

## ***Executive Summary***

---

Management of the State Bank of Pakistan, Banking Services Corporation (SBP-BSC) continued its efforts to transform it into a professional corporate entity capable to fulfill its responsibilities and meet expectation of its stakeholder to carry its mandate in an effective manner. Given the size of the corporation, its geographical dispersion and variance of skill set of its human resources, a lot is yet to be achieved, for which the BSC initiated its change management process in 2007. In order to pursue the change management plans, the strategies mainly focused on strengthening currency management and banking operations, which constitute majority of work undertaken by BSC, consisting of units/division providing services in respect of saving instruments of NSS including prize bond, refinance operations etc., though improvement in HR policies that could provide a well defined career progression to the capable and deserving employee. Efforts are also underway to develop capacity in our employees to get maximum benefit of the system support both for executing transaction as also as a supervisory tool. The key initiatives taken and achievements made during FY11 are given in the following section;

### **Currency Management**

SBP-BSC through effective monitoring and supervision ensured the availability of currency in the country using the services and network of 16 field offices 224 branches of National Bank of Pakistan (NBP) and commercial banks. The increase in number of pieces of the banknotes, reduction in the work force over the years due to natural attrition and voluntarily early retirement under an ongoing incentives etc, have necessitated the use of technology in managing the currency operations. Therefore in the wake of changing priorities, focus at BSC during last few years have remained on improving efficiency of the existing system by strengthening system based controls as also introducing more robust internal controls for handling and processing of banknotes. The Currency Management Department (CMD) at SBP BSC Head Office Karachi continued to ensure that there are always enough good quality banknotes available to meet the public demand; maintaining clean banknotes in circulation under SBP Clean Note Policy (CNP). It has also employed effectively the tool of regulatory penalties on the banks that fail to meet the instructions and requirements of the CNP as also those relating to issuance of fresh notes. The department has also disseminated security features to general public, banks with a view to help them to eradicate the menace of counterfeit banknotes. It also coordinated with PSPC for arranging training courses on security feature of banknotes for the personal of law enforcement agencies, beside our own employees.

During the year under review, the SBP BSC brought several changes in the existing systems and procedures and issued new instructions, as also various new enquiries have been added in Management Information System and new reports were developed in Currency Globus in collaboration with Information Systems & Technology Department (ISTD) of SBP. These instructions have helped us to enhance efficiency and reduce redundancies.

During FY11 around 1,929 million pieces valuing Rs.380 billion were issued to banks, different government departments and other stakeholders through a uniform formula develop for each category of our stakeholders. Bulk of the above fresh bank notes

especially small denomination of banknotes amounting to Rs.95.3 billion were issued on the eve of Ramadan/ Eid-ul-Fitr of 2010. In pursuance of the CNP, the department also examined a total of 5,098 branches of commercial banks and check record pertaining to cash management through its treasury units at BSC offices during the year and a cumulative penalty of Rs.9.980 million was recovered from the scheduled banks against the violation of SBP BSC instructions. The department also effectively completed the distribution of Rs. 20/- Commemorative Coins issued on the occasions of Pak-China friendship by the name of “2011–The Year of Pak-China Friendship” and 150<sup>th</sup> Years Celebration of establishment of Lawrence College, Ghora Gali, Murree. It also coordinated with finance department of SBP to enable them to start demonetization process of issuable/ re-issuable Rs.5/- banknote and Rs.500/- old design banknote during the year.

Around 340 different types of cash handling machines have been introduced in the offices of SBP-BSC up to June 30, 2011 keeping in view the increasing trend in Currency in Circulation which requires modern equipments and technology to handle the demand for banknotes. A total of 150 programs with regard to awareness campaigns on security features and other aspects pertaining to the maintenance of the banknotes were arranged for the education of the general public, banks’ employees dealing with cash and members of law enforcement agencies by the BSC Offices during the year under review

### **Banking Services to the Government & Banks**

Being an operational arm of SBP, the BSC provides a range of banking and payment settlement services to the country’s financial system participants, Federal, Provincial and District Governments and their attached departments. The BSC caters to the banking and payments services needs of government agencies like Pakistan Railway, Military Departments and Central Directorate of National Savings on transactional basis. Besides, the BSC also oversees the operations of National Bank of Pakistan (NBP) operations for the governments’ treasuries including collection of different levies, expenditure payments and other banking facilities in the areas where BSC offices are not located.

During FY11, around 5.79 million transactions pertaining to government receipts/ payments were handled by BSC offices, while total collection of Zakat was remained at Rs. 3.6 billion. The tax revenue collected by the BSC offices and NBP branches across the country on behalf of the government and credited to the relevant accounts during the year was around Rs. 1,618 billion as compared to Rs. 1,364 billion last year showing a considerable rise of about 18.6 percent. The payments made by the offices of BSC on behalf of the governments grew from Rs. 54.7 billion last year to Rs. 76.6 billion in FY11.

E-facilitation center has been set up at SBP BSC during the year by the Federal Board of Revenue (FBR) after successful implementation of e-tax payment at NBP enabling the taxpayers to easily prepare their electronic tax payments. This would also help in maintaining better quality of tax payer’s data and issue the Computerized Payment Receipt (CPR) to the tax payers by the banks. After successful implementation of CAP-II system in the branches of NBP and BSC offices at Karachi, Lahore, Islamabad and Rawalpindi, efforts are underway to extend the project to the remaining BSC offices as well.

The BSC offices settled 1,185,706 cases of prize money payments during the year,

showing an increase of 11.31 percent, while the prizes of Rs.23 billion were paid, which was 21% higher than prize money paid during last year. The aggregate sale and encashment of National Prize Bonds stood at Rs.139 billion and Rs.98 billion during the year FY11. The total value of the prize bonds held by the public/investors as on June 30, 2011 was Rs. 276 billion as against Rs.235 billion as on end-June FY10. Similarly, 14,057 cases valuing Rs.18,049 million in respect of sale of SSC(R) and 8,015 cases valuing Rs.5,228 million for sale of DSCs were handled by BSC offices during the year under review.

The SBP BSC offices oversee the automated processing of financial instruments carried out by the National Institutional Facilitation Technologies (NIFT) through a country wide mechanism to process and settle the transactions between commercial banks. The automation of clearing operations has not only been extended to the cities where SBP BSC offices are located but some other major cities, small towns in surroundings of these cities are all availing clearing facility. Besides, NBP is also providing clearing and settlement services at all those places where neither BSC offices nor NIFT are present. During FY11, the total number of instruments cleared through NIFT was 72,179,730 as against 72,049,931 during the previous year. BSC also operates Real Time Gross Settlement RTGS, which is a critical part of infrastructure of the Pakistan's financial system and used for real time payments and settlements by participant's banks mainly scheduled banks. The monthly average value and volume of RTGS transaction in FY11 were Rs. 2,585.1 billion and 18,457.1, respectively.

### Foreign Exchange Operations & Adjudication

While the policies regarding exchange rate management are formulated by the Exchange Policy Department (EPD), SBP, the SBP-BSC handled the operational matters relating to Foreign Exchange through its Foreign Exchange Operations Department (FEOD) at Head Office Karachi and its Units across BSC offices. The responsibilities of FEOD beside implementation of different Federal Government schemes concerning exports enhancement include processing of export, import, private/commercial remittance cases submitted by Authorized Dealers (AD)<sup>1</sup> on behalf of their customers including major trade & industrial concerns and other government, semi-government and autonomous organizations; foreign exchange allocation of government and semi-government institutions (except for defense sector organizations and oil companies which are dealt with directly by the EPD-SBP), outward remittances to foreign consultants, advance payments against import of raw materials and spare parts. Cases related to frustrated cargo and re-import of exported goods with the purpose to re-export also comes under the domain of FEOD<sup>2</sup>. Moreover, FEOD also pursue the exporters through ADs for realization of export proceeds, failing which the complaint against them are lodged in the Foreign Exchange Adjudication Court after issuing show cause notices to the delinquent exporters.

During FY11, FEOD, as a part of its efforts to repatriate the export proceeds, issued 10,096 notices to the delinquent exporters and ADs, besides lodging 3818 complaints. Around 4,274 export overdue cases were got reconciled in the V-15<sup>3</sup> and V-16<sup>4</sup>

<sup>1</sup> Commercial Banks Branches authorized by SBP to deal in Foreign Exchange.

<sup>2</sup> Effective from July 1, 2011, a number of operational functions previously being undertaken by the EPD, SBP have been transferred to FEOD, SBP BSC

<sup>3</sup> Yearly Statement submitted by the ADs to FEOD containing details of export overdue cases.

statements during the year. The FEOD also verified 497,053 entries reported in EE-I/EF-I statements during FY11 to facilitate monitoring of utilization of EFS and fixation of new limits under Part-II of the scheme. During FY11, total of 115,776 cases for disbursement of monetary incentives under different schemes of the Federal Government relating to exports were processed and payments made their against.

The FEAD established under section 23B of FERA, 1947 serves as an adjudication forum to persuade the delinquent exporters to repatriate the overdue export proceeds. During FY11, the volume of complaints processed in Foreign Exchange Adjudication Department (FEAD) against the exporters/ banks who failed to repatriate export proceeds rose to 3,284 in FY11 as against 1,806 complaints received last year showing an increase of 82 percent. The FEAD was able to mange repatriation of export proceeds of around US\$ 37.5 million as against US\$ 29.3 million repatriated last year.

### **Development Finance Support Services**

The SBP BSC continued to provide its support to supplement the initiatives of Development Finance Group (DFG) SBP for the development of an inclusive financial system in the country through the platform of the Development Finance Support Department (DFSD) at BSC HOK and Development Finance Division (DFD) established in BSC offices.

During FY11, SBP BSC reviewed functions performed by DFSUs and Export Refinance Divisions (ERD) at BSC offices and merged them as a DFD with a view to create synergies therein and utilize the available human resources more efficiently. The newly created DFD has given the mandate to supervise the activities of four units viz; a) Access to Finance Unit (previously Development Finance Support Unit), b) Refinance Schemes Unit; c) On-site Verification Unit for undertaking verification of EFS cases; d) Support Functions<sup>5</sup>.

The DFSD and its field units undertook various Development Finance (DF) related activities/ initiatives during the year under review for dissemination of SBP and financial sector policies, promote awareness and collect grassroots feedback on SBP policies, schemes and initiatives. During FY11, 72 meetings of different Focus Group (21 on Agri-finance, 17 on SME-finance, 17 Microfinance, 12 on Islamic Banking, 5 on Joint Session of Agri/ SME & Microfinance) were arranged in BSC offices and number of issues, suggestion, recommendations put forth by the various stakeholders in these meeting were referred to respective DFG-SBP departments for seeking resolution, and policy guidance/ amendments thereof.

Similarly around 386 awareness and information dissemination activities have also been arranged/ participated across the country which include; awareness program on DF including meetings and on-site visits in connection with the implementation and monitoring of one window operations on agricultural financing under pilot project phase-III and Agri Credit disbursement target vs achievements of commercial banks. All these programs were organized in collaboration with the banks and other stakeholders and proved to be very effective in enhancing financial awareness of the target groups and achieving the targets of the banks under SBP different credit schemes specifically, for

---

<sup>4</sup> Monthly Statement submitted by the ADs to FEOD containing details of export overdue cases.

<sup>5</sup> PMD Circular: No. PMD (ODD-112)/24/2011, dated May 30, 2011

Agri; Credit Disbursement target Rs. 270 billion set for FY11 against which participating banks disbursed Rs. 263.02 billion or 97.4 percent.

The capacity building of the credit/ lending officers of commercial banks and financial institutions was the focused area of BSC during the year under review. Out of 48 training programs, 38 training sessions were arranged for them by the AFUs in their respective regions and more than 1,000 bank officers have been facilitated from these training programs. Besides, four programs for women entrepreneurs' at Lahore, Sukkur and Multan and six training sessions for the officers attached with AFUs were also arranged in order to enable them to improve their development finance related skills set.

### **Export Finance & other Refinance Schemes**

The DFD of BSC also facilitates SBP in implementation of its various financing schemes like; a) Export Finance Scheme (EFS) Part-I & Part-II; b) Islamic Export Refinance Scheme (IERS); c) Long Term Financing Facility (LTFF), d) Schemes for Modernization of Cotton Ginning Factories & Rice Husking Mills; e) Agri-loans Refinancing & Guarantee Scheme for KPK and FATA; f) Financing Scheme for Power Plants using Renewable Energy; and g) Financing Facility for Storage of Agricultural Produce.

During FY11, a total of 146,275 transactions relating to grant, repayment, remuneration (share of profit), fine and refund were executed by the BSC offices under EFS (Part I & II) and IERS as compared to 171,193 transactions executed during FY10. Similarly 14,794 transactions relating to grant, repayment, remuneration (share of profit) were executed under LTFF as against 10,022 transactions during the corresponding period. Moreover, a total of 8,942 cases amounting Rs.1,244 million under Export Finance Markup Rate Facility and 532 cases amounting to Rs. 330 million under Export Finance Mark up Rate Support for Textile Sector against Long Term Loans Schemes Facility were processed by the BSC offices during the period under review as compared to 1,186 cases amounting Rs.1,145 million and 572 cases amounting to Rs. 523 million during FY10 respectively. The aggregate amount of loans outstanding under different SBP refinance schemes slightly increased from Rs. 231,901 million as of 30<sup>th</sup> June 2010 to Rs. 238,301 million as on 30<sup>th</sup> June 2011.

During FY11, the DFD of BSC offices also conducted on-site verification of 14,181 export finance cases at 269 branches of commercial banks across the country to assess the compliance with the provisions of the SBP Export Finance & Islamic Export Refinance Schemes (Part I&II) both by the banks and the exporters and fine amounting to Rs. 9.2 million was recovered from banks/ exporters for violation of SBP instructions detected during the process. Twenty seven (27) consolidated (Bank-wise) on-site verification reports were prepared and forwarded to IH&SMEFD SBP during FY11.

### **Credit Guarantee Schemes of SBP - Implementation thereof.**

SBP in collaboration with UK Department for International Development (DFID) launched Microfinance Credit Guarantee Facility (MCGF) in December, 2008 with the funds to the extent of GBP 10 million provided by DFID and Credit Guarantee Scheme (CGS) for small and rural enterprises on March 19, 2010 with a view to share credit risk with the banks for provision of funds to these priority sectors. Under MCGF ten guarantees have so far been issued with the exposure of Rs. 805 million against the total sanctioned amount of Rs. 2,825 million by the DFSD to commercial banks for varying

maturities ranging from 1 to 5 years. The limits under the CGS for SMEs have been allocated to 11 banks, of which only 5 banks have so far used the facility before revision. Initially the CGS was underutilized; however its utilization gained momentum after its revision in February, 2011. Before revision of the scheme, guarantee cover issued was of around Rs. 67.8 million in three months while after revision guarantees amounting Rs. 257 million were issued in first four months of 2011 showing a growth of almost 4 times.

During FY11, five workshops and one awareness session on SBP Credit Guarantee Schemes have been arranged by the AFUs in collaboration with DFSD, HOK and IH&SMEFD SBP, at BSC offices i.e., Hyderabad, Multan, Peshawar, Rawalpindi Sukkur and Faisalabad and around 345 officers from the commercial banks and other stakeholders have attended these events.

### **Human Resources Management**

The Personal Management Department (PMD) of SBP BSC has been continuously striving for taking different HR initiatives in line with the management's vision to transform BSC as a vibrant and efficient organization. For the purpose it has been striving for development of HR policies that are sustainable, capable of improving the efficiency of the employees so as to optimize the HR utilization.

In an effort to build internal capacity of BSC, the first batch of 59 management trainees under Young Professionals Induction Program (YPIP) was inducted in the Bank on completion of necessary training during the year. These officers are making a visible impact in raising the performance bar and bringing about the intended cultural change in BSC.

During FY11, two policies one on 'policy for protection of employees against workplace harassment to comply with the 'Protection against Harassment of Women at Workplace Act, 2010' and other on 'Grievance Handling Policy' in SBP BSC were introduced. These policies aimed at providing more secure and comfortable working environment to BSC employees in general and female employee in particular for timely redressal of grievances through proper communication and counseling of aggrieved employees. Similarly, a number of awareness sessions on the said policy papers have also been arranged at HOK and major field offices for the understanding of these policies.

As a result of promotion process under the new promotion policy, initiated during FY11, a total of 414 employees with 234 in officers' cadre and 180 in clerical/ non-clerical cadre respectively were promoted to the next higher grades which greatly helped to deal with the pressing issue of filling up gap at mid-to-senior level positions. A policy for career development of Treasury Officers (TOs) and Assistant Treasury Officers (ATOs) working in cash side has also been introduced by transferring their services to general side through a competitive process. Besides, promotions in other cadres including cash and technical side were also made during the year.

The existing performance management system has been reviewed during the year with a view to make it more appropriate to the needs and priorities of BSC. Towards this end, a bell curve process was applied on those employees including the unionized staff previously being rated in old performance evaluation report system. A separate bell curve clusters have also been introduced under PMS to distinguish the performance of technical and general side employees. The scope of appeals process against performance

appraisal ratings was further extended to the employees, assessed under PER system including the unionized staff, which helped the management to review the current practices & policy issues and take remedial measures there against.

Besides increasing the pension of SBP-BSC employees retired/ expired up to June 30, 2010 by 20 percent with effect from July 01, 2011, improvement were also made in the retirement benefits by giving an option of 100% commutation of gross pension as full and final settlement of pensionary benefits to the BSC employees at the time of their retirement under the existing schemes of the bank. Based on the good industrial relations between management and Collective Bargaining Agent number of improvements have been made in the benefits and facilities available to unionized staff which includes; increase in limit of staff loan from 60 to 66 monetized salaries; reduction in debt servicing limit to 40% from 50% of mandatory take home salary after all compulsory deductions and increase in the rate of promotion increment, winter/ education allowance etc. New Gratuity and Contributory Provident Fund Scheme based on defined contribution system, with a view to expedite the processing of appeals against disciplinary actions taken by the management the bank has approved the delegation in appellate authority. Reduction of notice period for relieving from Bank's service has also been made in SBP-BSC Staff Regulations.

Moreover, necessary facilitation was also provided to SBP for smooth and successful transfer of support functions of the departments at SBP like BSSD, certain divisions of EPD and ISTD to BSC along with their manpower strength during 2010-11.

### **Training and Skill Development**

SBP BSC continued to focus on building organizational capacity through skill enhancement of its employees by aligning training needs of employees with the needs of the organization during the year under review. Training and Development Department (T&DD) is committed to enhance the skills set of its employees with a view to build cross functional capabilities, keeping in view the recent restructuring, promotions and deputations of SBP officers to BSC. The strategy was achieved through function specific training programs to bridge skill gaps and participation of employees in training programs on soft skill and shared behavior to improve their interpersonal skill and service standard.

During FY11, a total of 1,667 officers were trained under soft skills and function specific programs. The T&DD also managed successful training of 59 officers recruited under Young Professional Induction Program (YPIP). T&DD also managed nomination of employees for training programs arrange by Pakistan Institute of Management, Institute of Bankers Pakistan. The department developed and tested Post Training Evaluation Questionnaire which would be instrumental to evaluate varied training aspects like; the trainee, trainer, course material/ contents, future training needs etc. The department has also drafted TORs for an organization wide Training Need Assessment to measure the training needs of HR and design courses to develop the employees in the identified areas.

### **Internal Audit & Control**

Internal audit practices in SBP BSC is an on-going monitoring exercise which provide the management an independent assessment of the operations, level of compliance to the instructions, procedures meant for the same. The IAD also helps in bringing a

systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

During FY11, three financial and operational audit teams carried out audit of few departments at HOK and 16 BSC offices of BSC. The Information Technology (IT) Audit team also conducted audit of IT System at 15 field offices. During the process, IT Audit primarily focused on evaluating the core banking solution in Globus and Oracle ERP for non implementation or weaknesses in internal controls. IT audit team also reviewed and evaluated physical IT infrastructure for environmental and physical controls and Business Continuity Planning (BCP) for adequacy from both IT and business perspective. Moreover Audit Hubs also conducted 60 country-wide audit drills of BSC offices as per monthly audit programs and raised around 1,184 observations.

During the year under review as many as 50 internal auditors were trained in different areas of BSC operations at local level while, two officials of the department were acquired foreign training on internal auditing.

### **Quality Assurance**

The Quality Assurance Department (QAD) at SBP BSC was set up with a view to envisage provision of quality driven services by the Bank to its stakeholders. The department would continue to realign them with the changes in the overall spectrum of BSC activities.

Updating the manual of office procedures was the first project undertaken by the department to simplify and identify redundancies and duplications in earlier Manual of Office Procedure (MOP) for Central Directorate-1969. The same was revisited and updated by emphasizing on process improvement in collaboration with PMD. The department in collaboration of CMD and Karachi office compiled a short handbook of National Saving Schemes (NSS) viz; Special Saving Certificate (SSC)/ Defence Saving Certificate (DSC) working procedures in line with the context of existing procedures, National Savings Handbook Volume-1 & 2, NSS-Checklists and other relevant notifications for convenience of users. Both documents are being reviewed by the concerned department before they are put to operation

### **Support Services Management**

As envisaged in SBP BSC Ordinance it is mandatory for BSC to provide congenial workplace environment, ensures security of human & other assets of the bank, quality of work life and quality publication through Engineering and Internal Bank Security Departments, Bank's Health Clinics and Printing Press to SBP and its subsidiaries i.e., SBP BSC and NIBAF.

During FY11, number of projects with regards to establishment and maintenance of physical infrastructures including utilities and ensuring security of the assets of the bank includes; construction, renovation/ refurbishing, installation of security equipments/ technical facilities etc in SBP Main Building, SBP BSC HOK and BSC offices located at different part of the country. In addition, formulation of Standard Operating Procedures for smooth, transparent and uniform treatment to all serving/ retired employees, awareness/ updated lectures/ sessions by renowned consultants from leading hospitals, inclusion of 80 new medicines/ new salts in medical formulary, health screening of 131 employees (40 years and above) of SBP were the key projects undertaken during the year

in the areas of improvement in health care facilities. Moreover, out of 763 print orders, 748 were completed and delivered by the printing press to the relevant quarters during the year under review.

\*\*\*\*\*