

B-1

Central Board Decisions and Deliberations during 2009-10

The key matters where decisions were taken by the members of the Central Board of Directors are given as under:

Corporate Governance

1. Appointment of Mirza Qamar Beg as Director on the Central Board of SBP and his nomination as member of the Committee of the Board on Building Projects.
2. Appointment of Directors on the Central Board of SBP.
3. Appointment of Auditors for FY 2009-10.
4. Exemptions for Appointments of Lawyers and Law Firms from Public Procurement Rules.
5. Reconstitution of the Committee of the Central Board on Building Projects.
6. Nomination on Committees of the Central Board.
7. Revised Framework for the Committees of the Central Board.
8. Re-constitution of the Committees of the Central Board.
9. Re-appointment of Members of State Bank Shariah Board.
10. Re-appointment of Mr. Yaseen Anwar, Deputy Governor, SBP.
11. Resignation of Mr. Shahid Kardar (External Member of Monetary Policy Committee of the Central Board) & nomination of his replacement.
12. Enhancement of Financial Powers of Governor.
13. Promotion from OG-7 to OG-8.
14. Strategic Planning in SBP.

Monetary Policy & Research

1. Monetary Policy Statement July – September 2009.
2. Monetary Policy Statement January, 2010.
3. Monetary Policy Stance (October – November, 2009)
4. Monetary Policy Decision Dec 2009 – Jan 2010.
5. Monetary Policy Decision March, 2010.
6. Monetary Policy Decision May, 2010.
7. The State of Pakistan's Economy 1st Quarterly Report (July-September, 2009)
8. The State of Pakistan's Economy 2nd Quarterly Report (October – December, 2009)
9. The State of Pakistan's Economy 3rd Quarterly Report (January – March, 2010)
10. Formation of Monetary Policy Committee of the Central Board.
11. Financial Stability Review (2008-09).

Banking

1. Report on the working of the Bank for the year ended June 30, 2009 (Vol. I).
2. Report on the working of the Bank for the year ended June 30, 2009 (Vol. II) Annual Performance Review.
3. Quarterly Performance Review of Banking System for quarter ended 30th June, 2009.
4. Quarterly Performance Review of Banking System for quarter ended 30th September, 2009.
5. Quarterly Performance Review of Banking System for quarter ended December, 2009

Financial Markets and Reserve Management

1. Update on External Reserve Mandate and Future Investment Strategy.
2. Presentation on Reserve Management.

Corporate Services

1. Financial approval for Procurement of consultation services for in house training program.
2. Financial approval for Expenditure to procure VSAT Network against Business Plan 2009 –2010.
3. Approval for Expenditure to procure services for Maintenance and Technical Support for License Oracle Software for SBP.
4. Approval for Expenditure to Procure IT Equipment against Business plan 2008-2009.
5. Approval for Expenditure to procurement Services for undertaking impact Assessment through beneficiary satisfaction survey for Pakistan Banking Sector technical Assistant (TABS) Projects (IDA - 36880).
6. Approval for Expenditure to procurement the Services of Consultancy firm for conducting work load analysis.
7. Approval for Expenditure for Maintenance and Support Services for Security Servers and Software against Business Plan 2009-2010.
8. Approval for Expenditure to procure services for maintenance of IT Hardware and Software for SBP and its subsidiaries.
9. Approval for Re-bidding for the Contract of Maintenance and Support Services of Network Hardware.
10. Revenue, Expenditure Budget & Capital Expenditure Budget of SBP & its Subsidiaries for 2009-2010.
11. Ratification of Account payment to the Federal Government against surplus profit of the Bank for the FY-2008-09 and FY-2009-10.
12. Appointments in the bank.
13. Maintenance & Support Services of UNIX Based Hardware.
14. Maintenance & Support Services of Security Server and Software.
15. Maintenance & Support Services of Network Hardware (Juniper Equipment)
16. Maintenance & Support Services of Fujitsu PRIMERGY Servers, Storage and allied hardware and Software.
17. Maintenance & Support Services of Extreme Networks Black Diamond 6808 Core LAN Switches.
18. Contract for Globus Software Technical Support & Maintenance.
19. Request for NOC to carry out Rehabilitation work by Supreme Court of Pakistan in SBP Building situated at Lahore.
20. Pakistan Railways (PR) Overdraft with SBP.
21. Revised Career Development Policy 2008-2009.
22. Revision in rates of Honoraria of Personal Staff.
23. Payment of Actuarial Value of Pension/ Gratuity for Contractual Services.
24. Extension of Rest & Recreation Facility to Clerical/ Non-Clerical Employees.
25. SBP Residential Properties and Open Plots.
26. Revision of Personal Staff Allowance.
27. Renewal of Maintenance of GFT e-mails Security Software License for SBP.

28. Exemption of Lawyers and Law Firms from PPRA Rules Adopted by the Central Board of SBP.
29. Non-Recovery of rent from occupation of SBP Building, Islamabad.
30. Annual Audited Consolidated Financial Statements for the year ended June 30, 2009.
31. Review of Accounting Framework adopted by the bank and the International Financial Reporting Standards (IFRS) - Revision in fee of Auditors.
32. Profit & Loss and Review of Expenditure Budget for quarter ended 30th September, 2009 and Estimates for the Period October, 2009 to June 2010.
33. Profit & Loss and Review of Expenditure Budget for quarter ended 30th September, 2009 and Estimates for the Period January to June, 2010.
34. Court cases pertaining to BPRD circular No.4 of 2008.
35. Reimbursement of bona fide losses to banks against agricultural loans scheme extended in 2002 to 2004.
36. Presentation on SME & Agri-Financing - Trends and Issues.
37. Presentation on Strategic Direction of the Bank.
38. Proposal for carrying out Bankwide Workload Analysis - Exercise through M/s. Abacus Consulting (Pvt) Ltd.
39. Supply, Installation, Integration and Maintenance Support of IT Disaster Recovery Data Centre, Hyderabad.
40. Revision in Increase to SBP Pensioners.
41. Revision in Compensation and Benefits Structure for SBP Regular Employees.
42. Ratification of Compensation and Benefits Structure as finalized announced and implemented by the Governor under the authority of the Central Board.
43. Renewal of Technical Support and Maintenance Services of eCIB Software.
44. Expenditure for HP N class Servers Decommissioning and Up-gradation of rp 4440 serves against Business Plan 2009-10.
45. Profit & Loss Account and Review of Revenue & Capital Expenditure Budget for the period ended March 31, 2010 along with estimates for the period April to June, 2010.
46. Demonetization of Rs.500 old design banknote.
47. Procurement/Replacement of Old & Backup Network Devices.
48. Provincial Government Borrowing Agreements.
49. Profit Appropriations against Loans & Advances to Zarai Taraqiati Bank Ltd.(ZTBL),
50. Brief on Restructuring of outstanding debt of ZTBL.

B-2 Business Continuation Management

Business Continuity Management at State Bank of Pakistan is responsible for continuation of the vital business processes of SBP and SBP-BSC in the event of a major or minor critical disaster. An effective Business Continuity Plan is essential in today's dynamic environment. Therefore SBP maintains and implements business continuity and disaster recovery plans to ensure an end-to-end business process capability and stability of the financial system of the country in the event of a disaster. Understanding the impact of risks is the crucial element in exercising the business continuity plan and SBP is well aware of that. SBP is well prepared to effectively respond to the events inflicted from outside the organization – such as natural or man-made disasters. SBP's approach in implementing effective Business Continuity Management involves business impact analysis, disaster recovery strategies, and business continuity plans as well as testing and rehearsal, training and awareness programs. To further improve the Business Continuity Program of SBP and SBP-BSC, following initiatives have been taken during the year.

BCP Crisis Centre

To carry out BCP tests and rehearsals smoothly, critical departments of SBP and SBP-BSC had mock exercises and annual rehearsals in the dedicated BCP Crisis Centre, established at SBP-BSC North Nazimabad office. The critical users conducted their mock transactions successfully on networked computers and placed their critical documents and instruments in specified lockers provided to each critical department.

Establishment of the BCP Backup Site

To ensure optimal and reliable performance of critical functions of SBP and SBP-BSC during disaster situation the BCP backup site at KDA is being made operative shortly. The civil and electrical related works have been undertaken and installation of IT equipments and infrastructure is in progress.

Establishment of IT DR Site

For continuity of critical business processes of SBP and SBP-BSC, establishment of an IT DR site is one of the critical tasks for ISTD. And in this regard, two major tests were conducted apart from other ongoing testing. In these tests, connectivity was successfully established with IT DR site and the consolidated GLOBUS interface was also successfully tested. The critical IT DR tests were successfully carried out with the participation of critical users of SBP and SBP-BSC offices during the year.

Updating BCP Manuals

BCP Manuals are maintained as a live document for SBP and SBP-BSC. Changes are incorporated in the BCP document at once as and when required, based on the feedback received from critical departments of SBP and SBP-BSC offices. To make the said document current, twenty updates were issued during the last year.

Printing of the Directory of BCP Backup sites of Financial Institutions

In order to communicate effectively and timely in disaster situations, the Directory of BCP Backup sites of Financial Institutions together with coordinators was printed.

BCP Committee Meetings and Emergency Support Group Meetings

BCP committee comprises senior management taken from the critical areas of SBP, who coordinate all aspects of BCP. The committee is responsible for the oversight, initiation, planning, approval, testing & audit of the BCP. To oversee the BCP activities and review the results of quality assurance activities, BCP committee meetings were held during the year.

The Emergency Support Group consists of Heads of the Critical Support Services Departments. The Group is responsible for all the activities and tasks that support the recovery and continuity of the critical processes and functions in the event of a disaster at any SBP location. Emergency Support Group meetings were conducted at the BCP Backup site to discuss and review the BCP preparedness.

BCP Testing and Rehearsal

Rigorous BCP testing and implementing the Business Continuity Plan ensure the readiness of BCP staff to mitigate the threats of disasters. To streamline the testing procedure at SBP and to facilitate the critical departments to conduct their tests and rehearsals smoothly, BCP annual test plan was consolidated and monitored with surprise element to check the readiness of critical departments and SBP-BSC offices. In this regard, 40 mock exercises and 20 annual rehearsals were conducted by critical departments and SBP-BSC offices along with the table top testing. In addition to that, evacuation and fire fighting drills were also carried out at SBP-BSC offices and SBP main building in collaboration with IBSD/local offices.

B-3 Risk Based Audit Approach

The Internal Audit & Compliance Department (IA&CD) at State Bank of Pakistan provides independent objective assurance and consulting services to improve operations and help SBP achieve its objectives.

The IA&CD conducts financial, operational, and information technology (IT) audits of SBP operations. Presently four financial & operational audit teams and one IT audit team is conducting risk based internal auditing. To comply with IIA Standards, Quality Assurance (QA) Unit of IA&CD undertakes the ongoing quality assurance of audit activities. The Compliance Division follows status of action items agreed by Audit Departments and obtains compliance on periodic basis. An Audit Committee of the Board is also overseeing Internal Audit functions.

Recently IA&CD has achieved the following milestones:

- Independent external quality assurance review was conducted for Internal Audit & Compliance Department to evaluate conformance to IIA Standards; the Department obtained top rating of “generally conforms” to the IIA Standards.
- Further enhancement was made in the risk scoring model developed last year and Annual Audit Plan of the Department for the year 2010-11 was developed based on the enhanced risk scoring model.
- Advancing on development of Audit management system software.
- ACL (Audit Command Language) Software workshop conducted by Komtas, a Turkish firm and an authorized ACL trainer. Further in-house training program was conducted by IA&CD based on Train-the-Trainer (ToT) approach.

B-4 General ‘Counsel’s’ Office

The General Counsel’s Office (GCO) is a full fledged department managed by a Special Counsel. It is now proposed to reorganize it into six function-specific divisions to better meet the needs of the client departments with respect to advice, litigation, and drafting of contracts and regulations.

The department has successfully promoted the concept of preventive law through closer interaction with the client departments resulting in better understanding of their operational needs and bank wide targets. This has, in turn, fostered comfort of the client departments to discuss anticipated problems with a view to prevention. The incidence of consulting the GCO before undertaking a project or action has steadily increased compared to the earlier practice of only seeking legal advice after a problem had arisen. In fact, the number of references to the GCO has now increased to about three thousand (3000) per year.

The department provides services to SBP BSC as well as NIBAF, in all legal matters. Employee house building loans and administrative cases of SBP BSC for legal opinion are now processed much faster due to considerable streamlining of the documents provided by the department as a result of closer co-ordination with the GCO. Cases in which extensive research is required may, however, take longer.

There is greater participation and support in litigation matters as the Legal Professionals coordinate with outside counsel and attend court with the concerned officers in material cases of SBP and its subsidiaries.

The first legal cases management system has now been implemented which will assist in keeping track of litigation cases as well as keep a record of all the legal opinions in the software. Previously, legal opinions were indexed manually.

Prevent and Minimize Litigation

The GCO collects and analyzes the status of litigation cases on a frequent basis, including reasons for any adverse orders. This helps the department to review its own performance on a regular basis and seek to eliminate the causes of adverse orders, as much as possible through its opinions and advice to the operating departments.

The practice of preventive law is believed to be a major contributory factor to the reduction in litigation.

Drafting and Amendment of Legislation

The GCO is deeply involved in the study, discussion, drafting/re-drafting and amendment of various proposed laws which include:

- The State Bank of Pakistan ACT 1956.
- Draft Banking Act.
- State Bank of Pakistan Amendment Bill, 2010
- Amendments to the Banking Companies Ordinance, 1962.
- Deposit Protection Act.
- Draft Securities Act.
- Draft Financial Services Commission Act.

- Demutualization Act.
- Assistance to the Financial Monitoring Unit (FMU) in amendments to the schedule of the Anti-Money Laundering Ordinance 2007. Drafting regulations on anti-money laundering and staff regulations.

The department also compiles information based on international research for comparative studies and to support the rationale for the amendments proposed in the SBP Act, 1956, to the parliament and standing committees. The various amendments already proposed have been approved and are under the legislative process.

Numerous contracts including highly technical were drafted/redrafted, and issues amicably resolved through negotiation and correspondence by the GCO.

The GCO looks forward to supporting the Bank's strategic plan 2011-2015 through close co-ordination with the client departments in strengthening the conducive and sound regulatory framework for financial institutions.

The General Counsel's Office, being a support service department generally supports the initiatives and functions of other departments from the legal perspective and endeavors to contribute meaningfully to almost all initiatives and projects of the Central Bank.