	-	-	-	1,201,960	-	1,201,960	1,201,960
On balance sheet gap	<u>517,700</u>	<u>11,968</u>	<u>529,668</u>	<u>51,222,473</u>	<u>7,820,484</u>	<u>59,042,957</u>	59,572,625
Capital Commitments	-	-	-	68,840	-	68,840	68,840
Off balance sheet gap	-	-	-	<u>68,840</u>	-	<u>68,840</u>	68,840
Total yield / interest risk sensitivity gap	<u>517,700</u>	<u>11,968</u>	<u>529,668</u>	<u>51,153,633</u>	<u>7,820,484</u>	<u>58,974,117</u>	59,503,785
Cumulative yield / interest risk sensitivity gap	<u>517,700</u>	<u>529,668</u>	<u>1,059,336</u>	<u>52,212,969</u>	<u>60,033,453</u>	<u>119,007,570</u>	119,007,570
	----- (Rupees in '000)-----						
	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
	----- (Rupees in '000)-----						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	47,810,651	-	47,810,651	47,810,651
Investments	516,692	-	516,692	8,833	-	8,833	525,525
Employee loans	1,036	12,451	13,487	1,739,077	9,100,868	10,839,945	10,853,432
Advances and deposits	-	-	-	4,412	8,637	13,049	13,049
	<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>	59,202,657
Financial liabilities							
Deposits and other liabilities	-	-	-	408,455	-	408,455	408,455
On balance sheet gap	<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>	58,794,202
Capital Commitments	-	-	-	548,624	-	548,624	548,624
Off balance sheet gap	-	-	-	<u>548,624</u>	-	<u>548,624</u>	548,624
Total yield / interest risk sensitivity gap	<u>517,728</u>	<u>12,451</u>	<u>530,179</u>	<u>48,605,894</u>	<u>9,109,505</u>	<u>57,715,399</u>	58,245,578
Cumulative yield / interest risk sensitivity gap	<u>517,728</u>	<u>530,179</u>	<u>1,060,358</u>	<u>49,666,252</u>	<u>58,775,757</u>	<u>116,491,156</u>	116,491,156

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

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

18.6 Currency risk management

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

18.7 Liquidity risk management

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

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2017		
	Loans and receivables	Held to maturity	Total
	------(Rupees in '000)-----		
Financial assets			
Current account with the State Bank of Pakistan	50,746,464	-	50,746,464
Investments	-	532,178	532,178
Employee loans	9,481,894	-	9,481,894
Advances and deposits	14,049	-	14,049
	<u>60,242,407</u>	<u>532,178</u>	<u>60,774,585</u>
	2016		
	Loans and receivables	Held to maturity	Total
	------(Rupees in '000)-----		
Financial assets			
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>
	2017		2016
	------(Rupees in '000)-----		
Financial liabilities - at amortised cost			
Deposits and other liabilities		1,201,960	408,455

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 26, 2017 by the Board of Directors of the Corporation.

22. CORRESPONDING FIGURES

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

23. GENERAL

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts



Newly-inaugurated Heritage Meeting Rooms Building at State Bank of Pakistan, Karachi.