

9 SBP Banking Services Corporation (SBP BSC)

9.1 Overview

The Banking Services Corporation (BSC), being an operational arm of SBP, continued to further improve its service delivery mechanism in an automated environment. During FY10, the SBP-BSC undertook various initiatives to better discharge its core responsibilities assigned in the SBPBSC Ordinance 2001. The Bank aggressively pursued a talent management strategy with focused approach on recruitment and selection. The process started with the induction of 24 cash officers for the field offices of Muzaffarabad and D.I. Khan to meet their specific needs. The Bank's Board also approved a management trainee scheme (OG-2) titled 'Young Professionals Induction Program' (YPIP) to induct young officers on regular basis. Further, realizing the need for supportive and capable middle management to steer the reform process, the Bank advertised OG-3 level positions. To improve the skill sets of existing staff, training opportunities were provided. Also the use of IT and Globus in BSC has improved timing in service delivery. For ensuring effective internal controls in an automated environment, risk register, system based check lists have been introduced in some areas. The remaining areas of operations risk registers are developed on a fast track basis.

Besides its core responsibilities, BSC with its enhanced mandate in line with the new vision for its 16 field offices played a significant role to make them focal points for dissemination and implementation of SBP policies/initiatives. As a result, during FY10 this not only helped to improve financial awareness but also resulted in healthy feedback from stakeholders.

During FY10, a number of projects were completed to improve physical infrastructure including renovation and refurbishing of various floors of BSC head office and its field offices to uplift the face of State Bank of Pakistan and to provide efficient services in a better working environment.

9.2 Currency Management

Currency Management Department at BSC continued to ensure smooth distribution of banknotes and coins throughout the country, retrieve unfit notes from circulation, review/rationalize the systems/procedures at the field offices and disseminate information about currency related matters to the general public. CMD issued and amended certain instructions complementing the fully automated systems and to pace up with ever demanding changed scenario. The modified instructions were related to the areas covering; a) distribution and issuance of fresh notes on the occasions of Eids; b) master circular on cash management and on-site examination of bank's compliance to the clean note policy; c) submission of compliance certificate to CMD by the banks on Clean Note Policy; d) NBP Chest Examination; e) review of sorting charges. The CMD also provided BSC's recommendations to Finance Department SBP, for amendments in agency agreement with NBP, to strengthen the Chest operations.

CMD remained proactively involved in payment of relief amounts to the IDPs (Internally Displaced Persons) in Swat, Bajaur, and Waziristan Agency of KP/ FATA through Peshawar / D.I.Khan field offices and in collaboration with Banking Policy & Regulations Department, SBP, United Bank Limited and M/s NADRA. CMD also participated in the quarterly meeting of monitoring cell of task force for combating the counterfeiting of currency notes. CMD also successfully managed distribution of a commemorative coin of Rs10 issued on October1, 2009 to express solidarity and unity with the Peoples Republic of China on its 60th anniversary. A new Rs 500 Banknote with an Optical Variable Ink (OVI) was also issued on January 25, 2010 through field offices. The introduction of OVI feature in Rs 500 banknote distinguishes it from the new design banknote of the same denomination launched in November 2006. The existing Rs 500 banknotes will, however, continue to remain legal tender.

To automate cash operations at field offices, efforts were made to equip them with the latest cash handling machines such as, coin / note counting machines, loose note counting machines, tri-color stamping machines, note / packet banding machines, bundle banding machines, shrink wrapping machines, note shredding machines, hole punching machines, and triangular cut machines. During FY10, an amount of Rs 12.349 million was incurred for purchase of above those cash machines. With a view to optimize the utility of currency Globus system, different reports have been developed for providing swift information to the Management for making timely decisions.

To create awareness about the security features of the currency notes, CMD arranged 166 special outreach programs throughout the country for general public, cashiers of commercial banks, and other stakeholders during 2009-10. To enhance the operational knowledge of the employees of SBP/BSC regarding currency management and operations, foundation level and intermediate level trainings were imparted to 55 and 24 employees respectively during FY 10. Advanced trainings for detection of counterfeiting were also arranged at Forensic Laboratory of Pakistan Security Printing Corporation (PSPC) for 49 officials of SBP/BSC and Police Department.

Apart from the above initiatives, the following tasks supplementing the core responsibilities of Currency Management Department were also accomplished during the year:

Fresh Currency Notes/ Coins Issuance

To facilitate general public and other stakeholders in obtaining fresh currency notes on the eve of Eid- ul- Fitr, the department continued its well- defined policy for issuance of new currency notes, from more than 9200 branches of commercial banks in addition to 16 field offices of BSC. As per arrangements, one packet each of Rs 5/- and Rs 10/- denomination notes were provided from the counters of SBP BSC and commercial banks against presentation of original CNIC and its Photostat copy. Commercial banks were also allowed to issue up to a maximum of five packets each of Rs 5 and Rs10 denomination fresh notes to their corporate clients on receipt of request on company's letter head duly signed by an authorized representative.

Around 1,821 million pieces of fresh banknotes valuing Rs 316 billion were issued to general public, banks, different government departments and other stakeholders during FY10, as against 1,656 million pieces valuing Rs 306 billion issued during the last year. Denomination wise breakup of fresh currency notes issued during FY10 and FY09 is placed at Table 9.1. Likewise a total of 270.7 million coins of Rs1, Rs 2 and Rs 5 valuing Rs 589.2 million were issued during 2009-10 as against 228.5 million coins valuing Rs 523.3 million issued during the last year.

To ensure provision of fresh banknotes to general public through commercial banks' branches, various measures were put in place by the CMD, HOK, which included the on-spot verification of

Table 9.1: Issuance of Fresh Banknotes during FY10 and FY09 (in million Rs)

Year	Denomination								Total
	5	10	20	50	100	500	1000	5000	
FY10 (pieces)	491	543	165	140	218	104	144	16	1821
Value	2455	5430	3300	7000	21800	52000	144000	80000	315985
FY09 (pieces)	454	437	160	170	194	98	124	19	1656
Value	2270	4370	3200	8500	19400	49000	124000	95000	305740

various branches of commercial banks, mystery shopping of fresh notes from the market. Banks involved in violating the SBP instructions were penalized and fines have been recovered on delinquent banks/branches.

Monitoring of NBP Chest Branches

State Bank of Pakistan has an agency agreement with National Bank of Pakistan for carrying out the treasury functions through its 225 branches designated as Chests / Sub-Chest. Besides usual banking functions, the NBP Chest/ Sub-Chest branches maintains government accounts and also provide exchange/ remittance facilities. Under the said agreement, State Bank has agreed to place with the Chest/Sub-Chest branches of the National Bank, a specific amount of cash resources to facilitate the chest operations. Besides CMD, four issue circles are regulating and monitoring the activities of these Chests / Sub-Chest on daily basis. To check and verify the balances placed at these Chests/ Sub-Chests, as also to ensure the existence of strict internal controls, the existing instructions and procedures relating to examination of NBP Chest / Sub-Chest branches has been reviewed and instructions have been issued to field offices of BSC to conduct examination of Chests / Sub-Chest of NBP in the area of their jurisdiction, on annual basis.

CNP Implementation

BSC has been vigorously providing support and undertaking allied activities for reinforcing the Clean Note Policy (CNP) of State Bank of Pakistan. To achieve greater efficiency and transparency in cash monitoring of branches of commercial banks, as also to overcome the problems confronting the general public with regards to the circulation of soiled notes in the market, previous instructions of on-site examination of commercial banks have been revisited in totality. In this regard, master circular has been issued to all field offices containing methodologies, enhanced coverage, and annexure for recording irregularities committed by banks.

Five thousand four hundred eighty four branches of commercial banks were examined by cash monitoring teams of field offices during FY10 compared to 5,670 branches last year. Consequently, an amount of Rs 8.427 million has been recovered during FY10 on account of violations of various instructions of CNP as against fine of Rs 3.885 million last year.

Prize Bond and NSS Schemes

BSC has been playing an important role in mobilizing savings for the government through sale, encashment, prize money payment, holding draws of National Prize Bonds, etc. Besides Prize Bonds Scheme, BSC also manages the sale, encashment and profit payment of Special Savings & Defense Savings Certificates Schemes of the government on behalf of Central Directorate of National Savings (CDNS) under an agency arrangement with the federal government.

During the year under review, the aggregate sale and encashment of National Prize Bonds was Rs129.48 billion and Rs 90.92 billion compared to Rs 105.89 billion and Rs 91.24 billion respectively in FY09. The total value of the prize bonds held by the investors as on June 30, 2010 was Rs 235.14 billion compared to Rs196.58 billion as on June 30, 2009 showing an increase of 19.61 percent. During FY 10, the field offices of BSC settled 1,065,144 cases of prize money and paid prizes of Rs18.79 billion compared to 979,413 cases involving prize money of Rs14.01 billion processed in FY 09.

A total of 120,244 cases relating to sale, encashment, and profit payment of Special Savings Certificates and Defense Savings Certificates were handled by BSC field offices during FY10. Further, the following modifications/improvements were also made in consultation with CDNS to improve the management of National Saving Schemes at all field offices of SBPBSC during the year:

- To enhance the coverage and to provide improved and timely services to the general public, seven more scheduled banks namely; M/s Habib Metropolitan Bank Limited, Arif Habib Bank Limited, Bank of Tokyo-Mitsubishi UFJ Ltd., Standard Chartered Bank (Pakistan) Limited, JS Bank Limited, HSBC Bank Middle East Limited and Barclays Bank PLC, Pakistan have been authorized during the year under review to deal with the National Savings

instruments, i.e., Defense Savings Certificates and Special Saving Certificates through their branch network in Pakistan.

- For convenience and security of the general public, 10 field offices of SBPBSC have been shortlisted for holding draws of prize bonds of different denominations.
- To make the draw process more transparent, the draw ceremonies of National Prize Bonds are now covered through video recording.

9.3 Banking Services to the Government

SBP BSC as a banker to the government is extending banking services through its 16 field offices to the federal, provincial, local governments, and general public across the country, which includes revenue collection and payments on behalf of government departments. Further, to strengthen the banking services, agency agreement has also been signed (by Finance Department SBP) with National Bank of Pakistan (NBP) to work as an agent to facilitate government departments using a wide network of 1,243 NBP branches. Under the agreement, the NBP provides facilities on behalf of SBP BSC to withdraw/ deposit cash and other allied banking transactions pertaining to government collections and payments. The consolidation and reporting of federal, provincial, and district governments' accounts and maintenance of Zakat account, its collection, disbursement, consolidation, and reporting to concerned quarters is one of the main responsibilities/ core functions of BSC Accounts Department. Data pertaining to government transactions is reported to stakeholders including Accountant General of Provinces, Accountant General Pakistan Revenue, Pakistan Railways and other concerned departments on regular basis. The daily position of government balances is also provided to the Finance Department for onward submission to the stakeholders. During the year, daily cash position and balances were also reported through email to some stakeholders.

During FY 10 around 5.77 million transactions pertaining to government receipts/payments were handled by BSC offices compared to 6.036 million transactions in the preceding year. During the year under review around Rs 4.82 billion Zakat was collected compared to Rs 5.54 billion last year.

The tax revenue collected by SBP BSC offices and the network of NBP branches on behalf of the government and credited to the relevant accounts during the year was around Rs 1,364 billion compared to Rs 1,200 billion last year. The same was reported to FBR electronically on daily basis.

Automation of Government Collections

In past, Federal taxes were used to be collected by SBP and NBP through the manual submission challans by the stakeholders at the counters of SBP BSC and NBP. In 2005, Federal Board of Revenue with the help of Sate Bank of Pakistan and National Bank of Pakistan launched Collection Automation Project (CAP) which is now operational in all branches of SBPBSC and selected branches of NBP for collection of Federal Taxes whereby Computerized Payment Receipts (CPR) are issued.

In continuation of automation of revenue collection, SBP and BSC are collectively working with FBR for web based tax collection EPARS (Electronic Payment and Refund System) and CAP II (collection Automation Project II). After implementation of these revised systems, tax payers will be able to pay taxes using a web system known as 'Tax payers Facilitation System'. Through EPARS transfer of funds can also be made directly through their accounts with the commercial banks and will be transferred to SBP through RTGS (Real Time Gross Settlement). Initially the system will take care of Federal taxes. After successful implementation of this system, it can be extended for collection of other taxes.

For successful implementation of EPARS, a series of meetings and discussion were held during FY10 between FBR and SBP and other stakeholders, wherein different modalities/ regulations of the system

were discussed, designed, and finalized. SBP and SBPBSC are providing every possible support to FBR to make this task of national importance a success. All the tasks assigned to SBP and SBP BSC was completed timely. It is expected that EPARS would be successfully launched very soon.

9.4 Payment System

An efficient payment and settlement system is a key component of the financial and banking infrastructure. BSC oversees the automated processing of financial instruments carried out by the National Institutional Facilitation Technologies (NIFT). SBP BSC has played an active role in development of the automated clearing services in the country. For this purpose clearing arrangements have been outsourced to National Institutional Facilitation Technologies (NIFT), through an agreement. NIFT has opened centers at 15 cities where SBP BSC offices are located and five other major cities, i.e., Jhelum, Abottabad, Mirpur, Sahiwal, and Sargodha. Besides these cities, NIFT deals directly with every branch in adjoining 164 Industrial and Commercial towns and is providing services to 1,043 branches of commercial banks located in these satellite cities. More than 5,571 bank branches of 40 banks in 184 cities avail NIFT clearing services across the country. Besides NIFT, National Bank of Pakistan is also providing clearing and settlement services at all those places where neither SBP BSC nor NIFT offices are located. During the year 2009-10 the total number of instruments cleared through NIFT was 70.70 million compared to 73.48 million during the previous year.

9.5 Foreign Exchange Operations and Adjudication

As an operational arm of Exchange Policy Department (EPD) SBP, the department remains actively engaged in processing of export, import, private and commercial remittance cases submitted by authorized dealers on behalf of their customers including major trade & industrial concerns and other government, semi government, and autonomous organizations. The department also deals with foreign exchange allocation of government and semi government institutions except for defense sector organizations and oil companies which deal directly with EPD SBP. Other major areas being dealt are outward remittances to foreign consultants, advance payments against import of raw materials and spare parts, frustrated cargo and re-import of exported goods with the purpose to re-export. Additionally, in view of government's policy to increase the power generating capacity in the country, a number of requests of power companies for outward remittance on account of consultancy, restructuring and training, etc. through ADs have also been processed during the year.

Strengthening the Enforcement Mechanism of Export Overdue

Rigorous efforts were made at HOK and also at Field Offices to expedite the process of tracing out delinquent exporters to urge them to repatriate stuck up export proceeds. Regular follow-up / meetings with concerned banks and trade associations were arranged besides approaching the presidents and CEOs of the banks to pursue the exporters to either repatriate the export proceeds or submit shipping documents so that legal proceedings under FERA 1947 could be initiated. In this respect 30,628 notices were issued to the exporters and 2,893 to the authorized dealers (branches of commercial banks). Due to non response from delinquent exporters/ADs, 1,850 complaints were lodged against exporters and 1,169 against the authorized dealers in the foreign exchange adjudication courts during July 1, 2009 to June 30, 2010. During FY10, 458,206 entries were verified as against 542,172 in FY09.

Verification of EE/ EF Statements for Export Finance

The department remained engaged in verification of export earnings statements submitted by ADs especially during July- September 2009. On the basis of this verification, exporters' performance during last year is evaluated besides fixation of limits under part II of the Export Finance Scheme for the next financial year. During FY10, entries were verified manually; efforts are being made to ensure verification of entries on line from next year thereby improving efficiency.

Payment of Various Subsidies

During the year, details of cases processed and paid by the department in respect of various subsidy schemes announced by the government are given in **Table 9.2**.

Role of Internal Monitoring Unit

The IMU of the department plays its role in cases where genuineness and clarity of documents are of vital importance. On collective basis, this unit checked around 3,000 cases during the year. To bring uniformity and transparency on a country wide basis, Internal Monitoring Unit of FEOD has prepared detailed working procedure and check lists with the active participation of all the units which have been provided to all the field offices concerned.

Table 9.2 Payment of Subsidies (in million Rs)

	Scheme	Cases paid	Amount
1	Drawback of local taxes & levies	50,753	3,408.72
2	60% RDS	32,863	2,986.42
3	Subsidy on PTA	77	1,912.49
4	RDS - Motorcycle	45	24.987
5	Subsidy on Fertilizer	45	436.981
	Total	83,783	8,769.60

Adjudication

During FY10, Foreign Exchange Adjudication Department (FEAD) continued its drive for realization of the overdue export proceeds. The department received 1,806 cases in respect of delinquent exporters on a country wide basis during FY10 compared to 694 cases received in FY09. And 1296 cases were disposed off during the year under report whereas 804 cases were

disposed off during the preceding year. Despite numerous difficulties, the department managed realization of sizeable export proceeds equivalent to US\$ 29.3 million compared to US\$ 12.2 million in the preceding year, showing an increase of US\$ 17.1 million or 140 percent. The details of amount realized by the Adjudication Courts at Karachi, Lahore, Faisalabad, Multan, and Sialkot are given in **Table 9.3**.

Table 9.3 Amount Realized by the Adjudication Courts Repatriation (in million US\$)

Location	Number	FY09	FY10	Change (%)
Karachi	3	5.37	2.12	- 60
Lahore	2	1.62	10.71	561
Faisalabad	1	3.51	3.44	- 1.9
Multan	1	0.21	3.34	1490
Sialkot	2	1.49	9.68	550
Total	9	12.2	29.3	140

Major Achievement/Initiatives

- A penalty of Rs 2, 568,057 recovered from foreign currency deposit receipts (FDRs) kept in the name of the accused.
- The performance bar has further been raised by arranging repatriation of US\$1,318,022 in 16 cases and commitment to settle balance of US\$600,000 in 6 cases as soon as possible.
- Towards cost saving, the department started publishing consolidated Show Cause Notice in respect of more than one accused.
- Due to continuous persuasion, one of the authorized dealers agreed to issue NOC in respect of 72 cases out of 202 involving US\$ 8,581,172 lying indecisive since 2002.
- A new position titled 'Administrative Office' (Courts) was created at HOK to ensure that all the pre-adjudication formalities have been fulfilled by the complainant and that complaint is complete in all respect.
- Repatriation of 29.2 million US\$ being the highest since the inception of FEAD has been achieved during FY10.

9.6 Development Finance Support Services

Improving financial outreach was the stimulating force behind the establishment of Development Finance Support Department (DFSD) and its units in SBP-BSC. The aim is to supplement efforts of Development Finance Group of SBP concerning financial inclusion by capitalizing on the field presence of the SBP BSC in 15 cities across Pakistan.

FY10 was another successful year for DFSD to promote SBP's strategy of augmenting financial deepening. The efforts during this year not only helped to improve financial awareness but also enhanced the feedback from stakeholders. The 13 field units across Pakistan helped in dissemination of SBP's policies besides obtaining feedback on vital regional and sectoral issues. In this regard, the Focus groups meetings for SME, agriculture and Micro finance sectors remained vital in highlighting demand and supply side issues. A total of 65 Focus Group meetings were arranged during FY10, from which 26 were on Agri-finance, 22 on SME, 13 on Micro finance and remaining on miscellaneous issues. This year, the number of total meetings has shrunk due to increase of time span, from quarterly to biannually, to provide sufficient time to resolve the stakeholders' issues and to suggest appropriate amendments in SBP's policies to concerned departments.

In FY10, DFSUs organized around 271 events/meetings with objective to support the vision of DFG-SBP. The arrangement of 48 awareness programs in various regions was to attain this objective. Moreover, 8 Agri, SME & Microfinance fairs/exhibitions were also organized with joint efforts from commercial banks and local chambers, traders, and farmer associations. These fairs have enhanced the understanding of SBP's policies and commercial banks' financial services among local people. Moreover, the fairs also provided a platform to local chamber/farmer representatives and bankers to build better relations and understanding which may help in resolving issues.

The deficiency of trained and competent human resource in many commercial banks is a major supply side issue which hinders the pace of financial growth. The unfamiliarity of staff with key Agri/SME issues and with SBP's initiatives may hamper the interest of stakeholder in utilizing bank financing. In addition, it is one of the main reasons of banks' reluctance to participate in Agri/SME lending. Even though, the number of agriculture and SME customers using formal modes of financing is increasing; however, a large segment of our population is still relying on informal credit channels. The DFSD has commenced the capacity building training programs for commercial bankers' to equip them with better understanding of main issues. During the year under review, 20 capacity building trainings were organized by DFSUs. Moreover, DFSD has entered into phase-III of pilot project of one window operation on Agri-financing with coordination of Agriculture Credit Department.

Furthermore, to create close association with educational/vocational institutes, the Development Finance Units staff and Chief Managers made 51 visits/meetings this year. These efforts would help to broaden the vision and understanding of students/faculty members regarding dimensions of finance world and also to enhance their interest in local economies. As a result, many DFSUs like Lahore, Faisalabad, Multan, Sukkur, and Gujranwala are successfully conducting studies/surveys with active participation from academia. The Cotton belt study, prepared by DF Multan unit with the assistance of students from Bahauddin Zakariya University, was an effort to explore the rural cotton economy and to encourage banks to increase their exposure in agriculture financing. The study was based on the survey conducted in Pakistan's top ten cotton producing districts with the aim to highlight the problems prevailing in cotton sector along with to enhance the financing facilities for farmers. In addition, the young students have also been given an opportunity to participate in internship programs arranged by several DF units.

The chief economic adviser and his team's visits to various DF units and meetings with stakeholders was another highlight of this year. Their keen interest in grass root issues prevailing at local/regional level has encouraged the DF staff to pace up their efforts of discovering regional economies. Likewise, the concept of DFSD regarding formulation of 'Regional Profiles' is to indicate the existing obstacles of local/regional markets as well as to explore the export potential. A number of regional profiles are in process according to the guidelines provided by DFSD-Karachi.

Moreover, to achieve the goal of poverty alleviation and growth of financial sector, DFSU also coordinates with district/provincial government departments. The close linkages of DFSUs with provincial agriculture, livestock, and revenue departments help to highlight the stakeholders' problems in front of concerned authorities. In this regard, various meetings/seminars were organized in which government officials were also invited.

During FY10, Central EFS Verification Division has been merged in Development Finance Support Department; earlier it was a part of Strategic Planning Division, SBP BSC HOK. The main purpose of this Division is to maintain uniformity in the process of on-site verification of Export Refinance cases across BSC field offices, provide necessary guidance to the verification teams at BSC offices, and to prepare consolidated reports on each commercial bank on the basis of findings of the verification teams for onward submission to the SME finance Department, SBP. During the period under review, 42 consolidated on-site verification reports of different banks have been prepared and sent to SME Finance Department, SBP for necessary action. During the verification process, 46,964 loan cases granted to commercial banks by the BSC offices were reviewed and fine amounting to Rs 46.1 million has been recovered from the exporters and banks on the advice of verification team on account of non compliance to various instructions of the SBP on EFS.

Going forward, DFSUs have proposed to arrange various awareness programs/ meetings/ seminars in upcoming year. The conceptualization of introducing 'Shariah compliant' financing modes at micro level is in process. In this regard, the idea to establish an 'Islamic focus group' is also in pipe line. The campaign of improving financial literacy among common people is also being developed. Various industrial cluster studies by DFSUs, with association of academia, are under way. The Lahore office is conducting auto parts cluster study to highlight the issues/potential of industries of auto parts and agricultural machinery. The work on power loom cluster study along with another research on exploring Citrus export potential is also in process in DF Faisalabad. The Quetta and Gujranwala offices are contributing their efforts by exploring live stock potential in Baluchistan and fisheries sector in the latter respectively. In FY10, DFSU has published a survey report highlighting socio economic conditions of Gujranwala region. In future, the Lahore office would also prepare a survey on the same lines.

9.7 Internal Audit and Controls

In SBP BSC, prime objective of IAD is to examine and evaluate whether the Bank's framework of risk management, internal control, and corporate governance processes is adequate and functioning properly. Audit exercise spans over the whole year and Annual Audit Plan of Internal Audit Department describes audit goals and schedule of audit of SBP BSC offices and departments. The Committee of the Board of SBP BSC on Audit formally approves the audit plan.

Audit reports along with the executive summary of audit observations comprising high/medium risk observations detected during the audit of an office or department are submitted to the Managing Director SBP BSC for review. Concurrently, the same is forwarded to the Executive Director, Internal Audit & Compliance Department, SBP, for perusal and onward submission to the Governor, State Bank of Pakistan. During the year under review audit reports of 16 SBP BSC and 3 department of HOK were issued.

Internal Audit Department has completed its re-structuring process and Internal Audit Units at the level of SBP BSC Field Offices were transformed into Audit Hubs at Karachi and Lahore with the aim to improve monitoring, expanding efficacy of internal controls and timeliness of reporting to senior management. Both the Audit Hubs are now fully functional and carrying out periodical audit of SBP BSC offices as per their monthly audit program. During 2009-10, 46 audits of various BSC offices/ departments were conducted by the teams of audit hubs.

To strengthen the enforcement and compliance functions, a compliance officer has been assigned to each audit team, who ensures compliance of the audit reports and timely resolution of issues highlighted in executive summary of audit observations. Compliance reports received from the offices and departments are being processed in IAD and are submitted to the Managing Director of SBP BSC.

The Committee of the Board of SBP BSC on Audit is a key institution in the context of corporate governance. Three Audit Committee meetings were held during the year to review the internal audit reports, findings incorporated and recommendations including the detection of acts of fraud and irregularities of material nature. The committee provides guidance and gives instructions for implementations besides continuously monitoring the performance of Internal Audit Department.

To meet the technological challenges as well as for skill development and enhancement of its staff, Internal Audit Department has procured Audit Command Language (ACL) software, which would enable Internal Audit Department to carry out audit of system data available on GLOBUS and ERP Oracle. Appropriate training of audit officials was also arranged from foreign trainer on TOT basis. Further, an officer of Internal Audit Department was also sent to Slovenia for training on Central Bank Internal Audit module.

9.8 Human Resource Management

During FY10, the Personnel Management Department (PMD) continued to take a lead role in inculcating a performance-driven culture for higher productivity across the organization. The emphasis remained on introducing, implementing, and strengthening the HR policies to improve service standards through a consultative process with line departments/ field offices. The Bank accelerated its automation process in tandem with the ongoing business processes re-engineering while the total head count reduced to 4,313 employees as against 4,551 last year.

During the period, the Bank adopted a multi-pronged strategy to further the talent management, introduce transformation through OD/ change management and establish healthy industrial relations to transform the organization into a dynamic corporate entity with excellent service standards.

The Bank aggressively pursued a talent management strategy with a focused approach on recruitment and selection. The process started with induction of 24 cash officers exclusively for the field offices of Muzaffarabad and D.I. Khan to meet their specific needs. The Bank's Board also approved a management trainee scheme (OG-2) titled 'Young Professionals Induction Program' (YPIP) to induct young graduates on regular basis. After a rigorous competitive process, the first batch of 60 trainees has been hired which is commencing its 12-weeks theoretical training from August 2010 at NIBAF Islamabad. Further, realizing the need for a supportive and capable middle management to steer the reform process, the Bank has also undertaken a recruitment plan for induction of experienced professionals at OG-3 level. Additionally, over 50 SBP officers on deputation at BSC continue to fill the existing skill gap and are proving a ready and properly trained resource for the organization. Above all, the Bank also stepped up its efforts to project itself as 'Employer of Choice' by visiting reputed universities and attending job fairs.

In line with the Bank's talent hunt strategy, a 2-year Attachment Program of business graduates (BBA-Hons, BS-Accounting & Finance) has been designed and approval is expected from the Board of Directors of BSC in first quarter of FY11. Accordingly, 25 graduates from six leading universities of the country, based on their academic ranking and geographical coverage, will participate in the program. The candidates will be selected through a competitive process on the basis of their academic credentials and interview performance. The program will help the Bank in addressing its immediate capacity issues on a fast track basis. These graduates will be assigned jobs/ projects after one week's orientation. The move will also strengthen the academia-industry linkage and develop a long-lasting strategic partnership with these institutions besides enhancing the Bank's brand image as a

prospective employer of choice. Inclusion of fresh graduates is also expected to strengthen management's efforts to bring a major cultural change in BSC through ongoing change management process.

The Bank is committed to provide a visible career path to the high performers in every cadre. In pursuit of management's goal of addressing the employees' career development needs, the 'Officers Promotion Policy 2009-General Side' was formulated during FY10. The policy has been revised with the purpose to recognize and reward high performance and encourage employees to undertake continuous professional development in the business related areas.

To retain competent employees and to bring the salary structure in line with market, a compensation survey of OG-1 & above was carried out last year. An external consulting firm was hired for the survey to maintain confidentiality of data and transparency of process. Based on their report, the concept of total remuneration (TR) was implemented for OG-2 to OG-6 after seeking approval of the Board. The TR was focused on the total monetary value received by the employees in the light of survey with in-built inflationary adjustment and closer inter-grade equity. As a result of survey, the monetized salaries of the OG-1 & above employees were increased from 20 to 35 percent while the clerical/ non-clerical staff was given a uniform raise of 25 percent. A 'Road Map' was also approved by the Board to reduce the peculiarities of structural imbalances in the current compensation structure and manpower profile and to better align the HR policies with strategic objectives of the organization and employees' performance.

The performance management system (PMS) earlier adopted for OG-4 and above, was cascaded down to OG-2 and OG-3 of general side last year. To reinforce the process, a number of steps were taken such as the introduction of appeal process against PMS, changing the appraisal hierarchy for OG-2, extensive training of appraisers and conducting PMS workshops. Similarly, the PMS process has been improved for the year 2009-10 wherein amongst the five goals; one developmental goal was necessitated at the time of planning phase.

The realignment of Bank's vision, mission values, and the development of strategic HR are essentially required to drive the change management process. An OD/ Change Management action plan was prepared by the consulting firm to support the expanded role for BSC. The consultants presented its findings which highlighted the organizational manpower requirements to achieve greater efficiencies and excellence in work culture, a communications program to support the change process and investments in technology. The findings of diagnostic report also suggested three change implementation steps to achieve the desired changes in HR which included restructuring of HR department, development of strategic HR framework, and implementation of strategic HR. A referendum for Collective Bargaining Agent (CBA) under Industrial Relations Act-2008 (IRA) was held in BSC in August, 2009 in a smooth and congenial environment. After being elected, the CBA submitted a Charter of Demand (CoD) for negotiation. As a result, an agreement was signed with them. A work council was also constituted comprising representatives from CBA and management to oversee the implementation of agreement and resolve issues of mutual interest.

Going forward, a number of employee friendly policies are under review like grievance handling, sexual harassment, employee recognition, and study leave. The Bank also plans to issue a monthly newsletter to institute a multi-directional communication amongst the employees. A strategic management conference is also scheduled in near future to prepare a comprehensive strategic plan for the Bank.

9.9 Training and Development

The Training & Development Department (T&DD) has been making efforts to steer the 'capacity building' initiatives within SBP BSC through different types of interventions. Due to aggressively

pursued training schedule, a total of 1997 officers were trained during FY10 in both function specific and soft skill modules compared to 1,817 in FY09.

The structured training efforts initiated in FY08 in pursuit of building efficient teams continued with the same fervor in its third year. Apart from extending function specific and soft skill trainings to existing employee with higher number of participants than last year, a pre-induction training program was also held for a group of cash officers recruited for D.I. Khan and Muzaffarabad offices. The development of course curriculum for 12-weeks training program for the participants of Young Professional Induction Program (YPIP) was also a landmark of the T& DD during this year. Moreover, holding of management training program for the line managers (Chief Managers) and start of Dedicated English Writing Skill (DEWS) program were also achievements during the year. Another important development during FY10 has been the opening up of foreign training opportunities to SBP BSC officers.

With our prime focus on bringing about a paradigm shift in the behavior/ attitude of officers and to improve their skill set to build SBP BSC a dynamic and vibrant organization ready to face future challenges, a team of well reputed trainers from within BSC, SBP and different training institutions having a good reputation across Pakistan were engaged.

To foster its role and come to the expectation of BSC stakeholders as embedded in its mission and vision statements, exclusive programs for counter staff and their supervisors were initiated to instill among them the art of providing friendly customer services.

Taking into account higher average age of the SBP BSC employees and gap in job related skills, non-traditional training solutions were also introduced besides increasing the coverage and scope of the existing training programs.

During FY10, SBP BSC also offered summer internship program to about 155 students of MBA, MPA, Economics discipline, etc. from accredited universities/ institution across Pakistan.

Future Road Map

While continuing to focus on bringing improvement in attitude/ behavior of the workforce of BSC through soft-skill training modules to solidify change management process in SBP BSC, T&DD plans to introduce new training interventions to create critical mass (40-60 Officers) in presentation skills, conduct of disciplinary inquiry along with inquiry report writing and strengthening controls & compliance.

Based on the feedback about the post training performance of officers having attended the DEWS program, we intend to introduce the same on a wider scale throughout BSC. New training programs will also be introduced during FY11 to facilitate the observance/ dissemination of updated SOPs/ Manuals/ Processes after receiving the existing training calendar to align the same to the changing requirements.

While expanding the coverage of the training programs to provide equal and quality training opportunities to all, it may be noted that bulk of training expenditures are on account of allied expenses (TA/DA, etc.) due to diverse location of 16 field offices. The satellite training initiative introduced last year with the active support of NIBAF (wherein trainer designated by NIBAF travelled to selected field offices to conduct the training sessions) proved highly successful in expanding the coverage especially of soft-skill programs in a more cost effective manner. We therefore plan to improve upon the modalities of satellite training and continue conducting nearly all soft-skills training programs through this mode.

BSC has been making efforts to equip its Lahore and Islamabad offices with video conference facilities. We also intend to utilize these facilities as and when available to deliver training programs next year with cost efficiency.