

Governance Structure of State Bank of Pakistan

The governance framework of State Bank of Pakistan (SBP) is specified in the SBP Act of 1956 which has been amended at various stages to enhance its independence. SBP is committed to high standards of Corporate Governance. The Act provides for an independent Central Board of Directors and empowers it for general superintendence and direction of affairs and business of the Bank. The Governor is the Chairperson of the Central Board and manages the affairs of the bank on its behalf. Except Governor, all Directors of the Board are non-executive directors.

During 2006-07, major initiatives were undertaken to improve corporate governance structure at SBP. The Central Board reconstituted its committees and revised their TORs to make them more responsive to changing needs of SBP. These Committees comprise of non-executive directors and representatives from the management in order to have a comprehensive review and analysis of various proposals before they are considered by the Board. The composition of NIBAF Board-a subsidiary of SBP on training- was changed during the year in order to provide an opportunity to thoroughly deliberate upon policy issues and quality of training programs at NIBAF by appointing prominent economists and individuals from academia.

Apart from measures at Board level, a major reorganization exercise was done at management level to improve corporate governance and strengthen and modernize SBP. The restructuring of SBP was critical in light of the developments which have taken place across Pakistan's financial markets, requiring positioning the central bank to better respond to growing emerging size, diversity and challenges of markets, and for SBP to be at par with other regulators in the region.

The main features of restructuring were to create four distinct Clusters in SBP including Banking Cluster, Monetary Policy & Research Cluster, Financial Markets & Reserve Management Cluster and Corporate Services Cluster. Special Offices, reporting directly to Governor, have been established/strengthened to enhance Governor's support to maintain effective oversight on the entire organization. Many Committees have been set up to ensure integrated and transparent approach to provide policy framework and ensure effective monitoring of core central banking as well as corporate services functions in the area of Monetary Policy, Risk Management, Investment, Human Resources and Corporate Strategy. To support the entire restructuring exercise, SBP redesigned its entire Human Resource Strategy, which included strengthening of Performance Management System, launching of a New Compensation and Benefit Structure and Voluntary Separation Scheme. Further, to cope with changing environment of financial sector, a change management exercise has been planned at other subsidiary of SBP i.e. SBP-BSC.

B.1 Central Board of Directors

The Central Board of Directors comprises of the Governor, Finance Secretary Government of Pakistan and seven non-executive Directors who are nominated by the Federal Government. In the selection of non-executive directors emphasis is given to representation from all the provinces alongside agriculture, banking and industrial sectors. The Directors' diversified & rich experience and knowledge provides an appropriate balance of expertise and views on a range of issues

affecting the strategic direction of SBP. The Governor heads the Central Board of Directors as well as the management.

During FY 2007 a total of nine meetings of the Central Board were organized where it discussed and took decisions on various matters as per business needs. The majors policy areas that the Central Board deliberated upon during the year included Annual Report on State of Economy (Vol.I) and Annual Performance Review (Vol.II) during FY 2006, financial statements of SBP and its subsidiaries, reorganization of the bank, changes in the bank's HR policies and compensation package, monetary policy actions, review of banking system and the economy, revision of the Terms of References for Committees of the Central Board and the reorganization of NIBAF Board.

B.2 Members of the Central Board of Directors



Dr. Shamshad Akhtar, Chairperson



Mr. Ahmad Waqar
Secretary Finance



Mr. Abdul Razak Dawood



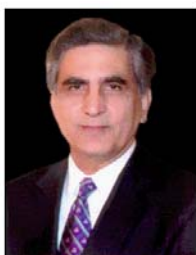
Mr. Mohsin Aziz



Mr. Kamran Y. Mirza



Mr. Iftikhar A. Allawala



Mr. Zaffar A. Khan



Sardar Mohammad Ali Jomezai



Mr. Tariq Sayeed Saigol

B.3 Corporate Secretary

During this year, the Board decided to establish the position of Corporate Secretary who, in addition to being the Secretary to the Central Board, would also be the secretary to its various committees. His primary responsibilities include ensuring that relevant information is provided well in time to all the Directors for their review before the meetings. The Corporate Secretary also records all the discussions and decisions taken by the Central Board and ensure its compliance through the management. He is also responsible for orientation of the new Directors to functions of State Bank. This is done through arranging presentations for the Central Board members from relevant departments. The Secretary also provides a link between management and the Directors in case of any query on any issues.

Other functions of the Corporate Secretary include interfacing with the federal government in relation to parliamentary and other queries; secretarial services and management of boards committees, and providing support to the Governor to further enhance quality of corporate governance in the institution.

B.4 Committees of the Central Board

The Central Board has constituted specific committees comprising of non-executive directors and representatives from the management for carrying-out comprehensive review and analysis of various proposals before they are forwarded to the Central Board for its consideration. This process adds to transparency and depth of oversight of the Central Board. The set-up and functions of various committees are given below:

i. Committee on Audit

Members

Mr. Kamran Y. Mirza	Chairman, Non-executive Director
Mr. Iftikhar A. Allawala	Member, Non-executive Director
Mr. Mujahid Eshai	Co-opted Member from ICAP
Director, Internal Audit and Compliance	Member

Objectives and Mandate:

To assist the Board in fulfilling its oversight responsibilities relating to:

- Financial Statements and auditing, accounting and related reporting processes, system of internal controls, Governance, business practices & conduct established by the management and Board.

The committee held seven meetings during the last financial year where matters relating to financial statements, internal audit & compliance and appointment of the external auditors were discussed.

ii. Committee on Monetary and Credit Policies

Members:

Mr. Abdul Razak Dawood	Chairman, Non-executive Director
Mr. Iftikhar A. Allawala	Member, Non-executive Director
Economic Advisor, SBP	Member
Director, Monetary Policy Department	Member

Objectives and Mandate:

To assist the Board in fulfilling its oversight responsibilities relating to SBP's monetary and credit policies such as:

- Review of Monetary Policy Statements before approval by the Central Board
- Recommend the measures for enhancing transparency of Monetary Policy and
- Review and examination of SBP publications, analysis of monetary and credit policies and aggregates thereof

The committee held two meetings during the last financial year where matters relating to Monetary Policy Statement for the period July-Dec 2006 & July-Dec 2007 were discussed.

iii. Committee on Human Resources*Members:*

Mr. Zaffar A. Khan	Chairman, Non-executive Director
Finance Secretary	Member
Mr. Kamran Y. Mirza	Member, Non- executive Director
Deputy Governor (CS), SBP	Member

Objectives and Mandate:

To assist the Board in fulfilling its oversight responsibilities relating to management of human resources:

- Review of the proposals which require approval of the Central Board regarding revision, modification or interpretation of Human Resource policies
- Recommendation to the Central Board on proposals submitted to the Committee

The committee held eight meetings during the financial year where matters relating to new Promotion Policy and the New Compensation & Benefit Structure were discussed.

Vi. Committee on Investments*Members:*

Governor	Chairperson
Finance Secretary	Member and Vice Chairman
Mr. Abdul Razak Dawood	Member, Non- executive Director
Mr. Iftikhar A. Allawala	Member, Non-executive Director
Executive Director (FMRM)	Member
Director, International Markets & Investments	Member

Objectives and Mandate:

To assist the Central Board in fulfilling its oversight responsibilities relating to management of foreign exchange reserves and issues related thereto such as:

- Approve the strategy and policy for investment and foreign exchange relating to the management of the Foreign Exchange Reserves and recommend to the Board for approval
- Approve the Operational Guidelines for the investment of the reserves. The Operational Guidelines would translate the investment policy into benchmark(s) and risk budget for management

- Approve the appointment of assets managers, custodians, investment consultants, and recommendations of any fees payable and other terms on which the appointments are made.
- Review performance of the reserves managed in-house and externally and report to Central Board on a quarterly basis
- Review the continued appropriateness of the approved Investment Policy, benchmark and guidelines on an annual basis
- Review and approve broad risk tolerance within which the Bank should operate in the area of investments

V. *Committee on Building Projects*

Members:

Sardar Mohammad Ali Jomezai	Chairman, Non-executive Director
Deputy Governor (CS), SBP	Member
Managing Director, SBP-BSC	Member
Director, Engineering Department, SBP-BSC	Member

Objectives and Mandate:

To assist the Board in fulfilling its oversight responsibilities relating to:

- Monetary sanctions/approvals in respect to construction of Bank's buildings and their maintenance
- Approval of matters pertaining to acquisition and disposal of assets both moveable and immovable.
- Review other works/projects as may be referred to it by the Governor

The committee is empowered to sanction/approve the projects up to a limit of Rs. 50 million. The project whose cost exceeds Rs. 50 million, the Committee's recommendations is placed before the Central Board for its consideration/decision. The committee held eight meetings during the financial year and various matters relating to building project were discussed.

B.5 **Management Structure of SBP**

- **Governor:** The Governor is the Chief Executive Officer who directs & controls the affairs of the Bank on behalf the Central Board and is appointed by the President of Pakistan for a three-year term extendable for another three-year term.
- **Heads of Clusters:** Consequent to restructuring & reorganization of State Bank of Pakistan in September 2006 four separate clusters were formulated which are;
 1. Banking Cluster
 2. Monetary Policy & Research (MPR) Cluster
 3. Financial Market & Reserve Management (FMR) Cluster
 4. Corporate Services (CS) Cluster

Each of these clusters is headed by a Deputy Governor (DG) or an Executive Director/Advisor who is in-charge for the management of day-to-day affairs of the cluster.

Corporate Management Team



Dr. Shamshad Akhtar, Governor



Mr. Mansur-ur-Rehman Khan
Deputy Governor



Mr. Yaseen Anwar
Deputy Governor (CS)



Mr. Riaz Riazuddin
Economic Advisor



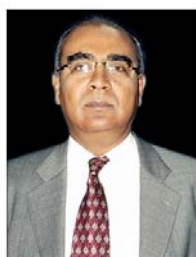
Mr. Jameel Ahmad
Executive Director
(Banking Policy & Regulation)



Mr. Muhammad Kamran Shehzad
MD (SBP-BSC)



Mr. Aftab Mustafa Khan
Corporate Secretary



Mr. Azhar Iqbal Kureshi
Executive Director
(Development Finance)



Mr. Amer Aziz
Executive Director
(Banking Supervision)



Mr. Asad Qureshi
Executive Director
(Financial Markets / Reserve Mgmt)



Mr. Ahsan Kamal
Director
(Human Resources)

In addition to the Office of the Corporate Secretary, following specialized offices reporting directly to the Governor were established.

1. Strategic & Corporate Planning Department
2. External Relations Department
3. General Counsel's Office
4. Risk Management Department
5. Internal Audit & Compliance Department

- **Management Committees:** In order to further strengthen the management of the Bank, five principal committees were also set-up namely;

1. Monetary Policy Committee-MPC (Headed by the Governor)
2. Enterprise Risk Management Committee-ERMC (Headed by the Governor)
3. Investment Committee-IC (Headed by the ED-FMRM)
4. Human Resource & Corporate Strategy Committee-HR&CS (Headed by the Governor)
5. Business Continuation Plan Committee-BCPC (Headed by Deputy Governor-CS)

- **Meetings of Corporate Management Team (CMT) & Heads of Departments (HODs):** The Corporate Management Team (CMT) acts as the principal forum for debate and decision on critical operational issues affecting the quality of work at the institutional level, matters involving strategic decision making and monitoring change management process. The Corporate Management team is headed by the Governor and consists of Deputy Governors, Executive Directors, Economic Advisor, M.D. Banking Services Corporation, Director HRD and Corporate Secretary who acts as the Secretary of the team.

Combined meetings of CMT and HODs under the chairpersonship of the Governor have become a major coordination forum to obtain the feedback of Directors on the working of their respective departments and to involve the Heads of Departments (HODs) in matters affecting overall organizational functions. During 2006-07, 11 meetings of CMT and HODs were held. In total, 132 decisions were taken on various aspects of operational and strategic issues of SBP including reorganization plan of SBP and its implementation, capacity building of departments, HR policies, budget monitoring, increasing effectiveness of training and study leave, financial sector roadmap, improving SBP capacity in banking supervision and inspection, outreach of agriculture finance and awareness of development finance in general public, SBP legislation, and reformation of SBP-BSC

- **SBP Subsidiaries:** There are two subsidiaries of SBP namely State Bank of Pakistan-Banking Services Corporation (SBP-BSC) and National Institute of Banking and Finance (NIBAF). SBP-BSC is the operational arm of SBP for currency and credit management, facilitating inter-bank settlement system, dealing in savings instruments of the government, collecting revenue and making payments for and on behalf of government and operational work relating to management of debt and foreign exchange. SBP-BSC Board comprises of all the members from the Central Board of SBP and the Managing Director of SBP-BSC. On the other hand, NIBAF is the training arm and is responsible for design, delivery, development and evaluation of trainings. The Governor SBP is chairperson of Boards for both the subsidiaries.