

Executive Summary

The emphasis of SBP Banking Services Corporation (SBP BSC) in FY10 remained on introducing, implementing and strengthening the progressive policies regarding improving service delivery standards through a consultative process with line departments and BSC offices. The change management initiative undertaken in 2008 has started yielding desired results and increasingly reflected in addressing the issues like capacity building and skill enhancement of employees, business orientation of organization, attitudinal and cultural changes, technological innovation and improvement in the physical infrastructure. The BSC continued to pursue the change management plans during the year to transform the organization into a modern professional entity capable of delivering its mandate more effectively. The key achievements made and initiatives taken by the BSC management are discussed in the following paragraphs:

Currency Management

Currency management is one of the core functions of BSC that aims at ensuring adequate supply of fresh and re-issuable (clean) banknotes and coins to general public, commercial banks and other stakeholders across the country. The Currency Management Department (CMD) at BSC streamlines the fresh currency issuance function, stimulates the system for monitoring issuance of banknotes to the general public through the banks' branches besides propagation of SBP Clean Note Policy. Further the rigorous efforts are also made for timely withdrawal of soiled banknotes from the market for their early destruction. During FY10, around 1,821 million pieces of fresh currency notes of various denominations valuing Rs.316 billion were issued from the BSC offices across the country to different stakeholders, mainly to commercial banks as compared to 1,656 million pieces of fresh currency notes valuing Rs.306 billion issued during the corresponding period last year. The CMD also made elaborate arrangements at its field offices for issuance of fresh notes to general public from BSC counters and through branches of commercial banks on the eve of Eids especially on Eid-ul-fitr.

Efforts to promote the use of technology and mechanization of currency operations/cash management within BSC offices remained continued during the year under review. Around 740 latest cash handling machines including note/ loose note /coin counting machines, tri-colour stamping machines, note/ packet/ bundle banding machines, shrink wrapping machines, note shredding machines, hole punching machines, triangular cut machines etc were procured and provided to all field office as per their requirements during the year.

During the year the CMD has strongly influenced the implementation of Clean Note Policy of SBP by the commercial banks through different measure, which also included simplification of various procedures relating to currency management, lifting of non-issuable notes by BSC offices, on-site examination of branches of commercial banks, automation of cash operations at BSC field offices and currency awareness programs for general public and other stakeholders.

The BSC offices have lifted more than 3 billion pieces of different denominations of non-issuable banknotes valuing Rs.511 billion during the last three years of which 1.1 billion pieces valuing Rs.183 billion were lifted during FY10. The cash monitoring teams of BSC offices conducted on-site examination of 5,484 branches of commercial banks and recovered penalties amounting to Rs. 8.427 million on account of violation of various instructions during the year. Similarly, the banks that violated the instructions regarding issuance of fresh notes at Eid-ul-Fitr, 2009 were also penalized through imposition of fine of Rs. 20.250 million.

Capacity building of the employees of commercial banks and other stakeholders continued as a part of implementation of CNP and around 166 special awareness programs were arranged throughout the country during the year by the CMD with the coordination of BSC offices to create awareness about the security features of the currency notes and national prize bonds. As part of capacity building program, foundation and intermediate level trainings courses regarding currency operations were offered to employees at different offices as also NIBAF. Further, advanced trainings for detection of counterfeiting in currency notes/ tampering of prize bonds were also arranged at Forensic Laboratory of Pakistan Security Printing Corporation (PSPC) for 49 officials of SBP, BSC and police department during FY10.

Banking Services to the Government

As a statutory obligation, BSC provides banking services to the Federal, Provincial and Local Governments including collection of revenues and making payments on behalf of the government departments etc, through its 16 field offices as well as through a countrywide network of currency chest/ sub-chest branches of National Bank of Pakistan. The tax revenue collected by the BSC offices on behalf of the government is credited to the relevant accounts and updates are reported daily to Federal Board of Revenue through online collection automation system. The system has facilitated in providing Computerized Payment Receipt (CPR) to tax depositors on the basis of their Computerized National Identity Card/ National Tax Numbers. During FY10, around 5.79 million transactions pertaining to Government receipts and payments were handled by BSC offices valuing Rs.4.1 billion of receipts and Rs.3.9 billion of payments.

The BSC offices are also shouldering the responsibility of sale, encashment and profit/ prize money payments in respect of different savings schemes of Central Directorate of National Savings (CDNS) i.e., Special Saving Certificates, Defense Saving Certificates and National Prize Bonds. The BSC also arranges draws of National Prize Bonds twice a month by rotation at its different centers across the country as per schedule. During FY10 the BSC offices handled 24,110 cases of sale of SSCs and DSCs valuing Rs.22.858 billion as compared to 53,483 cases valuing Rs.44.402 billion last year. Similarly the aggregate sale and encashment of National Prize Bonds was Rs.129 billion and Rs.91 billion during the year under review as compared to Rs.106 billion and Rs.91 billion in preceding year. The total value of the prize bonds held by the investors as on June 30, 2010 was Rs.235 billion as compared to Rs.197 billion as on June 30, 2009 showing an increase of 20%.

The BSC through its countrywide network of field offices continued supporting SBP in carrying out the supervision of payment and settlement system. BSC has also contributed in efforts of SBP in the development of automated clearing services within the country. For this purpose an arrangements has been made with the National Institutional Facilitation Technologies (NIFT). The NIFT provides a nationwide mechanism to process and settle the transactions between the commercial banks in close coordination with the field offices of BSC across the country. All commercial banks with their branches in major cities avail NIFT's services. This extended coverage of the automated clearing and settlement facilities would promote banking habits in small cities/ towns and thus contribute in deepening and broadening of the financial system. During FY10, a total of 72.049 million instruments were cleared through NIFT.

The first phase of the project relating to standardization of financial instruments initiated by BSC few years back has been completed, in which all the instruments of commercial banks and other financial institutions were standardized and made machine readable. While the second phase of the project wherein the government departments would be pursued for standardizing their financial instruments has also been started and is under progress.

The Real Time Gross Settlement (RTGS) project became live on July 1, 2008 in the country with the name of Pakistan Real Time Inter Bank Settlement Mechanism (PRISM) and is providing online real time settlement services to 43 participating institutions and indirect members. All commercial banks, five Development Finance Institutions (DFIs) and one Microfinance bank are direct members of the system. The overall launch of the PRISM was done in phases to enable the participants to step by step adapt to the system with minimum inconvenience. The SBP and BSC's RTGS Team fully facilitated the system participants in gradually moving from the cheque based payment mechanism to the new online real time system. BSC Karachi office ensures that the payments from indirect members to RTGS direct participants are promptly made so that their overall liquidity position is managed timely. The payment and settlement of home remittance transactions under Pakistan Remittance Initiative (PRI) have also been started under PRISM since August, 2009 resulting speedy transfer of funds to the end beneficiary. National Clearing Company of Pakistan Limited (NCCPL) is providing clearing facility to the capital market and it prepares the net of securities and cash obligations for trades and transactions executed in capital market of Pakistan. Cash leg of this netting is now being settled in PRISM through MT-103 (third party transfer). During 2009-10, the PRISM settled payments of around Rs.73 trillion involving 293,000 transactions, averaging around 980 daily payments valuing Rs.242 billion.

Foreign Exchange Operations & Adjudication

The BSC facilitates Exchange Policy Department of SBP in implementation of foreign exchange policies and monitoring the activities of Authorized Dealers (ADs) through a dedicated Foreign Exchange Operations Department (FEOD) at HOK and field units in BSC offices across the country. FEOD's responsibilities in general includes provision of services in the areas of imports and exports, export verification & claims, commercial & private remittances, submission of returns & statistical data, foreign exchange allocations & releases, dissemination and awareness creation about SBP foreign exchange policies,

administration of various policies of Government, export overdue and issuance of show cause notices to the delinquent exporters & ADs and subsequent lodging of complaints there-against in the Foreign Exchange Adjudication Courts. During the year under review around 30,628 notices to the delinquent exporters and 2,893 to the authorized dealers were issued.

The department is also responsible to verify EE-1/ EF-1 statements submitted by the ADs in connection with determination of exporter's limits/ performance under Part-II of Export Finance Scheme of SBP. To improve efficiency, accuracy and processing time, a computer based system has been developed during FY10 for verification of the EE/EF statements submitted by the ADs online through International Transactions Reporting System (ITRS). During the year under review around 458,206 entries pertaining to EE-1 and EF-1 statements were checked and verified.

The FEOD has also been facilitating the federal Government in implementation of its different support schemes announced for industry, business and agriculture sectors. During FY10, Rs.2,986 million to the textile (garments, home textiles and dyed fabrics only) and Rs.25 million to the motor cycle exporters were disbursed under Research and Development Support Schemes while 50,753 claims were paid under Drawback of Local Taxes & Levis scheme (DLTL).

The Foreign Exchange Adjudication Department in BSC has been entrusted with the enforcement of Foreign Exchange Regulation Act (FERA) as per provisions spelt out in its section 23B. The department serves as an adjudication forum to persuade the delinquent exporters to repatriate the overdue export proceeds. During FY10, the stuck up export proceeds equivalent to US\$29.2 million were got repatriated in the country as against US\$12.2 million during the preceding year.

SBP Schemes for Financing

The BSC has been entrusted with the responsibilities to implement all SBP refinancing schemes like Export Finance Scheme (EFS), Islamic Export Refinance Scheme (IERS), Long Term Financing Facility (LTFF) and recently introduced financing initiatives like Scheme for Modernization of Cotton Ginning Factories & Rice Husking Mills, Agri-loans Refinancing & Guarantee Scheme for War Effected Areas of Khyber Pakhtoonkhwa (KPK) and FATA, Scheme for Financing Power Plants Using Renewable Energy and Financing Facility for Storage of Agricultural Produce. During 2009-10, a total of 107,290 cases relating to grant, repayment and remuneration (share of profit) were processed by the BSC offices under EFS (Part I&II) as compared to 96,832 cases processed during 2008-09 showing an increase of about 10.80%.

In addition, the BSC offices also conduct onsite verification of EFS/IERS cases at commercial banks' branches located in the areas of their jurisdiction with a view to ensure compliance of the provisions of the schemes as well as proper utilization of funds disbursed to the banks under the EFS/ IERS. During FY10 forty two (42) consolidated (Bank-wise) EFS/ IERS On-Site Verification Reports for the monitoring period 2007-08 & 2008-09 were finalized and sent to SME Finance Department and fine amounting to Rs.46.1 million was

recovered from the commercial banks on account of various irregularities committed by them in administering Export Finance Scheme (Part I & II) during the year under review.

Development Finance Support Services

During FY10 BSC kept pursuing its efforts of supporting and augmenting SBP's Development Finance Group's (DFG) objectives of enhancing outreach and financial literacy. Major functions performed by the Development Finance Support Department at HOK and its field units (DFSUs) included a) collection of feedback on SBP policies b) resolving/communicating issues raised by the stakeholders in focus group meetings c) conducting awareness programs d) holding melas/ fairs/ exhibitions and on-site visits etc.

Three focus groups on Agri., SME, and Micro finance were already operational in DFSUs whereas during FY10 a new focus group on Islamic Banking has also been introduced at the field units of DFSD. The initiative was aimed to promote the Islamic mode of financing as an alternate banking facility. The forum of focus group meetings provides an opportunity to all the stakeholders to discuss the matters relating to the implementation of various policy initiatives, issues faced by them with respect to access to finance etc; and evolve local level operational strategies for resolution thereof. A total of 65 focus group meetings were arranged during the year, out of which 26 were on Agri-finance, 22 on SME finance, 13 on Micro finance, besides 4 Local Credit Advisory Committee. Besides, 48 awareness programs and 8 Melas/ Fairs/ Exhibitions on Agriculture, SME & Microfinance were also organized by the DFSUs in the regions of their jurisdiction with the collaboration of banks, local chambers and farmers & traders' associations during the year. Further, 20 seminars and workshops were also arranged on the subjects related to development finance, current economic problems, SBP credit schemes etc. The issues highlighted in focus group meetings, awareness programs and seminars/ workshops as well as the recommendations thereon were forwarded to the respective SBP departments as feedback for policy review.

The trained and competent human resource in commercial banks is a major supply side issue which in various dimensions is hindering the pace of financial inclusion. To cater the need of training, the DFSD and DFSUs have conducted capacity building programs for the officials of commercial banks to equip them with better understanding on SBP policies and the main issues of DF sector. During the year under review around 20 training programs have been arranged for the officials of commercial banks by the BSC offices in the areas of their jurisdiction. The internal capacity building of the official of BSC is also equally important for the DFSD and for this purpose a six days workshop on capacity building of DFSU officials was arranged during the month of June, 2010 at NIBAF Islamabad, which was attended by more than 30 officers across all DFSUs. On completion of the said training program field visits of two model farms i.e., "Modern Hatchery Farm" and "Progressive Farmer's Agriculture Farm" were arranged by the DFSU Rawalpindi office for the participants to get an insight about the practical issues of the sectors.

Special emphasis was given on establishing the linkages with educational and research institutions to orient the academia about the emerging DF market in the country. The Chief Managers of BSC offices along with the DFSU officials visited prominent educational institutions i.e., universities, business schools, colleges etc in their respective regions to meet

the students and the faculty members. To augment this interaction the DFSU officials also participated in the seminars/ workshop organized by these institutions besides inviting their key faculty members for participating in different meetings on these subjects at BSC offices to enlighten the participants about the latest findings in their field of study. In order to build an interface between SBP and provincial agricultural, livestock and revenue departments and to take them on board in the efforts for increasing the flow of financial services to the farming communities various on-site visits/ meetings have also been arranged by the DFSUs during FY10. A total of 51 (22 to educational institutions and 29 to different stakeholders and government functionaries) visits/ meetings have been held during the year under review to build a close association with them. Moreover the cotton belt study initiated in the previous year has been completed and finalized during FY10 by the DFSU Multan with the assistance of students from Bahauddin Zakaria University and under the supervision of DFSD. It was an effort to explore the potential of rural cotton economy and to encourage the banks to increase their financial outreach to the cotton belt areas.

The Chief Economic Advisor of SBP and his team members visited the BSC offices at Lahore, Faisalabad and Rawalpindi to meet the stakeholders and Federal, Provincial Government authorities of the regions to get an insight on the issues prevailing at local and regional levels, the DFSUs of these offices arranged all the meetings with the concerned stakeholders viz; agricultural scientists, researchers & members of focus group on agricultural finance, members of regional chambers of commerce & industries and government functionaries etc.

Human Resources Management

Significant changes in terms of human resource management in line with the change management initiative of BSC have been witnessed during the outgoing year. During FY10, the BSC continued to (i) pursue a multi-pronged strategy towards the talent management with a focused approach on merit based recruitment, selection and promotion, (ii) put emphasizes on performance management, (iii) transformation of its work force and operational parameters through organizational development process and (iv) establishment of healthy industrial relations to turn the organization into a dynamic and vibrant corporate entity.

A comprehensive and well designed policy for recruitment of Management Trainees under 'Young Professionals Induction Program' (YPIP) has been introduced in the current financial year to hire talented graduates at OG-2 level. The program aims at capacity building of the organization through a continuous stream of talented individuals on a regular basis. The first batch of 59 trainees hired after a rigorous competitive process has commenced its 12-weeks theoretical training from August 2010 at NIBAF Islamabad.

BSC Management also recruited 24 Cash Officers to satisfy the immediate human resource needs of D. I. Khan and Muzaffarabad offices on contract basis through an open competition during 2009-10. After providing them extensive training at NIBAF Islamabad, these officers were posted at the offices they were hired for. This initiative has minimized the cost being incurred by the Bank in transferring individuals from other offices.

The existing work force of BSC at supervisory level needs to be strengthened to meet the capacity issues; it was therefore, felt necessary to hire high caliber professionals at middle management through direct recruitment at OG-3 level. Thus the specialized posts in the areas of banking, currency management, development finance, financial accounting, foreign exchange, human resources and training & development have been announced during the year under review. These professionals, after induction through a competitive process, are expected to further accelerate the ongoing process of change management.

For performance improvement and redefining the human resource policies a competency based Performance Management System (PMS) was implemented in BSC few years back. Initially the system was introduced for the middle managers (OG-4 & above), the scope of PMS was however further extended to the level of OG-2 & OG-3 officers of the bank from the preceding year. During FY10, the process of bell curve rating through forced distribution mechanism was further strengthened by creating the ownership and involvement of middle management in the appraisal process and the middle managers (OG-4) were included as a 'Reviewer' for the appraisal of OG-2 officers. The process of appeal against the adverse performance rating has been cascaded down to all cadres of officers and staff to bring more transparency in the process and address the genuine grievances of appraisees. In order to make the process more practical, limiting the goals up to five of which at least one must be a developmental goal targeting the capacity improvement of individual/ unit/ division was also introduced.

A referendum for determination of Collective Bargaining Agent (CBA) under Industrial Relations Act-2008 (IRA) was held in BSC during the year in a smooth and congenial environment. After referendum and detail negotiations on the Charter of Demand (CoD) submitted by the elected CBA, an agreement was signed with CBA. A Work Council was also constituted comprising representatives from CBA and management to promote measures for securing and preserving cordial relations between the employer and the workmen.

During the year the BSC also accelerated its automation process in tandem with the ongoing business processes re-engineering to reinforce the linkages and integration among various automated modules for greater efficiency. Consequently, the organization also managed to fulfill its responsibilities despite reduction in its strength from 4,500 employees last year to 4,313 as on 30th June, 2010.

A project of 2-year Attachment Program of business graduates (BBA-Hons, BS-Accounting & Finance) in line with the Bank's talent hunt strategy has been initiated during FY10 with a view to address the immediate capacity issues in BSC on fast track basis. The program will not only strengthen the academia-industry linkage but will also enhance the BSC's brand image as a prospective employer of choice.

Support Services Management

The Engineering Department of BSC has completed various projects/ works valuing Rs.190 million, relating to construction, renovation, refurbishing, additions/ alterations and improvements in physical infrastructure of the buildings in use of SBP, SBP BSC and

NIBAF during the year under review viz; installation of 500 KVA, 750 KVA and 1000 KVA Generators at Sialkot, North Nazimabad Karachi and Lahore offices, replacement of aluminum wires in OCB Room and automatic switch panel of 11KVA Hyderabad and Faisalabad offices, construction of bins in main, exchange, coin, and prize bonds vaults Rawalpindi, Islamabad, Karachi and Bahawalpur offices, up-gradation of counters in Banking Hall and public accounts division and redesigning and installation of wooden cash counters with the facility to place the computers at Islamabad, Quetta and Bahawalpur offices and installation of new Digital telephone exchange at Quetta Office and Queue Management & Information Display System at banking hall and workstations at Karachi office

Installation of Access Control System at different locations, CCTV Cameras with all accessories including proper recording system at different areas/ examination halls of different field offices, besides up-gradation the existing Local Monitoring System through robust communication at SBP/ BSC offices. Besides, various security equipments including have been procured and provided to the different BSC offices. Training programs on reaction and response, use of weapons in emergency situation and on job training workshop through resource persons have been arranged for the security officials.

A total of 43,280 serving, eligible retired employees and their legitimate dependents including eligible dependents of deceased employees (viz; 14,804 of SBP, 11,585 of BSC HOK, Karachi & North Nazimabad offices and 16,891 of other field offices) were facilitated by the Banks Health Clinics across the country. Besides, the Aga Khan University Hospital and AKUH Maternity Home Karimabad have been enlisted on bank's panel along with all day care operations/ procedures. Health Screening Camps on BMI (Bone Mass Index), Random Blood Sugar, Blood Pressure Monitoring and Cholesterol Serum and Bone Mineral Density have been arranged in October and November, 2009 respectively for staff/ their family members as well as for Diabetes Mellitus, Dyslipedemia, Cardiomegaly, Fatty Liver, Hypertension, Renal Calculus and Hydronephrosis of serving employees above the age of 40 years has also been carried out. Twelve (12) updated lectures on recent advancement in the management of Type II Diabetes Mellitus, Bronchial Asthma, Hypertension, Rheumatoid Arthritis, etc were arranged by inviting renowned consultants from AKUH/ Liaqat National /Ziauddin Hospitals for Banks Doctors in order to update and enhance their clinical skills for conducting OPD effectively.

Bank's Press finished and delivered 1,465 print orders out of 1,495 and kept the cost of maintenance (including spares) below 1.4% of total inventory cost.

Training and Development

The success of change management process initiated in BSC few years back largely depends upon the availability of competent workforce equipped with the required skill-set and behavioral competencies to support the change initiatives. During the year 2009-10 the Training and Development Department (T&DD) in BSC primarily focused on arranging delivery of different courses in the areas of IT modules, technology up gradation, interpersonal skills and promoting the culture of efficient customer services. The satellite training initiative introduced by T&DD during the year has proved highly successful in

expanding the coverage of training activities especially in respect of soft-skill programs in a cost-effective manner. The soft-skills programs accounted for 58 percent of all training attended by the officers of BSC while the function specific training programs were about 22 percent followed closely (16 percent) by department specific capacity building initiatives.

Since OG-2 (including TOs) officers constitute the largest single group in total human resource in BSC, they were also the main recipient of T&DD's skill up-gradation initiatives during FY10 and accounted for 57.6 percent participation in all training programs. In terms of function specific and soft skills program, their participation was 55.7 percent and 60.4 percent respectively. Due to aggressively pursued training schedule, significant number of officers has been trained during the year for both function specific and soft skill modules. During FY10, overall participation in the training programs has been around 2,067 as compared to 1,986 in FY09.

The T&DD continued to provide best possible training opportunities to the BSC officers at premier training institutions during the year. A total of 151 officers attended different training programs (both function specific and soft-skills)/ seminars/ workshop being organized by Pakistan Institute of Management (PIM), Institute of Bankers Pakistan (IBP), ICAP etc during FY10. Moreover, the foreign training avenue has also been opened to the BSC officers for the first time during the year under review. Six officers have attended the foreign training programs/ conferences/ workshops/ seminars, while the training process for other four officers has already been initiated during the year.

The concept of offering 6-week structured summer/ winter paid internship program to be conducted annually at BSC field offices has been approved by the Board of BSC from the current financial year. Being the first year of paid internship program, T&DD adopted a cautious approach by advising the field offices to limit the number of interns in accordance with the availability of resource persons/ relevant expertise at each office. A total of 115 students from the renowned HEC accredited universities attended the internship program during FY10 at fourteen field offices.

The T&DD also developed and delivered a 4-Week Post-induction Residential Training Program for Cash Officers at NIBAF, Islamabad during the year with the active support of key functional departments and senior management of BSC. A 2-Week Hands-on Training was also given to these officers at Islamabad and Rawalpindi offices to provide them real time working experience before regular posting to BSC D.I. Khan and Muzaffarabad.

Further 12-Week Post-induction Residential Training Program for the first batch of OG-2 recruited under BSC's recruitment program i.e., "Young Professional Induction Program" (YPIP) was designed to equip the newly inducted officers with the desired set of knowledge and skill and inculcate behavioral competencies among them in line with the new change management initiative of BSC. This would eventually lay down the foundations for similar training programs in future.

The T&DD is also working to develop curriculum/ modules for imparting advance skills for each area of BSC activities to such officials who can ultimately become super users and members of Training of Trainers (TOT) group to incentivize the high performers as also to economize training by initiating training program at each office.