

Annual Performance Review

2017-18



SBP BANKING SERVICES CORPORATION

Annual Performance Review

2017 - 18



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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 2017-18. 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

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About SBP Banking Services Corporation

Being a functional subsidiary of State Bank of Pakistan, the 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 and subsidies through its Field Offices across Pakistan.

Priorities

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

Strategic Framework

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

Goals

- *Acquiring high level of satisfaction of stakeholders through*
- *Improving efficiency*
- *Reducing processing time*
- *Maintaining responsive attitude towards customers*
- *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 (SBP BSC) was set up as its operational arm 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

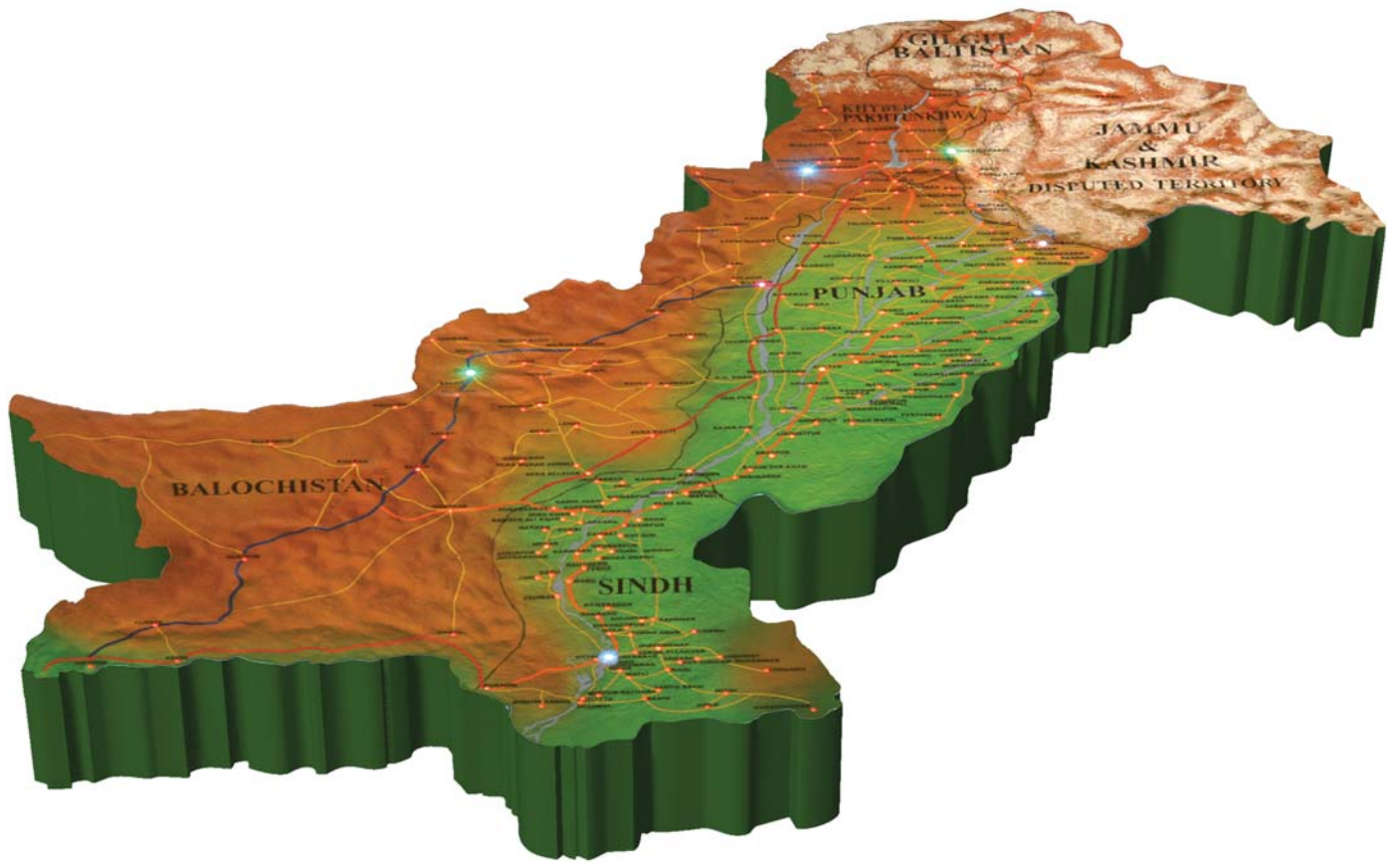
1. SBP BSC, Bahawalpur
2. SBP BSC, Faisalabad
3. SBP BSC, Gujranwala
4. SBP BSC, Lahore
5. SBP BSC, Multan
6. SBP BSC, Sialkot

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 others, including the Publications Review Committee of the Board and the Management Committee on Publications for their contribution.

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List of Acronyms

ADC	Alternate Delivery Channel
AD	Authorized Dealer
AGPR	Accountant General Pakistan Revenue
AMS	Audit Management Software
BACES	Biometric and Access Control System
BDS	Banknote Destruction System
BPAS	Banknote Processing and Authentication System
BPR	Business Process Re-engineering
CAP	Collection Automation Project
CBA	Collective Bargaining Agent
CDNS	Central Directorate of National Savings
CGSMF	Credit Guarantee Scheme for Small and Marginalized Farmers
CGS-SRE	Credit Guarantee Scheme for Small and Rural Enterprise
CM	Chief Manager
CMS	Currency Management Strategy
CMT	Corporate Management Team
CoD	Charter of Demand
CRRS	Control Risk Rating System
CSR	Corporate Social Responsibility
DAP	Data Acquisition Portal
DFIs	Development Finance Institutions
DPC	Deposit Protection Corporation
DSC	Defence Saving Certificate
EDI	Electronic Data Interchange
EFEs	Electronic Forms-E
EFS	Export Finance Scheme
EFT	Electronic Fund Transfer
ELMS	Executive Letter Management System
eQMS	Electronic Queue Management System
ER	Expenditure Regulation
ERM	Enterprise Risk Management
FBR	Federal Board of Revenue
FEA	Foreign Exchange Adjudication
FERA	Foreign Exchange Regulation Act
FX	Foreign Exchange
GDP	Gross Domestic Product
HoD	Head of Department
HVAC	Heating, Ventilation, and Air Conditioning

IERS	Islamic Export Refinance Scheme
ISD	Information System Department
ITRS	International Transaction Reporting System
KM	Knowledge Management
KPI	Key Performance Indicator
LAMS	Learning Activities Management System
LEAs	Law Enforcement Agencies
LTFF	Long Term Financing Facility
MCGF	Micro Credit Guarantee Facility
MFI	Micro Finance Institution
MFP	Microfinance Provider
MIS	Management Information System
MSS	Medical Services System
NFIS	National Financial Inclusion Strategy
NFLP	National Financial Literacy Program
NIBAF	National Institute of Banking & Finance
NIC	Notes-in-circulation
NIFT	National Institutional Facilitation Technologies
NPB	National Prize Bond
NSS	National Saving Scheme
PCSR	Procurement of Consultancy Services Regulations
PET	Physical Efficiency Test
PFI	Participating Financial Institution
PMYBL	Prime Minister's Youth Business Loan
PPRA	Public Procurement Regulatory Authority
PSPC	Pakistan Security Printing Corporation
PSTD	Pakistan Society for Training & Development
QRF	Quick Response Force
RCSA	Risk and Control Self Assessment
RSP	Rural Support Program
RTGS	Real-Time Gross Settlement
SBP	State Bank of Pakistan
SBP BSC	State Bank of Pakistan Banking Services Corporation
SME	Small and Medium Enterprise
SSC	Special Saving Certificate
TT	Telegraphic Transfer
UAT	User Acceptance Test
UVIS	Under Vehicle Inspection System
WeBOC	Web-Based One Customs
WLA	Workload Analysis

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

The SBP Banking Services Corporation (SBP BSC), the largest subsidiary of the SBP, plays a pivotal role in achieving the strategic objectives of State Bank in general, and those mentioned in SBP's Vision 2020, in particular. The reliable and efficient operational support provided by SBP BSC to SBP in the areas of i) currency management, ii) banking to governments, banks including other financial institutions, iii) foreign exchange operations, iv) implementation and dissemination of the policies of SBP relating to development finance and financial inclusion, v) provision of common services and vi) managing Corporate Social Responsibility activities, have contributed to further enhance the efficiency and the outreach of banking system in the unbanked areas of the country. I would continue to ensure that both SBP and SBP BSC work in collaboration to achieve common goals in all areas.



The bank-wide automation drive of SBP BSC in government banking, currency, forex operations and development finance, has helped management in achieving major milestones in general and in the areas of service delivery and turnaround time, in particular. The role of SBP BSC to upgrade core banking solution from Globus to T-24 platform is also very effective. An efficient and effective utilization of automation in currency operations by Field Offices of SBP BSC will help managing larger volumes of banknotes. The performance of the Banknote Processing and Authentication System (BPAS) machines has encouraged us to procure more machines and the process has already been initiated.

Pursuant to process improvement, SBP BSC can now pay prize money along with the face value of the selected denomination of prize bonds to their holders by crediting their designated bank accounts. Going forward, this facility shall also be available for remaining denominations. The sale of Premium Prize Bonds, through selected branches of five big banks is also encouraging, though I would like issuance of these bonds through branches of other banks as well.

An enhancement in the capability of SBP BSC for tracking and monitoring foreign exchange related trade transactions by using Web-Based One Customs (WeBOC) and International Transaction Reporting System (ITRS) of SBP will help in minimizing gaps in our foreign exchange regime. During FY19, implementation of a fully-automated workflow management system namely, Knowledge Management, by SBP BSC forex operations would further strengthen the foreign exchange operations.

SBP BSC also helps SBP to promote its various policy interventions and programs for financial inclusion, particularly in the areas of SME, Agriculture and Low-Cost Housing. These activities provide inducement to banks as also stakeholders in improving/availing financing facilities for the purpose. The performance of SBP in achieving the first year targets set in the recently launched five-year National Financial Literacy Program (NFLP) is very satisfying.

SBP BSC remained focused on attracting, training, and retaining high caliber Human Resources during FY18, through a competitive process and provision of pre-induction and post-induction training by NIBAF, as well as nominating its officers for training at other domestic and foreign institutions. The launch of an e-learning portal has also augmented efforts to train its employees to manage operational challenges.

The role of support services in a large and diverse organization like SBP BSC as also SBP remains significant. I must highlight the valuable efforts made by SBP BSC relating to property management, provision of healthcare and procurement services, and sports activities. While acknowledging the role of SBP BSC in managing different sports activities, I expect that SBP BSC will also finalize its recommendations for additional sports activities for FY19.

I would like to congratulate the Managing Director SBP BSC and his team for their accomplishments. I am confident that the management of SBP BSC will continue to achieve further milestones.

TARIQ BAJWA

Governor

State Bank of Pakistan

Performance Overview 2017-18

The SBP Banking Services Corporation continued to strive towards achieving excellence in delivering quality services to all its customers and stakeholders by making efforts to accelerate automation of its core and support functions through business process re-engineering, which resulted in efficient workload management, reduced turn-around time and better risk management.



The efforts to restructure the Corporation have also made considerable headway this year as all Group and Regional Heads have taken charge of their respective functions. These measures will facilitate SBP BSC in improving its service standards further, despite increase in the quantum of work and the changing market expectations.

In line with State Bank's primary responsibility to maintain a safe and efficient national payment system, the SBP BSC serves as a Banker to the Governments (Federal/Provincial/District), Banks and Development Finance Institutions (DFIs). SBP BSC also provides various banking services to SBP and its subsidiaries. All these services are primarily performed by its 16 Field Offices and a wide network of authorized branches of National Bank of Pakistan. Moreover, the Bank of Punjab is also providing collection service to the Government of Punjab. Besides extending these services, the Accounts Department of SBP BSC continued to undertake its responsibility diligently regarding provision of technical and operational support, data collection & consolidation and its reporting to SBP and major government authorities on periodic and need basis.

In line with SBP Vision 2020, SBP BSC worked in close coordination with the Finance Department of SBP, to bring critical improvements in key operational areas of payment and financial systems of the country, in general, and in rolling out government collections through Alternative Delivery Channels (ADCs), in particular. The taxpayers using ADCs can now directly deposit their dues in government accounts using ATMs and internet banking without visiting banks' branches. The new initiative started in March, 2018 and has led to collection of Rs 1.0 billion from taxpayers until June 2018. It is expected to be a major channel for deposit of government taxes in future on account of ease and convenience in its use. A major initiative of the current year was upgradation of the core banking system from Globus G-11 to a more advanced T-24 platform. The Information Systems Department (ISD)-SBP, was given active support from a large number of super users from Accounts Department, Strategic & Corporate Affairs Department (SCAD) as well as Field Offices of SBP BSC. The upgrade exercise involved conducting multiple mock exercises and User Acceptance Tests (UATs), and has resulted in improved system performance, better control environment, efficient archiving functionality and robust disaster recovery options.

During FY18, SBP BSC processed approximately 8.0 million transactions of government payments/receipts, registering an increase of 14.5% over the past year. SBP BSC, with the assistance of other players, helped in collection of over Rs 3.9 trillion tax revenue during FY18 i.e. 15% higher than last year. Banks deducted and deposited with SBP BSC an aggregate amount of Rs 7.3 billion as Zakat during the year. Despite growth in electronic banking transactions, the instrument-based payments did not see any decline as National Institutional Facilitation Technologies (NIFT) processed 64.7 million instruments during FY18 as compared to 64.5 million in FY17.

Notes-in-circulation (NIC) has been increasing steadily in the economy; on an aggregate basis the notes in circulation doubled during the last four years, thus posing a serious challenge of smooth distribution of fresh notes and lifting of high quantum of soiled notes from the market for subsequent destruction. Despite reduction in work force, the Currency Management Department of SBP BSC took various initiatives to ensure smooth and consistent supply of fresh notes throughout the year, especially during religious festivals and managed issuance of fresh notes amounting to Rs 1,199 billion to banks and public – a 25% increase over last year.

Like previous years, 8877 SMS service remained an effective tool for issuance of fresh notes of small denomination to the general public during the month of Ramadan as 1,519 designated branches of commercial banks and 16 Field Offices of SBP BSC jointly issued over Rs 40 billion to 2.2 million members of general public in 132 cities across Pakistan, as compared against Rs 25 billion issued to 1.5 million people in 120 cities last year. Additionally, Rs 367 billion were issued to commercial banks for their ATM operations and meeting the demands of their customers. To help Payment Systems Department (PSD) of SBP keep an effective oversight on ATM operations of banks during Ramadan, SBP BSC deployed dedicated verification teams across Pakistan and provided feedback to PSD by using a real-time complaint management regime through messaging service to dedicated WhatsApp groups. This helped the PSD in identifying the real cause for ATM downtime.

To improve banknotes distribution strategy, SBP BSC, in close coordination with Finance Department of SBP, developed and promoted “Interbank Exchange of Cash” platform as a pure market mechanism, enabling banks to handle daily demand/supply of fit banknotes independently. This will eventually limit the role of SBP BSC, in line with international best practices relating to the issuance of fresh notes only, and lifting of soiled notes from the market for destruction.

In the pursuit of Currency Management Strategy (CMS), the Corporation is in the advanced stages of procuring state-of-the-art processing, authenticating, and destruction systems for its major Field Offices. Likewise, all Field Offices have been equipped with desktop and countertop note sorters for processing of heavy amount of cash and ensuring provision of 100% machine authenticated banknotes at their cash counters. It is anticipated that the acquisition of Pakistan Security Printing Corporation (PSPC) by SBP will further augment efforts for effective currency management. These significant achievements are paving the way for a modern and fully automated cash market in Pakistan.

SBP BSC manages various savings schemes and National Prize Bonds (Registered and Bearer) on behalf of the Central Directorate of National Savings (CDNS). With a view to facilitating the holders of National Prize Bonds (NPBs), SBP BSC offered them a new option to receive payment of higher prize money as well as the face value of Prize-winning Bonds, through direct credit into their bank accounts. Encouraged by the overwhelming public response to this option, SBP BSC now plans to further expand it to all prize money amounts during the next fiscal year. Additionally, multiple new SOPs were put in place to improve services at sale/encashment counters. A successful pilot launch of electronic queue management system (eQMS) was conducted at North Nazimabad Office, Karachi. Based on the experience of this pilot project, the system is being replicated in other Field Offices as well, in a phased manner.

Though investment in Premium Prize Bonds is picking up, however, their issuance only from the Offices of SBP BSC constrained their outreach. In a bid to scale up the sale of these Bonds, SBP BSC has recently launched a project to issue them through selected branch networks of the five large commercial banks.

Foreign Exchange Operations Department (FEOD)¹ of SBP BSC has continued to provide support to SBP in implementing its policy instructions concerning foreign exchange by meticulously following the Foreign Exchange Manual and the policies related to trade, commercial and private remittances. In FY18, FEOD also started paying more attention to monitoring of transactions of foreign trade and their offsite verification. Operational efficiency of the Department has been improved through large-scale automation and enhanced capacity of the workforce.

FEOD in a bid to provide reliable and effective support to SBP has made an extensive usage of Web-Based One Customs (WeBOC) data to identify fake E-forms, duplicate payments against same or fake import documents. Further it has made use of WeBOC and International Transaction Reporting System (ITRS). This includes an initiative for discontinuation of submission of returns by the stakeholders in physical form. This has enabled ensuring integrity of the data as FEOD identified and rectified 38,056 discrepancies in data reported by banks. Furthermore, it has unearthed the identity of 161,799 undetected and unreported Electronic Forms-E (EFEs) by commercial banks.

FEOD is in the process of establishing Electronic Data Interchange (EDI) with Customs Department to further enhance its capacity to monitor FX operations relating to trade. As FEOD is using multiple applications therefore, a project “Integration of FX Data Universe” has been conceptualized for FY19 to ensure greater efficiency in use of IT-based system support for the purpose. Its completion will greatly help the FEOD to improve its oversight on foreign trade transactions falling in its domain.

Knowledge Management (KM) and ERM are two other major initiatives initiated by SBP BSC for gradual implementation. While KM is aimed at automating end-to-end workflows within and across the departments, ERM will strengthen the risk management capability at SBP BSC. The work on KM is likely to be completed during next financial year; however, the work in the area of ERM is still at an initial stage.

FEOD is also entrusted with the responsibility of making payment to exporters under various schemes announced by the Federal and/or Provincial Governments. During FY18, it handled around 19 schemes of Federal as well as Punjab and Sindh Governments and ensured timely disbursement of Rs 50 billion as subsidy to the eligible trade entities as compared to Rs 30 billion in FY17.

More than 19,000 cases of commercial, private and trade related remittances including remittances against FE allocation involving an amount of USD 3.9 billion and exposure of USD 89.3 million through issuance of bank guarantees were processed during FY18. Special attention was given to identification of duplicate and fake import documents. Due to these efforts, USD 12.8 million were repatriated to Pakistan during FY18, which were remitted abroad based on incomplete/incorrect documents as import payments. Further, complaints against 19 importers have been lodged with FIA for their failure to repatriate USD 10.5 million. Penalty of PKR 102 million has been recovered from importers for their failure to import goods within the specified regulatory period. FEOD also identified more than 400 illegal FX dealers at the behest of Exchange Policy Department.

¹ The policy and market for Foreign Exchange are dealt with and supervised by the Exchange Policy and Domestic Money Market Departments of SBP. BSC only deals with matter relating to commercial foreign exchange transactions.

FEOD's new instructions and active follow-up led to three-fold increase in timely reporting of 58,056 cases of export overdues involving USD 1,225 million by commercial banks and ensured timely repatriation of USD 887 million during FY18. This also helped in filing of 13,420 complaints by FEOD against exporters for non-realization of export proceeds amounting to USD 191.6 million to FEA Courts in FY18 as against 1,966 cases amounting to USD 78 million last year.

The responsibilities of FEOD relating to realization of stuck-up export proceeds by delinquent exporters and other areas managed by it, are now being actively supported by FEA forum handling complaints regarding violation of different sections of FERA-1947, in general, and Section 12(1), in particular. Three new Adjudication forums were established this year at Lahore, Quetta and Rawalpindi and the SOPs for recovery were revamped resulting in a record realization of export proceeds of USD 133.7 million during FY18 as against USD 78.7 in FY17. During the process, FEAD settled 5,857 complaints in FY18 as compared to 3,308 last year.

SBP BSC has been supporting SBP in developing a market-based inclusive financial system catering to the financial needs of all segments of the economy through facilitation in the implementation of different policies relating to three priority areas i.e. SMEs, Agriculture & Housing Finance, along with SBP's initiatives relating to Microfinance and Islamic Banking.

In the area of Development Finance during FY18, SBP BSC was entrusted with the task to launch a five-year National Financial Literacy Program (NFLP) to improve the skill set of the unbanked population in understanding elementary financial knowledge and also to persuade them to open Basic Banking Accounts. The program was rolled out across 77 districts of Pakistan through our all Field Offices, in collaboration with commercial/ microfinance banks and partner institutions (NGOs, Microfinance Institutions and Rural Support Programs), with the aim of reaching 1 million beneficiaries of which 50% should be women, in five years. To ensure availability of trainers in required numbers, SBP BSC, in coordination with NIBAF and individually, held 21 sessions for the training-of-trainers in which 382 bankers were coached as field trainers for conducting NFLP. Up to 30th June 2018, these trainers conducted 4,270 classroom sessions in most underserved districts of the country that were attended by nearly 100,000 individuals, of which nearly 35% were females wherein 47,000 participants also opened Mobile/Asaan accounts. In addition SBP BSC rolled out NFLP Student Ambassador Plan, which engaged university students to deliver lectures at NFLP sessions during their summer/winter vacation.

The SBP BSC also conducted a number of focus group sessions and meetings with stakeholders, bankers and farmers that facilitated disbursements of Rs 973 billion of financing to farmers against the target of Rs 1,001 billion for FY18.

SBP BSC continued to take various initiatives to ensure implementation of special schemes introduced by SBP in terms of which commercial banks can obtain re-imburement of their funds disbursed to eligible borrowers. SBP BSC Field Offices have managed disbursement of an aggregate amount of Rs 737.7 billion under the Export Finance Scheme (EFS). SBP has authorized SBP BSC to conduct verification of refinance loans availed under EFS and Islamic Export Refinance Scheme (IERS). During FY18, SBP BSC teams conducted verification of 12,532 cases under both EFS and IERS for which banks availed refinance of around Rs 560 billion in total; Rs 466.4 billion and Rs 93.1 billion for EFS and IERS respectively. The verification exercise resulted in the imposition of penalties of Rs 11.7 million on delinquent banks.

SBP has also initiated various credit enhancement schemes which have been implemented by SBP BSC since their inception. During FY18, SBP BSC issued guarantees to banks against financing of Rs 6.8 billion extended by them to different eligible borrowers belonging to 60 different sectors in order to support broad based financial growth. Further, subsidies amounting to Rs 844 million were

processed for onward submission to Finance Division, GoP, under the Prime Minister's Youth Business Loan (PMYBL) Program to promote young entrepreneurs and capitalize on Pakistan's young population demographics.

In order to properly disseminate policy initiatives of SBP and ensure their proper implementation by the financial sector, SBP BSC Field Offices conducted 89 focus group meetings pertaining to SMEs (20), Agri. Finance (17), Microfinance (19), Islamic Banking (17), Housing Finance (11), Islamic SME Finance (1) and Joint sessions (4). Apart from these usual interactive sessions, the SBP Governor also launched concessionary refinance and credit guarantee schemes for women entrepreneurs in remote and underserved areas.

At the inception of SBP BSC in 2001, its overall workforce was around 6,000, which has been reduced by around 54% as on end June 2018, thus posing a major challenge to meet the expectations of stakeholders, especially in view of increased workload in the organization. Therefore, the Human Resources Management Department (HRMD) has to undertake a massive hiring drive while ensuring compliance to the statutory quota requirements. These measures such as hiring of Young Professionals Induction Program for OG-2, and Officers Training Program for OG-1 batches enabled the induction of quality HR to meet the needs as assessed under a workload analysis conducted by an external consultant. In addition to direct hirings, HRMD also inducted specialized professionals in the areas of Security, Procurement and Engineering.

Many automation projects such as implementation of Biometric and Access Control System (BACES) and Executive Letter Management System (ELMS) at HOK were completed with the future goal of its implementation at all Field Offices in FY19 and onwards. A Performance Management System was implemented on Cash-Side officials to provide them equal career progression opportunities and ensure a seamless merger of Cash and General side. During FY18, Charter of Demand (CoD) with the Collective Bargaining Agent (CBA) for two years was concluded.

Training presents a prime opportunity to expand the knowledge base of employees while ensuring their personal growth in line with the business needs of the Bank. 3,444 participants were provided training at NIBAF and other prestigious institutes including IBA-Karachi, LUMS-Lahore, PSTD-Karachi, IBP during FY18. Twenty-eight officers were sent for foreign training, exposure visits and participation in seminars. SBP BSC has taken initiatives for e-learning through NIBAF e-learning Portal and in-house (LAMS), through which officers can enrich their knowledge in the areas of soft skills and specific functions. Taking a step towards self-improvement of employees in an automated way, an e-learning portal was also launched by NIBAF on test-basis, through which employees will be able to access and complete 300 different courses of soft and IT skills. Earlier, SBP BSC had also designed its own e-learning module (LAMS) using expertise of its own officers. Under this program, 285 officers registered themselves for appearing in examination process.

The dynamic nature of business at SBP and its subsidiaries demand provisions of continuous support and efficient services. General Services Department (GSD), Engineering Department and Internal Bank Security Department (IBSD) have ensured provision of common support services to SBP and its subsidiaries in a smooth and efficient manner. GSD has played a pivotal role in facilitating various departments in their procurement as per budgeted targets by offering services for procurement of goods and services in compliance with Public Procurement Regulatory Authority (PPRA) criteria. Lead-time in procurement has been reduced by rationalizing work processes and optimizing the use of technology. Moreover, the provision of Healthcare to eligible employees of SBP, SBP BSC and NIBAF remained one of the main services provided by GSD. The current year witnessed the use of various initiatives like online appointments and facility of medical team e-mail group. Similarly, the services provided by the printing press under GSD

remained of top quality whether it be a regular bulletin like “State Bank News” or different flagship publications of SBP and SBP BSC.

Considering the prevailing security situation and associated challenges, the role of IBSD has gained prominence in ensuring safe, secure and conducive work environment for the employees of SBP, SBP BSC, DPC and NIBAF. This year saw various initiatives like conducting regular Physical Efficiency Tests (PET) of guards and training of personnel for managing varying level of security threats to the organization. Establishment of fully equipped Quick Response Force (QRF) from available guards and increased coordination with external agencies are on the cards for the upcoming year to further fortify the security of the stakeholders. The development of security personnel and staff is an ongoing feature exercised by IBSD by keeping itself abreast with the upcoming security challenges.

Engineering Department has rendered common services to improve the physical environment of various buildings and departments of SBP and its subsidiaries. During the outgoing year, various upgradations relating to electrical, telecommunication, civil and HVAC systems were carried out in different buildings across Pakistan as also campus of NIBAF, Islamabad including limited residential facilities. Moreover, architectural designs for new office buildings at Islamabad, Gujranwala and female hostel in Karachi were approved from the relevant authorities. In the year ahead, the Department has planned to work on electronic platform for improvement of its procurement activities through e-Procurement System. Another initiative that will yield its benefit in coming years is formulation of Standard Operating Procedures (SOPs) for different engineering works and related activities.

During FY18, Internal Audit Department (IAD) conducted 87 audits as per its annual program or through its Hub. An important audit exercise started by IAD relates to Thematic Audit, and during the year the Department conducted 15 thematic audits and its scope was broadened to the areas of development finance and foreign exchange operations. The IAD intends to include Banking and Currency operations for Thematic Audit in FY19. Capacity of Internal Monitoring Units (IMUs) at Field Offices was also enhanced by arranging trainings, audit conferences through holding of meetings of Audit Forum, which were attended by all audit officers and select officials of IMUs.

IAD has played a crucial part in establishing a strong introspective culture by performing independent and objective assessment of organization-wide risk management and governance practices. The successful rollout of Quality Assurance and Improvement Program and implementation of Audit Management Software (AMS) has further enhanced the quality of internal controls in the outgoing year.

A detailed peer review of IAD’s practices, in collaboration with Internal Audit and Compliance Department (IACD) of SBP, against prescribed standards of Institute of Internal Auditing (IAA) is in planning phase. Realizing the crucial role of technology in SBP BSC’s operations, IAD is exploring the concept of “Technology Risk Assessment” to further re-inforce the organization’s internal control mechanism. Going forward, the alignment of IAD’s Control and Risk Rating System (CRRS) framework with the Risk and Control Self-Assessment (RCSA) framework of Enterprise Risk Management (ERM) will be very beneficial for the organization.

SBP BSC has also been undertaking various initiatives as a part of its Corporate Social Responsibility (CSR). On an annual basis, summer/winter internship programs were offered to students of major universities across Pakistan at Head Office in Karachi and all the Field Offices. Various sports and recreational activities were arranged for the employees of SBP, SBP BSC and NIBAF. Sports tournaments including cricket, football, badminton and table tennis were conducted in FY18.

It may be added here that despite SBP BSC's significant successes in the outgoing year, we are not oblivious to the need for pursuing excellence. We are keeping a close eye on the market trends and evolving needs of the stakeholders and aim to further automate different processes at SBP BSC. We are committed to providing intelligent solutions to dynamic business requirements. To achieve this, we will continue to plan and invest in innovation and governance as well as try to keep ourselves ahead of the curve.

The accomplishments presented in this report would not have been possible without the commitment and unwavering efforts of the management of SBP, its officers as also members of our unionized and non-unionized work force. I would like to thank all of them for their dedication and commitment towards achievement of strategic objectives of the organization. I acknowledge with deep appreciation the continuous support and guidance extended by SBP BSC Board, Human Resources, Security Review and Audit Committees, Governor State Bank of Pakistan, FRM, DFG, Operations and BPRG, to enable us to achieve our strategic objectives.

I am confident that with the support of all our stakeholders, the Corporation will continue to prosper and achieve greater heights in the times to come.

QASIM NAWAZ
Managing Director
SBP Banking Services Corporation

Governance Structure of SBP Banking Services Corporation

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

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

Board of Directors

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

The Board of Directors of SBP BSC is comprised of:

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

The members of Board of Directors of State Bank of Pakistan include 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.

Mr. Tariq Bajwa is serving as Governor, SBP since July 7, 2017. Mr. Jameel Ahmad² and Mr. Shamsul Hasan³ joined as Deputy Governors on April 11, 2017 and February 12, 2018 respectively. Earlier, Mr. Riaz Riazuddin remained Deputy Governor until his term ended on March 29, 2018.

The Board of SBP BSC met six times during FY18 and provided strategic leadership and oversight to the management in corporate restructuring, amendments in SBP BSC Ordinance 2001, significant policies and financial statements etc.

² Mr. Jameel Ahmad remained Deputy Governor, SBP from April 11, 2017 to October 15, 2018. He was reappointed as Deputy Governor, SBP on October 25, 2018.

³ Mr. Shamsul Hasan remained Deputy Governor, SBP from February 12, 2018 to October 4, 2018.

Board of Directors⁴



Mr. Tariq Bajwa, Governor, Chairman Board of Directors and Chairman Monetary Policy Committee

A career civil servant by profession, Mr. Bajwa joined the Civil Service of Pakistan in 1981 and assumed various Secretariat, Field and Staff assignments, including, amongst others, General Manager PIA, Head of Pakistan's Trade Mission in Los Angeles, and Advisor Finance to the United Nations Development Program (UNDP). Mr. Bajwa also served as Chairman, FBR for over 2 years till October 2015, before his appointment as Secretary, Economic Affairs Division. He retired as Secretary Finance Division on June 18, 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 holds an LLB from the University of the Punjab, Lahore.



Mr. Arif Ahmed Khan (Member, SBP Board since January 9, 2018)
Secretary, Finance Division, Government of Pakistan and ex-officio member of the Board. A civil servant with 35 years of experience in Public Administration. He has served the federal and provincial governments in various positions. Mr. Khan holds a Masters in Public Policy from Concordia University, Quebec. Before joining Finance Division, he served as Secretary Economic Affairs Division, Secretary Interior and Secretary Climate Change. Mr. Khan has served as Additional Chief Secretary, Planning and Development Department, Government of Sindh. He was Secretary Finance for the Government of Sindh during 2012-13. Prior to that, he remained Home Secretary to the Government of Sindh for three and a half years.



Dr. Tariq Hassan (Member, SBP Board since March 22, 2016)
Attorney and Advocate, Supreme Court of Pakistan and Chairman, Audit Oversight Board. Dr. Hassan is a former Chairman, Securities and Exchange Commission of Pakistan and has served as advisor to the Finance Minister of Pakistan and Governor, SBP. He has also been associated as legal Counsel with the World Bank Group in Washington, DC, International Fund for Agriculture Development in Rome, and Shearman & Sterling in New York. In addition to practicing law, he has been teaching law as an adjunct professor at George Washington University and Fletcher School of Law & Diplomacy, USA and Departments of Law at LUMS and International Islamic University, Pakistan. He is also Chairman, PCP (Pakistan Centre for Philanthropy) Panel. He did his PhD in Juridical Science from Harvard University, USA.

⁴ Board Composition as of June 30, 2018.



Hafiz Mohammad Yousaf (Member, SBP Board since March 22, 2016)
A Chartered Accountant by profession with professional experience of over 30 years. He had served as Member SECP Board and President, Institute of Chartered Accountants of Pakistan, besides holding other important responsibilities. He is Fellow member of Institute of Chartered Accountants of Pakistan.



Mr. Zubyr Soomro (Member, SBP Board since March 22, 2016)
Zubyr Soomro graduated from the London School of Economics and then obtained an MA from SOAS (London University). He also has several Executive Courses from the Harvard Business School and the Harvard Kennedy School in Financial Inclusion. He has been a career international banker with over 30 years at Citibank with assignments in the Middle East, Turkey, UK and Pakistan. In 1997 he was appointed as Chairman and President of United Bank and tasked with restructuring it for Privatization after which he stayed on to head Citibank's Pakistan franchise. Since his retirement from Citibank he has been consulting on strategy and governance, primarily in the financial sector. He has been Chairman / President of Pakistan Banks Association, American Business Council, OICCI and the Pakistan Microfinance Investment Company. Currently, he is on the Boards of the Grameen Foundation USA, EFG Hermes, LRBT, Acumen and Aitchison College.



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



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 MerckMarker Pvt. Ltd and manages its financial and business development areas. Mr. Marker holds a Masters 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 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 the Customs & Excise. Mr. Riaz has also served as Counsel General of Pakistan at Turkey and Commercial and Economic Counselor at Embassy of Pakistan in France. He holds a Masters 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 was also on the Board of Governors of Chand Bagh School. He was Chief Executive of Interhom Ltd. Presently, Mr. Amin is Chairman of Samin Textiles Limited besides being member of the Boards of several conglomerates. He is also honorary Consul of the Republic of Austria for Pakistan and has received the high award ‘Goldenes Ehrenzeichen’ from the president of Austria. He graduated from the University of the Punjab, Lahore, and later went to the London School of Economics (LSE).



Mr. Qasim Nawaz (Managing Director SBP BSC)

Mr. Qasim Nawaz, a business graduate from the Quaid-i-Azam University, Islamabad, joined the State Bank in April 1988. During his over 30 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 exports and industries. Mr. Qasim Nawaz, who is serving as Managing Director (MD) SBP BSC since 2014, is also a member on the Boards of National Institute of Banking and Finance (NIBAF) and Pakistan Security Printing Corporation (PSPC), as SBP’s nominee. He has also served SBP BSC as its MD from 5th September, 2009 to 17th September, 2012.

Committees of the Board of SBP BSC

The SBP BSC Ordinance 2001 allows the subsidiary to set up committees consisting of an adequate number of directors, having specific Terms of Reference, 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 four committees of the Board, which look after the matters relating to Human Resources (HR), Audit, Security and Publication. The details of these committees are as under:

A. Human Resources Committee*

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 ^{5*} | Member |
| 3. Managing Director, SBP BSC | Member |

B. Audit Committee

The committee assists the Board on issues relating to audit and reviews audit proposals, which are required to be submitted to the Board. During the year under review, the committee held eight 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 |

C. Security Review Committee**

The committee provides input to the management on existing safety aspects of the Bank. It reviews the existing security measures in place for protection and safety of all human and physical assets of the Bank including cyber-related security components and security of gold vaults. During the year under review, the committee held three meetings and is comprised of the following members:

- | | |
|-------------------------------------|----------|
| 1. Mr. Mohammad Riaz ^{6**} | Chairman |
| 2. Khawaja Iqbal Hassan | Member |

D. Publications Review Committee***

The committee is mandated to assist the Board in fulfilling its oversight responsibilities relating to the review and approval of the Annual Performance Review (APR) and other publications of SBP BSC. The committee is comprised of the following members:

- | | |
|--------------------------------------|----------|
| 1. Mr. Ardeshir Khursheed Marker | Chairman |
| 2. Mr. Mohammad Riaz ^{7***} | Member |
| 3. Managing Director, SBP BSC | Member |

^{5*} Mr. Ardeshir Khursheed Marker has joined the HRC since August 31, 2018.

^{6**} Dr. Tariq Hassan has joined the SRC since August 31, 2018.

^{7***} Mr. Zubyr Soomro has joined the HRC since August 31, 2018.

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, and is assisted by a team of Group Heads, Directors, Heads of Department, Regional Heads and Chief Managers.

Heads of Department Forum

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

Chief Managers Forum

This forum, which consists of Regional Heads and Chief Managers of SBP BSC's Field Offices situated in 15 major cities of Pakistan, mainly discusses the operational areas and suggests measures for improvements.

Network & Financial Management



Banking Services to Governments & Banks



1 Banking Services to Governments and Banks

As a statutory obligation on behalf of State Bank of Pakistan, the SBP Banking Services Corporation carries out the operational work relating to the Banker to Governments and Banks through its 16 Field Offices and a wide network of authorized branches of National Bank of Pakistan (NBP). Moreover, Bank of Punjab (BoP) also provides collection service to the Government of Punjab for E-Stamping, Punjab Revenue Authority (PRA) and Land receipts.

1.1 Overview

In terms of section 21 of SBP Act 1956, read with section 15 (3) (e) of SBP BSC Ordinance 2001, SBP BSC provides banking services to the Federal, Provincial and District Governments through its Field Offices, National Bank of Pakistan (NBP) and Bank of Punjab (BoP). It also provides banking services to banks falling within the domain of each Field Office.

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 real time basis vide Collection Automation Project (CAP II).
- c) Facilitating Government Departments for settlement of payments and receipts through agents of SBP i.e. National Bank of Pakistan and the Bank of Punjab (receipts only).
- 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

Government banking is one of the primary responsibilities entrusted to SBP BSC by SBP. In pursuance thereto, SBP BSC maintains accounts of Federal, Provincial and Local Governments in its Head Office and 16 Field Offices. Besides maintenance of Government accounts, SBP BSC also provides services regarding Government payments / receipts / remittances, consolidation of Government balances maintained across the country and reporting thereof to the concerned stakeholders i.e. Finance Department-SBP, Accountant General of Provinces, Accountant General Pakistan Revenue (AGPR) and Pakistan Railways etc.

During FY18, SBP BSC processed approximately 8.0 million transactions of Government payments/receipts through its Field Offices as against 7.0 million in FY17, depicting an increase of about 14% (Table 1.1).

Transactions	2017-18	2016-17	2015-16
Receipts	3.47	2.74	3.74
Payments	4.59	4.30	4.27
Total	8.06	7.04	8.01

Being an operational arm of SBP and the facilitator of payment and settlement system for governments, the Accounts Department of SBP BSC provides operational support to Finance Department and Payment Systems Department (PSD) of SBP. As part of SBP's Vision 2020, the Accounts Department, in collaboration with Finance and Payment Systems Departments, has initiated various projects for automation of Government payments and receipts using advanced banking technologies and payment systems infrastructure. For this purpose, Accounts Department facilitated

and coordinated with Finance Department in developing a mechanism for online collection of FBR taxes and duties through Alternative Delivery Channels (ADCs) e.g. ATMs and Internet Banking. The new mechanism initiated from 20th March 2018, provides an end-to-end automated system to process such transactions using ADCs. Under this facility, the taxpayers can now deposit their dues while sitting at their homes/offices without visiting banks' branches. Apart from facilitating the taxpayers, this project has also allowed expeditious credit to the Government Treasury. The usage of this mechanism is slowly picking up and since its start and up to 30th June 2018, an amount of Rs 1.0 billion was paid by tax payers to the Government.

Another important project is online payment of sales tax refunds through Electronic Fund Transfer (EFT) mode. Under this project, a new mechanism has been designed whereby thousands of sales tax refunds are now credited to the bank accounts of tax payers in a more efficient and effective manner. Previously, such payments were made through the process of individual Government cheques drawn in favor of each beneficiary.

Accounts Department has also made concerted efforts for consolidation of military payments. Under the existing procedure, one cheque is issued to each beneficiary pertaining to each payment, which results in issuance of huge number of Government cheques. Accounts Department, after various meetings with the Controllers of Military Accounts and Naval Accounts, has devised a procedure for consolidation of cheques whereby one cheque per bank is being issued at few military units, in Quetta, Karachi, Lahore and Rawalpindi. Moreover, Accounts Department is further planning to bring the benefits of such consolidation at other units for which efforts are underway.

Apart from these projects, the Department also facilitated the Information Systems Department (ISD)-SBP as an active partner to undertake a comprehensive upgradation of core banking system of SBP BSC (i.e. Globus implemented in 2004-05) to T-24, bringing it in line with the advanced technology available across the globe. This upgradation allowed significant improvements in computing and transactions processing of the Corporation, besides allowing better controls. Some of the technical benefits of this upgradation include:

- High scalability and system performance due to improved architecture.
- Faster end of day process due to multithread logic of T-24.
- Enhanced Security features.
- Efficient archiving functionality that will reduce operational overhead of data maintenance.
- New modules can be procured and added (Treasury Trader Module, Biometric Security, International Bank Account Number, etc.)
- Twenty-four hour transaction capturing facility for retail banking.
- Robust disaster recovery options.
- Single view of customer's entire product portfolio.

1.3 Reporting of Zakat Balances

Maintenance, consolidation 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 7.3 billion Zakat was collected and deposited with SBP BSC by various institutions as compared to Rs 8.1 billion in FY17.

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 ensured reporting of tax collection to FBR on real time basis.

The tax revenue collected by SBP BSC Field Offices and network of NBP branches and credited to the concerned accounts of Federal Government during FY18 was around Rs 3,917 billion as compared to Rs 3,395 billion in FY17, depicting an increase of more than 15% (Table 1.2).

Head of Account	Receipts				
	FY14	FY15	FY16	FY17	FY18
Sales Tax	1,011	1,114	1,345	1,333	1,539
Federal Excise	151	165	187	197	206
Customs	263	335	452	532	649
Income Tax	880	1,024	1,199	1,332	1,523
Total	2,305	2,638	3,183	3,395	3,917
Notes:					
1. Totals may exhibit slight difference due to separate rounding off.					
2. Aforementioned figures may slightly vary from FBR as adjustments have not been accounted for.					

1.5 Banker to Banks

SBP BSC maintains Current Accounts of banks to facilitate both computations of Cash Reserve Requirements mandated by SBP and day-to-day operational requirements of banks. Previously, only NBP was involved in Government collection process, but with the establishment of ADCs, all banks can now take part in the process of collecting Government revenues. This initiative has been appreciated widely by banks since it allows them to offer another service to their customers/account holders.

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 FY18, around 64.7 million instruments were processed through NIFT in normal, special, same-day, intercity, dollar and return clearing, as against 64.5 million in FY17.

Accounts Department and Payment Systems Department have developed detailed guidelines covering the processes, timelines, responsibilities as well as dispute resolution mechanism in order to standardize further the clearing operations in the country.

1.7 GL and Reconciliation / Budget

Accounts Department has prepared financial statements for the year ended on June 30, 2017 in accordance with the International Financial Reporting Standards (IFRS). In pursuit of implementing the best accounting practices and to effectively utilize ERP Oracle Application, the Department has developed / revised various policies and practices in Budgeting, Reconciliation and Asset Management to further strengthen the monitoring and control mechanism.

1.8 Major Achievements

Major achievements of Accounts Department are mentioned below:

Box 1.2: List of Major Achievements

1. A new mechanism for collection of FBR duties and taxes through ADCs. After extensive efforts, in terms of rules / procedural changes as well as system developments, this project was made live on 20th March 2018.
2. Automation of Sales Tax Refunds using Electronic Funds Transfer (Online) mode. Under this mechanism, SBP BSC, Islamabad is processing Sales Tax Refunds.
3. Upgrade of Banking Globus to T-24. SBP BSC's core banking software (Globus) was upgraded to the near latest version, significantly improving its capability and efficiency.
4. Consolidation of military cheques whereby processing of thousands of cheques on monthly basis would be reduced to less than a hundred per month.
5. Automated solution for checking claims of banks regarding reimbursement of TT charges against home remittance. Previously such checking used to be conducted manually. Now Audit Command Language (ACL) - based mechanism has been developed for efficient and effective monitoring/reconciliation.
6. Coordination with Finance Department for development of SOPs regarding collection under Tax Amnesty Scheme (Declaration and Repatriation of Foreign Assets). Furthermore, the Department assisted Finance Department-SBP in the aforementioned collection process.
7. Implementation of Maintenance Module and i-Asset Modules in ERP Oracle for better controls in Asset Management.
8. Revamping of fixed asset disposal policy and enhancement of Asset capitalization limit.

1.9 Operational Projects

Major operational projects of Accounts Department are mentioned below:

Box 1.3: List of Major Operational Projects

1. Following revisions in SBP BSC Expenditure Regulations (ER) have been approved by the SBP BSC Board:
 - a. Powers of SBP Governor and the Management Committees were enhanced.
 - b. Revision in Para 46 (Recruitment Charges) of SBP BSC ER in order to make fee payments to testing agencies on sharing/partial basis.
 - c. Delegation of MD's Power to Director HRMD under ER 40-ii (Training Schemes - NIBAF related trainings).
2. Incorporation of various system-based validation controls to ensure that valid cheques/ bills are passed.
3. Standardization of SOPs for Clearing Operation through short credit of remote bank branches.
4. Developed a centralized file sharing mechanism to provide access of donor Powers of Attorney (PoA) to Field Offices.
5. Development of various reports in system regarding Government reporting, budget monitoring, etc. for efficiency.

1.10 Future Outlook

1. The outlook of SBP BSC in Banking, Payment Systems, Accounting and Finance is primarily derived from SBP's Vision 2020. Thereunder, Accounts Department aims to further improve the efficiency and effectiveness of its banking operations through Business Process Reengineering (BPR) as well as by adopting automated technologies. The Department will continue to modernize its systems & procedures and rationalize the decision making process through improved methodology for workload assessment that will enable it to rationalize its resource allocation.
2. The Department plans to introduce and implement out of the box and modern solutions to the Government banking system, such as collections and payments through e-banking/online banking, that will be promoted through non-traditional channels such as ATMs, internet banking accounts, mobile banking accounts etc. Further, a well-connected and integrated model is being considered for improved communication with all Government banking stakeholders which would allow swift and smart reporting.
3. The Accounts Department aims to tackle the areas of risk as well as workload by undertaking BPR projects both internal and external (i.e. in coordination with Government Departments) in order to do away with the redundant practices, besides developing an efficient Government banking system able to achieve excellence of service delivery with minimum cost.

2 Currency Management

Currency Management Department (CMD) aims to ensure efficient end-to-end distribution of good quality banknotes and coins through careful monitoring of stock positions. The Department undertakes this responsibility, with the help of its four Issue Circles, located in provincial headquarters. Additionally, CMD also manages printing, distribution and operational aspects of Government Savings Schemes such as National Prize Bonds, Premium Prize Bonds (Registered) and other National Savings Schemes, on behalf of the Central Directorate of National Savings (CDNS). With a view to bringing currency management practices in the organization at par with the international best practices, CMD continuously endeavors to introduce new technologies, while ensuring that they are compatible with local environment and requirements.

2.1 Overview

With a view to ensuring effective policy implementation regarding currency management and government savings schemes, CMD maintains close coordination with SBP's Finance Department and the Central Directorate of National Savings in discharging its responsibilities. CMD's foremost objectives include ensuring: i) equitable and smooth distribution of good quality banknotes and withdrawal of soiled notes through 16 Field Offices, 224 NBP chest/sub-chests and commercial banks; ii) operational management of all government savings schemes and draw arrangements for National and Premium Prize Bonds; iii) issuance of comprehensive instructions to ensure implementation of SBP's Currency Management Strategy (CMS), and iv) alignment of currency management framework with the international best practices in a phased manner.

To achieve the above-mentioned objectives, SBP and SBP BSC have put in place various measures, such as procurement of state-of-the-art currency processing and authentication systems, coordination with Finance Department to introduce more sophisticated banknote security features and conduct of awareness sessions across the country etc. It may be mentioned here that CMD maintains close liaison with respective SBP departments to facilitate Law Enforcement Agencies (LEAs) in combating counterfeiting in all forms of currency.

Box 2.1: Achievements during FY18

- Successful implementation of CMS Phase-II & Initiation of 2nd Phase of SBP BSC's Automation Strategy through procurement of multiple Banknote Processing & Authentication Systems (BPAS) and Banknote Destruction Systems (BDS)
- An all-time high receipt as well as expedient destruction of soiled banknotes through soiled receipt rationalization and destruction targets for SBP BSC Field Offices, after implementation of CMS
- Phased procurement and installation of Desktop Note Sorting machines for all SBP BSC Field Offices
- Research & Development for secure, cross country movement of government treasure
- Successful commencement of Premium Prize Bonds Scheme Phase II, issuance of SOPs and system development through Information Systems Department within tight deadlines
- Direct credit of prize money and face value of winning NPBs into claimant's bank account
- Timely and successful completion of significant number of Business Plan Projects
- Internal and external stakeholder satisfaction through issuance of guidelines encompassing Customer Services, Health & Safety Measures etc.
- Overall system-based and manual Business Process Re-engineering for achieving efficiency gains

CMD believes that introduction of advanced security features in banknotes/prize bonds only bears fruitful results when all users are fully aware of their nature/purpose. To ensure dissemination of this knowledge at all levels, CMD facilitates conduct of awareness sessions at various forums through its Field Offices across the country. CMD also ensures free of charge distribution of brochures and pamphlets containing security features of banknotes/prize bond, to commercial banks and other stakeholders.

In view of its operational expertise, CMD regularly provides input to Finance Department regarding demand projections for currency notes and coins. During FY18, CMD has provided active support to Finance Department in ensuring smooth implementation of second phase of Currency Management Strategy, in addition to providing feedback for issuance of various instructions/policy frameworks. CMD has also put in place internal measures to ensure success of second phase of CMS. One of the most significant achievements in this regard has been high number of soiled notes received from commercial banks and subsequently destroyed. This has been made possible through issuing comprehensive instructions regarding revised examination procedures, rationalizing receipt of soiled balances from commercial banks in view of business volume and assigning destruction targets to SBP BSC Field Offices, leading to voluminous and expedient processing of unfit banknotes.

2.2 Circulation of Banknotes

In view of the global proliferation of technologies, Pakistan has also experienced a steady increase in the usage of online and Point-of-Sale (PoS) banking and payment channels. However, Pakistan's economy is still very much cash-centric, as is evident from the steady increase Notes-in-Circulation (NIC), as per trends presented in **Table 2.1**. The annual growth in NIC during FY18 was 15.2 percent (22.6 percent for FY17). The NIC as a percentage of Gross Domestic Product (GDP) stood at 14.1 percent in FY18 compared to 13.1 percent in FY17.

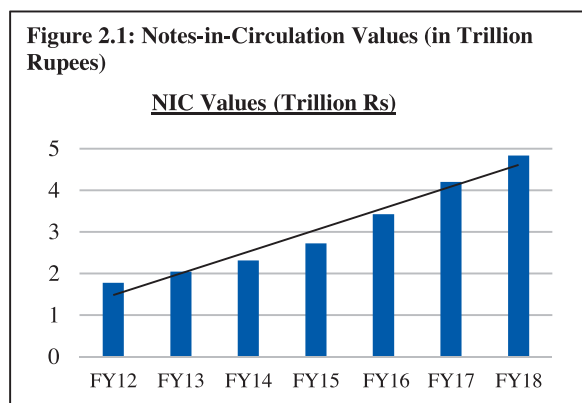
Years	Nominal GDP (MP) ⁸	NIC ⁹	NIC as % of GDP	NIC (%) Change Over Previous Year
FY12	18,276.4	1,777.1	8.9	11.1
FY13	20,046.5	2,042.5	9.1	14.9
FY14	22,385.7	2,309.2	9.2	13.1
FY15	25,168.8	2,726.5	9.9	18.1
FY16	27,443.0	3,424.5	11.8	25.6
FY17	29,075.6	4,199.0	13.1	22.6
FY18	31,962.6	4,838.3	14.1	15.2

⁸ Pakistan's GDP (http://www.sbp.org.pk/ecodata/GDP_table.pdf)

⁹ Statement of Affairs—June 22, 2018 (<http://www.sbp.org.pk/publications/statements/2018/22-Jun-2018-issue.pdf>)

2.3 Issuance of Fresh Notes

CMD consistently endeavors to ensure circulation of good quality banknotes, through prompt and smooth supply of fresh cash to all the stakeholders throughout the year, in general, and during religious festivals, in particular. This distribution is undertaken through active and timely coordination with 16 SBP BSC Field Offices, 224 NBP Chest Branches and commercial banks across the country. As per data presented in **Table 2.2**, significant value increase has been observed in FY18 as against



Year	Lower Denomination (Rs 100 & Below)				Higher Denomination (Rs 500 & Above)			
	Pieces	%age Increase	Value	%age Increase	Pieces	%age Increase	Value	%age Increase
FY13	1,246		44,800		530		475,000	
FY14	1,727	38.6	53,262	18.9	458	(13.7)	436,736	(8.1)
FY15	1,254	(27.4)	42,217	(20.7)	475	3.7	496,002	13.6
FY16	1,906	52.0	62,011	46.9	704	48.3	849,335	71.2
FY17	2,529	32.7	79,008	27.4	610	(13.4)	902,452	6.3
FY18 ¹⁰	2,341	(7.5)	71,926	(9.0)	837	37.2	1,128,042	25.0

slight increase in pieces during the same period. It may be mentioned here that this trend is due to issuance of higher denomination banknotes significantly. Fresh banknotes amounting to Rs 1,199 billion were issued to the general public during FY18.

2.3.1 Distribution of Fresh Notes to Public on Religious Occasions

Every year, SBP BSC puts in place special measures to meet the enhanced demand of fresh cash on the eve of Eid Festivals. The issuance of lower-denomination fresh banknotes to the general public on religious occasions is managed through collaboration of SBP BSC Field Offices with commercial banks.

The 8877 SMS service launched by SBP BSC in 2015 for issuance of smaller denomination banknotes to general public successfully continued over Eid-ul-Fitr 2018, with 1,519 designated e-branches of commercial banks as well SBP BSC’s 16 Field Offices, providing the service in 132 cities. The service launch and mechanism/procedure as well as its booking status was conveyed to the general public on a timely basis through periodic Press Releases. The service received overwhelming public response as 2.2 million people availed this service in Ramazan 2018 as compared to 1.5 million people last year – a significant increase of 50%. Additionally, banks were also provided substantial quantity of higher denomination banknotes for ATMs to ensure their smooth operations before and during Eid holidays. Special teams were also deputed to inspect ATMs and ensure uninterrupted availability of fresh cash to general public during Eid holidays.

2.4 Mechanization of Currency Management Operations

CMD has been endeavoring to automate/mechanize currency operations of SBP BSC in line with international best practices through procurement of banknote processing and authentication systems. After successful procurement, installation and operational testing of the high-end systems installed at SBP BSC, Karachi, CMD has initiated the second phase of SBP BSC’s automation strategy by

¹⁰ Globus Figures as on June 30, 2018

initiating the procurement process for further sophisticated, state-of-the-art processing, authentication and destruction systems. CMD is also actively facilitating the Field Offices in procuring and deploying Desktop and Countertop Note sorting machines. Further, CMD has actively collaborated with Finance Department in identifying and shortlisting of note sorting and authentication machines for procurement by commercial banks.

2.5 Monitoring of Currency Operations

As a part of its mandate and to ensure that instructions pertaining to currency and prize bond operations are adhered to by all banks, CMD oversees onsite examination/monitoring of National Bank of Pakistan and commercial banks branches through 16 Field Offices of SBP BSC. NBP's examination is focused on the chest/sub-chest branches which are designated for government business under an Agency Agreement. Additionally, CMD also keeps a close watch on the balance positions present in NBP chests/sub-chests for timely replenishment and diversion of soiled balances. In FY18, CMD devised an exhaustive holding capacity review process encompassing all possible factors in order to ensure that the holding capacities allocated to NBP branches are commensurate with their needs, and allow them to perform their assigned tasks effectively. For commercial banks, CMD has developed a comprehensive onsite monitoring mechanism, which is focused on ascertaining that all banks are meticulously complying with the requirements of SBP's Currency Management Strategy and its enhanced scope across the board. The same is slated for rollout in FY19 and will be implemented with active participation of SBP BSC's Regional/Field Offices.

2.6 Government Savings Schemes

In addition to currency operations, SBP BSC also manages Government savings schemes on behalf of CDNS. CMD is striving to re-engineer savings schemes procedures to bring efficiency in terms of time, cost and HR needs. To this end, CMD has recently launched Phase II of Premium Prize Bonds (Registered) Scheme, under which all processes have been automated through T-24 and detailed SOPs issued to SBP BSC Field Offices. To facilitate the general public further, CMD in collaboration with ISD, has undertaken system development to allow customers the option to obtain prize money and face value of winning Prize Bonds (higher denominations in first phase) directly into their accounts. A brief overview of various savings schemes is given below:

2.7 National Prize Bonds

National Prize Bonds (NPBs) are bearer instruments available in eight denominations as elaborated in **Table 2.3**. The sale and encashment of these Bonds is carried out by all SBP BSC Field Offices, authorized commercial bank branches and National Savings Centres. Draws of all denominations of NPBs are held only at nine SBP BSC Field Offices on quarterly basis as per schedule announced by the CDNS. As on 30th June, 2018, the overall value of NPBs held by the general public increased by Rs 101.5 billion, reaching a total of Rs 844.9 billion.

Denom.	Net Outstanding Value Held by Public FY16	FY17				FY18				Net Outstanding Value Held by Public (FY18)
		Sale	Encashment	Prize Money Payment	Net Value for Year FY17	Sale	Encashment	Prize Money Payment	Net Value for Year FY18	
100	7,677	1,017	290	566	727	1,121	285	697	836	9,241
200	24,071	3,065	1,308	1,918	1,757	3,353	1,169	2,126	2,184	28,012
750	71,007	12,740	3,457	6,709	9,283	13,691	2,315	7,694	11,376	91,666
1,500	82,515	7,136	3,768	7,492	3,368	12,167	2,341	7,938	9,826	95,709
7,500	71,734	7,573	4,016	6,214	3,557	10,340	1,783	7,084	8,557	83,848
15,000	112,266	32,015	10,878	10,634	21,136	27,297	6,614	12,939	20,682	154,085

25,000	93,322	35,589	10,678	8,636	24,911	37,809	9,440	11,738	28,369	146,602
40,000	182,980	46,806	13,756	16,522	33,049	28,869	9,127	19,577	19,742	235,771
Total	645,572	145,941	48,151	58,691	97,788	134,647	33,074	69,793	101,572	844,934

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

2.8 Defence Savings Certificates

Defence Savings Certificates (DSCs) Scheme, introduced in 1966 by the CDNS, is a long-term investment option with a minimum maturity period of 10 years. DSCs are available in various denominations, starting from Rs 500/- with a maximum denomination of Rs 1 million. 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**.

Sr.	Office	FY16			FY17			FY18		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	97	0	0	6	0	0	8	1	1
2.	D. I. Khan	3	0	0	4	1	1	5	0	0
3.	Faisalabad	269	453	453	20	69	69	61	87	87
4.	Gujranwala	36	0	0	4	0	0	12	0	0
5.	Hyderabad	133	117	113	80	189	174	26	42	42
6.	Islamabad	107	272	272	25	220	195	110	216	46
7.	Karachi	6,105	31,506	1,540	2,476	4,024	4,024	1,025	3,082	3,029
8.	Lahore	2,880	723	723	181	691	691	215	896	919
9.	Multan	0	0	0	0	0	0	0	0	0
10.	Muzaffarabad	23	8	8	0	16	16	9	1	1
11.	N.Nazimabad	723	1,889	761	135	405	380	138	475	445
12.	Peshawar	26	61	47	35	57	54	29	40	40
13.	Quetta	35	237	237	66	103	103	64	144	75
14.	Rawalpindi	847	828	719	184	369	316	23	75	86
15.	Sialkot	188	89	89	24	53	53	87	58	58
16.	Sukkur	148	144	46	12	18	18	20	41	41
Total:		11,620	36,327	5,008	3,252	6,215	6,094	1,832	5,158	4,870

2.9 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. The SSCs are available in various denominations, starting from Rs 500/- and going up to Rs 1 million with a maturity period of three years. Profit coupons are payable bi-annually, 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**.

Sr.	Office	FY16			FY17			FY18		
		Sale	Encashed	Profit Payment	Sale	Encashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	38	5	5	0	1	7	0	1	5
2.	D. I. Khan	0	0	0	0	0	0	0	0	0
3.	Faisalabad	433	907	907	47	153	247	67	196	225
4.	Gujranwala	8	4	4	0	0	0	1	1	1
5.	Hyderabad	260	1,047	1,047	220	286	547	52	112	170
6.	Islamabad	195	306	306	21	91	158	310	331	58
7.	Karachi	36,594	46,496	46,496	4,291	7,356	12,380	1,800	12,592	13,942
8.	Lahore	5,872	1,599	1,599	671	1,549	3,242	980	1,689	2,166

9.	Multan	0	3	3	0	0	0	0	0	0
10.	Muzaffarabad	0	4	4	0	6	6	0	2	2
11.	N. Nazimabad	3,757	5,670	5,670	1,054	1,852	2,345	1,347	2,343	3,475
12.	Peshawar	125	41	41	61	179	279	40	79	174
13.	Quetta	10	18	18	35	55	99	31	23	15
14.	Rawalpindi	1,803	702	702	267	460	1,526	107	229	392
15.	Sialkot	62	144	144	8	37	54	41	145	40
16.	Sukkur	154	40	40	2	8	20	02	11	19
Total:		49,311	56,986	56,986	6,677	12,033	20,910	4,778	17,754	20,684

2.10 Premium Prize Bonds (Registered) Scheme

SBP BSC, in collaboration with CDNS, introduced a new “Premium Prize Bonds (Registered) Scheme” with Rs. 40,000/- denomination 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 maintaining a bank account is mandatory for investment in this scheme. The scheme is unique in the aspect that these Prize Bonds are eligible for both prize money (as admissible in the scheme) and profit payment at 3% per annum. The 1st prize of Rs. 40,000/- denomination 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 snapshot of the business conducted for Rs. 40,000/- PPB in FY18 is given in **Table 2.6**.

Sr.	Denom	Sale	Encashment	Prize Money Payment	Profit Payment	Value Held by Public
1.	40,000/-	3,625	1,302	252	103	5,245
Total:		3,625	1,302	252	103	5,245

2.11 BPR/IT Developmental Initiatives

SBP BSC, as an organization, believes in efficiency gains through effective deployment and utilization of IT solutions and updation wherever required. During FY18, CMD actively pursued development of various reports/queries to improve data consolidation and analysis. Other recent, significant Business Process Re-engineering (BPR) and IT-related initiatives undertaken by CMD include:

- (i) System developments for direct credit of prize money and face value of winning National Prize Bonds.
 - (ii) Oracle module for maintaining cash handling machines’ information.
 - (iii) Advance stamping of National Prize Bonds.
 - (iv) Customer facilitation through merging counters for NPBs sale.
 - (v) Encashment and multiple prize money denominations/draw number claims.
 - (vi) Revisiting fresh notes examination mechanism.
 - (vii) Rollout of pilot phase of Electronic Queue Management System (e-QMS) at SBP BSC, North Nazimabad, Karachi.
 - (viii) Institution of centralized pigeon holes/lockers for deposit of personal cash by officials deputed in examination/destruction/vaults.
 - (ix) Facilitating National Bank of Pakistan in submitting balance details through SBP’s Data Acquisition Portal (DAP-4).
 - (x) Analysis and development to discontinue manual reports in favor of Globus environment.
 - (xi) Email alerts to ensure timely communication of Currency Transaction Report as per Anti Money Laundering Act 2010.
 - (xii) Uploading of Active Tax Payers list in system to automatically check customer status etc.
- Further, as part of its on-going developmental projects, CMD is exploring various IT solutions, dashboards, T-24 reports etc. to ensure quicker data reporting for analysis and onward submission to

higher management for timely decision making. It is pertinent to mention here that during FY18, CMD has also undertaken various developmental initiatives through Business Plan Projects.

1.12 HR Capacity Building

In addition to bringing about operational improvements, CMD is also committed to strengthening its human resource by facilitating its officers in availing training and development opportunities, both domestic and foreign. For this purpose, a considerable number of officers have been nominated for training at various international forums such as programs hosted by Currency Research, European Central Bank, Central Bank of Japan, Currency Conference's Strategic Meeting etc. Additionally, officers have also been nominated for various training programs conducted by National Institute of Banking and Finance (NIBAF) and other reputable institutions like the Institute of Bankers Pakistan (IBP), and the Pakistan Society for Training and Development (PSTD) etc.

1.13 Future Outlook

1. CMD will be playing its part in smooth implementation of CMS, acquiring/deploying sophisticated, one-stop cash handling solutions and policy/framework for streamlining currency operations.
2. CMD has rolled out 2nd Phase for procurement of Banknote Processing and Authentication Solutions (BPAS) and Banknote Destruction Systems (BDS) for different SBP BSC Field Offices.
3. After PSPC's acquisition, CMD will continue to provide all possible support for process improvement, mitigating supply side constraints and enhancing overall printing infrastructure.
4. CMD will further refine lifting/diversion of soiled balances in order to ensure quicker disposal.
5. To ensure meticulous compliance of CMS, CMD will rollout development of multiple Onsite Cash Monitoring Hubs in two phases. The 1st Phase i.e. deployment of onsite monitoring teams for 30 big cities is envisioned to be rolled out by 1st half of FY19.
6. CMD recently initiated direct credit of prize money equal to or greater than Rs. 93,000/- and face value of winning National Prize Bonds (Bearer) to claimant's bank account, enabling claimants to receive payments directly into their bank accounts instead of visiting SBP BSC Field Offices. The general public response to this initiative is not only overwhelming, but also encouraging for Field Offices, enabling them to process prize money claims more efficiently.
7. CMD is looking into expanding the outreach of National Prize Bonds Scheme by allowing commercial banks to process prize money claims. SBP BSC and CDNS have also launched a "Premium Prize Bonds (Registered) Scheme", initially with Rs 40,000/- denomination, eligible for bi-annual profit in addition to the prize money paid through active bank account only. Rs 100,000/- denomination Premium Prize Bonds (Registered) will also be introduced in due course.
8. The organization is also in the process of developing a procedure for enhancing the outreach of PPBs by utilizing the branch network of commercial banks. In the initial phase, this outreach will be expanded to 6 large commercial banks to gauge public response and assess further feasibility.

Forex & 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/Units at 16 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, ensure collaboration with regional stakeholders, and obtaining of grassroots level feedback for consideration and realignment of policy interventions by SBP, if required.

3.2 Access to Finance

DFSD rolled out the National Financial Literacy Program (NFLP), a key initiative of SBP to increase financial inclusion in the country, which is one of its goals under its National Financial Inclusion Strategy. This is a five-year project being undertaken, in collaboration with commercial/microfinance banks and partner institutions (Non Governmental Organizations (NGOs), Micro Finance Institutions (MFIs) and Rural Support Program (RSPs)), with a target of imparting financial literacy curriculum to one million beneficiaries. DFSD and SBP BSC Field Offices facilitated the holding of 4,270 classroom sessions, teaching a comprehensive curriculum to the most underserved segments of society, which were attended by more than 100,000 participants, thereby surpassing the target set for the first year. These sessions enabled more than 47,000 participants to open Branchless banking/ Asaan accounts on the spot, thus allowing them to enter the financial system. SBP BSC officers monitored these sessions using both on-site and off-site monitoring mechanism devised by DFSD. SBP BSC officers also held 21 Training-of-Trainers sessions for bankers under the supervision of DFSD, where 382 bankers were trained as Field Trainers. There are plans for expansion of the program in the upcoming year, including a higher target and inclusion of more districts in the program.

Box 3.1: Performance Highlights for FY18 – Access to Finance

- Facilitated AC&MFD-SBP through periodic follow-up and review meetings with PFIs for monitoring the achievement of Rs 1,001 billion indicative target set by SBP for the agriculture sector in FY18. Disbursement during the year was Rs 973 billion, which is around 38 percent higher than the disbursement made in last year.
- Conducted 4,270 sessions for the National Financial Literacy Program in collaboration with banks and partner institutes. These sessions were collectively attended by more than 100,000 participants.
- Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Underserved Areas was launched by IH&SMEFD at SBP BSC Quetta, and meetings of its Monitoring and Evaluation Committees were conducted at two SBP BSC Field Offices.
- 89 Focus Group meetings were organized till 30th June 2018, which included 20 for SME Finance, 19 for Microfinance, 17 for Agri. Finance, 17 for Islamic Banking, 11 for Housing Finance, 1 for Islamic SME Finance and 4 Joint sessions.

Keeping geographical and cultural constraints in mind, DFSD liaised with various Non-Governmental Organizations/ Microfinance Institutions/ Rural Support Programs, including Orangi Pilot Project, Pakistan Microfinance Network, Pakistan Poverty Alleviation Fund, Akhuwat, Kashf Foundation and

The Citizens’ Foundation in order to benefit from their outreach at the grassroots level for mobilizing beneficiaries for NFLP sessions, especially females in rural communities. Moreover, DFSD maintained constant contact with the participating banks in order to monitor the sessions effectively and resolve issues, if any, in a timely manner. DFSD referred urgent matters to the NFLP Implementation Committee for guidance and approval so that a consensus may be reached amongst all stakeholders.

A shared directory was introduced by DFSD where SBP BSC Field Offices could place relevant information in order to address the need to streamline collection of data from different sources. DFSD has also submitted a Business Requirements Document to SBP’s Information Systems Department (ISD), for the designing of an online Data Acquisition Portal (DAP). This would allow direct reporting by banks and total digitalisation of end-to-end processes, thereby reducing the workload of SBP BSC Field Offices. DFSD has developed an information portal which contains a comprehensive overview of NFLP targets and achievements. The portal has been placed on the electronic board, while efforts are underway to equip the portal to report information in real time. A quarterly virtual newsletter has also been compiled for more detailed reporting of the progress. This newsletter includes key statistics and photographs of the classroom sessions, along with observations made by the participants and is meant to be disseminated to internal and external stakeholders. Moreover, DFSD regularly reports new developments in the Program in the State Bank News every month.

During FY18, DFSD rolled out the NFLP Student Ambassador Plan, which engaged university students to deliver lectures at NFLP sessions in their summer and winter vacation. Twenty-eight Training-of-Trainers sessions were conducted through SBP BSC Field Offices during which 322 student Field Trainers from 32 universities across the country were trained; these students have conducted 702 classroom sessions till June 2018 for around 16,000 participants.

Throughout the year, DFSD facilitated DFG in the implementation of its various programs and initiatives through SBP BSC Field Offices (**Box 3.1** and **Table 3.1**). Special focus was made on facilitating Agricultural Credit & Micro Finance Department (AC&MFD) of SBP in monitoring of Rs 1,001 billion target set for disbursement of agri-credit for FY18. Loans worth Rs 973 billion were disbursed by PFIs in FY 2018 against the indicative target and DFSD rigorously monitored their performance through 13 SBP BSC Field Offices. Meetings were conducted by SBP BSC Field Offices with special focus on banks that were found to be lagging in order to encourage them to improve their performance. DFSD is also in the process of developing an Online Data Portal jointly with AC&MFD in order to simplify the process of collection of data from banks. For this purpose, DFSD has developed a Business Requirements Document collaboratively with AC&MFD and the same has been provided to ISD for required development.

S.N	Activity	Number of	
		Activities	Participants
1	Awareness Programs	173	12,256
2	Capacity Building	107	2,153
3	Linkages with Govt. and Others	84	-
4	Focus Group Meetings	89	-
5	Seminars and Workshops	33	1,748
6	Agri. Target related meetings	21	-
7	Fair, Conference, Exhibition etc.	11	2,300
8	Linkages with Academia	9	-
9	Research Activities	3	-
Total		530	18,907

Under the supervision of DFSD, SBP BSC Field Offices continued to hold Focus Group meetings for the priority sectors (Agriculture finance, SME finance, Microfinance, Housing finance, Islamic banking and Islamic SME finance). DFSD also liaises with focal persons identified at head offices of all banks from time to time in order to improve effectiveness and monitoring of Focus Groups.

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.

Box 3.2: Performance Highlights for FY18 – Management of Refinance Schemes

- Total Rs 737.7 billion disbursed under Export Refinance Schemes:
 - Rs 605.3 billion under EFS
 - Rs 132.3 billion under IERS
- Rs 11.7 million received charged as penalty from 25 participating banks on account of violation of EFS/IERS instructions.
- Rs 41.6 billion disbursed under LTFF.

3.3.1 Export Finance Scheme

Export Finance Scheme (EFS) – the most prominent among all refinance schemes of SBP – was introduced with the objective to boost country's value added exports by providing access to low cost funds to exporters 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. Moreover, in order to encourage financing to SME sector, banks have been incentivized with an additional spread of 1% on lending to SMEs since 2014.

During FY18, Refinance Scheme Units (RSUs) disbursed a total amount of Rs 737.7 billion under the Export Refinance Schemes of SBP, out of which Rs 605.4 billion were disbursed under EFS and Rs 132.3 billion under IERS. Of the total amount disbursed, Rs 30.2 billion were disbursed to SME exporters.

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 FY18, onsite verification teams completed compliance verification of 12,532 loans, with total refinance of Rs 559.6 billion that was disbursed to 25 banks in FY17.

As a result of various violations of instructions of the Scheme observed during onsite verification visits, SBP BSC Field Offices imposed a total penalty of Rs 11.7 million on banks. Penalty against violations pertaining to Part-I category of EFS/IERS accounted for 50.1% (Rs 5.8 million) of the total amount, while the remaining 49.9% (Rs 5.8 million) was against Part-II category. The total amount of penalty charged in FY17 has decreased by Rs 5.8 million, or 33.5%, as compared to Rs 17.5 million during FY16, 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 FY18, Rs 41.6 billion were disbursed through banks under LTFF.

3.4 Financial Inclusion

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 encourage banks to grant 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 Schemes

DFSD is responsible for management of three credit guarantee schemes for priority sectors namely Credit Guarantee Scheme for Small and Rural Enterprises (CGS-SRE), Credit Guarantee Scheme for Small & Marginalized Farmers (CGSMF) and Mark-up Subsidy & Guarantee Facility for Rice Husking Mills. During FY18, 7,395 loans for a financing amount of Rs 6,934.0 million were processed for up to 60% guarantee issued to 18 Participating Financial Institutions (PFIs), including commercial banks and microfinance banks under CGS-SRE; 26,404 loans for a financing amount of Rs 1654.3 million were processed for issuance of 50% guarantees to seven PFIs (commercial & microfinance banks) under CGSMF. In addition, 30% guarantee has been issued against the financing amount of Rs 10 million under Mark-up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh. So far, CGS claims of Rs 44.2 million have been reimbursed to concerned PFIs against recoveries of Rs 15.9 million since inception of the Scheme in 2010. Highlights of CGS are presented in **Box 3.3**.

Box 3.3: Highlights relating to Credit Guarantee and Subsidy Schemes

- 70,332 PMYBL related transactions have been processed by DFSD for subsidy amounting to Rs 844 million
- 7,395 loans for a financing amount of Rs 6,934.0 million were issued guarantees to 18 Participating Financial Institutions (PFIs) directed towards 60 sectors under CGS for Small and Rural Enterprises.
- A comprehensive Developmental Impact Review of CGS was prepared by DFSD and presented to TCCG
- CGS claims of Rs 44.2 million have been reimbursed to concerned PFIs against recoveries of Rs 15.9 million since inception of the Scheme
- Guarantees were issued to seven PFIs under CGSMF for 26,404 loans with a total financing amount of Rs 1,654.3 million.
- Funds on account of CGS, MCGF, CGSMF and RHMS amounting to Rs 10 billion approximately were managed by DFSD.

The review of CGS-SRE shows that loans were granted to mainly 60 different sectors to borrowers from 92 districts of Pakistan. Fresh borrowers constituted 84.7% of the total borrowers while farmers, Small Enterprises and Microenterprises constitute 39%, 11% and 50% of the total loans sanctioned respectively. Rural versus Urban sanctioned loans remained at 32.7% and 67.3% respectively. Since inception of CGS, 35,659 guarantees were issued against lending of Rs 28.0 billion to 19 PFIs.

3.4.2 Prime Minister's Youth Business Loan Program

DFSD is also entrusted with the responsibility to process claims of banks under Prime Minister's Youth Business Loan (PMYBL) Program launched by the Government of Pakistan (GoP) in the light of instructions from SBP. During FY18, eleven banks submitted their subsidy claims under PMYBL. About 70,332 PMYBL related transactions have been processed for subsidy amounting to Rs 844 million for onward submission to Finance Division, GoP.

3.4.3 Fund Management

DFSD manages funds of around Rs 10 billion under various credit guarantee and mark-up subsidy schemes. These funds along with profit earned are invested/reinvested in T-bills only in consultation with Domestic Markets and Monetary Management Department (DMMD) of SBP. One hundred and ninety-five investments on account of these funds have been undertaken in FY18.

3.4.4 SME Finance Awareness Sessions

To augment DFG's objectives set in 'Policy for Promotion of SME-Financing-2020', SBP BSC is playing a vital role through dissemination of the Policy among financially excluded SMEs across Pakistan in general, with more emphasis on smaller cities and towns. Before kick starting this activity, three Training-of-Trainers (ToT) sessions were arranged for SBP BSC officials. A standard presentation was also shared for delivery during these sessions along with post session assessment questionnaires. A booklet containing all relevant and up to date information regarding definition of SMEs, scope, eligibility criteria and terms of financing on all SBP schemes for SMEs Sector has also been prepared and will be distributed among stakeholders in future programs. A target of 150 programs per year has been set until December-2020. So far, 89 programs have been held in 50 cities across Pakistan and over 5,221 stakeholders, including representatives from Small & Medium Enterprises attended these programs during 1HCY2018.

3.5 Developmental Initiatives

1. A comprehensive review of operational practices under the Export Finance Scheme was undertaken during FY18 to identify redundancies and operational gaps in EFS operations in SBP BSC Field Offices. Appropriate recommendations / corrective actions to address those gaps have been proposed.
2. To have a more focused approach towards Islamic SME Financing, Islamic-SME Focus Groups at SBP BSC, Lahore and SBP BSC, Peshawar have been established during FY18.
3. DFSD developed a Business Process Manual for the Department. In addition to ensuring that routine tasks are carried out in a clearly defined and optimum manner, the Manual also serves as a useful succession planning guide.
4. Provided detailed feedback to DFG on "Policy for Promotion of SME Finance" and "Housing Finance Policy", based on international best practices.
5. Prepared a concept paper on SME Finance Demand Survey, shared it with Infrastructure Housing and SME Finance Department (IH&SMEFD) of SBP and is being launched through funding from World Bank.
6. Prepared a comprehensive progress report on SME/ Agri. Awareness Sessions and shared it with DFG.
7. Developed an information portal for SME/ Agri. awareness drive.
8. Being front-end Department for implementation of SME schemes/programs, DFSD's feedback was sought on 14 major DFG initiatives/ schemes during FY18, which resulted in significant improvement in these initiatives/schemes.
9. Prepared detailed Impact Assessment Report on Micro Credit Guarantee Facility (MCGF) following its discontinuation in 2017. The Report took a multifaceted approach to look at the outcomes of the facility by analyzing the performance of Microfinance Providers (MFPs) and documenting feedback of key stakeholders. The Report is an attempt to provide valuable insights to the users and policy makers as well as serve as an important tool for formulation of similar programs in future.

3.6 Future Outlook

1. DFSD will be performing its role in augmenting SBP's efforts to achieve National Financial Inclusion Strategy (NFIS) targets.
2. In view of the enhanced awareness creation mandate of the Department, especially with regard to Agriculture and SME, DFSD will focus on ensuring implementation of various schemes/ initiatives of DFG.
3. As per the automation requirements of the Department, DFSD, in coordination with Information Technology Department (ITD) and Information Systems Department (ISD) SBP, is developing informative dashboards/ online portals that will capture data in real time for existing projects. Automation of these processes will significantly improve process efficiencies and reduce manual workload of DFSD and SBP BSC Field Offices.
4. Further expansion of NFLP is planned over the next four years in order to reach the target of reaching one million people for imparting financial literacy.
5. DFSD will be focusing on implementation of refinance schemes in order to plug the operational gaps identified, and endeavor for timely issuance of guarantees.
6. Efforts will be made to utilize the trainers identified for NFLP and SME awareness sessions as optimally as possible in different capacities.

Foreign Exchange Operations



4 Foreign Exchange Operations

Foreign Exchange Operations Department (FEOD) manages the operational aspects of foreign exchange matters as per Foreign Exchange Manual and instructions of Exchange Policy Department of SBP. FEOD's role has been strengthened by shifting its focus from transaction processing to monitoring of transactions of foreign trade and their verification on offsite basis. FEOD, inter alia, aims to facilitate its stakeholders by providing efficient services, ensure timely repatriation of export proceeds and payments of import in line with the regulations. To achieve its objectives, the Department has been emphasizing on re-engineering of its business processes and their automation, especially through knowledge management project.

4.1 Foreign Exchange Operations Department

Foreign Exchange Operations Department is one of the core departments of SBP BSC. Its prime functions include approving trade, commercial and private foreign exchange remittance transactions, off-site monitoring of trade & business-related FX transactions¹¹, ensuring timely repatriation of export proceeds and allowing payment of FX import as per regulations. The Department is also entrusted with the responsibility of making payment to exporters under various schemes announced by 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 exporters' performance against the loan limit availed by them. In this regard, FEOD verified 643,404 EE/EF entries in FY18 as compared to 577,478 in FY17. The amount so verified is used to determine the performance against the loan limit used and formulate loan limit under part II of EFS for the subsequent year. 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 USD and import of USD has led to the enhancement of FEOD's role.

During FY18, 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 mentioned in **Box 4.1**.

Box 4.1: Performance Highlights for FY18

- Enhanced controls by business process reengineering, reallocating duties, establishing benchmarks for disposal of cases, centralizing monitoring through MIS and automation.
- Completion of all steps of Knowledge Management, submission of Business Requirement Document (BRD) for data universe and Electronic Data Interchange (EDI) with WeBOC.
- Reconciliation of Export Advance Payment resulted in marking of more than 30% of outstanding amount.
- Elimination of submission of physical returns where data is being received through system.
- Issued instructions for reporting of export overdue (EOD) on the basis of WeBOC data, thus ensuring timely reporting of export overdue cases.
- Proceeds against USD887 million worth of export overdue cases are repatriated as compared to USD325 million of FY17 without adjudication.

¹¹ The monitoring and oversight of forex market relating to reserves is the responsibility of DMMD of SBP.

- Referred 13,420 complaints to FEAD (2,061 in FY17); 49 cases of fake E-Forms to Customs Adjudication.
- Verified genuineness of 47,288 E-Forms forwarded by Customs (39,021 in FY17).
- Approved more than 19,000 cases of commercial, private and trade related remittances (17,000 in FY17).
- Identified instances of non-issuance of marine insurance cover against Import on open account.
- Explanation was called from ADs in 3,400 cases for non-adherence of regulatory instructions in open account.
- Disbursement of around Rs 50 billion under various schemes of Government (Rs 30 billion in FY17).
- Verification of 643,404 entries of EE-1/EF-1 statements (577,478 in FY17).
- Identified the areas for policy instructions, provided feedback to EPD for revision of FEM 2017 and penalty framework under section 23K of FERA.
- Developed e-learning module and conducted capacity building training programs for ADs, SBP and SBP BSC officers. Arranged attachment programs with HOK, ADs and Customs Authorities.

4.2 Developmental Initiatives

FY18 has remained an eventful year as a number of important initiatives including improving operational infrastructure surrounding the processing of transactions were pushed to advance stages. The evolving FX landscape resulted into issuance of instructions and guidelines to Authorized Dealers (ADs) for ensuring compliance with the foreign exchange regime by all stakeholders. Further, FEOD provided feedback to the Exchange Policy Department of SBP and other Government agencies in the light of its experience in managing FX operations with an aim to further streamline the regulatory framework.

The volume of transactions handled by FEOD is in hundreds of thousands and without automation it is not possible to process the transactions efficiently. Further, these transactions are processed at HOK and 12 Field Offices. In order to ensure proper controls without compromising the efficiency, FEOD has taken various initiatives. In this regard, a project was initiated in FY17 for automating end to end functions of the Department; subsequently the project was made part of Knowledge Management (KM). FEOD was selected as the first Department for the implementation of KM and it has completed all the groundwork. Master Taxonomy sheets and case processing formats have been finalized with the Consultant. At present, software development is in process and is likely to be available for User Acceptance Test (UAT) in Q2FY19. An orientation session was arranged for the banking industry to apprise them of the upcoming project and form a focus group of ADs. In addition, FEOD is facilitating rest of the departments of SBPBSC in developing Master Taxonomy sheets and case processing formats.

The skill set and capacity of officers dealing in foreign exchange over the years have become mismatched with the changing dynamics of FX. In order to improve the capacity of ADs and its own officers, FEOD had arranged various training programs to equip them with the complexities of the fast-changing scenario in the arena of international trade as well as foreign exchange regime of Pakistan. A 12-day Foreign Trade Certification Program was introduced with the help of National Institute of Banking & Finance (NIBAF). A module of e-learning was also developed for officials of SBP and SBP BSC.

FEOD has identified the areas where policy instructions are required to be issued or need elaboration, besides providing feedback to EPD on revision of various chapters of FEM and to the Off-Site Supervision and Enforcement Department (OSED) on the penalty scale under section 23-K of Foreign Exchange Regulation Act, 1947.

4.3 Re-engineering of Functions

FEOD has realigned its functions to improve its internal controls and bring efficiency. FEOD operates through twelve Foreign Exchange Operations Units (FEOU), which are managed by Chief

Managers. One of the goals of the Department is to bring efficiency and improve skill set of officers across all Field Offices at the same level. Management Information System (MIS) was introduced last year for commercial and private remittances; remaining areas were included in the current year. This facilitated establishment of benchmarks for disposal of cases and as a result, the turnaround time for disposal of cases has improved substantially.

In order to ensure better coordination among key officials of FEOD across SBP BSC, ‘FX Forum’ comprising In-charges of all Field Offices, Chief Managers, FEOD’s Divisional Heads, Departmental Head and Group Head was developed. FEOD conducted the first meeting of FX Forum under the Chairmanship of MD SBP BSC in which the participants were apprised of the initiatives taken by Head Office, future direction of FEOD and identification and resolution of problems faced by the Field Offices.

In order to address the issues in processing payments of Government Schemes due to volume of work and lack of due diligence on the part of ADs, processing mechanism of new schemes of textile and non-textile for 2018 was revised. Excel-based calculator developed for this purpose was integrated with data of WeBOC. It enhanced the efficiency by reducing the redundant steps and made the record keeping very easy as compared to other Government schemes.

4.4 Commercial, Private and Trade Remittances

Emerging market conditions and dynamic business needs have made it necessary that various risk dimensions of cross border transactions are analyzed. In this regard, FEOD has moved away from rudimentary case scrutiny to a more thorough, broad-spectrum risk based assessment. International Transaction Reporting System (ITRS) and WeBOC data is being utilized to analyze inward and outward FX transactions executed by a particular company. Economic benefit assessment, FDI received, technology transfer to Pakistan and local skill development are crucial factors used to evaluate cases processed at FEOD. During FY18, more than nineteen thousand cases of commercial, private and trade related remittances, including remittances against FE allocation involving an amount of USD 3.9 billion and exposure of USD 89.3 million through issuance of bank guarantees were processed.

Incorporation of enhanced due diligence and in depth scrutiny in operational processing of cases has led FEOD to identify and initiate regulatory actions against Authorized Dealers, Auditors and Applicants, wherever it was revealed that a stakeholder has acted outside its delegated capacity. FEOD has held industry wide meetings with shipping companies, local & foreign airlines, automobile sector, international retail and hotels association to get a macro view of the challenges being faced by these sectors. Subsequently, FEOD has forwarded its findings to Exchange Policy Department, thereby playing a crucial role in revision of instructions of Foreign Exchange Manual.

Box 4.2: Violations which led to initiation of regulatory actions

- Equity investment abroad without permission of SBP.
- Royalty fee payments made without SBP acknowledgment of underlying contracts.
- Illegal operations of FCY account (i.e. not as per Para 1, Chap 6 of FEM-2017).
- Remittances relating to different kinds of FX transactions made without approval.
- Issuance/Extension of Bank Guarantee without SBP approval.
- Third party payments.

4.5 Monitoring & Enforcement

The function of monitoring and enforcement relating to trade transaction was strengthened by incorporating the monitoring of commercial and private remittances. The salient findings and actions taken are given below:

4.5.1 Monitoring of Export

FEOD has identified exporters who did not submit the required shipping documents to ADs to avoid reporting in Export Overdue Statement (EOD) and legal action. In order to plug this loophole, FEOD issued instructions to ADs to report all such cases of EOD based on WeBOC data. Consequently, EOD reporting and repatriation there-against has increased three times. During FY18, ADs reported 58,056 export overdue cases of USD 1,225 million to FEOD as compared to 15,232 cases of USD 442 million in FY17. As a result of timely reporting of EOD cases by banks and stringent follow up by the Department, FEOD was able to manage repatriation of USD 887 million in FY18 as compared to USD 326 million in FY17, without recourse to Foreign Exchange Adjudication (FEA) Courts. Further, 13,420 complaints against exporters for non-realization of export proceeds amounting to USD 191.6 million were forwarded to FEA Courts in FY18 as against 1,966 cases amounting to USD 78 million in FY17.

In order to ensure accuracy, WeBOC data is compared with Export Overdue Reporting System (EORS) and International Transaction Reporting System (ITRS). During the year, 161,799 Electronic Forms-E (EFEs) were detected, which were neither reported as realized on WeBOC nor marked as overdue in EORS. FEOD ensured rectification; as a result realization against 105,201 EFEs was marked in WeBOC and 42,874 EFEs were reported in EORS.

FEOD verified 47,288 manual E-Forms during FY18 as compared to 39,021 in FY17. Because of on-time verification, 49 fake E-forms valuing USD 2.8 million were identified and referred to Collector of Customs (Adjudication). In addition, incidents of exports from land route on expired/cancelled EFE were identified. The Chief Collector Customs was approached to stop the practice and details of exporters have been collected for repatriation of the proceeds.

4.5.2 Monitoring of Import Payments

FEOD identified duplicate payments and payments against fake import documents amounting to USD 11 million and USD 12.8 million (including repatriation against such incidence identified during previous year) have been repatriated to Pakistan during FY18. Further, complaints against 19 importers have been lodged with FIA, who have failed to repatriate USD 10.5 million sent twice on photocopies of Bills of Lading. FEOD also monitors import advance payment to ensure imports of goods within the regulatory period of 4 months. During FY18, a penalty of PKR 102 million has been recovered compared to PKR 45 million in FY17, from importers upon their failure to import goods against advance payment.

4.5.3 Verification of Returns and EE/EF Statements

FEOD has taken initiatives for the discontinuation of physical monthly returns of FX transactions since monitoring and verification exercise are being easily and efficiently conducted on the electronic data submitted by the ADs in ITRS. However, ADs are required to maintain complete record/documents as per FE Circular No 8 of 2017. In order to ensure completeness and accuracy of data, FEOD identified 38,056 discrepancies in ITRS and advised banks to arrange for necessary rectification. FEOD also streamlined the process of verification of proceed in case of Foreign Direct Investment (FDI) and grant of immigration of Pakistan citizenship. FEOD also verified 643,404 EE/EF entries in ITRS from the physical statements submitted by the banks and employed WeBOC for the verification of EE/EF entries against advance payment at HOK, reducing turnaround time and HR requirement for the whole exercise by 60%.

4.5.4 Survey of Illegal Exchange Companies

A survey to identify the illegal foreign currency operators across all over Pakistan was managed by FEOD as per request of the Exchange Policy Department of SBP who provided the lists of legal FX

dealers to the Field Offices. The officers at Field Offices were required to visit various areas and identify the entities operating in FX other than licensed FX dealers. In this process, more than 400 illegal entities were identified and the same were forwarded to the Exchange Policy Department for taking necessary legal action.

4.6 Management of Government Schemes

FEOD also makes payments to exporters under various Government schemes announced by different Ministries of Federal and Provincial Governments. During FY18, nineteen schemes were effectively handled by FEOD. These schemes vary in nature, scope and processing cycle. Most of the schemes were export oriented, payment under few schemes were based on individual transactions and some schemes were based on incremental export performance making their processing difficult and time consuming. An amount of approximately Rs 50 billion was disbursed in FY 18 as compared to Rs 30 billion in FY17, as reflected in the graph.

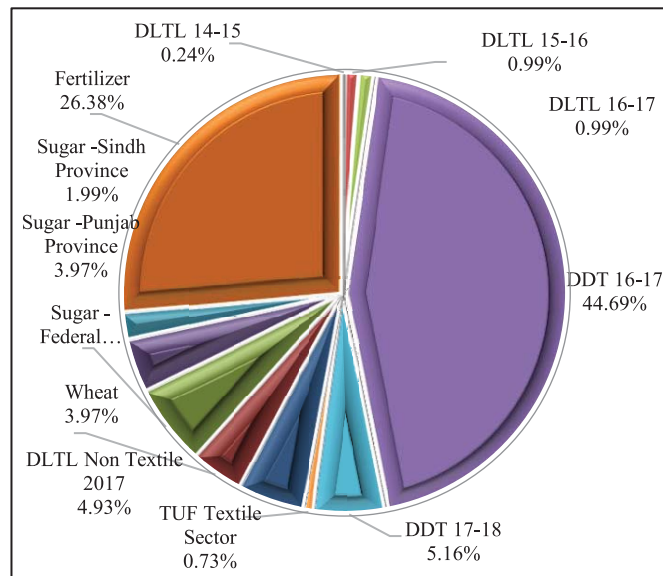


Figure 4.1: Management of Government Schemes

4.7 Import and Export of Foreign Currencies through Airport Booths

State Bank has allowed the Exchange Companies to export specified foreign currency other than USD by air, subject to grant of necessary permission by EPD on case to case basis. The FEOD has set up its booths at four international airports at Karachi, Lahore, Islamabad and Peshawar, which are allowed to export foreign currencies other than USD from all the four airports. However, the import of USD is allowed from the airports of Karachi and Lahore only.

4.8 Complaint & Litigation

FEOD has lodged 13,420 complaints in FY18 against exporters, who did not repatriate export proceeds on time, in FEA Courts as compared to 1,966 in FY17. The enhanced workload was managed through change in business processes. FEOD also facilitated FEAD through intimation of realization status of more than 7,000 cases lodged with it for efficient disposal of the cases.

FEOD defended and pleaded all the 26 appeals in Foreign Exchange Regulation Appellate Board (FERAB) without any legal attorney and 18 appeals were decided in favor of SBP BSC, the judgments of remaining 8 are still awaited. FEOD also responded to 13 cases filed in Supreme Court, High Court and Ombudsman by submitting detailed counter reply of appeals through legal counsel in consultation with Legal Services Department (LSD).

4.9 Future Outlook

1. In order to counter the evolving risks in Foreign Exchange business, FEOD has strengthened and broadened its monitoring and operational capabilities. However, a collective approach

and use of automation is a pre-requisite to mitigate risks in managing FX operations. The Department intends to focus on three important aspects of operational efficiency i.e. achieving full automation, enhancing capacity of the workforce and stabilizing the pace of the Department aimed at consolidating the achievements of the last couple of years. The project of knowledge management has achieved considerable progress and is expected to be implemented in FY19. FEOD is in the process of establishing Electronic Data Interchange (EDI) with Customs. Upon implementation, it will enhance the capacity of FEOD to monitor FX operations relating to trade manifold. Subsequently two projects, one for providing information to banks regarding trade business of exporters and the other verification of EE/EF statement, will be implemented.

2. There is a realization that the technical capacity of officers as well as those of ADs involved in foreign exchange needs consistent enhancement. FEOD plans to further enhance the scope of its 12-day Foreign Trade Certification Program by incorporating the current regulatory concerns, particularly related to Anti-Money Laundering (AML)/Countering Financing of Terrorism (CFT) and fraudulent transactions.
3. As FEOD uses multiple applications containing FX data for its operations & monitoring i.e. ITRS, WeBOC, EORS and Globus (T-24), data in these applications need to be integrated to formulate a holistic outlook of stakeholders. Therefore a project “Integration of FX Data Universe” was conceptualized. A consolidated booklet of instructions will also be put in place after revision of FE manual by EPD.

5 Foreign Exchange Adjudication

Foreign Exchange Adjudication Department (FEAD) adjudicates cases regarding violations of various provisions of Foreign Exchange Regulation Act (FERA), 1947 as per powers vested in Adjudicating Officers under Section 23B of the Act. The Adjudicating Officers are appointed by the SBP Governor through Gazette Notifications under 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 Foreign Exchange Operations Department against the delinquent exporters and importers under relevant provisions of FERA. The Courts, which are empowered to impose penalties, if it is proved that the contravention was willful, subsequently approach the relevant authorities for recovery of penalties as per Section 23J of the Act. The proceedings are conducted under Adjudication Proceedings and Appeal Rules, 1988.

Box 5.1: Major Initiatives/Achievements

1. FEAD has exceeded its initial realization target (USD 100 million) and even surpassed the revised target (USD 120 million) by effecting an all-time record realization of USD 133.7 million during FY18.
2. Three new Courts were established at Lahore, Quetta and Rawalpindi during FY18, in addition to two new Courts, set up last year. Together, these Courts contributed towards realization of USD 34 million (25% of total realization during the year).
3. Adjudicating Officers were assigned individual realization and disposal of cases targets during FY18. The initiative served as a key contributor towards increase in Foreign Exchange realization and disposal of target cases during the year.
4. A four-day comprehensive training of Adjudicating Officers and allied staff was arranged at NIBAF, Islamabad during the year under review.
5. Automated Centralized Cause List has been implemented.

In order to ensure prompt judicial process, the Department has been divided into four wings at Head Office viz. (i) Courts, (ii) Registrar and Database, (iii) Admin. and Recovery and (iv) Research and Development. Currently, there are thirteen Adjudicating Courts (four each at Karachi and Lahore, and one each at Faisalabad, Multan, Sialkot, Rawalpindi and Quetta) working across Pakistan.

Since the establishment of Foreign Exchange Adjudication mechanism in 1990 till June 30, 2018, FEAD has managed repatriation of USD 677.5 million from the exporters, who failed to bring export proceeds back within the stipulated time in violation of the provisions contained in section 12(1) of FERA.

5.1.1 Performance Highlights

During FY18, export proceeds equivalent to USD 133.7 million (highest ever in a year) were realized as compared to USD 78.7 million in FY17. (Table 5.1).

Adjudication Courts	Export Proceeds Realized in Million USD		% Change
	FY17	FY18	
Karachi	35.2	53.7	53%
Lahore	26.3	48.2	83%
Faisalabad	6.1	8.4	38%
Multan	1.6	2.6	63%
Sialkot	9.5	8.1	-15%
Quetta	-	12.1	-
Rawalpindi	-	0.6	-
Total	78.7	133.7	70%

The share of four Adjudication Courts at Karachi (out of total thirteen Courts) stood at 40% in overall realization of delayed export proceeds during FY18.

About 5,857 complaints were disposed of during FY18 as compared to 3,308 in FY17, depicting an increase of 77% (Table 5.2).

Further, Standard Operating Procedures (SOPs) for recovery were revamped and the electronic mail was introduced as the key mode of communication with the Authorized Dealers. This endeavor has resulted in recovery of Rs 6.1 million penalty from defaulting exporters during FY18 (Table 5.3).

5.2 Future Outlook

1. Continuous improvements are being ensured in the functioning of FEAD. Efforts are being made to focus on automation of its processes and development of an interactive database. A project regarding Development of Relational Database is under preparation, which is supposed to facilitate the Department in exercising efficient and effective monitoring of complaints and adjudication proceedings.
2. Moreover, the matter of recovery through District Collectors was taken up with Provincial Governments of Sindh and Punjab through the Office of SBP Governor. In response, these Provincial Governments have nominated Focal Persons in recovery matters. Interaction with relevant departments is in progress to remove impediments in the process of recovery of areas of land revenue.

Adjudication Courts	Number of Cases		% Change
	FY17	FY18	
Karachi	1,585	3,391	114%
Lahore	935	928	-1%
Faisalabad	370	341	-8%
Multan	81	183	126%
Sialkot	337	485	44%
Quetta	-	311	-
Rawalpindi	-	218	-
Total	3,308	5,857	77%

Adjudication Courts	Amount (in '000 Rs)
	FY18
Karachi	3,820
Lahore	2,220
Faisalabad	130
Total	6,170

Human Resource and Support Services



Human Resource Management



6 Human Resource Management

Human Resource Management Department (HRMD) has been assigned the task to take steps to achieve all goals of the management in order to ensure change management within the organization. The Department also facilitates in creating a desirable work environment for SBP BSC's employees, thereby enabling them to make effective contribution to achieve organizational objectives.

6.1 Overview

Human Resource Management Department continued to make its contributions during FY18 to help the organization in achieving various objectives. Its focus, however, remained on continuous improvement in different HR related areas that included HR Automation, Talent Resourcing, Career Development, Performance Management, Training & Development, Employee Relations, and most importantly ensuring industrial peace.

6.2 HR Profile

In view of ongoing automation and business process re-engineering (BPR), workforce has been rationalized and consequently a 54% reduction in the working strength of SBP BSC has taken place. The resulting gaps arising out of retirements due to aging population was managed through fresh inductions. The grade-wise comparison of headcount for FY17 and FY18 is given in **Table 6.1**.

6.3 HR Automation and Development Initiatives

During the year under review, HRMD continued its focus on Organizational Development and

Grade	No. of Employees					
	At inception		FY 17		FY 18	
	Total strength	Percentage	Total Strength	Percentage	Total Strength	Percentage
OG-7	-	-	1	0.04%	2	0.08%
OG-6	-	-	8	0.29%	8	0.30%
OG-5	36	0.6%	40	1.47%	44	1.66%
OG-4	71	1.2%	82	3.01%	76	2.86%
OG-3	296	5%	283	10.43%	278	10.47%
OG-2	958	16%	899	33.19%	834	31.41%
OG-1	2,091	35%	833	27.91%	954	35.93%
Below OG-1	2,512	42%	639	23.66%	459	17.29%
Total	5,964	100%	2,785	100.00%	2,655	100%

Change Management initiatives in alignment with strategic objectives of SBP BSC. As a result, various organizational development initiatives have been undertaken to augment changing business priorities.

6.3.1. Implementation of Biometric Attendance and Access Control System

In order to improve operational efficiency and move towards a paperless environment, Biometric Access Control and E-attendance System (BACES) has been introduced at SBP BSC, Head Office, Karachi (HOK). In this context, 24 machines have been installed at HOK (20 at HOK building & 4 at

Boulton Market Building). BACES system is now live and will run parallel with manual attendance registers until July 31, 2018. Going forward, this system will be implemented across all Regions/Field Offices from FY19 and onward.

6.3.2. Development of Executive Letter Management System

Executive Letter Management System (ELMS) has been developed, in coordination with the Information Systems Department (ISD) of SBP, for tracking and maintaining a trail of cases. The project has been implemented at HRMD and Strategic & Corporate Affairs Department (SCAD) is managing to roll it out across HOK in order to ensure efficient tracking and retrieval of all letters/cases.

6.3.3. Revision in Compensation & Benefits Structure of SBP BSC Officers

In order to align the salaries and benefits of SBP BSC officers with the market, a comprehensive compensation and benefits survey was carried out by External Consultants that were hired under Public Procurement Regulatory Authority (PPRA) Rules. Keeping in view the outcome of the survey results and organizational dynamics and upon recommendations of the Board's Committee on HR (HRC), the Board approved a 7% increase in monetized salaries of SBP BSC officers.

6.3.4. Implementation of Absorption Policy

In compliance with the Board's decision, a second round of absorption was successfully completed and seven SBP officers on deputation were absorbed in SBP BSC. After detailed deliberations at HRC on future course of action with reference to the officers, who did not opt for absorption, a final round of absorption was initiated in June 2018 wherein the closing deadline was July 6, 2018. The option was applicable for around 32 officers (OG-1 to OG-7) and by closing date, only 2 officers have applied for absorption in SBP BSC.

6.3.5 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: Instructions issued regarding HR Matters

- (1) Issuance of Master Circular on Preservation of record & constitution of Steering Committee to oversee the process for identification and categorization of all the important documents/records and classify them in accordance with the defined period of preservation.
- (2) Revision of application form for service certificates and format of service certificates.
- (3) Revision in policy regarding medical facility for spouse of SBP BSC employees.
- (4) Enhancement in ceiling for confinement charges.

6.4 Workload Analysis

An organization-wide Workload Analysis (WLA) was undertaken through an external consultant, M/s. Mazars Consulting to determine ideal headcount/manpower required to perform business functions against benchmark positions across SBP BSC. The results of the Workload Analysis have been received and are being used for various HR related initiatives, particularly in Annual Manpower Planning.

6.5 Talent Resourcing

HRMD maintained its focus towards re-enforcement in its human resource capital to enable the organization to maintain its high delivery standards. For the purpose, a number of recruitments were made across various hierarchical levels both in regular as well as contractual cadres. Brief on major recruitment initiatives is given in **Box 6.2**.

Box 6.2: Brief on Recruitment Initiatives during FY-18

In the light of the workload analysis conducted by an external consultant, HR requirements of SBP BSC were met through various recruitment drives:

(1) Young Professionals Induction Program (YPIP)-6th & 7th Batch

134 OG-2 Officers were inducted under two distinct batches of 74 and 60 officers respectively (YPIP 6th and 7th batch).

(2) Officers Training Programs (OTP)-7th, 8th & 9th Batch

Two batches comprising 93 and 120 officers were hired under OTP 7th and 8th batch respectively. Further, recruitment process for 9th Batch of OTP is also under process and the batch is expected to join the Bank's service during the 2nd quarter of FY-19.

(3) Hiring of Security Personnel

To further beef up the security function at the Bank, 33 contractual resources viz. three Security Officers and 30 Security Guards were inducted.

(4) Hiring of Procurement Specialists

To enhance expertise in procurement area of General Services Department, two Procurement Specialists were inducted.

(5) Hiring of Professional Engineers

In order to strengthen the Engineering function, one Senior Architect and one Sr. Joint Director were taken onboard.

(6) Hiring of Sports Personnel

In order to fulfill its corporate social responsibility and to encourage young & emerging talent in the field of sports, SBP BSC maintains men and women cricket teams for which 15 cricket players i.e. ten male & 5 female have been inducted.

(7) Hiring of Support Staff

For the purpose of adequately manning the support service functions at the Bank, six resources were engaged on contract basis viz. one Bank's Medical Consultant, one Medical Assistant, one Driver one Support Service Assistant and two I.T. Resources.

6.6 Career Development

One of the key objectives of HRMD is to provide career development opportunities to SBP BSC's talented employees along with proper succession planning. HRMD successfully completed the promotion cycle during FY18 (**Table 6.2**). Moreover, the initiatives taken for career development of the Bank's employees are provided in **Box 6.3**.

Table 6.2 Cadre-wise Promotions

Cadre	No. of Employees Promoted
Officers	85
From Clerical/Non-Clerical Staff to Officer Cadre	75
Clerical/Non-Clerical Staff (Scale Promotions)	58
Total	218

Box 6.3: Brief on Career Management Initiatives during FY17-18**(1) Standardization of criteria for selection of DCM/ACM (Cash)**

A stringent minimum standard has been introduced for selection of Deputy Chief Manager / Assistant Chief Manager (Cash) to minimize the exposure in these sensitive areas.

(2) Backup Arrangements for Business Continuity

A formal process of arranging back-ups has been introduced for officers performing critical functions to ensure uninterrupted business operations during their absence from offices in events such as Rest & Recreation, short-term absence, etc.

(3) Rotation of Officers

In line with other transfer/posting arrangements being done on need/request basis and maintain internal controls at Field Offices, rotation process of officers was carried out across all regions, in the light of the Bank's job rotation/transfer policy.

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 2017-18 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 8% of salary budget and it was tailored according to Pay-for-Performance Principle (See **Table 6.4**).

A	B+	B	C	D
11 percent	9 percent	7 percent	4 percent	NIL

Similarly, Clerical/Non-Clerical employees were awarded 7% performance increase across the board. Further, based on rendering satisfactory performance, one-time 3% performance award for the year 2017-18 (not to be made part of monetized salaries), as evaluated in their Performance Evaluation Reports, was given 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 43,000
Good	31-40	Rs 36,000
Satisfactory	11-30	Rs 33,000
Unsatisfactory	0-10	Nil

6.7.2 Application of PMS on Officers at Cash Side Units

As an initiative to improve organizational performance, provide career progression opportunities and meet challenging business requirements due to automation, the General Side and Cash Side have been merged. Consequently, officers working at Cash Side Units were also brought under the ambit of PMS during the year in order to inculcate a consistent performance culture across the Corporation. To facilitate this transition, orientation sessions were conducted by HRMD/ PMS Facilitators at all Field Offices. PMS forms containing customized KPIs/ Competencies for Cash Side were also developed to ensure impartial and equitable appraisal.

6.8 Employee Relations

HRMD is looking after various HR related legal matters, including verification & confirmation of employees, disciplinary matters, retirement, audit compliance etc. In order to enhance efficiency of the processes, new initiative for online verification of academic credentials was initiated, which is one of the factors that boosted the number of employee confirmations. During the year, 288 employees were confirmed in the Corporation. Further, 482 retirement cases (399 early retirements under Regulation 17 & 18 of Staff Regulations, 83 normal retirements on superannuation age etc.) were managed, during the year. At the same time, all legal matters were handled in close coordination with Legal Services Department (LSD) of SBP.

6.9 Industrial Relations

SBP BSC continuously strives to maintain industrial peace with its Clerical and Non-Clerical employees in order to foster a peaceful atmosphere. The CBA, as per provision of the Industrial Act 2012, executes a two-year agreement with the management. Last such agreement was valid for 2015-17. During FY17, the CBA put forward a Charter of Demand (CoD) 2017-19 requesting enhancement in various allowances and redressal of issues of the Clerical and Non-Clerical employees as perceived by it (CBA). After detailed deliberations and exhaustive discussions, a

settlement was reached between the Management and the CBA in terms of which the Clerical and Non-Clerical employees were allowed an increase of 8% in their salary and 7% in other major allowances.

6.10 Training and Development

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

Training Tracks	No. of Participants
NIBAF (Isb & Khi) Trainings	1,443
In-house Trainings at Field Offices	1,271
External Domestic Trainings	417
Foreign Trainings	28
LAMS	285
Total	3,444

During FY18, diverse 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. Moreover, Training Budget to all Field Offices has been allocated for conducting in-house training sessions and nominations of officers in local training institutions. Brief summary of various training tracks and number of participants is given in **Table 6.6**. Major initiatives are provided in **Box 6.4**.

Box 6.4: Brief on Training Initiatives during FY18

(1) 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 skill areas e.g. cross-functional linkages of SBP and SBP BSC, leadership & managerial communication, problem solving and decision-making etc. Since start of this Program, 11 iterations (including 4 conducted in FY18) covering 249 OG-3 officers have been successfully completed.

(2) Online exams through Learning Activity Management System

Three online exams had taken place during FY18, in which 285 officers participated across SBP BSC with a success ratio of 55.5%. Further, 8 new courses under Oracle ERP have been added in Learning Activity Management System (LAMS) portal and new Graphic User Interface has been developed for easy navigation and better user experience.

(3) 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 in areas such as MS Excel, communication, cash operations, duties of workers as described in IRA and its recent developments etc.

(4) Pre-Induction Training Program of YPIP - 6th & 7th Batch

A 12-week training program for new inductees under Young Professionals Induction Program (YPIP) was organized at NIBAF, Islamabad for 6th and 7th Batch. Curriculum was reviewed and necessary amendments were made to enhance effectiveness of the training program. Further, a 3-week Hands-on-training at HOK was also arranged for these employees.

(5) Orientation of Cash-side Officers on PMS Application

Training session of online PMS Application was organized for Cash-side officers.

(6) Summer/Winter Internship Program

Internship programs for 402 students of HEC Recognized Universities were organized at 16 Field Offices and HOK. Internship Manual was reviewed and necessary revisions made in order to streamline the process and enhance the effectiveness of the program. SOPs for procurement of stationery items for internship programs were also revised.

(7) NIBAF E-Learning Portal

E-Learning portal was launched by NIBAF on pilot basis and 157 officers of the Bank were registered. The portal has a library of 300 different courses of soft and IT skills.

6.11 Sports & Recreational Activities

In line with SBP's initiative to promote healthy sports activities, various sports & recreational activities were successfully arranged under the guidance of Sports Committee. In last quarter of

FY18, Grand Fun Gala was arranged, which was attended by 7,500 participants comprising employees from SBP, SBP BSC (HOK, North Nazimabad Office, Karachi) and NIBAF, Karachi along with their families. During the year, SBP cricket teams (Men & Women) participated in various tournaments organized/approved by Pakistan Cricket Board (PCB), including Patrons Trophy Gr-II Tournament. SBP cricket team achieved the milestone by winning the Pakistan Railways Inter-departmental Cricket Championship, 2018.

Further, 16 teams of commercial banks participated in State Bank Governor's Cup Interbank Super Series/Regional Cricket Tournaments. SBP Inter Club Women Football Tournament and Inter School Boys & Girls Cricket Tournaments were organized to promote talent at the grass root level. State Bank also organized various sports tournaments like Inter Department Tape Ball Cricket, Football, Badminton and Table Tennis for its employees.

6.12 Future Outlook

1. The prime objectives of HRMD are to streamline the HR processes, facilitate organizational change management, create a congenial work environment for employees as well as attract, develop and retain highly capable human resources. In this regard, HR framework is progressively being aligned with changing business outlook and HR dynamics as a result of automation, workforce rationalization through workload analysis and blended HR profile attributable to fresh inductions.
2. In future, the Department aspires to focus on strengthening Strategic HR framework through suitable organizational development interventions including Employee Involvement initiatives, technology integration, formal training needs assessment and leadership development programs for middle to senior management.

General Services



7 General Services

The dynamic nature of business at State Bank of Pakistan and its 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 Banking Services Corporation.

7.1 Overview

To conduct any business by an organization in a smooth and efficient manner, the role of sustained and cost effective support services is very important. The three departments of SBP BSC viz. General Services Department, Engineering Department and Internal Bank Security Department, are providing common services to State Bank of Pakistan, SBP Banking Services Corporation and National Institute of Banking and Finance. The support services include provision of medical services to employees and their eligible dependents, managing and ensuring security of personnel, assets and buildings as well as ensuring a safe and secure environment. Procurement of different physical assets, including IT equipment, software, vehicles, stationery etc. and consultancy services for various assignments, are carried out by SBP BSC. All printing requirements of SBP and its subsidiaries are managed by SBP BSC printing press. 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, provision and maintenance of all electrical system, diesel generator sets, lifts etc., are ensured by the Engineering Department.

7.2 General Services Department

7.2.1 Overview

GSD-primarily an internal service Department-provides quality support services to SBP and SBP BSC in an efficient and cost-effective manner. One of the major responsibilities of GSD is procurement of goods and services, in compliance with Public Procurement Regulatory Authority (PPRA) Rules-2004 and Procurement of Consultancy Services Regulations (PCSR)-2010. The Department provides quality services to the Bank's employees with regard to salary disbursement and other related benefits, health care, insurance and travel. 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

7.2.1.1 IT Equipment and Services

IT Equipment and Services are considered to be the lifeline of a dynamic and efficient organization. The timely and cost-effective technical up-gradation through procurement of IT Equipment & IT Consultancy Services, as per PPRA Rules, always remain a major challenge. In order to meet this task, 45 major IT procurement projects covering areas of Software, Hardware & Networking Accessories were successfully carried out during FY18. The major projects included:

- Knowledge Management System.
- Real-Time Gross Settlement (RTGS) Network Infrastructure.
- Call Centers for Banking Conduct & Consumer Protection Department (BC & CPD) and Pakistan Remittance Initiative (PRI).
- Biometric e-attendance system for SBP BSC, HOK and Backup site.

- IT Infrastructure for Servers and Allied Components.
- EDP Equipment for SBP, SBP BSC and NIBAF.
- Satellite Bandwidth for SBP.
- Network Switches for SBP and countrywide offices.
- Oracle Migration services and procurement of various foreign software / licenses renewals for different departments of SBP.

7.2.1.2 Currency Machines, Security Equipment & Stock Items

GSD plays a pivotal role in achieving strategic objectives of SBP and SBP BSC and is directly involved in procurement of currency machines, security equipment & stock items. Accordingly, 29 major procurements were successfully completed during FY18. Currency Management Strategy (CMS) has been one of the major areas of emphasis by the senior management and is an integral part of SBP BSC Vision. This strategic objective has been achieved by carrying out procurement of High End Banknote Systems and Cash Handling Machines across Pakistan under national and international competitive bidding process. Given the security situation in Pakistan, GSD is also procuring security-related equipment (as per need assessed by IBSD), in order to mitigate security risks for SBP, SBP BSC and its Field Offices.

Another milestone achieved during the year was standardization of procurement process and handling procedure of stock related items. In this regard, guidelines titled as “Guidelines for procurement of stock items”, were issued to all SBP BSC Field Offices. A brief description of these guidelines has been given in **Box 7.1**. The major projects completed during FY18 include:

<p>Box 7.1: Guidelines for procurement</p> <ul style="list-style-type: none">• Preparation of Annual Procurement Plan to track/monitor the progress against planned activities.• Categorization of stock items into various groups and processing of bidding process based on this categorization.• Devising delivery schedules based on past consumption pattern.• Defining threshold for inventory stock of major consumable items.

- High end Banknote Processing and Authentication Systems (BPAS) and Banknote Disintegration System (BDS)¹².
- Cash Handling Machines, Countertop and Desktop Banknote Sorters for all the Field Offices.
- Electric Fencing for SBP BSC, Islamabad and Quetta Offices.
- Security related items, including Walkthrough Gates, Hydraulic Road Blockers, Baggage X-Ray Scanners, Turnstile Gate with Access Control System, Under Vehicle Inspection System (UVIS), Metal Detectors, Security Guards Uniform for SBP BSC and all Field Offices.
- Fire Suppression and Detection Systems for Uninterrupted Power Supply (UPS) Room-ITD.

7.2.1.3 Consultancy & Services

One of GSD’s critical roles is to acquire the services of consultancy firms both of advisory and intellectual nature for supporting the implementation of different initiatives of various departments of SBP and SBP BSC, which include Human Resource, Information Technology, Engineering, Financial Advisory, General Consultancy etc. This shows that GSD’s role is critical for other departments and it helps them in achieving their targets/goals. During the period under review, 27 major contracts were awarded / signed.

¹² Bidding process completed; the approval of the Competent Authority is being processed.

By implementing different strategies, the efficiency of ongoing procurement process has been enhanced which ultimately led to a significant decrease in the rate of insurance premium for loan insurance policy of SBP and SBP BSC for three years of contract duration.

Continuous efforts were made to minimize undesirable delays in the initiation of procurement process by introducing standard format for procurement requisition. In order to ensure its implementation in letter and spirit, GSD also conducted various awareness sessions for different departments of SBP and SBP BSC during FY18.

GSD, in consultation with Legal Services Department of SBP, has also revised the current Bidding Document for procurement of various services from outsourced contractors in PPRA compliant manner. The revised Bidding Document will help reduce the different associated risks, besides completion of procurement process in an efficient manner to meet the organizational requirements.

Further, in order to bring more efficiency in current procurement process, significant measures have been undertaken to ensure reduced lead-time in preparation of Annual Procurement Plan, assigning role of contract management to indenting departments and advising evaluation committees to complete evaluation in two weeks.

7.2.1.4 Furniture, Fixtures and other Office Equipment

The Department, not only facilitates in annually planned procurements, but also meets immediate requirement of departments across SBP and SBP BSC. GSD Helpdesk deals with complaints pertaining to repair & maintenance and replacement of furniture, fixtures, consumables, etc. Gymnasium, Day Care Centre, Learning Resource Centre, Auditorium, Heritage Meeting Rooms are also being managed by GSD.

7.2.1.5 Vehicle Procurement and Maintenance

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. This procurement process encompasses multiple aspects, ranging from the purchase of vehicles, their registration with the relevant authorities and issuance of number plates and compliance of 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.

7.2.3 Health Care and Medical Services

Medical Services Division (MSD) is proactively pursuing its conventional role of providing quality healthcare facilities to employees of SBP, SBP BSC and NIBAF as well as expanding its administrative domain. Major achievements regarding healthcare facilities during FY18 are as under:

- Medical Review Committee was revamped where compliance to Committee's decisions were ensured before commencement of next meeting.
- Purchase Committee across all Field Offices of SBP BSC was formed to ensure transparency in procurement of medicines.
- In order to strengthen internal controls, verification of physical balance of Medical Inventory Store with the Medical Services System (MSS) Report was carried out.
- Medical feedback and complain forum was launched to redress employees' issues.
- Further, nine extensive awareness sessions about health-related issues and screening camps regarding numerous disease(s) were arranged at the Head and Field Offices. During these sessions, distinguished Consultants across the country were invited to share their valued information on the relevant subject(s).

7.2.4 Printing and Publication Services

SBP BSC Printing Press provides dedicated printing services to SBP, SBP BSC and NIBAF. The range of its services covers designing, printing, finishing and binding of publications.

The Printing Press carried out 900 printing jobs during FY18. Major publications printed at the Bank's Press during FY18 are enlisted in **Box 7.2**.

Box 7.2: List of Major Publications Printed at SBP BSC

- SBP Annual Report (Volume I & II)
- SBP BSC Annual Performance Review (APR)
- Import / Export of Goods & Services
- Monthly Statistical Bulletin
- Monthly Inflation Monitor
- Monthly State Bank News
- Quarterly Report on the State of Pakistan's Economy
- Quarterly Islamic Banking Bulletin
- Miscellaneous printing jobs e.g., letter heads, certificates, forms, receipt books, visiting / invitation cards, brochures, flyers, leaflets & greeting cards etc.
- Printing of 145,000 booklets on National Financial Literacy Program.
- National Prize Bond (NPB) forms for all Field Offices.

7.2.5 Future Outlook – GSD

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

1. Introduction of system-based procurement mechanism by adopting the e-procurement strategy, the Department is planning to replace manual procurement with system based procurement to bring more efficiency in the tendering process, payment cycle and ultimately towards greater user satisfaction.
2. Automation of manual business processes by implementing Knowledge Management Project (KMP).
3. Working towards efficient record management of physical record and eventually its digitalization.
4. Evaluating how procurement can be done more efficiently and in a more cost-effective manner by evaluating the delegation of sanctioning power and also consolidating some specific procurement at HOK.

7.3 Engineering Services

7.3.1 Overview

Engineering Department serves as a provider of common services to SBP, SBP BSC and NIBAF with the aim to promote, maintain and upgrade the physical working environment of all the three organizations. It remained engaged in renovation of the Bank's buildings and existing infrastructure, installation of high-grade equipment and repair/maintenance of already installed electrical, telecommunication equipment and HVAC systems during FY18. The Department strived to ensure efficient completion of work with highest level of quality and procured all works / services in accordance with the Public Procurement Regulatory Authority (PPRA) Rules in a fair & transparent manner.

7.3.2 Initiatives during the year

During FY18, Engineering Department took the initiative of formalizing different Standard Operating Procedures (SOPs) for processes relating to civil works, mechanical works and electrical works. Store Manual and Payment Processing Manual were also updated. Some of the achievements of the Department during the year are elaborated below:

Box 7.3: Initiatives

- Restoration of water connection to main building in Karachi, after a long time, which resulted in saving of substantial amount on annual basis.
- Managed to take approval for architectural designs of new office buildings at G-5/2 Islamabad, Gujranwala and Female Hostel, Queens Road, Karachi from relevant building control authorities.

- Completion of work relating to construction of boundary wall of SBP BSC, Gwadar.
- Upgradation of Rest Rooms in various buildings of SBP and NIBAF, Islamabad.
- Office space required for strengthening of Internal Audit and Currency Management Departments workforce at Lahore, besides Offices for NIBAF, Lahore and Regional Head (Central).
- Installation of telephone exchange (PABX) at SBP BSC, Peshawar Office and up-gradation of exchanges at the Bank's main building in Karachi and SBP BSC, Sialkot.
- Commencement of renovation work for establishment of NIBAF campus at SBP BSC, Peshawar.
- Resolution of more than 3,000 complaints, relating to telecommunication, electrical, mechanical, civil, janitorial works etc., which were received from almost all stakeholders.
- Fixing of false ceiling and lighting in main building of Muzaffarabad Office.
- Roof treatment of Hostel Block, Quetta Office and Boulton Market Building, Karachi.
- Supply, installation, testing and commissioning of two hot-water circulation pump-sets.
- Fixing of double-glazed UPVC windows on 1st and 2nd floor of SBP Main Building in Karachi.
- Procurement of eight condenser coils for scroll-type of chiller for SBP Museum building.

7.3.3 Future Outlook

Engineering Department intends to develop an electronic platform for its procurement activities for which it has taken an initiative of implementing e-Procurement system. In this regard, the Project Steering Committee, comprising key stakeholders including GSD, has been formulated for ascertaining its operational feasibility, strengthen and improve its skillset and capacity to handle construction of large projects. The Department intends to complete the concept phase and start procurement for its designing latest by FY20.

7.4 Internal Bank Security Department

7.4.1 Overview

The operational priorities of Internal Bank Security Department (IBSD) are set in alignment with the prevailing security milieu of the country and overall strategic objectives of SBP and SBP BSC. Moreover, in view of prevailing security situation of the country, the role of IBSD has gained prominence. In this regard, provision of safe, secure and conducive work environment is ensured through sustained in-house security mechanism and in close coordination with relevant Law Enforcement Agencies (LEAs). Accordingly, by the grace of God, security vigilance ensured uninterrupted banking operations at all Field Offices. For the purpose, a close liaison has also been maintained with local Police/Rangers/ Civil Defence/Fire Brigade and other law-enforcement agencies, for assistance on need basis.

7.4.2 Developmental Initiatives

During FY18, IBSD continued its efforts for strengthening the security measures at SBP, SBP BSC HOK/Field Offices and NIBAF. Salient initiatives include:

- a. Preparation of Security and Safety Manual to provide guidelines, SOPs and direction to all Field Offices and employees.
- b. A 2-day in-house leadership development program for Security Officers of HOK and South Region conducted at NIBAF, Karachi.
- c. Conduct of regular physical efficiency test of security personnel and firing practice.
- d. Capacity-building through on-the-job training, in-house firefighting practices and periodic Mock/Table Top exercises.
- e. Procurement and maintenance of weapons, hi-tech equipment, training and firearm practice.

7.4.3 Future Outlook – IBSD

Going forward, IBSD intends to undertake further initiatives in order to enhance the capacity of Security Staff. In this regard, the following proposals are under consideration/approval:

1. Reorganization of IBSD.
2. Enhancing capacity and skill set of the Department to manage varying level of security threats, on both preventive and reactive basis, through effective hiring and use of technology.
3. Establishment of Quick Response Force along with arms/ ammunition and transport for HOK and all Field Offices.
4. Further, ensuring robust and regular coordination with Police/Rangers/Civil Defence and Fire Brigade for strengthening the operational readiness so as to cope with potential safety/ security challenges.

Other Functions



Internal Audit



8 Internal Audit

Internal Audit is an independent and objective activity aimed at improving governance and internal controls of SBP Banking Services Corporation.

8.1 Overview

The role of Internal Audit Department (IAD) in SBP BSC is to examine thoroughly and evaluate critically whether the framework of risk management and governance processes are adequate and functioning properly. Additionally, the Department assists the SBP BSC Board Committee on Audit in effective oversight of audit processes and internal controls. It also provides an independent appraisal of all activities and control environment of SBP BSC, including governance practices and risk management. IAD reports its findings to the Audit Committee of the Board, in addition to sharing the same with the Managing Director of SBP BSC.

8.2 Operational Performance

During FY18, IAD carried out its audit engagements through three different streams of audit. Annual Audit entailed a full scope review of activities conducted in nine departments at HOK and 16 Field Offices.

Audit Engagements	Audits Conducted
Annual Audits	25
Hub Audits	48
Thematic Audits	4

Besides conducting Annual Audit periodically, the Department also conducts audit exercises more frequently through its Hubs set up at Karachi and Lahore. The objective of Audit Hubs is to evaluate control effectiveness with focus on the activities based processes in areas of Treasury Cash, Banking and Prize Bonds. The results of audit activities have led to further improvements in the internal control environment, which would go a long way towards supporting the management of 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. Resultantly, only 1.4% observations against a total of 96 issued during FY18 were outstanding as on June 30, 2018.

8.3 Developmental Initiatives

In line with IAD's Charter as well as global trends in internal audit, the Department has been initiating several projects, which are both strategic and operational in nature. The outgoing year was no exception as a shift in audit execution was made by implementing Thematic Audit process in areas of development finance and foreign exchange operations for all three regions of SBP BSC. The Department also ensured quality of audit processes throughout the year with successful rollout of Quality Assurance and Improvement Program.

IAD also initiated the drive to reinforce the organization's Internal Monitoring Units (IMUs) by conducting capacity-building sessions for IMU officials for both the System-based Audit Methodology and Control & Risk Rating System. Eight IMU officials from different regions were attached with audit teams during assignments as part of IAD's 'Attachment Program' to provide practical insight into the audit methodologies adopted by the Department. The Audit Forum was

constituted and two Audit Conferences were conducted to facilitate IMUs to enhance communication between auditors and clients.

8.4 Future outlook

1. IAD's strategic focus for FY19 aims to bring continuous improvement for ensuring the Department's role of value addition to the organization's dynamic environment. Keeping in view the increased role of technology in SBP BSC's operations, IAD would explore the concept of 'Technology Risk Assessment' for the organization, which will help in understanding the crucial role of technology in business processes. This strategic focus would also entail aligning IAD's capacity for big data analysis for audit purposes due to increased availability of voluminous and heterogeneous electronic data in different business segments.
2. Taking advantage of the development of organization-wide Risk and Control Self Assessment (risk registers) under an Enterprise Risk Management (ERM) program in SBP BSC, IAD aims to align its existing Control and Risk Rating System with the ERM framework to ensure uniformity in risk management. In addition, with the successful conclusion of Thematic Audits in the areas of development finance and foreign exchange operations during the current year, IAD will be adding Banking, Currency, etc. to this stream of audit in the coming year. The focus on capacity building of IMU officials would continue to be part of IAD's initiatives, whilst a dedicated capacity-building program is being developed for IAD's auditors to enhance their business knowledge and maintain objectivity in assignments. The services of NIBAF shall also be used to manage this initiative both with the help of trainers from IAD and other resources.
3. The Department's strategic drive encompasses a detailed peer review of IAD's practices against standards prescribed by the Institute of Internal Auditing (IIA), in collaboration with Internal Audit and Compliance Department (IACD) of SBP. This peer review would pave way for an enhanced external evaluation. Moreover, the Department is also working to improve the efficiency of audit processes and automating audit functions by implementing Audit Management Software.

Corporate Governance



9 Corporate Governance

Strategic & Corporate Affairs Department (SCAD) is responsible for facilitating the implementation of Corporate Governance Framework at SBP Banking Services Corporation. The Department is also entrusted with the task of coordinating the strategic planning process and business planning exercise at SBP BSC.

9.1 Overview

Strategic and Corporate Affairs Department is primarily mandated to facilitate and support the Corporate Governance Framework at SBP BSC. The Department strives to attain its objective through various workstreams in accordance with the Bank's Vision.

The Department is comprised of two major divisions i.e., (i) Corporate Secretary Division (CSD) and (ii) Systems and Procedures Division (SPD).

The Corporate Secretary Division is responsible for holding meetings of different forums, which include SBP BSC Board, SBP BSC Board Committees on Audit, Human Resource, Security Review, Publications Review, Heads of Department (HoDs) Forum, Chief Managers (CMs) Forum, Management Committees on various areas of operations as well as of other committees and when constituted. 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 international best practices of corporate governance.

Systems and Procedures Division coordinates and monitors the Business Planning exercise at SBP BSC, in addition to facilitating Business Process Reengineering (BPR) activity. Moreover, SPD also plays a pivotal role in continuous development of business applications being used by SBP BSC in close coordination with Information Systems Department (ISD) of SBP. These include T-24 (updated version of Globus Temenos) and Oracle ERP application. This Division is also responsible for timely updation of SBP BSC external and internal websites.

Box 9.1: Highlights

- Organization of meetings relating to SBP BSC Board of Directors and its Committees on Audit, Human Resource and Security Review.
- Organization of meetings relating to Heads of Department and Chief Managers' Forums.
- Compliance of decisions of the Board of Directors of SBP BSC and CMT of SBP by the concerned departments of SBP BSC.
- Serving as Secretariat to the Management Committees on: (a) Business Process Re-engineering, (b) Strategy Development, (c) Publications and (d) Urdu Co-option Committee.
- Coordinating, Compiling and Publishing of the Annual Performance Review of SBP BSC.
- Steering the Strategic Planning Process at SBP BSC.
- Coordination of Business Planning Process of SBP BSC.
- Streamlining Business Process Re-engineering activities under a single domain, removing redundancies and delays.
- Centralized business applications system support for operational functions at Field Offices and HOK in coordination with Information Systems Department.
- Active role in successful implementation of Globus T-24 Banking upgradation.
- Implemented the Executive Letter Management System in HOK departments and imparted training to the users.

9.2 Performance Review of Strategic and Corporate Affairs Department

9.2.1 Board and its Committees

As the driver of Corporate Governance Framework at SBP BSC, Strategic and Corporate Affairs Department is responsible to facilitate conducting of meetings of SBP BSC Board and its Committees on Audit, Human Resources, Publications Review and Security Review.

9.2.1.1 Security Review Committee

The SBP BSC Board Committee on Security Review was constituted by the Board in its meeting held in Bahawalpur on January 6, 2018. Its mandate is to do a one-time review of the security measures in place and provide input to the management on existing safety aspects of the Bank including cyber security components and security of gold vaults. SCAD organized three meetings of Security Review Committee in FY18.

Sr. No.	Name of the Forum	Number of Meetings held
1.	SBP BSC's Board of Directors	06 ¹³
2.	Audit Committee of the Board	08
3.	Human Resources Committee of the Board	04
4.	Security Review Committee of the Board	03 ¹⁴

9.2.1.2 Publications Review Committee

The Publications Review Committee (PRC) was set up by SBP BSC Board of Directors in its meeting held on June 30, 2018. The PRC is mandated to assist the Board in fulfilling its oversight responsibilities relating to the review and approval of the Annual Performance Review (APR) and other publications of SBP BSC. The details of SBP BSC Board and its Committees meetings held during FY18 are provided in **Table 9.1**.

9.2.2 HoDs Forum/CMs Forum

The management believes in a collaborative approach towards decision-making process. Heads of Department Forum and Chief Managers' Forum serve as important mediums 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 FY18, the HoDs and CMs forums met five times.

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 Reengineering.
3. Management Committee on Publications.
4. Urdu Co-option Committee.

The meetings of these Committees are held on periodical/need basis. The Management Committees met four times during FY18.

¹³Including one exclusive meeting of SBP BSC

¹⁴ All three exclusive meetings of SBP BSC, which were also attended by concerned departments of SBP by invitation

9.2.4 Strategic Planning at SBP BSC

Strategic planning is considered to be one of the most important activities employed for the success of an organization. The prime goal of a corporate strategic plan is to clearly identify the organization's objectives. The task regarding coordination and formulation of Strategic Plan for SBP BSC rests with SCAD. In this regard, various important measures being taken by the management, are intended to broaden the working scope of SBP BSC by adding new areas, while comparing the model of the organization with central banks having similar functions and scope. The basic objective of this exercise is to focus on value addition to the provision of services being provided as an operational arm to the central bank, while aligning the SBP BSC's strategic orientation with the strategy goals defined in SBP Vision 2020.

9.2.5 Business Planning at SBP BSC

SCAD spearheads the Business Planning function at SBP BSC. After formally kicking off the exercise every year, SCAD facilitates the stakeholders at each Group/Department/Region and Field Office by closely coordinating in drafting of plans on approved templates and arranging rationalization, prioritization and review meetings with higher management. It also assists senior management and other stakeholders in approval and continuous monitoring of business plan projects. Moreover, once the proposed business plan projects are approved, SCAD consolidates the details of all projects in the form of a yearly Business Plan Booklet, which is published and disseminated to concerned stakeholders at Departments & Field Offices and placed on the internal website.

SCAD also assists higher management in the compliance of action items emanating from Business Plan review meetings of each Group, Department, Region and Field Office of SBP BSC.

During the year under review, SCAD undertook development of a revised Business Planning Manual to incorporate organizational restructuring, i.e. inclusion of Group & Regional Head positions and also updated / revised the activities and procedures while considering the current practices of Business Planning process at SBP BSC. In this respect, development process was enhanced to provide a clear roadmap (with timelines) to Departments and Field Offices for preparation of their Business Plan projects in a timely manner. Secondly, the review process of Business Planning Exercise was revised for improved rationalization, decision-making and effective management by appropriately incorporating the new higher management cadres of Group and Regional Heads. Additionally, annexures of the Business Plan (PowerPoint and excel sheet formats) utilized to monitor and carry out the quarterly, midyear and yearly reviews were modified to standardize the scrutiny, administration and presentation of the Business Plan projects. SCAD also developed a master sheet/database to record and maintain status of all business plan projects of SBPBSC for effective and enhanced monitoring. During Business Plan Exercise of FY18, 334 projects of all HOK Departments and Field Offices were reviewed. **Table 9.2** shows HOK Departments and Region-wise comparison of projects.

Sr. No.	Regions	FY17	FY18
1.	HOK Departments	63	69
2.	North Region Field Offices	57	80
3.	Central Region Field Offices	84	97
4.	South Region Field Offices	86	88
Total		290	334

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 in terms of various functions of the organization during a 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. Previously, only the Management Committee on Publications used to supervise the finalization of APR contents and its design. However, with the establishment of Publication Review Committee of SBP BSC, the function of providing oversight regarding review and approval of the Report will now be performed by the Board Committee. 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 T24 Banking and T24 Currency Systems across the Corporation, which enables the smooth close of business at all 16 Field Offices on daily basis. For the purpose, SCAD, in close coordination with Information Systems 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	FY18	FY17
T24 Banking	14,076	11,550
T24 Currency	6,467	4,253

The Department provides first-level Helpdesk Support through its Systems and Procedure Division to 16 Field Offices of SBP BSC and its Head Office in areas of T24 Banking (Public Accounts Unit, Deposit Accounts Unit, Prize Bonds, National Savings Schemes and Export Refinance etc.) and T24 Currency until the Close of Business signal is received from all the Field Offices. A comparison of the number of incidents resolved during FY18 and FY17 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 and currency solution applications installed across SBP BSC.

9.2.8 Globus T-24 Banking Upgrade

During the year, T-24 Banking upgrade project was successfully completed across the Corporation and is live since 11th December 2017. SCAD played an active role as part of the testing/training/implementation team for the aforementioned project. SPD, being part of the T-24 Project Steering Committee, continuously monitored the process. It is pertinent to mention here that Banking Helpdesk - Information Systems Department and Globus Helpdesk - Systems and Procedures Division participated in Super Users Training of T-24 across the Corporation, without impacting the daily Helpdesk support for Globus system, by working for extended hours.

9.3 Future Outlook

1. SCAD endeavors to continue its role as the nerve-centre for the Bank operations and to play its part in devising effective Decision Support System for the senior management by way of augmenting its diversified and challenging activities.
2. One of the significant projects planned for FY19 is the development of SBP BSC Strategic Plan for which the management plans to align it with the strategic initiatives defined under SBP Vision 2020.
3. SCAD also plans to build efficiency in the use of system-based applications by all Departments and Field Offices of SBP BSC, particularly after the successful upgradation of Globus T-24 Banking Module during FY18 and T-24 Currency Module during FY17.

4. SCAD also plans to employ automation in Business Planning process, implement a custom-built application wherein Field Offices and Departments can directly input their projects information, quarterly status updates and MIS reports, which will be available for Field Offices/Regions/Departments /Groups.
5. Moreover, with the implementation of Executive Letter Management System, spearheaded by SCAD across HOK Departments, the cases and correspondence recording and monitoring will be more efficient. SCAD has actively participated in drafting the taxonomy of its Workflow Management System, an application already in its phase-wise implementation at SBP and SBP BSC, to move towards a paperless work environment.

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 2018, 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, 2018, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

EY Ford Rhodes
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

Dated: 23 October 2018

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2018

	<i>Note</i>	2018	2017
		——(Rupees in '000)——	
ASSETS			
Current account with the State Bank of Pakistan		50,042,724	50,746,464
Investments	5	521,419	532,178
Employee loans	6	9,152,123	9,481,894
Advances and deposits	7	100,983	49,581
Medical and stationery consumables	8	190,334	164,822
Property and equipment	9	895,356	880,477
Total assets		60,902,939	61,855,416
LIABILITIES			
Deposits and other liabilities	10	5,074,430	5,657,276
Deferred liabilities - unfunded staff retirement benefits	11	54,828,509	55,198,140
Total liabilities		59,902,939	60,855,416
Net assets		1,000,000	1,000,000
REPRESENTED BY:			
Share capital	12	1,000,000	1,000,000
CONTINGENCIES AND COMMITMENTS	13		

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

Qasim Nawaz
 Managing Director

Riaz Nazarali Chunara
 Group Head

**SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2018**

	<i>Note</i>	2018	2017
		——(Rupees in '000)——	
Discount and interest earned	<i>14</i>	31,315	31,352
Net operating expenses	<i>15</i>	14,917,727	12,495,138
Reimbursable from the State Bank of Pakistan		(8,544,648)	(7,423,955)
Allocated to the State Bank of Pakistan		(6,373,079)	(5,071,183)
		-	-
Operating profit		31,315	31,352
Gain on disposal of property and equipment		4,504	10,220
Profit for the year		35,819	41,572

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

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

**SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2018**

	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
Profit for the year		35,819	41,572
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Loss on remeasurements of defined benefit plans	<i>15.2.4.1</i>	(2,961,549)	(1,667,758)
Allocated to the State Bank of Pakistan		2,961,549	1,667,758
		-	-
Total comprehensive income for the year		35,819	41,572

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

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

**SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2018**

	Share capital	Unappropriated profit	Total
	(Rupees in '000)		
Balance as at July 1, 2016	1,000,000	-	1,000,000
Total comprehensive income for the year	-	41,572	41,572
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(41,572)	(41,572)
Balance as at June 30, 2017	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>
Total comprehensive income for the year	-	35,819	35,819
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(35,819)	(35,819)
Balance as at June 30, 2018	<u><u>1,000,000</u></u>	<u><u>-</u></u>	<u><u>1,000,000</u></u>

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

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	16	26,588	15,868
Profit transferred to the State Bank of Pakistan		(35,819)	(41,572)
Income on Government securities received during the year		26,186	15,207
		16,955	(10,507)
Decrease / (Increase) in assets			
Current account with the State Bank of Pakistan - excluding depreciation and expense in respect of staff retirement benefits and compensated absences		217,371	(1,535,300)
Medical and stationery consumables		(25,512)	(25,947)
Employee loans		329,771	1,371,537
Advances, deposits and prepayments		(51,402)	15,027
(Decrease) / Increase in liabilities			
Deposits and other liabilities		(183,116)	793,507
Net cash generated from operating activities		304,067	608,307
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		(10,700)	(6,377)
Capital expenditure		(303,013)	(620,767)
Proceeds from disposal of property and equipment		9,646	18,827
Net cash used in investing activities		(304,067)	(608,307)
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

Riaz Nazarali Chunara
 Group Head

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

2. STATEMENT OF COMPLIANCE

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

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 Retirement benefits

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

3.3.2 Useful life and residual value of property and equipment

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

3.3.3 Provision against obsolete medical and stationery consumables

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

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

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

Standards	Effective date (annual periods beginning on or after)
- IFRS 9 - 'Financial Instruments'	January 1, 2018
- IFRS 15 - 'Revenue from contracts with customers'	January 1, 2018
- IFRS 16 - 'Leases'	January 1, 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time
- IFRS 17 - 'Insurance contracts'	January 1, 2021
Amendments	Effective date (annual periods beginning on or after)
Amendments to IFRS 2 - ' <i>Share based payments</i> ' on clarifying how to account for certain types of share-based payment transactions	01 January 2018
Amendments to IFRS 4 - ' <i>Insurance contracts</i> ' regarding the implementation of IFRS 9, 'Financial instruments'	01 January 2018
Amendments to IAS 28 - Long term interest in associates and joint ventures	01 January 2019
Amendment to IAS 40 - ' <i>Investment property</i> ' relating to transfers of investment property	01 January 2018
Amendments to IAS 19 - 'Employee Benefits'	01 January 2019
Amendments to IFRS 10 – ' <i>Consolidated Financial Statements</i> ' and IAS 28 – ' <i>Investments in Associates and Joint Ventures</i> ' regarding sale or contribution of assets between an investor and its associate or joint venture	Date yet to be finalized
Interpretations	
IFRIC 22, 'Foreign currency transactions and advance consideration'	01 January 2018
IFRIC 23, 'Uncertainty over income tax'	01 January 2019
Improvements	
IFRS 1, ' <i>First-time adoption of IFRS</i> ', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10.	01 January 2018
IFRS 3, ' <i>Business Combination</i> ' regarding previously held interest in a joint operation.	01 January 2019
IFRS 11, ' <i>Joint Arrangements</i> ' regarding previously held interest in a joint operation.	01 January 2019
IAS 12, ' <i>Income Taxes</i> ' regarding income tax consequences of payments on financial instruments classified as equity.	01 January 2019
IAS 23, ' <i>Borrowing Cost</i> ' regarding borrowing cost eligible for capitalisation.	01 January 2019
IAS 28, ' <i>Investments in associates and joint ventures</i> ' regarding measuring an associate or joint venture at fair value.	01 January 2018

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

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

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

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

- (i) on initial recognition, 12-month expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset;
- (ii) if credit risk increases significantly from initial recognition, lifetime expected credit losses are recognized in profit or loss, and interest revenue is calculated on the gross carrying amount of the asset; and
- (iii) when a financial asset is considered credit-impaired, interest revenue is calculated based on the net carrying amount of the asset (gross carrying amount less the loss allowance), rather than on its gross carrying amount.

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

The mandatory effective date for the adoption of IFRS 9 is January 1, 2018, as determined by the IASB, although early adoption was permitted.

The Corporation has made a preliminary assessment and determined that IFRS 9 will result in a change to the classification and measurement of certain financial instruments, however, the transition is not expected to have a significant impact on the Corporation's financial statements. Further, the Corporation has also determined that the changes to accounting for financial instrument impairment are not expected to have a significant impact on the Corporation's financial statements. As such, the Corporation has opted not to restate its comparative information on adoption of IFRS 9. Additional disclosures related to the Corporation's financial instrument accounting policies, impairment methodologies and financial risk assessments will be required.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

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

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

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

b) Loans and receivables

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

c) Held to maturity

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

d) Available for sale financial assets

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

4.1.1.2 Initial recognition and measurement

All financial assets are recognised at the time the Corporation becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Corporation commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially 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 assets 'at fair value through profit or loss' and 'available for sale'

Financial assets 'at fair value through profit or loss' are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are taken to the profit and loss account in the period in which these arise.

'Available for sale' financial assets are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of 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 transactions, discounted cash flow analysis and other revaluation techniques commonly used by market participants. Investments in securities of which the fair value cannot be determined reliably are carried at cost.

4.1.5 Offsetting of financial assets and financial liabilities

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

4.2 Employee loans

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

4.3 Medical and stationery consumables

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

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

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

4.4 Property and equipment

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

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

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

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

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

4.5 Impairment of non-financial assets

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

4.6 Compensated absences

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

4.7 Staff retirement benefits

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

- a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme. Under this scheme, contribution is made both by the Corporation and employee at the rate of 6% of the monetized salary. The Corporation provided an option to employees covered under old scheme to join the funded New Contributory Provident Fund Scheme - NCPF (new scheme) effective from July 1, 2010. Under this scheme contribution is made by both the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new scheme.
- b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for this new scheme. Under this scheme contribution is made by the employee only at the rate of 5% of the monetized salary.
- c) the following other staff retirement benefit schemes:
 - an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;
 - a funded New Gratuity Fund (NGF) which was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);
 - an un-funded pension scheme for those employees who joined the SBP after 1975 and before the introduction of NGF which is effective from July 1, 2010;
 - an un-funded contributory benevolent fund scheme;
 - an un-funded post retirement medical benefit scheme; and
 - six months post retirement benefit facility.

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard has been carried out as at June 30, 2018. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur. The amount arising as a result of remeasurement is allocated to the State Bank of Pakistan, however, the liability is retained in the balance sheet of the Corporation.

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

4.8 Revenue recognition

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

4.9 Taxation

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

4.10 Provisions

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

4.11 Grants

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

	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
5. INVESTMENTS			
Held to maturity			
Market Treasury Bills	5.1 & 5.2	<u>521,419</u>	532,178
		<u>521,419</u>	<u>532,178</u>

5.1 Market Treasury Bills carry mark-up at the rate of 5.90 % to 6.26% per annum (2017: 5.91% to 5.99% per annum) and are having maturities from July 5, 2018 to August 16, 2018 (2017: August 03, 2017 to September 14, 2017).

5.2 The fair value of these investments as at June 30, 2018 is Rs. 523.971 million (2017: Rs. 532.062 million). Market Treasury Bills have been revalued on the basis of yields published by Reuters (PKRV) for Government securities.

	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
6. EMPLOYEE LOANS			
Considered good		9,152,123	9,481,894
Considered doubtful		<u>7,715</u>	<u>7,737</u>
	6.1	<u>9,159,838</u>	9,489,631
Provision against doubtful loans	6.2	<u>(7,715)</u>	<u>(7,737)</u>
		<u>9,152,123</u>	<u>9,481,894</u>

6.1 This represents loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments which are interest free. These include loans amounting to Rs. 28.905 million (2017: Rs. 12.974 million) that carry mark up at 10% per annum (2017: 10% per annum). Maximum maturity of loans is upto year 2056 (2017: year 2056).

These loans have been given in respect of:-

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

	<i>Note</i>	2018	2017
		----- (Rupees in '000) -----	
6.2 Provision held against employee loans			
Opening balance		7,737	7,610
Charge for the year		-	127
Reversals during the year		<u>(22)</u>	-
Closing balance		<u>7,715</u>	<u>7,737</u>

	Note	2018	2017
		----- (Rupees in '000) -----	
7. ADVANCES, DEPOSITS AND PREPAYMENTS			
Prepayments		32,856	35,562
Advances and deposits		17,818	5,282
Others		50,309	8,737
		100,983	49,581
8. MEDICAL AND STATIONERY CONSUMABLES			
Medicines		125,207	113,628
Stationery		15,548	10,344
Engineering		26,975	22,414
Others		31,108	19,508
		198,838	165,894
Provision against obsolete items		(8,504)	(1,072)
		190,334	164,822
9. PROPERTY AND EQUIPMENT			
Operating fixed assets	9.1	894,993	880,477
Capital work-in-progress		363	-
		895,356	880,477

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2018									
	Cost			Accumulated Depreciation			Net book value as at June 30, 2018	Annual rate of depreciation %		
	As at July 01, 2017	Additions / (deletions)	Transferred from SBP	As at June 30, 2018	As at July 01, 2017	Charge for the year / (deletions)			Transferred from SBP	As at June 30, 2018
	----- (Rupees in '000) -----									
Furniture & Fixtures	127,676	6,365 (40,671)	-	93,370	81,128	7,735 (40,208)	-	48,655	44,715	10
Office equipment	1,632,112	193,271 (84,834)	-	1,740,549	983,217	180,422 (82,896)	-	1,080,743	659,806	20
EDP equipment	530,262	90,794 (55,778)	3,461	568,739	453,624	62,761 (55,764)	1,208	461,829	106,910	33.33
Motor vehicles	210,069	9,967 (5,513)	-	214,523	101,673	32,074 (2,786)	-	130,961	83,562	20
	2,500,119	300,397 (186,796)	3,461	2,617,181	1,619,642	282,992 (181,654)	1,208	1,722,188	894,993	
	2017									
	Cost			Accumulated Depreciation			Net book value as at June 30, 2017	Annual rate of depreciation %		
	As at July 01, 2016	Additions / (deletions)	Transferred from SBP	As at June 30, 2017	As at July 01, 2016	Charge for the year / (deletions)			Transferred from SBP	As at June 30, 2017
	----- (Rupees in '000) -----									
Furniture & Fixtures	147,456	11,086 (30,866)	-	127,676	102,357	9,426 (30,655)	-	81,128	46,548	10
Office equipment	1,096,573	567,498 (31,959)	-	1,632,112	901,308	113,496 (31,587)	-	983,217	648,895	20
EDP equipment	550,587	12,328 (32,653)	-	530,262	419,907	66,031 (32,314)	-	453,624	76,638	33.33
Motor vehicles	168,219	75,677 (33,827)	-	210,069	98,882	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	

	Note	2018	2017
		------(Rupees in '000)-----	
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	15.2.10	4,055,586	4,455,316
Deposits		270,743	637,791
Others		748,101	564,169
		<u>5,074,430</u>	<u>5,657,276</u>
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
Gratuity		3,966	2,815
Pension		37,044,817	38,656,505
Benevolent fund scheme		941,469	1,194,678
Post retirement medical benefits		16,056,121	14,491,690
Six months post retirement benefits		123,475	113,160
	15.2.4	<u>54,169,848</u>	<u>54,458,848</u>
Provident fund scheme		658,661	739,292
		<u>54,828,509</u>	<u>55,198,140</u>
12. SHARE CAPITAL			
		2018	2017
		------(Rupees in '000)-----	
		2018	2017
(Number of shares)			
1,000	1,000	1,000,000	1,000,000
		<u>1,000,000</u>	<u>1,000,000</u>
		2018	2017
		------(Rupees in '000)-----	
		2018	2017
1,000	1,000	1,000,000	1,000,000
		<u>1,000,000</u>	<u>1,000,000</u>
		2018	2017
		------(Rupees in '000)-----	
		2018	2017
509	509	509,000	509,000
491	491	491,000	491,000
<u>1,000</u>	<u>1,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
		<u>1,000,000</u>	<u>1,000,000</u>
13. CONTINGENCIES AND COMMITMENTS			
13.1 Contingencies			
Claims against the Corporation not acknowledged as debts	13.1.1	2,962	2,962
13.1.1			
These mainly represent various cases filed by ex-employees of the Corporation on account of computational differences in settlement of their retirement benefit amounts. The management believes that these cases will be decided in favour of the Corporation and hence no provision has been recognised in these financial statements.			
	Note	2018	2017
		------(Rupees in '000)-----	
13.2 Commitments			
Capital commitments	13.2.1	142,102	68,840
13.2.1			
This represents amounts committed by the Corporation to purchase assets from successful bidders.			
14. DISCOUNT AND INTEREST EARNED			
		2018	2017
		------(Rupees in '000)-----	
		2018	2017
Interest income on Government securities		30,913	30,685
Interest on employee loans		402	667
		<u>31,315</u>	<u>31,352</u>

15. NET OPERATING EXPENSES	Note	2018	2017
		------(Rupees in '000)-----	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		6,513,590	5,709,601
Rent and taxes		39,591	37,604
Insurance		17,402	12,979
Electricity, gas and water		357,749	323,968
Repair and maintenance		268,492	218,083
Auditors' remuneration	15.1	7,700	7,000
Legal and professional		15,357	9,270
Travelling		24,146	16,864
Daily expenses		38,246	30,638
Passages / rest and recreational allowance		312,066	258,419
Fuel		3,688	2,810
Conveyance		19,368	17,456
Postages and telephone		14,643	11,399
Training		204,817	203,964
Remittance of treasure		147,329	132,636
Stationery		15,677	10,408
Books and newspapers		2,151	1,813
Advertisement		19,600	11,028
Bank guards charges		174,231	147,587
Uniforms		32,626	34,984
Others		316,179	225,444
		8,544,648	7,423,955
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	15.2 to 15.2.10	6,090,087	4,853,297
Depreciation	9.1	282,992	217,886
		6,373,079	5,071,183
		14,917,727	12,495,138

15.1 Auditors' remuneration

	2018			2017		
	EY Ford Rhodes	KPMG Taseer Hadi & Co.	Total	EY Ford Rhodes	A.F.Ferguson & Co.	Total
	------(Rupees in '000)-----					
Audit fee	2,750	2,750	5,500	2,500	2,500	5,000
Out of pocket expenses	1,100	1,100	2,200	1,000	1,000	2,000
	3,850	3,850	7,700	3,500	3,500	7,000

15.2 Staff retirement benefits

15.2.1 Charge for the year in respect of defined contribution plan amounted to Rs. 108.907 million (2017: Rs. 42.187 million).

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

	2018	2017
- Discount rate for year end obligation	9.00%	7.75% p.a.
- Salary increase rate (where applicable)	10.00%	8.75% p.a.
- Pension increase rate (where applicable)	7.50%	6.25% p.a.
- Medical cost increase rate (where applicable)	9.00%	7.75% p.a.
- Petrol price increase rate (where applicable)	10.00%	8.75% p.a.
- Personnel turnover	18.00%	9.2% p.a.
- Normal retirement age	60 Years	60 Years

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

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

Discount rate risk

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

Salary increase / inflation risk

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

Mortality risk

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

Withdrawal risk

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

Pension Increase risk

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

15.2.4 Change in present value of defined benefit obligation

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

	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 assumption	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

15.2.4.1 Amount recognised in the Statement of Comprehensive Income

2018					
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
-----Rupees in '000-----					
- Actuarial(gain) from changes in financial assumptions	-	-	(62,092)	-	(62,092)
- Experience adjustments	2,697,663	598	585,645	(9,644)	3,023,641
					<u>2,961,549</u>

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

15.2.5 Amount recognised in the Profit and Loss Account

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

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
Interest cost on defined benefit obligation	2,570,905	169	987,219	89,143	7,244
Contribution made by employees	-	-	-	(15,748)	-
	<u>3,378,841</u>	<u>466</u>	<u>1,232,182</u>	<u>75,994</u>	<u>13,773</u>
					<u>4,701,256</u>

15.2.6 Movement of present value of defined benefit obligation

2018					
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total
-----Rupees in '000-----					
Net recognised liabilities at July 1, 2017	38,656,505	2,815	14,491,690	1,094,678	113,160
Amount recognised in the profit and loss account	3,432,583	553	1,435,549	85,937	16,178
Remeasurements	2,697,663	598	585,645	(312,713)	(9,644)
Benefits paid during the year	(7,858,601)	-	(486,205)	(36,737)	(934)
Employees contribution	-	-	-	7,913	-
Liability transferred from SBP	116,667	-	29,442	2,391	4,715
Net recognised liabilities at June 30, 2018	<u>37,044,817</u>	<u>3,966</u>	<u>16,056,121</u>	<u>941,469</u>	<u>123,475</u>
					<u>54,169,848</u>

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

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	%	(2,711,136)	3,220,026
Salary increase rate	%	869,947	(825,113)
Pension increase rate	%	2,324,894	(1,957,577)
Expected mortality rates	1 Year	466,432	(463,578)
Gratuity Scheme			
Discount rate	%	3,765	4,181
Salary increase rate	%	4,177	3,765
Post retirement medical benefits			
Discount rate	%	(2,337,695)	3,001,685
Medical cost increase rate	%	3,055,614	(2,410,321)
Salary increase rate	%	32,059	(29,158)
Expected mortality rates	1 Year	302,779	(299,321)
Benevolent fund scheme			
Discount rate	%	(43,707)	48,928
Six months post retirement facility			
Discount rate	%	(6,540)	7,333
Salary/ petrol increase rate	%	7,587	(6,899)

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

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	5 Years	17 Years	5 Years	6 Years

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

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

	Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	-----Rupees in '000-----					
Current service cost	741,225	335	331,283	2,686	7,444	1,082,973
Interest cost on defined benefit obligation	2,691,358	218	1,104,266	91,164	8,734	3,895,740
Amount chargeable to profit and loss account	<u>3,432,583</u>	<u>553</u>	<u>1,435,549</u>	<u>93,850</u>	<u>16,178</u>	<u>4,978,713</u>

15.2.10 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 4,055.586 million (2017: Rs. 4,455.316 million). An amount of Rs. 1,010.380 million (2017: Rs. 109.854 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2019 would be Rs. 597.115 million. The benefits paid during the year amounted to Rs. 1,453.360 million (2017: Rs. 589.822 million). In case of 1% increase / decrease in discount rate the net charge for the year would decrease / increase by Rs. 170.166 million and Rs. 192.804 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate the net charge for the year would increase / decrease by Rs. 204.970 million and Rs. 185.036 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 4 years.

	2018	2017
	----- (Rupees in '000) -----	
16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS		
Profit for the year	35,819	41,572
Adjustments for:		
Interest income on Government securities	(4,727)	(15,484)
Gain on disposal of property and equipment	(4,504)	(10,220)
	<u>(9,231)</u>	<u>(25,704)</u>
	<u>26,588</u>	<u>15,868</u>

17. RELATED PARTY TRANSACTIONS

The Corporation is a wholly owned subsidiary of the State Bank of Pakistan (parent entity), therefore all subsidiaries and associated undertakings of the Parent entity are 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:

	2018	2017
	----- (Rupees in '000) -----	
Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity		
Balances at the year end - transferred to the State Bank of Pakistan		
Payable against training programs	39,042	32,849
Transactions during the year - reimbursable from State Bank of Pakistan		
Training expense charged during the year	174,823	132,820

18. RISK MANAGEMENT POLICIES

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

18.1 Credit risk management

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

18.2 Concentrations of risk

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

18.2.1 Geographical analysis

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

18.2.2 Industrial analysis

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

	2017			Grand Total
	Sovereign	Banks & Financial Institutions	Others	
----- (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>532,178</u>	<u>50,746,464</u>	<u>9,495,943</u>	<u>60,774,585</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:

	2018		Grand Total
	Sovereign (18.2.3.1)	Unrated	
----- (Rupees in '000)-----			
Financial Assets			
Current account with the State Bank of Pakistan	-	50,042,724	50,042,724
Investments	521,419	-	521,419
Employee loans	-	9,152,123	9,152,123
Advances and deposits	-	26,562	26,562
	<u>521,419</u>	<u>59,221,409</u>	<u>59,742,828</u>

	2017		Grand Total
	Sovereign (18.2.3.1)	Unrated	
----- (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>532,178</u>	<u>60,242,407</u>	<u>60,774,585</u>

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

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

	Gross amount		Impairment / Provision	
	2018	2017	2018	2017
----- (Rupees in '000) -----				
Employee loans	7,715	7,737	7,715	7,737

18.4 Liquidity analysis with interest rate risk

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

	2018						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*	-	-	-	50,042,724	-	50,042,724	50,042,724
Investments	516,692	-	516,692	4,727	-	4,727	521,419
Employee loans	2,249	26,656	28,905	1,366,307	7,756,911	9,123,218	9,152,123
Advances and deposits	-	-	-	17,818	8,744	26,562	26,562
	518,941	26,656	545,597	51431576	7,765,655	59,197,231	59,742,828
Financial liabilities							
Deposits and other liabilities	-	-	-	10,18,844	-	10,18,844	1,018,844
On balance sheet gap	518,941	26,656	545,597	50,412,732	7,765,655	58,178,387	58,723,984
Capital Commitments	-	-	-	142,102	-	142,102	142,102
Off balance sheet gap	-	-	-	142,102	-	142,102	142,102
Total yield / interest risk sensitivity gap	518,941	26,656	545,597	50,270,630	7,765,655	58,036,285	58,581,882
Cumulative yield / interest risk sensitivity gap	518,941	545,597	1,091,194	51,361,824	59,127,479	117,163,764	117,163,764
----- (Rupees in '000) -----							
	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
	517,700	11,968	529,668	52,424,433	7,820,484	60,244,917	60,774,585
Financial liabilities							
Deposits and other liabilities	-	-	-	1,201,960	-	1,201,960	1,201,960
On balance sheet gap	517,700	11,968	529,668	51,222,473	7,820,484	59,042,957	59,572,625
Capital Commitments	-	-	-	68,840	-	68,840	68,840
Off balance sheet gap	-	-	-	68,840	-	68,840	68,840
Total yield / interest risk sensitivity gap	517,700	11,968	529,668	51,153,633	7,820,484	58,974,117	59,503,785
Cumulative yield / interest risk sensitivity gap	517,700	529,668	1,059,336	52,212,969	60,033,453	119,007,570	119,007,570

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

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

18.6 Currency risk management

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

18.7 Liquidity risk management

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

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

The carrying 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

	2018		
	Loans and receivables	Held to maturity	Total
	------(Rupees in '000)-----		
Financial assets			
Current account with the State Bank of Pakistan	50,042,724	-	50,042,724
Investments	-	521,419	521,419
Employee loans	9,152,123	-	9,152,123
Advances and deposits	26,562	-	26,562
	<u>59,221,409</u>	<u>521,419</u>	<u>59,742,828</u>
	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>
	2018		2017
	------(Rupees in '000)-----		
Financial liabilities - at amortised cost			
Deposits and other liabilities		1,018,844	1,201,960

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 23rd October 2018 by the Board of Directors of the Corporation.

22. CORRESPONDING FIGURES

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

23. GENERAL

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

Qasim Nawaz
Managing Director

Riaz Nazarali Chunara
Group Head

