

Table of Contents

Governor's Message.....	1
Governance Structure of State Bank of Pakistan	7

Strategic Objectives of SBP

1. Broadening Access of Financial Services.....	15
1.1 Overview	15
1.2 SME Finance	15
1.3 Performance of Microfinance Banks	18
1.4 Export Finance Regime	23
1.5 Infrastructure Project Financing	25
1.6 Islamic Banking	27
1.7 Agricultural Credit Disbursements during FY 2006-07	30
2. Ensuring Soundness of the Financial Sector.....	35
2.1 Overview	35
2.2 Initiatives undertaken to strengthen the Banking System Stability	35
2.3 Initiatives undertaken to strengthen the Supervisory System	39
3. Maintaining Price Stability with Growth.....	43
3.1 Overview	43
3.2 Monetary Policy Statement	44
3.3 Conduct of Monetary and Credit Policy	44
3.4 Interest Rate Trends / Yield Curve	47
3.5 Government Bonds Market	48
3.6 Islamic Money/Sukuk Market	48
3.7 Derivatives Market	48
3.8 Exchange Rate Stability	49
3.9 Forward Looking Framework for Monetary Policy	49
3.10 Strengthening of Research Function	50
3.11 SBP International Conferences and Seminars	52
4. Exchange and Reserve Management.....	53
4.1 Overview	53
4.2 Exchange Rate Management	54
4.3 Reserve Management	57
4.4 Liberalization of Foreign Exchange Regime	59
4.5 Exchange Companies	60
5. Strengthening of Payment Systems.....	61
5.1 Overview	61
5.2 Payment System and Electronic Fund Transfers Act 2007	61
5.3 Real Time Gross Settlement System (RTGS)	61
5.4 Society for Worldwide Inter-bank Financial Telecommunication (SWIFT)	61
5.5 Service Level Agreement (SLA) and Standard Operating Procedure (SOP) for 1-Link and M-Net Switches	62

5.6	<i>Management of ATM Cash and Downtime</i>	62
5.7	<i>Utility Bills Payment through ATMs</i>	62
5.8	<i>Performance of Retail Payment Systems</i>	62
5.9	<i>E-banking Infrastructure</i>	63
5.10	<i>Clearing of Paper Based Instruments</i>	63
5.11	<i>Local US Dollar Instrument Collection and Settlement System</i>	63

Management Strategy of SBP

6.	Human Resources Development.....	67
6.1	<i>Overview</i>	67
6.2	<i>HR Profile</i>	67
6.3	<i>Recruitment Challenges</i>	68
6.4	<i>Performance Management System (PMS)</i>	69
6.5	<i>Training and Development</i>	74
6.6	<i>Library</i>	78
7.	Information Technology Developments	81
7.1	<i>Overview</i>	81
7.2	<i>GLOBUS Banking & Currency Solutions</i>	82
7.3	<i>Oracle ERP</i>	82
7.4	<i>Data warehouse</i>	83
7.5	<i>Web</i>	83
7.6	<i>Infrastructure</i>	83
7.7	<i>Information Security</i>	84
7.8	<i>User Trainings</i>	84

SBP Subsidiaries

8.	State Bank of Pakistan Banking Services Corporation (Bank).....	87
8.1	<i>Overview</i>	87
8.2	<i>Corporate Structure of SBP-BSC (Bank)</i>	87
8.3	<i>Currency Management</i>	88
8.4	<i>Banker to the Government</i>	88
8.5	<i>Payment Systems</i>	89
8.6	<i>Foreign Exchange Operation and Adjudication</i>	89
8.7	<i>Export Finance Disbursement and Monitoring</i>	91
8.8	<i>Operational Role in Monetary Management</i>	91
8.9	<i>Internal Audit and Controls</i>	91
8.10	<i>Human Resources</i>	92
8.11	<i>Local Credit Advisory Committees</i>	93
9.	National Institute of Banking & Finance (NIBAF).....	95
9.1	<i>Overview</i>	95
9.2	<i>State Bank of Pakistan</i>	97
9.3	<i>SBP-BSC (Bank)</i>	97
9.4	<i>International Training Programs</i>	98
9.5	<i>Rural Finance Resource Center (RFRC)</i>	98
9.6	<i>Islamic Banking Certificate Course</i>	99

Finances of SBP and Subsidiaries

10.	Annual Budget Review 2006-07.....	103
	<i>10.1 Overview</i>	<i>103</i>
	<i>10.2 Corporate Expenses</i>	<i>104</i>
	<i>10.3 Establishment Expenses</i>	<i>105</i>
	<i>10.4 Operating Expenses</i>	<i>105</i>
11.	Annual Financial Performance Review 2006-07.....	107
	<i>11.1 Overview</i>	<i>107</i>
	<i>11.2 Expenditure</i>	<i>107</i>
	<i>11.3 Income</i>	<i>108</i>
	<i>11.4 Distributable Profit</i>	<i>111</i>
12.	Consolidated Financial Statements of SBP and its subsidiaries.....	113
13.	Financial Statements of SBP	153
14.	Financial Statements of SBP-BSC (Bank).....	95
15.	Financial Statements of NIBAF.....	211

Annexure:

A	Chronology of Policy Announcements.....	3
	<i>A-1 Banking Policy, Inspection and Supervision</i>	<i>3</i>
	<i>A-2 Development Finance</i>	<i>14</i>
	<i>A-3 Exchange Policy</i>	<i>20</i>
	<i>A-4 Payment System</i>	<i>24</i>
B-1	Central Board- Decisions and Deliberations during 2006-07	25
B-2	Business Continuation Management	28
B-3	Risk Based Audit Approach	29
C	Organizational Chart	31
D	Management Directory	33
E	List of Publications	37

List of Tables

Table 1.1	Credit to Private Sector – A profile	16
Table 1.2	Break-up of Lending to SME by Nature of Facilities	17
Table 1.3	Micro Finance Outreach	19
Table 1.4	Key Performance Indicators (% age)	21
Table 1.5	Comparison of the Export Refinance Provided during the Year 2006-07 with the Previous Year	23
Table 1.6	Comparison of Outstanding Position of Export Refinance as on June'07 with the Outstanding Position as on June'06	24
Table 1.7	Rate of Finance and Refinance	25
Table 1.8	Housing Finance by Banks and HBFC from Dec'03 to Dec'06	26
Table 1.9	Trends in Islamic Banking in Pakistan	28
Table 1.10	Islamic Banking Players	28
Table 1.11	Growth in Agricultural Credit	32
Table 3.1	Over Night Rates (O/N Rates)	45
Table 4.1	Exchange Rate Trends	54
Table 4.2	Average Monthly Exchange Rate	55
Table 4.3	Volume of Oil Imports	56
Table 4.4	SBP-Oil Support to Market	56
Table 4.5	Global Official Reserve Trends	57
Table 4.6	Professional Certification since FY 2005-06	57
Table 4.7	Reserves Adequacy Ratios	58
Table 4.8	Top 15 Asian Official Reserve Holders	58
Table 6.1	Human Resource Profile of SBP	67
Table 6.2	Gender Profile of SBP Employees	67
Table 6.3	Consolidated Recruitment Position from 2000 to 2007 (no. of Employees)	68
Table 6.4	Specialized Recruitment on Contractual Basis	69
Table 6.5	Employees Turnover	69
Table 6.6	Bell Curve Rating	70
Table 6.7a	Annual Merit Increase for OG-1 & below	70
Table 6.7b	Annual Merit Increase for OG-2 & above	70
Table 6.8	Performance Bonus	71
Table 6.9	New Compensation and Benefit Structure Scheme	71
Table 6.10	VSS 2007	72
Table 6.11	Promotions	73
Table 6.12	In-house Training Programs	74
Table 6.13	Training Program Participants	74
Table 6.14	Function Specific Programs	75
Table 6.15	Participation-wise Foreign Training	75
Table 6.16	Scholarship Beneficiaries	75
Table 6.17	Internship Programs	76
Table 6.18	International Internship Programs	76
Table 6.19	Category and Participation-wise Attachment Programs	77
Table 6.20	Library Statistics	79
Table 8.1a	No of Cases and Amount Paid Under R&D Support	90
Table 8.1b	Amount Realized by Adjudication Courts	90
Table 8.2	Working Strength of SBP-BSC Bank	92
Table 9.1	Training Delivery and Coverage FY 07	95
Table 9.2	Cluster Wise Participation (% wise)	97

Table 10.1	SBP Annual Review for FY 2006-07	103
Table 10.2	Breakup of Revenue Expenditure During FY 2006-07	104
Table 10.3	Head-wise Variance of Actual from Budget (percentage)	104
Table 11.1	Summary Statement of Profit and Loss	107
Table 11.2	Corporate Cost, Establishment Cost and Operating Expenses	108
Table 11.3	Interest/Discount/Return Income on Foreign and Domestic Assets	109
Table 11.4	Foreign Currency Reserves	109
Table 11.5	Lending to Government, Banks and Financial Institutions	109
Table 11.6	Exchange Gain/(Loss)–Net	110
Table 11.7	Breakup of the Exchange Account	110
Table 11.8	Distribution of Profit	111

List of Figures

Figure 1.1	Lending to SME	17
Figure 1.2	Asset Structure of MFBs	20
Figure 1.3	Funding Structure of MFBs	20
Figure 1.4	P&L Composition	20
Figure 1.5	Sector-wise Break-up of the Refinance Disbursed During 2006-07	27
Figure 1.6	Housing Finance Outstanding by Banks	27
Figure 1.7	Housing Finance Outstanding by HBFC	27
Figure 1.8	Province-wise Share in Disbursement 2006-07	31
Figure 3.1	Open Market Operations	45
Figure 3.2	Weighted average O/N Repo rate movement (July'05-June'07)	46
Figure 3.3	Activity at Discount Window	46
Figure 3.4	Yield Structure.	47
Figure 3.5	Trend in Key Interest Rates	47
Figure 3.6	Real and Nominal Effective Exchange Rate	49
Figure 4.1	Weekly average FEEL utilization by Banks	52
Figure 4.2	USD/PKR Exchange Rate Trends & Volatility	54
Figure 4.3	Trends in Regional Currencies against USD	55
Figure 4.4	Oil Support FY 05-06 & FY 06-07	55
Figure 6.1	Employees Turn-over	69
Figure 6.2a	Reward and Recognition Recipient	73
Figure 6.2b	Reward and Recognition Recipient-Grade wise	73
Figure 7.1	IT Support Provided by ISTD to Business Functions of SBP and SBP-BSC	81
Figure 9.1	Training for Stakeholder FY 07	96
Figure 9.2	Training Delivery	96
Figure 9.3	Training Participation	97
Figure 10.1	SBP Annual Review for FY 2006-07	103

List of Boxes:

Box-1	Matters Discussed in the Central Board Meetings During 2006-07	25
Box-2	Business Continuation Management	28
Box-3	Risk Based Audit Approach	29

Intentionally Left Blank