Annual Performance Review

2014 - 15

SBP Banking Services Corporation

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Vision

To develop SBP-BSC into a dynamic and efficient organization equipped with requisite technology and human resource capable of extending sustainable support to the State Bank of Pakistan in achieving its objectives.

Mission

To provide excellent banking and financial services to stakeholders besides ensuring implementation of SBP policies in order to command their trust and respect.

Message from Governor, SBP – Chairman, Board of Directors of SBP BSC

SBP Banking Services Corporation was created under an Ordinance in 2001 as an operational arm of the State Bank of Pakistan, but its governance structure remained under close supervision of SBP. However, I strongly believe that there should be a balance between independence of a subsidiary, based on its operational and functional responsibilities, and supervision by the parent company. Accordingly, I have made concerted efforts to enrich SBP BSC's governance framework through independent Board meetings with exclusive focus on improvement of policy framework and systems, suited to its requirements, thereby allowing enhanced operational efficiency to the subsidiary. Moreover, the meetings of Corporate Management Team (CMT) are being held on a regular basis, which provide a principal forum in critical policy formulation and resolution of operational issues of both SBP and SBP BSC. We have also started to inculcate a system of professional decision making, transparency and accountability in both the organizations through effective delegation of responsibilities and clearly defined limits of authority at all levels. This system will further strengthen the motivation and commitment of the employees for achieving our overall strategic goals.

I am happy to note that during the year under review, SBP BSC has been able to develop a framework of critical policies that include Promotion Policy, Training and Development Policy, Higher Education Policy, Professional Development Incentives, Contractual Employees Hiring Policy and Absorption Policy along with amendments in the existing Deputation Policy. Further, management of SBP BSC steered the promotion process across the organization in a smooth and transparent manner that provided career development opportunities to its officers and staff. Moreover, continued emphasis on automation, particularly in General Banking, Currency and Exchange Management through use of technological innovations, has further strengthened these areas of operation.

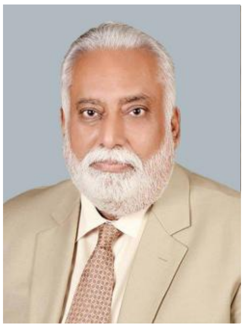
I am pleased that SBP BSC, in addition to its core responsibilities, has been complementing the efforts of SBP for broadening and deepening of the financial system. However, this is just a beginning in the right direction. The Managing Director (MD) SBP BSC and his team should continue to make concerted efforts to build upon the good work and raise the bar further so as to meet the expectations of all the stakeholders. As part of its initiatives, SBP BSC should adopt critical plans to strengthen Human Resource (HR) base, improve motivation and enhance efficiencies through rationalization of HR capital. I am of the view that with these initiatives, the subsidiary would be able to carry out its functions with new zeal, commitment and optimum efficiency.

With the recent launch of SBP's Strategic Vision 2020, SBP BSC would need to remain continuously engaged towards alignment of its services with SBP's strategic goals and tactical objectives. I expect that the strategic planning exercise of SBP BSC would deliver positive results. The new Strategic Plan is likely to help the management to develop a road map with clear milestones and bring about more clarity on SBP BSC's future role, so as to expand its mandate in line with SBP's strategic goals.

I would like to express my gratitude to SBP BSC's Board of Directors for the support and cooperation in further aligning the role of SBP BSC as per its mandate. While appreciating the efforts of the management and staff of SBP BSC, I would urge upon all of them to make best endeavors towards achieving common goals of SBP and SBP BSC.

ASHRAF MAHMOOD WATHRA
Governor, SBP
Chairman, Board of Directors of SBP BSC

Message from Managing Director, SBP Banking Services Corporation



It gives me immense pleasure to present the Annual Performance Review (APR) of SBP Banking Services Corporation for the financial year 2014-15. I feel happy to share with the readers an overview of significant progress made by the management in transforming SBP BSC into an apex organization, which has grown overtime in terms of business volume and diversification of operations. Despite reduction in human resources, largely due to early retirements, the employees of SBP BSC have successfully enhanced the efficiency of business functions through a structured regime of business process re-engineering and strengthening of skill set of its workforce.

SBP BSC performs a host of functions on behalf of SBP. One of the core functions of SBP BSC is to maintain accounts of Federal/Provincial/ Local Governments and their attached departments and also consolidates the receipts and payments made on their behalf. Approximately 7.06 million transactions were processed during FY15 as against 6.27 million in FY14. As part of our strategy to carry out business process reengineering, Information Technology (IT) based solutions were developed to help improve lead time in reporting of transactions to Federal/Provincial/Local Governments. Similarly, mechanism for sharing of information about collection of tax revenues was made more effective and efficient through regular reporting to Federal Board of Revenue (FBR). An exercise has also been undertaken for reporting of quantum of Zakat deposited by banks with the offices of SBP BSC for timely reporting to relevant ministry of Federal Government. Moreover, efforts were made to switch from manual issuance of cheques by governments towards e-banking in line with international best practices. However, this initiative is likely to take considerable time for its full realization due to the varying degree of automation at our major stakeholders representing Federal, Provincial and District Governments and their attached departments.

The Currency Management Department (CMD) has carried out major initiatives towards mechanization of currency management operations and rationalization of its procedures. These measures will not only carry long-term strategic implications for transformation of our currency management system, but also help towards its alignment with international best practices. SBP BSC is procuring Bank Notes Processing & Authentication System (BPAS) machines, equipped with capabilities of authentication, counterfeit detection, packets and bundle binding, on line shredding and high speed desktop currency sorters, which will lead to smooth and equitable issuance of fresh currency notes as well as in implementation of SBP's Clean Note Policy. In close co-ordination with Finance Department of SBP, we also took a lead in development of currency management vision for the country, which was presented in the currency conference held at Lahore in February, 2015. A joint team comprising officials from SBP and SBP BSC have prepared and disseminated an Action Plan.

With a view to facilitating the general public in getting fresh currency notes of small denominations in a reasonable quantity on the eve of Eid-ul-Fitr, an SMS based service was introduced and tested in June 2015. This service, which was available during the holy month of Ramazan, has been widely appreciated by all stakeholders and we plan to adopt it as a regular feature after one or two additional test runs.

An important project for automation of E-form issuance has been initiated by our Foreign Exchange Operations Department (FEOD), in close coordination with Exchange Policy Department (EPD) of SBP and Pakistan Customs. Under this project, banks will certify E-forms electronically using Web Based One Customs (WEBOC) system of Pakistan Customs. This project, which has been fully rolled out, will eventually mitigate the risk of irregularities in issuance of E-forms and track status of each E-form on a real time basis. This migration from manual towards automated system of E-form issuance will help reduce paperwork and make procedures more efficient and error free. Moreover, this development process entails extensive interaction with internal and external stakeholders to create synergies, improve our system and minimize the risk of fraudulent use of trade transactions. Another major initiative that has been undertaken relates to the revision of Foreign Exchange Manual (FEM), which is being done in close cooperation and guidance of EPD. This will allow us to synchronize various instructions, relating to foreign exchange, with international trade practices.

The Foreign Exchange Adjudication Department (FEAD) continued to make endeavors to bring stuck up export proceeds from abroad through exercise of powers vested in it under Section 23B of the Foreign Exchange Regulation Act (FERA)-1947, besides taking up complaints of FEOD against Authorized Dealers (ADs) for violation of FERA, specially their failure to provide requisite information for pre-adjudication formalities. FEAD also held judicial training for its officers as it is a quasi court department. However, a lot of work still remains to be done to make this function more vibrant, effective and efficient.

In addition, we also continued to provide operational support to Development Finance Group (DFG) of SBP in developing policy regime for an inclusive financial system in the country and its dissemination at grass root level. During the year under review, focus remained towards enhanced support to banks in disbursement/facilitation of agricultural credit under the "Regional Internship Program for Agri-Graduates". We also continued to play our supportive role towards promotion of housing finance. Our Development Finance Support Department (DFSD) and its units in Field Offices continued to convene meetings of different stakeholders, organize seminars, conferences and develop linkages with academia for dissemination of policies and actions of DFG relating to financial inclusion.

With a view to achieving our objectives, few critical initiatives have been adopted to strengthen the existing Human Resource (HR) base, improve level of employees' motivation and allow effective utilization of HR on an organization-wide basis. These include: workforce rationalization, manpower resourcing at entry, middle and senior positions, provision of career development opportunities through promotions, rotations and credible succession planning, strengthening of Performance Management System (PMS), capacity development both at national and international institutions and major HR Policy interventions. SBP BSC has successfully inducted 309 talented officers through a transparent and competitive process. Moreover, a significant number of employees, both in officers and clerical/non-clerical cadres, were promoted through a competitive process. Various policies/Standard Operating Procedures (SOPs) are being implemented as part of continuous development plan. The major policies, which were improved during the year under review, included Promotion Policy, Higher Education Policy coupled with Professional Development Incentive Plan, Deputation Policy, Contract Employment Policy, Absorption Policy and Training and Development Policy.

The departments, which are providing common services to both SBP and SBP BSC brought about improvements in their respective areas. The role of General Services Department (GSD) has increased after establishment of Travel Helpdesk for facilitation of employees in travel arrangements through one window operation. Moreover, internal controls in our medical services have been further strengthened with the introduction of Photo ID Cards for active and retired employees. With a view to protecting the organizational interests, the process for determination of medical fitness, in case of fresh induction, is also being revised. On the engineering front, emphasis remained on efficient use of resources. Accordingly, to reduce fuel consumption and provide continuous back-up supply to IT systems, new power generating units were procured and commissioned at Sukkur, Faisalabad, Peshawar and Lahore offices. Further, to reduce dependence on natural gas, Balancing, Modernization and Replacement (BMR) of heat ventilation and air conditioning system has been initiated at NIBAF, Islamabad and Peshawar Office. These efforts are in addition to the work relating to up keep of the existing physical infrastructure, securing our open plots, initiatives to improve/renovate existing buildings and undertake plan to add/improve more residential facilities for new recruits, both male and female. Plans are also underway to start designing phase of our new buildings at Gujranwala, D.I. Khan, Islamabad and new office complex at Karachi. The Engineering Department has completed major construction work of cricket stadium of SBP at our North Nazimabad Office. Security arrangements have been beefed up through installation of modern security equipment, imparting training to security staff and increased coordination with Law Enforcement Agencies (LEAs).

During the year under review, the training facilities at NIBAF were fully utilized to accommodate training needs of SBP BSC's staff and officers. Efforts were geared up to develop an e-learning portal to economize provision of training at grass root level. The new system is likely to be uploaded on intranet/SBP web during the first quarter of next financial year (FY16). Apart from sending our officials to training courses at best national institutions, they were also sent abroad, to seek orientation, training at various international symposia, workshops and central banks of friendly countries, which have helped the BSC in revamping its various operations.

SBP BSC takes pride in promoting sports activities such as cricket, football, table tennis and badminton. SBP's contribution for the promotion of cricket in the country has been widely recognized as performance of its team is being very much appreciated at national level. A particularly appreciated initiative includes the development of a sports complex for cricket and hockey at North Nazimabad, Karachi. SBP BSC would soon start women cricket activities as well.

Going forward, we are committed to pursuing a strategy to bring about improvement not only in our core and support business functions, but also in our climate, environment and culture to transform SBP BSC into a dynamic organization. We have also kick started the process for formulation of a five-year Strategic Plan (2016-2020) for SBP BSC and it is expected that a consultant will be on board during the new financial year for steering the strategic planning process. Further, to ensure best realization of synergies, continuation of effective liaison between SBP and SBP BSC, co-ordination mechanism between shared functions, will be further beefed up and reinforced. On HR front, we are going to conduct a comprehensive workload analysis to determine the ideal future head count in all our business functions, keeping in view the probable techno-structural interventions. This will enable us to effectively plan and implement talent resourcing, development and structured succession arrangements against all leadership positions in SBP BSC, in line with our strategic priorities.

I take this opportunity to express my gratitude to SBP Governor, Chairman and members of the Board of SBP BSC for their continued support, cooperation and guidance which enabled the organization to reach new heights. I am also grateful to my team comprising Directors, Chief Managers and SBP BSC employees for their ownership, determination, teamwork and commitment in achieving the organization's strategic objectives and accomplishing the responsibilities assigned to it by SBP in an effective and efficient manner.

QASIM NAWAZ
Managing Director
SBP Banking Services Corporation

Governance Structure of SBP Banking Services Corporation

SBP Banking Services Corporation (SBP BSC) was established as a wholly-owned subsidiary of State Bank of Pakistan, under the SBP Banking Services Corporation Ordinance 2001.

As an operational arm of the Central Bank, SBP BSC is engaged in managing currency and foreign exchange operations, providing banking services to Federal and Provincial Governments, financial institutions and general public. It is also conducting development finance activities in support of Development Finance Group (DFG) of SBP, implementing export refinance schemes and performing agency functions like sale/purchase of prize bonds including managing prize money draws. SBP BSC also handles sale/purchase of instruments of National Savings Schemes (NSS) or any other functions assigned to it by the SBP.

Board of Directors

According to the Ordinance, general superintendence, direction and management of the affairs and business of SBP BSC and overall policy making in respect of its operations is vested in the Board of Directors. The Board may exercise all such powers and perform all such acts and deeds that may be exercised or done by SBP BSC. In discharging its functions, the Board ensures compliance of the orders and directions that may be issued by SBP from time to time.

The Board of Directors of SBP BSC is comprised of:

a) Members of the Central Board of Directors of SBP; and
b) Managing Director, SBP BSC.

The members of Central Board of Directors of State Bank of Pakistan comprise SBP Governor, Finance Secretary and eight Independent non-executive Directors nominated by the Federal Government. SBP Governor acts as the Chairman of the Board. The Directors, at least one from each province, are appointed by the Federal Government. They are eminent professionals from the field of economics, finance, banking and accountancy. Managing Director (MD) is appointed by SBP as mandated by the SBP BSC Ordinance 2001. During the year under review, Mr. Shahid Ahmed Khan resigned from SBP and SBP BSC's Boards, whereas Mirza Qamar Beg completed his second term as Director on May 25, 2015.

The Board of SBP BSC met three times during FY15 and the decisions taken by it included the approval of financial statements of SBP BSC, annual budget and HR policies etc.

Board of Directors[1]

Mr. Ashraf Mahmood Wathra, Governor/Chairman

Governor and Chairman since April 29, 2014, Mr. Wathra brings 35 years of commercial and investment banking experience to the Bank. He has worked in eight regulatory regimes in South East and Far East Asia including Singapore, Hong Kong and Australia. He has also served on the Board of Directors of several financial institutions.

Dr. Waqar Masood Khan (Director since April 16, 2013)
Secretary, Finance Division, Government of Pakistan and ex-officio member of the Board of Directors of SBP and SBP BSC, Dr. Waqar has also served as Special Secretary to the Prime Minister, Secretary, Economic Affairs Division and Additional Secretary, Prime Minister's Secretariat.

Mr. M. Nawaz Tiwana (Director since February 26, 2013)
Former Managing Director, Pakistan International Airlines, Mr. Tiwana has a vast experience of serving on the Board of Directors of leading organizations as well as holding key positions in public and private enterprises. He is also Fellow of Chartered Institute of Transport, UK, Royal Aeronautical Society, UK and has been the Chairman of Chartered Institute of Logistics and Transport, Pakistan.

Khawaja Iqbal Hassan (Director since February 26, 2013)
A seasoned banker, who established a commercial bank and a leading investment banking firm, Mr. Hassan is serving on the Board of Directors of prominent public and private enterprises. He has also served on many Task Forces established by the Government of Pakistan. He was awarded Sitara-i-Imtiaz for his meritorious contributions towards national interest.

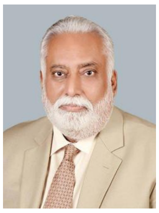
Mr. Mehmood Mandviwalla (Director since February 26, 2013)
Founding and Senior Partner of the law firm, Mandviwalla & Zafar, Mr. Mandviwalla has professional experience of over 30 years. He has contributed in drafting various statutes and regulatory frameworks of the country. Mr. Mandviwalla is also the founder member of South Asian Association for Regional Cooperation (SAARC) LAW and is currently serving as a member of its Executive Council.

[1] Position as on June 30, 2015.

Mr. Iskander Mohammed Khan (Director since February 26, 2013)
Director of Premier Group of Companies, Mr. Iskander has served as Chairman of several industrial bodies and was twice elected as Chairman of Pakistan Sugar Mills Association. He has also served on the Board of Directors of Pakistan State Oil, Oil & Gas Development Company, Zarai Taraqiati Bank and Islamabad Stock Exchange.

Mr. Muhammad Hidayatullah (Director since March 15, 2013)
A Chartered Accountant by profession and a Senior Partner of M. Hidayatullah & Company (MHCO), Mr. Hidayatullah has extensive experience of 35 years in providing consultancy services for privatization, disinvestment, merger and acquisition of top-notch public and private sector institutions involving local and overseas clientele.

Mr. Zafar Masud (Director since March 16, 2013)
Director and Co-founder of Burj Capital, a leading private equity firm, Mr. Masud has served at senior level positions with international financial institutions in their local and international operations as well as on their key management committees. Presently, he is on the Board of Directors of leading public sector organizations.



Mr. Qasim Nawaz (Managing Director SBP BSC)
Joining the State Bank in 1988, Mr. Qasim Nawaz is a business graduate from the Quaid-i-Azam University, Islamabad. During his over 27 years of association with the Bank, he served in various responsible capacities and contributed towards the development of banking policies, supervision of banking system, financial inclusion and promotion of industries. Mr. Qasim Nawaz, who is serving Managing Director (MD) SBP BSC since 2014, is also a member of the Board of National Institute of Banking and Finance (NIBAF) as SBP's nominee. He has also served SBP BSC as its MD from 5th September, 2009 to 17th September, 2012.

Committees of the Board of SBP BSC

The SBP BSC Ordinance 2001 allows the subsidiary to set up committees consisting of an adequate number of directors, having specific Terms of Reference (ToRs), which outlines powers, functions, duties and other terms of appointment of such committees as it may determine. The designated committees independently deal with matters entrusted to them by the Board.

Presently, there are two committees of the Board, which look after the matters relating to Human Resources (HR) and Audit. The details of these committees are as under:

A. *Committee of SBP BSC Board on HR*

This committee assists the Board in human resources area. It reviews all the proposals requiring approval of the Board regarding revision, modification or interpretation of HR policies and submits its recommendations to the Board. During the year under review, the committee held six meetings and has the following composition:

1.	Mr. Mehmood Mandviwalla	Chairman
2.	Mr. M. Nawaz Tiwana	Member
3.	Mr. Zafar Masud	Member
4.	Managing Director, SBP BSC	Member

B. *Committee of SBP BSC Board on Audit*

The committee assists the Board on issues related to audit and reviews audit proposals required to be submitted to the Board. During the year under review, the committee held six meetings and is comprised of the following members:

1.	Mr. Muhammad Hidayatullah	Chairman
2.	Khawaja Iqbal Hassan	Member
3.	Mr. Iskander M. Khan	Member

Management Structure

The Managing Director (MD) is the Chief Executive Officer of SBP BSC and manages the business and operations of SBP BSC on behalf of the Board of Directors as per powers vested in him by the Board. The MD is being assisted by a team of Directors/Heads of Department and Chief Managers.

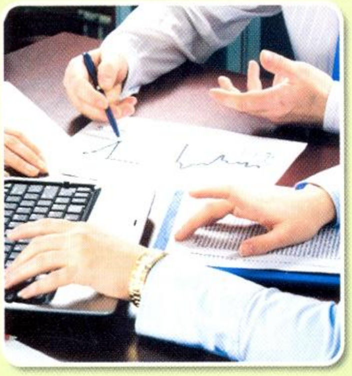
Heads of Department (HoDs) Forum

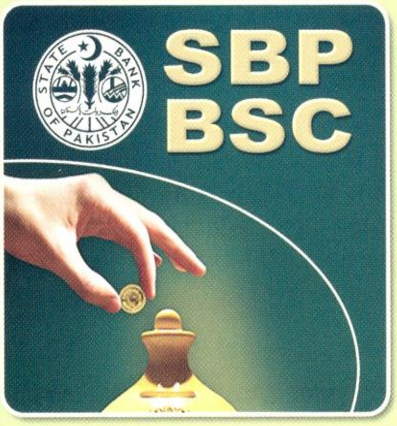
The forum, which consists of Directors/Heads of Department of SBP BSC, is responsible to set the operational policy parameters that help the BSC in achieving the strategic direction as set by its Board. The forum also deliberates upon various policies for the approval of the Board as well as monitors the progress of decisions taken by the Board/Management to ensure compliance of goals and objectives of SBP BSC.

Chief Managers (CMs) Conference

The forum, which consists of Chief Managers of SBP BSC's Field Offices situated in 16 major cities of Pakistan, mainly discusses the operational areas of the subsidiary and suggests measures to bring about improvement in them for approval of the higher management.

Banking Services to Government and Banks





1 Banking Services to Governments and Banks

As a statutory obligation on behalf of SBP, the SBP BSC carries out the operational work relating to Governments' banking business through its 16 Field Offices and a wide network of National Bank of Pakistan (NBP) branches all over the country. In addition, the Accounts Department prepares and monitors annual accounts of SBP BSC.

1.1 Overview

SBP BSC, under Section 21 of SBP Act 1956 read with Section 15 (3) e of SBP BSC Ordinance 2001, provides various types of banking services to the Federal, Provincial and District Governments through its 16 Field Offices all over the country **(Box 1.1).**

Box 1.1: Services Provided to the Governments, Banks and NBFIs

a) Collection of revenues and payments on behalf of Government Departments.
b) Reporting of transactions to Federal Board of Revenue (FBR) through online network, on daily basis, under Collection Automation Program (CAP).
c) Facilitating Government Departments for settlement of payments and receipts through National Bank of Pakistan (NBP) as an agent of SBP.
d) Operational work relating to public debt transactions.
e) Maintenance of current accounts of Commercial Banks.
f) Remittance facilities to the Governments and financial institutions for transfer of funds.

1.2 Management of Governments' Accounts

As a part of its core functions, SBP BSC maintains the accounts of Federal/Provincial /Local Governments and is responsible for the consolidation of receipts and payments made on their behalf. Data pertaining to Governments' transactions is reported to the stakeholders (i.e. Accountant General of Provinces, Accountant General Pakistan Revenue and Pakistan Railways etc.). The position of balances, on a daily basis, is also provided to the Finance Department of SBP for onward submission to the stakeholders.

Being an operational arm of SBP and facilitator of payment and settlement system, SBP BSC provides operational support to Payment System Department (PSD) of SBP. SBP BSC is working, in collaboration with PSD, on a significant project of collecting Governments' taxes through Alternate Delivery Channels (ADCs) like Automated Teller Machines (ATMs) and Mobile Banking etc.

During FY15, around 7.06 million transactions of government payments/receipts were processed by SBP BSC Field Offices compared to 6.27 million in FY14, showing a 12% rise **(Table 1.1)**.

Table 1.1: Government Receipts / Payments Transactions (million Rupee)

Transactions	2013-14	2014-15
Receipts	2.26	2.97
Payments	4.01	4.09
Total	6.27	7.06

1.3 Reporting of Zakat Balances

Consolidation, maintenance and reporting of Zakat account is one of the important functions of SBP BSC. During the year under review, around Rs 5.75 billion Zakat was collected and deposited with SBP BSC by various institutions as compared to Rs 4.82 billion last year.

1.4 Reporting of Federal Board of Revenue Transactions

One of the vital tasks performed by SBP BSC is collection, consolidation and reporting of FBR taxes. In order to streamline the reporting of tax collected by the Field Offices of SBP BSC as well as to facilitate the tax payers in obtaining evidence of tax deposit promptly, SBP BSC is using Collection Automation Project II (CAP-II)-a system of FBR since 2011- which has largely ensured reporting of tax collection to FBR on real time basis.

The tax revenue collected by SBP BSC offices and the network of NBP branches on behalf of the Federal Government and credited to the relevant accounts during FY15 was around Rs 2,636.9 billion as compared to Rs 2,305.1 billion in FY14 as detailed in **Table 1.2**.

Table 1.2: **FBR collection**
(million Rupee)

Head of Account	Receipts			Payments		
	FY13	FY14	FY15	FY13	FY14	FY15
Sales Tax	849,880	1,010,756	1,113,551	29,025	32,028	43,294
Federal Excise	131,428	150,688	165,151	532	323	369
Customs	245,350	263,347	334,594	10,462	9,845	9,569
Income Tax	747,297	880,361	1,023,605	21,151	24,486	15,107
Total	1,973,955	2,305,152	2,636,901	61,170	66,682	68,339

Note: The totals may exhibit slight difference due to separate rounding off.

1.5 Clearing Services

SBP BSC supports SBP in carrying out the supervision of automated clearing services provided by National Institutional Facilitation Technologies (NIFT) in order to process and settle transactions between commercial banks across the country. During FY15, total number of instruments cleared through NIFT was 78.3 million as compared to 78 million in FY14.

1.6 GL/Reconciliation

Accounts Department is also responsible for the accounting and financial functions, including preparation and monitoring of SBP BSC budget. In this regard, the first International Financial Reporting System (IFRS) compliant financial statements along with Statement of Affairs were issued for FY14 during the year under review. In pursuit of implementing best accounting practices at par with international standards, the department developed risk registers to strengthen internal controls and also strived to strengthen the skill set of its workforce to do in-house analysis of different accounting functions. A number of analysis of different financial transactions and their nature were done during the year including the most notable analysis of a 5-year projection of SBP BSC's HR costs for onward submission to the Audit Committee of SBP BSC Board.

Major achievements in this area are mentioned below.

Box 1.2: Major Achievements

1. Interface has been developed between CAP – II and our core banking software Globus, resulting in elimination of duplication of data entry and optimizing HR.
2. Cheques received for Government collection drawn on banks located in other cities are being cleared by local branches through online access, leading to timely credit of Government revenue and timely Close of Business at offices.
3. “E Stamping” has been introduced in Government receipts so as to further strengthen internal control and improve efficiency level/turnaround time in reporting of money deposited in all Field Offices of SBP BSC.
4. Manual printing of bank statements has been abolished. Banks have been given access to extract statements of current accounts centrally through Data Acquisition Portal (DAP).
5. As per best practices established worldwide, SBP BSC has initiated the process to pursue Government to switch from manual issuance of cheques to e-banking/electronic fund transfer. For this purpose, letters have already been issued to all AGs/AGPR offices and Ministry of Finance. However, progress on this account is primarily dependent upon the response by the external stakeholders i.e. Government and their associated Ministries/Departments.
6. Through constant follow-up and monitoring, outstanding Receivable / Payable entries were brought to a minimum level.
7. Detailed and comprehensive Guidelines on Budgeting were issued in order to explain the budgeting process and standardizing the approaches to budgeting across SBP BSC.
8. For the first time, actuarial report was developed in compliance with International Accounting Standard (IAS-19).

Currency Management

2 Currency Management

Currency management primarily entails ensuring the uninterrupted supply of good quality bank notes and coins across the country and managing their stocks with the help of 16 SBP BSC Field Offices including four Issue Offices supervised by the Currency Management Department (CMD). CMD also manages the sales, encashment and prize draws of National Prize Bonds on behalf of the Central Directorate of National Savings (CDNS) and closely liaison with Pakistan Security Printing Corporation (PSPC) for their printing. Taking stock of the latest developments and international best practices regarding currency processing, the CMD has been striving to upgrade the currency operations in Pakistan through introduction of a comprehensive and state-of-the-art solutions commensurate with our environment and challenges.

2.1 Overview

Currency Management Department (CMD) maintains close liaison with Finance Department of SBP and Central Directorate of National Savings (CDNS) for seeking policy directions dealing with matters relating to currency management and executing CDNS's national savings schemes. CMD's utmost objective is to ensure:

i) Smooth and equitable issuance of fresh/re-issuable bank notes through 16 Field Offices, 224 NBP chests/sub-chests and commercial banks;
ii) Sale, encashment of prize bonds and savings certificates and conducting prize bonds draws as per laid down procedures;
iii) Implementation of SBP's Clean Note Policy through a comprehensive and fair system of on-site monitoring mechanism and,
iv) Alignment of our existing currency management framework with the prevailing best international practices.

Box 2.1: Achievements during FY15

- Completion of bid process for procurement of Banknote Processing and Authentication System Machines.
- Completion of bid process for procurement of desktop currency sorters with authentication for Field Offices.
- Updating information regarding security features of Bank Notes and uploading circulars on the CMD webpage.
- Managed with the help of Field Offices, verification of 197 NBP chests/sub-chests and around 2,000 branches of commercial banks, for their compliance to instructions on the subject.
- Conducting awareness programs through Field Offices with primary focus on security features of Bank Notes and Clean Note Policy of SBP.

CMD also maintains close coordination with the concerned SBP departments in order to facilitate efforts of Law Enforcement Agencies (LEAs) and Federal Investigation Agency (FIA) in combating counterfeiting of currency notes. The department is currently focusing on procurement of sophisticated hardware and software so as to check counterfeiting and establishing a Forensic Laboratory to improve in-house capabilities for detecting the counterfeit bank notes and tampered prize bonds. CMD also works, in close coordination with Finance Department, for further enhancing the security features in bank notes.

The department, in collaboration with SBP BSC Field Offices, is actively engaged in educating the general public/stakeholders about the security features of bank notes by arranging awareness

programs round the year. These programs also focus on SBP's Clean Note Policy (CNP). CMD also designs and prints posters and brochures focusing on security features of all denominations of currency notes, which are provided free of charge to Field Offices/commercial banks.
The department keeps a close watch on the consumption of bank notes and coins in the country, provides feedback to respective SBP departments for policy formulation and forecasts demand for printing of new bank notes and minting of additional coins.

CMD actively remained involved in the development of future vision for currency management in Pakistan. For this purpose, the department developed a currency management strategy, in coordination with the Finance Department of SBP, which was presented in the Currency Management Conference held at Lahore in February 2015. It also provided major input for developing an Action Plan for various strategies as spelt out in the Currency Management Vision.

2.2 Circulation of Bank Notes

Pakistan is a cash-centric economy with majority of transactions conducted in cash, despite increase in online, internet and mobile bank account facilities and the wider plastic money options. This is one of the leading causes of increase in notes-in-circulation (NIC). During the last few years, NIC has increased significantly. **(Table 2.1)**

The annual growth in NIC during FY15 was 18.1 percent as against 13.1 percent recorded in FY14. The NIC as percentage of Gross Domestic Product (GDP) stood at 10.0 percent in FY15, slightly higher than 9.2 percent recorded in FY14.

Table 2.1: Bank notes in Circulation as Percentage of GDP

Years	Nominal GDP (MP)[2] (billion Rupee)	NIC (billion Rupee)	NIC as % of GDP	Percentage (%) Change in NIC Over Previous Year
FY09	13,199.7	1,223.7	9.3	17.0
FY10	14,867.0	1,377.4	9.3	12.6
FY11	18,276.5	1,600.0	8.8	16.2
FY12	20,046.5	1,777.1	8.9	11.1
FY13	22,379.0	2,042.5	9.1	14.9
FY14	25,068.1	2,309.2	9.2	13.1
FY15[3]	27,383.7	2,726.5	10.0	18.1

Note: The figures have been rounded off to the nearest decimal place.

2.3 Issuance of Fresh Bank Notes

CMD, with the help of 16 Field Offices and 224 chests/ sub-chests across the country, ensures smooth and uninterrupted supply of fresh bank notes throughout the year. The value of fresh bank notes issued during the year under review has increased by 17.0% over the previous year as against 5.7% decline during FY14. **(Table 2.2)**

Table 2.2: Issuance of Fresh Bank Notes (Pieces and Values in million)

Year	Pieces	Percentage Increase (%)	Value	Percentage Increase (%)
FY12	1,811		443,601	
FY13	2,103	16.1	519,800	17.2
FY14	2,185	2.6	489,997	(5.7)
FY15[4]	2,330	6.6	573,253	17.0

[2] Pakistan Bureau of Statistics.
[3] Figures as per Statement of Affairs (Issue Department) June 26, 2015.
[4] Globus figures as on June 30, 2015. These figures may be considered final.

2.3.1 Distribution of Fresh Bank Notes to Public on Religious Occasions

SBP BSC makes special arrangements, in collaboration with commercial banks, for issuance of all denominations of fresh bank notes to general public on the occasions of Eid-ul-Fitr and Eid-ul-Azha. It also issues fresh bank notes to Hindu and Christian employees of the Bank on their religious festivals. SBP BSC, through its 16 Field Offices and 150 designated branches of commercial banks, issued fresh bank notes amounting to Rs 154.5 billion to the general public during Ramazan 2014 as compared to Rs 138.6 billion during the corresponding period in Ramazan 2013, a substantial increase of 11.5 percent. Details of fresh bank notes issued over Eid-ul-Fitr 2013 and 2014 are given in **Table 2.3.**

Table 2.3: Distribution of Fresh Notes to Public on the occasion of Eid-ul-Fitr
Pieces: in million, Value: billion Rupee

		Denominations								
		Rs 10/-	**Rs 20/-**	**Rs 50/-**	**Rs 100/-**	**Rs 500/-**	**Rs 1,000/-**	**Rs 5,000/-**	**Total Pieces**	**Total Value**
Ramazan 2013	**Total**	641.6	152.3	128.6	151.7	43.7	73.7	2.4	1,194.0	138.6
Ramazan 2014	**Total**	497.7	161.7	139.3	161.6	36.9	78.7	5.2	1,081.1	154.5

Note: Figures rounded off to nearest decimal place

During Ramazan 2015, SBP BSC introduced a new SMS-based service for issuance of fresh bank notes of smaller denominations to the general public. The introductory service started on test basis was utilized by 164,882 individuals to get fresh bank notes from around 150 branches of banks in 28 cities. Going forward, we intend to expand the outreach of this scheme, which was appreciated by the general public and also by banks, to a large number of cities.

2.4 Mechanization of Currency Management Operations

With a view to overhauling currency operations in the light of Pakistan's cash-centric economy, CMD is currently in the process of procuring high-end, one-stop currency processing solutions equipped with the capabilities of authentication, counterfeit detection, packeting, bundling and on-line shredding etc.

2.5 Monitoring of Currency Operations

CMD also oversees on-site examinations of commercial banks' branches conducted by 16 SBP BSC Field Offices across the country in order to ensure compliance of all currency and prize bonds related instructions issued by SBP and SBP BSC from time to time. During FY15, SBP BSC Field Offices examined over 2,000 branches of commercial banks in their respective areas. SBP also has an agency agreement with National Bank of Pakistan, under which NBP performs treasury functions on behalf of the Central Bank at its 224 designated branches. The operational aspect of this agency agreement has been assigned by SBP to SBP BSC. For the first time in FY15, Field Offices examined 197 NBP chest and sub-chest branches. Based on their findings, an analytical report has been prepared, highlighting irregularities and making recommendations for corrective action by NBP management.

2.6 National Prize Bonds

National Prize Bonds (NPBs) are bearer-type securities available in eight denominations as elaborated in **Table 2.4**. The sale and encashment of these securities is carried out by 16 SBP BSC Field Offices, authorized commercial bank branches and National Savings Centres of CDNS. Draws of all denominations are held only at nine SBP BSC Field Offices on quarterly basis, as per schedule announced by CDNS.

Table 2.4: Total NPB Sale & Encashment at SBP BSC Field Offices (million Rupee)								
Denom	**FY14**				**FY15**			
	Sale	**Encashed**	**Prize Money Payment**	**Value of NPBs held by Public**	**Sale**	**Encashed**	**Prize Money Payment**	**Value of NPBs held by Public**
100	2,267.14	604.84	381.09	1,662.30	1,367.8	481.2	493.8	886.6
200	5,380.91	4,411.10	1,708.35	970.57	4,464.1	3,275.1	1,806.78	1,189.02
750	14,543.80	9,855.79	4,529.37	4,688.01	13,969.7	7,749.9	5,157.3	6,219.8
1,500	18,137.77	11,627.02	5,077.26	6,510.74	17,680.95	9,543.2	5,950.06	8,137.76
7,500	17,659.16	13,372.37	4,503.00	4,286.78	18,727.9	10,691.1	5,165.3	8,036.78
15,000	32,940.83	23,994.92	6,407.11	8,945.91	31,039.5	19,524.5	7,716.52	11,496.96
25,000	25,448.88	14,273.75	3,956.17	11,175.13	26,997.9	11,935.1	5,110.65	15,065.9
40,000	45,225.92	26,416.96	9,308.4	18,808.96	47,834.4	22,982.6	11,230.7	24,851.72
Total	**161,604.41**	**104,556.75**	**35,870.75**	**57,048.40**	**162,082.25**	**86,182.7**	**42,631.11**	**75,884.54**

Overall value of NPBs held by public increased by 33 percent during FY15 whereas value increased by Rs 18.84 billion approximately over FY14. Further, prize money payment has also increased, mainly due to two reasons: (a) lesser encashment and greater holdings by general public in all NPB denominations; and (b) increase in number of series in every denomination, leading to an overall greater number of prizes.

2.7 Defence Savings Certificates

Defence Savings Certificates (DSCs) Scheme, introduced in by CDNS in 1966, is a long-term investment option with a minimum maturity period of 10 years. DSCs are available in various denominations starting from Rs 500/- with a maximum denomination of Rs 1 million.

From the data, it is evident that overall sale of DSCs is steadily on the rise, which may be attributable to the fact that the Federal Government's Notification No. F.21 (I) GS-1/2011-876 dated June 27, 2012, had allowed the institutions to invest their funds (pension, gratuity, retirement benefits etc.) in this instrument. A comparison between number of cases handled by SBP BSC regarding sale, encashment and profit payment of DSCs for the last three years is given in **Table 2.5.**

Table 2.5: Number of DSC Cases handled by SBP BSC Field Offices										
Sr. No.	**Office**	**FY13**			**FY14**			**FY15**		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	3	21	21	0	6	6	3	40	4
2.	D. I. Khan	1	2	2	0	1	1	12	1	1
3.	Faisalabad	261	932	932	315	651	651	401	539	539
4.	Gujranwala	181	285	285	80	473	228	0	1	5
5.	Hyderabad	181	285	285	80	473	228	53	119	55
6.	Islamabad	91	296	290	122	173	230	59	171	276
7.	Karachi	3,361	5,942	5,705	4,061	6,391	5,888	46,240	29,011	0
8.	Lahore	583	2,143	2,143	508	1,895	1,895	494	925	1,252
9.	Multan	0	26	26	0	2	2	0	0	0

10.	Muzaffarabad	18	17	17	8	20	20	24	4	4
11.	N. Nazimabad	532	1,092	1,092	2,366	1,585	1,585	375	390	390
12.	Peshawar	100	237	237	24	95	95	87	30	30
13.	Quetta	109	305	305	44	418	418	99	145	145
14.	Rawalpindi	356	1,025	1,303	304	697	1,177	710	756	1,333
15.	Sialkot	87	230	230	72	98	98	25	16	15
16.	Sukkur	58	135	123	36	60	60	29	54	54
Total:		**5,922**	**12,973**	**12,996**	**8,020**	**13,038**	**12,582**	**48,611**	**32,202**	**4,103**

2.8 Special Savings Certificates

Special Savings Certificates (SSCs) Scheme, introduced by CDNS in 1990, has mainly focused on lower to middle income investors with steady income. These certificates are available in various denominations starting from Rs 500/- and goes up to Rs 1 million, with a maturity period of three years. Profit coupons are payable bi-annually. A comparison between number of cases handled by SBP BSC with regard to sale, encashment and profit payment of SSCs for the last three years is given in **Table 2.6.**

Table 2.6: Number of SSC Cases handled by SBP BSC Field Offices

Sr. No	Office	FY13			FY14			FY15		
		Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment	Sale	En-cashed	Profit Payment
1.	Bahawalpur	1	3	3	0	0	2	0	1	3
2.	D. I. Khan	0	0	0	0	1	1	0	0	0
3.	Faisalabad	908	693	2,879	911	1,116	5,155	1,263	1,151	4,215
4.	Gujranwala	1	1	1	1	0	0	4	1	1
5.	Hyderabad	379	297	261	458	513	180	579	479	288
6.	Islamabad	102	72	189	81	75	230	62	151	438
7.	Karachi	5,538	8,666	16,465	9,395	15,030	22,110	84,788	38,179	127,933
8.	Lahore	1,521	1,962	3,604	1,576	1,448	4,651	1,834	2,967	2,376
9.	Multan	0	16	16	8	10	18	0	6	8
10.	Muzaffarabad	37	41	47	7	26	65	10	18	20
11.	N. Nazimabad	2,160	3,865	13,983	6,527	7,198	11,926	3,808	2,787	5,010
12.	Peshawar	237	389	520	87	107	370	82	143	301
13.	Quetta	59	78	87	33	47	44	55	42	63
14.	Rawalpindi	531	647	2,044	586	832	2,377	2,417	942	836
15.	Sialkot	252	233	131	238	361	198	30	67	67
16.	Sukkur	25	32	52	5	17	22	17	40	56
Total:		**11,751**	**16,995**	**40,282**	**19,913**	**26,781**	**47,349**	**94,949**	**46,974**	**141,615**

2.9 HR Capacity Building

To broaden the officers' knowhow about the best international practices on cash processing and to align currency operations with SBP's approved currency strategy, a number of officers from CMD were nominated to attend various local and international programs. These included: Cash Seminar arranged by Czech Central Bank, Cash Cycle Seminar hosted by The Cash Cycle Seminar (ICCOS) Asia in Bali, Indonesia and Cash Management study/visit program hosted by Central Banks of UAE, Sri Lanka and Malta. Moreover, a number of officers including the Chief Managers, attended the "Conference on Currency Management: Strategies for the Future", which was hosted by the Finance Department in collaboration with CMD.

Development Finance Support Services

3 Development Finance Support Services

Development Finance Support Department (DFSD) continues to provide all necessary operational support to the Development Finance Group (DFG) of State Bank of Pakistan to meet its strategic objective of promoting an inclusive financial system in the country.

3.1 Overview

Development Finance Support Department (DFSD) plays an important role in supporting SBP's policies and initiatives through different interventions so as to promote inclusion of all segments of economy in services extended by the financial sector.

Box 3.1: Performance Highlights for FY15 – Subsidy Schemes

- Facilitated AC&MFD of SBP by conducting 27 review meetings with banks for monitoring against the indicative target of Rs 500 billion set by the Agricultural Credit Advisory Council (ACAC) for the agriculture sector in FY15. Total disbursement during the year (as of June 2015) was Rs 515.9 billion, which is 32 percent higher than the disbursement of Rs 391.4 billion made during the corresponding period last year.
- Conducted on-site monitoring of 84 Agri. Graduates across the country under the "Regional Internship Program for Agri. Graduates" launched by AC&MFD.
- Facilitated IH&SMEFD of SBP in the constitution of Housing Finance Focus Group (HFFG) in 5 regions of the country.
- 68 Focus Group meetings were organized, which included 15 for Agri. finance, 12 for Microfinance, 17 for SME finance, 12 for Islamic banking, and 8 Joint sessions.
- Out of 118 programs arranged during the year under review, 47 were awareness programs, 32 capacity building programs, 2 conferences and exhibitions and 37 seminars and workshops, while 10 programs arranged by other stakeholders were attended/participated by employees of SBP BSC.
- 9 seminars on Branchless Banking were conducted across the country, through which more than 1,800 people have been imparted information regarding the subject in order to promote financial inclusion.
- 7 seminars on Promoting Financial Literacy for Women were held during the year with about 1,000 participants.
- 2 awareness programs on the Growth and Development of Forestry Sector were conducted, which were attended by around 300 participants.
- A Dashboard in MS Excel was prepared on AC&MFD's Fast Track Agricultural Lending Program (FTLP). The dashboard has been developed in order to retrieve multi-dimensional reports for effective monitoring and is updated on a monthly basis.
- Out of 34 capacity building programs during the year, 32 were arranged by Access to Finance Units (AFUs), which included 11 for staff of commercial banks/ financial institutions, 9 joint sessions, 8 for BSC officers and 4 for academia.
- Summer Internship programs for students of educational institutions were held at 7 SBP BSC Offices and one BSC Office also conducted a Winter Internship program.
- 9 On-site visits/ meetings were held with the faculty members of educational institutions in different parts of the country.
- 13 in-house meetings and 21 On-site visits/meetings were held with Government Departments and other relevant stakeholders.
- Publications:
  - Monthly Development Finance Newsletter
  - Quarterly Development Finance Compendium

3.1.1 Performance Review

In pursuance of SBP's policy to channelize credit to the underserved agriculture sector, a disbursement target of Rs 500 billion was set for FY15, which was allocated among 33 Participating Financial Institutions (PFIs) by the Development Finance Group (DFG) of SBP. Through its Access to Finance Units (AFUs) set up in major Field Offices, DFSD monitored PFIs' performance on a regular basis under Fast Track Agricultural Lending Program (FTLP). The AFUs held 27 review meetings with PFIs at various offices of SBP BSC to stress upon the importance of target achievement with regard to loans disbursement, new borrowers and outstanding amount. Based on these meetings, practical and valuable insights from the grass root level were shared with Agricultural Credit and Microfinance Department (AC&MFD) of SBP.

Table 3.1: Summary of Activities Arranged and Participated by the AFUs during FY15

S.No.	Activity	No.
1	FTLP Review Meetings	27
2	Awareness Programs	47
3	Capacity Building	34
4	Fair, Conference, Exhibition etc.	8
5	Focus Group Meetings	68
6	Linkages with Academia	36
7	Linkages with Govt. and Others	34
8	Research Activities	6
9	Seminars and Workshops	39
10	Others	35
Total		**334**

DFSD also facilitated AC&MFD in implementing a 3-month Regional Internship Program for Agri. Graduates. Under the program, top 84 graduates from agriculture universities across the country were selected to create a pool of agri. finance experts with hands-on knowledge of operational and regulatory aspects. These interns were given orientation at SBP BSC Offices and thereafter posted to agri. branches of banks near to their homes. Based on internally developed guidelines, DFSD actively coordinated with banks for monitoring and evaluating interns' progress.

The department also extended its support to DFG in conducting Farmers' Financial Literacy Program, Phase-III. A total of 334 activities were managed by AFUs during FY15, which aimed at creating awareness about DFG policies and initiatives for broadening and deepening of financial services in rural markets. **(Table 3.1)**

3.1.2 Developmental Initiatives

The landscape of DFSD's developmental activities is steadily evolving. During the year under review, DFSD carried out a number of diverse activities including:

(1) To promote branchless banking, DFSD collaborated with AC&MFD in preparing general instructions on the subject. Further, DFSD arranged 9 seminars in collaboration with different financial institutions and telecommunication companies.
(2) To promote financial literacy amongst women, DFSD in collaboration with relevant stakeholders, arranged 7 seminars at different SBP BSC Offices across the country.
(3) To encourage the role of banks in the forestry sector, DFSD held 2 programs on the growth and development of this sector. These programs were attended by approximately 300 participants.
(4) DFSD prepared a guideline for Divisional Profiling to enable AFUs to compile, analyze and interpret regional statistics and to identify regional priorities in a consistent and conforming manner. Based on this profiling, DFSD will identify suitable policy actions to address region-specific factors hindering financial inclusion. In this regard, SBP BSC Field Offices have compiled divisional profiles pertaining to their respective jurisdictions.

(5) DFSD has developed a Dashboard to provide timely overview of target achievement position under FTLP.

3.2 Management of Refinance Schemes

Refinance Schemes Management Division has been entrusted with the key responsibility to monitor and implement all SBP refinance schemes in coordination with its units across 15 Field Offices of SBP BSC.

3.2.1 Role of SBP BSC under Export Finance Scheme and other Refinance Schemes

Implementation and monitoring of all refinance schemes is managed by 13 Refinance Scheme Units of SBP BSC Field Offices. They are responsible for providing refinance facility to commercial banks/ DFIs and ensuring proper utilization of funds along with timely recovery of principal and mark-up in respect of these loans. Besides, on-site verification is also carried out by SBP BSC Offices, which is reviewed and analyzed by Refinance Schemes Management Division at SBP BSC Head Office Karachi (HOK) before onward submission to Infrastructure Housing & SME Finance Department (IH&SMEFD) of SBP.

3.2.2 Export Finance Scheme

The Export Finance Scheme (EFS) is a short-term financing scheme under which exporters can avail loans for export of eligible commodities for a maximum period of 180 days. During FY15, Rs 440.20 billion were disbursed under Export Finance Scheme, Rs 14.13 billion under EFS for SMEs and Rs 62.03 billion under Islamic Export Refinance Scheme to facilitate exports through refinancing to commercial banks.

Box 3.2: Performance Highlights for FY15 – Export Finance Scheme

- Total Rs 440.20 billion disbursed under EFS and Rs 14.13 billion under EFS SME.
- On-site verification under EFS was conducted for 30 participating banks having disbursed Rs 515.48 billion. Irregularities detected during the process attracted fines of Rs 57.6 million.
- EFS Operational Manual prepared to assist Development Finance Division officials and standardized operations across BSC Offices.
- Modification in SOPs for conducting On-Site Verification.

3.2.3 On-Site Verification of Export Finance Cases

During FY15, SBP BSC Field Offices have completed on-site verification of EFS cases for FY13 in 30 participating banks. From the total disbursed amount, Private Sector Banks availed 84 percent, Public Sector Banks 8 percent and Islamic and Foreign Banks 6 percent and 2 percent respectively. A total of 14,879 cases (8,055 pertaining to Part-I and 6,824 pertaining to Part-II) amounting to Rs 515.48 billion (Rs 107.87 billion under Part-I and Rs 407.61 billion under Part-II) of EFS were verified. On account of various irregularities detected during the course of verification, SBP BSC Field Offices charged/recovered a total fine of Rs 57.58 million, of which Rs 9.18 million were under Part-I and Rs 48.40 million under Part-II of the Scheme.

3.2.4 Long Term Financing Facility

Long Term Financing Facility (LTFF) provides finance to exporters for adoption of new technology and upgrading of their plant and machinery. Islamic banks are also eligible for offering LTFF, subject to approval of SBP's Shariah Board. Loans are repayable within a maximum period of 10 years including a maximum grace period of 2 years. During FY15, Rs 15.30 billion were granted under LTFF.

3.2.5 Export Finance Mark up Rate Facility

To provide incentive to textile industry, Government of Pakistan (GoP) has launched the 'Export Finance Mark-up Rate Facility' of 2.5 percent on outstanding loans for export of eligible commodities. Refinance Scheme Units of all SBP BSC Field Offices processed 1,187 eligible cases and granted Rs 1.44 billion under this facility during FY15.

Box 3.3: Performance Highlights

- Quarterly subsidy claims for Q4-2014, Q1-2015, Q2-2015 and Q3-2015 against around 5,700 borrowers have been processed by DFSD under PMYBL.
- During the year under review, funds of around Rs 5.8 billion have been disbursed by various banks/DFIs to MFBs/MFIs under MCGF.
- About 7,600 loans amounting to around Rs 4.5 billion pertaining to CY14 have been approved by TCCG for issuance of guarantee to banks against their Small and Rural Enterprises. During the year, 57 claims amounting to Rs 6.9 million have been disbursed to concerned banks.
- During FY15, five cases for guarantee cover of Rs 13.2 million have been provided by DFSD against sanctioned loans of Rs 44.0 million under Mark up Subsidy and Guarantee Facility (MS&GF) for Rice Husking Mills in Sindh.
- Two awareness programs, in collaboration with IH&SMEFD and Sindh Enterprises Development Fund (SEDF), were also arranged in Sukkur and Larkana to sensitize utilization of MS&GF.
- Funds on account of CGS-DFID, CGS-GoP, MCGF & Rice Husking Milling Scheme (RHMS) amounting to about Rs 7.4 billion were managed by DFSD.

3.2.6 Developmental Initiatives

(1) Considering the need to ensure standardized operations and facilitation of Refinance Schemes Unit (RSU) officials, a detailed EFS Operations Manual has been prepared by Refinance Schemes Management Division, covering all the relevant operational aspects of the Scheme.

(2) Standardized Operating Procedures (SOPs) have been devised by Refinance Schemes Management Division for on-site verification of export refinance cases with a view to enhancing the effectiveness and quality of verification process.

3.3 Financial Inclusion Scheme Management

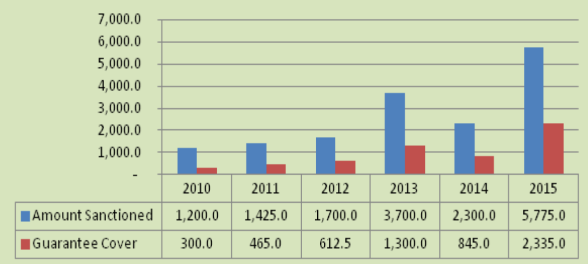
3.3.1 Prime Minister's Youth Business Loan Program

DFSD is entrusted with the responsibility of processing claims of banks under PMYBL in the light of instructions from IH&SMEFD. For efficient and smooth processing of claims, DFSD initiated and coordinated development of PMYBL Globus Module. So far, NBP and First Women Bank Limited (FWBL) have started disbursements under PMYBL and their quarterly subsidy claims in respect of 5,700 borrowers (approx.) have been processed by June 2015. Going forward, 5 more banks will also be participating in PMYBL.

3.3.2 Microfinance Credit Guarantee Facility

SBP, in collaboration with UK's Department for International Development (DFID), launched Microfinance Credit Guarantee Facility (MCGF) in December, 2008 to address the funding problem of Microfinance Banks (MFBs)/Microfinance Institutions (MFIs).

Fig. 3.1 Year Wise Trend of MCGF Utilization



The year-wise utilization of MCGF has an increasing trend **(Figure 3.1)**. During FY15, funds of around Rs 5.8 billion have been disbursed by various banks/DFIs to MFBs/MFIs. Eight MFBs/MFIs have benefitted from this facility. This Scheme was revised in FY15 to facilitate weaker MFIs/MFBs by offering them higher guarantee cover of 60 percent instead of 40 percent.

3.3.3 Credit Guarantee Scheme for Small & Rural Enterprises

Around 7,600 loans of approximately Rs 4.5 billion pertaining to CY14 have been approved by Technical Committee on Credit Guarantee (TCCG) for issuance of guarantee to banks against their Small and Rural Enterprises. 57 claims of Rs 6.9 million have been reimbursed to concerned banks during FY15.

3.3.4 Mark-up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh

SBP launched "Mark-up Subsidy & Guarantee Facility (MS&GF) for Rice Husking Mills in Sindh" in March 2013 with a view to modernizing and upgrading rice husking mills of Sindh. The facility provides Mark-up Subsidy and Partial Guarantee Incentive.

Five cases for guarantee cover of Rs 13.2 million have been provided by DFSD as against sanctioned loans of Rs 44.0 million during FY15. Two awareness programs, in collaboration with IH&SMEFD and Sindh Enterprises Development Fund (SEDF), were arranged by DFSD in Sukkur and Larkana to sensitize utilization of the Scheme.

3.3.5 Credit Guarantee Scheme for Small and Landless Farmers

The GoP has launched a Credit Guarantee Scheme for Small and Landless Farmers during FY15. The objective of the Scheme, being operated by DFSD, is to encourage Participating Financial Institutions (PFIs) to lend to small farmers with no collaterals to meet their working capital requirements by sharing their risk up to 50 percent.

3.3.6 Fund Management

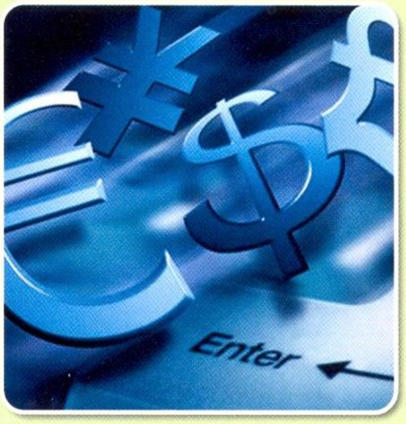
Funds on account of Credit Guarantee Scheme of DFID, Credit Guarantee Scheme of GoP, Micro Credit Guarantee Facility and Mark-up Subsidy & Guarantee Facility amounting to Rs 7.4 billion approximately are being managed by DFSD. In total, 50 investments on account of these four funds have been made in FY15, all of which were reconciled with system reports generated at Securities Division, Karachi Office as on June 30, 2015.

3.3.7 Developmental Initiatives

(1) DFSD has initiated and coordinated with Information Systems and Technology Department (ISTD) for development of PMYBL Globus Module for efficient and error-free processing of claims. In this regard, data formats, process flow, and reporting modalities have been designed.

(2) CGS formats have been revamped and reporting guidelines prepared with a view to strengthening the overall monitoring of schemes.

Foreign Exchange Operations



4 Foreign Exchange Operations

Being the operational arm of the Exchange Policy Department of the SBP, Foreign Exchange Operations Department deals with approval of foreign exchange remittances and their subsequent repatriation, monitoring of export proceeds and subsidies being given to the exporters and tracking all the foreign exchange related transactions.

4.1 Foreign Exchange Operations Department

Foreign Exchange Operations Department (FEOD) is an operational arm of EPD of SBP, which deals with the approval of foreign exchange remittances and their subsequent repatriation, monitoring of export proceeds, disbursements of various grants, subsidies etc. being given to exporters by the Government of Pakistan (GoP).

FY15 has proved to be a milestone year for the department as it embarked on a much needed reforms of its working procedures. Through an internal collective brain storming at the department level, FEOD has formulated a multi-pronged strategy to improve effectiveness and enhance the scope of FE operations.

4.2 Developmental Initiatives

FEOD has worked on various initiatives to add value to FE operations. Major initiatives taken during FY15 include:

4.2.1 Capacity Building of Officers

The first and foremost initiative was the capacity building of officers to improve their technical proficiency and keep them abreast of the innovations and complexities of fast changing environment of international trade. In this regard, more than 14 training sessions have been held by FEOD in international trade area and related IT systems. Renowned industry experts were invited to impart knowledge and share their market experiences. Moreover, few field visits to shipping companies etc. were organized to observe and learn current international practices. As a result, a total of 138 officers from FEOD, Field Offices and EPD have benefitted from these programs. In order to encourage self-learning by officers, the ENB webpage of FEOD has been updated with training material, tutorials and presentations in FE areas.

4.2.2 Emphasis on Automation

FEOD is actively promoting automation of its major work processes to shift towards system-based processing and monitoring as well as reducing the paperwork for efficient disposal of cases referred to it.

Various automation initiatives have been taken to streamline the departmental processes. Issuance and certification process of export forms (known as “E” forms) is being carried out. Towards this end, FEOD has successfully brought on board all major stakeholders including EPD, Statistics and Data Warehouse (S&DWH), Commercial Banks and Customs. After strenuous efforts spreading over six months, User Acceptance Testing (UAT) has been signed off by the Pakistan Banks Association (PBA) representative committee. Currently, a test run of the system is in progress where “E” forms are being issued both electronically and manually in selected bank branches. A complete roll out of the electronic system is likely to be completed by the end of second quarter of FY16. Meanwhile, the Authorized Dealers, association of exporters and other stakeholders are being given detailed orientation by SBP and FBR all over the country. This will not only create much needed efficiency in the system of issuance of "E" forms but also help in curbing its misuse. A project for automated verification of "E" forms is also in progress, which will make the procedure more efficient and error free.

Other automation projects have also been developed to streamline the scrutiny and payment of subsidy claims under different schemes approved by the Ministry of Commerce and Ministry of Trade, and to enhance the utility of International Transaction Reporting System (ITRS) for monitoring of FE transactions. Fifty percent of the automation process has been completed, while remaining will be completed upon availability of IT resources.

4.2.3 Interactions with Internal Stakeholders

FEOD has continuously been working to maximize synergy among different internal stakeholders for achieving the policy objective of efficient and transparent FE operations in the country. Specifically, FEOD has been interacting with various other departments of SBP and SBP BSC including Banking Inspection Department (BID), EPD, S&DWH, ISTD and FEAD with a view to resolving long pending issues for improving its overall operations. These interactions have resulted in a well-defined division of functions between EPD and FEOD.

4.2.4 Sensitization of External Stakeholders

The department has also started to strengthen the consultative process with external stakeholders, primarily with Authorized Dealers dealing in trade finance. The aim is to drive their attention towards various critical areas of processing of FE transactions and reporting to SBP under FE Manual. It has been impressed upon them to improve their internal monitoring system and increase technical capacity, especially in those branches that are away from the Head Offices.

In addition, FEOD has also started interactions with other stakeholders including trade associations, shipping agents associations and Customs to convey regulatory concerns and listen to their ideas and constraints. These consultations have resolved the outstanding problems, improved the system and minimized the fraudulent use of trade related transactions.

4.2.5 Improvement in the Recovery of Export Overdue Cases

Since last year, FEOD has pursued an approach to intensify pre-adjudication formalities for realization of export overdue. This has shifted the focus away from lodging complaints with FEAD, thus reducing the submission of complaints against violation of different provisions of FERA 1947. Resultantly, 90 percent of export overdue bills, ageing three months and below are now being realized before lodging of complaints with FEAD.

4.2.6 Updating and Revision of Foreign Exchange Manual-2002

A joint project has been initiated with EPD to update the Foreign Exchange Manual (FEM) 2002 by incorporating Circulars/Circular Letters issued by EPD from time to time. The FEM has been consolidated and the final draft will soon be available on SBP website.

Further, to synchronize various instructions relating to foreign exchange in line with international trade practices, a project has been initiated concurrently to revise the exchange regulations. This work shall be done jointly by FEOD, EPD and PBA along with other stakeholders.

4.2.7 Capacity Building of Authorized Dealers

FEOD, EPD and Institute of Bankers Pakistan (IBP) have jointly designed a course for capacity building of the ADs officers dealing with foreign exchange and trade finance, which will be focused to improve the understanding and compliance of FERA and FEM. This initiative will eventually be transformed into an exclusive FE certification program which, in future, may become a pre-requisite for the officers of ADs working in foreign trade. In this regard a two-day training program was conducted by officers of FEOD at IBP in May 2015, which was attended by 30 officers of ADs.

4.2.8 Interaction with Foreign Exchange Operations Divisions of Field Offices

With a view to improving the working environment of Foreign Exchange Operations (FEO) divisions at Field Offices, Director FEOD had held meetings at various offices to share a unified vision with FEO teams and to get firsthand knowledge of their working and practices. These interactions have motivated FE officers in Field Offices and helped them in aligning their practices with those of Head Office. This has also resulted in better supervision of the working at the Field Offices. Moreover, it is planned to give training to Chief Managers in order to make them conceptually aware of FE functions and equip them with necessary tools to oversee FE operations at their offices.

4.2.9 Development of Key Performance Indicators for Foreign Exchange Officers

KPIs for the officers of the department have been redefined to make them result-oriented rather than process-oriented. Further, the performance standard has also been revisited so that it can be measured in quantifiable terms. The performance measurement standards include turnaround time of case disposal, efficient utilization of automation, subject knowledge, coordination with stakeholders, and coordination between Head Office Karachi (HOK) and Field Offices (FOs).

4.2.10 Subsidy Schemes

FEOD and Field Offices also process and pay performance-based subsidy to exporters as per policies announced by the Ministries of Textile Industry and Commerce. During FY15, Ministry of Textile announced a new scheme styled as Drawbacks on Local Taxes and Levies (DLTL) 2015 for exporters of textile, which would replace the earlier DLTL scheme, some claims of which are still pending and are being paid. Subsidies on export of Sugar and Wheat were also announced by the Ministry of Commerce and Ministry of National Food Security and Research (MNFSR). Moreover, the Ministry of Commerce has launched its own subsidy scheme on the lines of Ministry of Textile DLTL 2015 scheme for specified commodities of non-textile sectors. Efforts have been made to put in place systems for automated scrutiny of these claims based on soft data of claims. This has facilitated quick disposal of cases, provided adequate funds are available.

4.3 Highlights

Some of the operational highlights of FEOD are listed in **Table 4.1:**

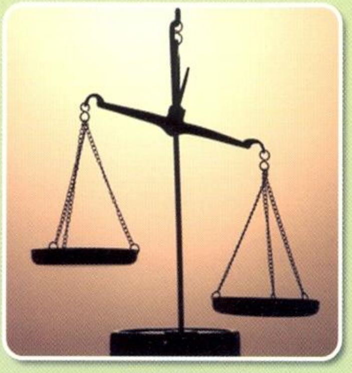
Table 4.1: Operational highlights of FEOD

(1)	Percent of export overdue cases recovered by FEOD without prosecution	66 percent (USD 296.52 million in value)
(2)	Percent of export overdue cases referred to FEAD for prosecution	34 percent (USD 141.32 million in value)
(3)	Payment of DLTL Scheme	39,279 cases (Rs 4.04 billion in value)
(4)	Payment of subsidy on export of sugar	1,195 cases (Rs 3.25 billion in value)
(5)	Payment of subsidy on export of wheat / flour	99 cases (Rs 49.52 million in value)
(6)	Permission of permits issued for export of raw cotton	495
(7)	Number of cases related to approvals dealt in Operations Division	6,681

4.4 Future Outlook

To achieve objectives of improving market efficiency and transparency, FEOD will keep its focus on achieving automation and improving internal capacity building. Specifically, it will continue emphasis on the automation of processes of software exporters' registration and file management. Qualitative monitoring of commercial remittances would be enhanced through effective utilization of International Transaction Reporting System (ITRS). Further, capacity building program of ADs, which was launched last year, will be converted into a certification program. FEOD will continue deepening its partnerships with external stakeholders for ensuring better FE management and compliance of regulatory instructions. Revision of FEM would be completed within the stipulated time.

Foreign Exchange Adjudication



5 Foreign Exchange Adjudication

Foreign Exchange Adjudication Department of SBP BSC runs nine Adjudicating Courts countrywide under section 23-B of Foreign Exchange Regulations Act, 1947. These courts adjudicate cases of delinquent Exporters, Importers and Authorized Dealers for contraventions of provisions of Foreign Exchange Regulations Act (FERA), 1947 and rules and regulations under Section 3 Sub-sections (2), (3) and (5), Section 4 Sub-section (3), Section 10, Section 12 Sub-section (1) and Section 20 Sub-section (3) and impose penalties if accused are found guilty. The proceedings are conducted as per the Adjudication Proceedings and Appeal Rules, 1988.

5.1 Foreign Exchange Adjudication Department

Foreign Exchange Adjudication Department (FEAD) adjudicates through FEA Courts, the complaints received from FEOD against the delinquent exporters for non-realization of export proceeds and ensures realization of stuck up export proceeds. The FEA Courts were established in 1990 under Section 23B of Foreign Exchange Regulation Act (FERA), 1947. Presently, nine courts are functioning (4 at Karachi, 2 at Lahore and 01 each at Multan, Sialkot and Faisalabad). In case of willful default, Adjudicating Officers impose penalties on exporters, importers and Authorized Dealers for violation of different provisions of FERA 1947 as mentioned under Section 3 Sub-sections (2), (3) and (5), Section 4 Sub-section (3), Section 10, Section 12 Sub-section (1) and Section 20 Sub-section (3) of the said Act. FEA Courts follow the procedure of proceedings as defined in Rule 4 of Adjudication Proceedings and Appeal Rules, 1988.

5.1.1 Performance Highlights

The FEA Courts have managed to arrange repatriation of sizeable amounts of foreign exchange in recent years through realization of overdue export proceeds. During FY15, stuck up export proceeds equivalent to US$ 49.4 million were realized **(Table 5.1)**, while repatriation since inception of Courts stood at US$ 407.2 million of which US$ 225 million (55%) were realized during the last 5 years. Courts also imposed penalties of Rs 4.02 billion during FY15. At present 11,845 cases are outstanding against exporters, out of which only 1,105 complaints have been lodged within one year of shipment. Nine FEA courts took up 4,669 complaints against delinquent exporters / Authorized Dealers, out of which 2,087 complaints were disposed of till June 30, 2015 **(Table 5.2).**

Table 5.1: Realization of Export Proceeds
(million US Dollar)

Adjudication Courts	Export Proceeds Realized	
	FY14	FY15
Karachi	31.2	25.6
Lahore	12.0	13.6
Faisalabad	4.1	3.3
Multan	0.7	0.6
Sialkot	1.4	6.3
Total	**49.4**	**49.4**

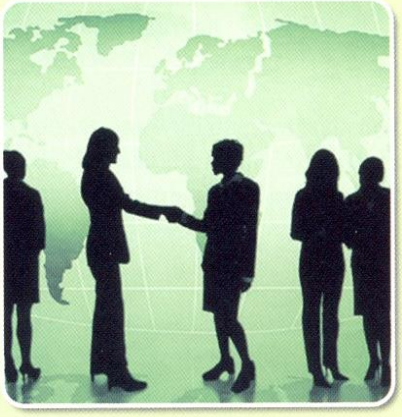
Table 5.2: Decision on Complaints

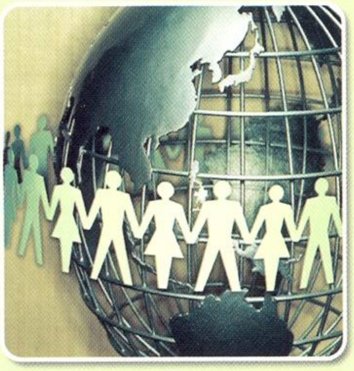
Adjudication Courts	Number of cases	
	FY14	FY15
Karachi	1,057	932
Lahore	546	640
Faisalabad	250	172
Multan	39	73
Sialkot	207	270
Total	**2,099**	**2,087**

5.1.2 Improvement in Recovery of Export Overdue Cases

The FEA Courts are working independently and endeavoring to adjudicate on merit within a reasonable time. To further improve the process, FEAD has started e-mailing Cause Lists to FEOD on weekly basis, for upcoming cases and monthly statement showing ageing of delay in lodging complaints for effective prosecution. FEAD is also preparing a plan for resolution of old cases and enhancing efficiency for timely repatriation of stuck up export proceeds. FEA courts are now also seeking assistance from FIA, Ministry of Commerce etc., under Section 23D of FERA. The department has been preparing a database of all the defaulting exporters since 2005, which will be made available for due diligence, for all stakeholders after seeking necessary approvals. Also, one Recovery Unit each has been established in Karachi and Lahore to accelerate recovery of penalty. Additionally, a 5-day specialized training course was arranged by FEAD during FY15, where learned retired Judges and attorneys shared their expertise and insight. Moreover, the process of issuance of Show Cause Notice was re-engineered at FEAD, which has enhanced the efficiency significantly. Show Cause Notices to banks are now being delivered to their central locations, which has resulted in cost cutting.

Human Resource Management





6 Human Resource Management

Human Resource Management Department (HRMD) is the backbone of organizational change management initiatives. The Department facilitates the Management in creating a desirable work environment for employees to make effective contribution in order to achieve organizational objectives.

6.1 Overview

Human Resource Management Department (HRMD) has carried out major HR interventions aimed to facilitate the organizational change management process and help achieve strategic objectives. The year under review witnessed various initiatives to further strengthen the human capital and its effective utilization on an organization-wide basis. The prime emphasis remained on the following initiatives:

(i) Talent resourcing.
(ii) Career development through promotions, Rotation & succession planning.
(iii) Strengthening of Performance Management System (PMS).
(iv) Workforce rationalization.
(v) HR policy review under the guidance of Chairman of the Board - SBP Governor, HR Committee and the Board of Directors.

HRMD also carried out extensive consultations with internal stakeholders to improve the organization's structure so as to effectively meet the changing organizational requirements. Further, efforts were made to improve communication with all stakeholders, primarily with Field Offices to ensure policy dissemination and broader ownership.

6.2 HR Profile

In the backdrop of on-going automation and business process re-engineering (BPR), the workforce rationalization is moving in the desired direction. A number of employees opted for early retirement as per Bank's Staff Regulations and the working strength of SBP BSC has reduced considerably over the period and the gap is being managed through fresh inductions, albeit in a rationale manner. The grade-wise comparison of headcount for FY14 and FY15 is given in **Table 6.1.** Thus, SBP BSC's futuristic HR requirements would entail high caliber, cost-effective and technology savvy professionals. Additionally, major interventions have been targeted towards skills up-gradation, leadership development, credible succession planning, robust PMS and technology up-gradation.

Table 6.1: SBP BSC Working Strength

Grade	No. of Employees	
	FY14	FY15
OG-6	2	5
OG-5	17	22
OG-4	61	78
OG-3	158	212
OG-2	864	956
OG-1	1,004	868
Below OG-1	1,000	870
Total	**3,106**	**3,011**

6.3 Talent Resourcing

The performance year 2014-15 remained centric on strengthening SBP BSC's manpower through induction of talented resources. For the purpose, inductions were made at entry, mid and senior level positions with a focused approach towards improving HR base, through a transparent and merit-based selection process. A brief on the major recruitment initiatives is given in **Box 6.1**.

Box 6.1: Brief on Recruitment Initiatives FY15

(1) Young Professionals Induction Program (YPIP) – 3rd and 4th Batch

A total of 143 OG-2 officers were hired during the period under two batches i.e. 3rd & 4th batch of YPIP. Sixty officers of third batch have been posted to Departments/Field Offices. Further, 83 candidates selected under 4th batch, have completed their theoretical training and have been taken on board for hands-on-training before final placements.

(2) Officers (OG-1) – 2nd and 3rd Batch

Two batches of OG-1 officers comprising 143 in total were hired-60 officers under 2nd batch and 83 officers under 3rd batch. The OG-1 officers inducted SBP BSC under both the batches have been posted in Departments/Field Offices after completion of theoretical training at NIBAF, Islamabad.

(3) Deputy Directors (OG-3)

A batch of 12 Deputy Directors (OG-3) was hired to fill in the resource gap at supervisory level, created due to early retirements. After completion of theoretical training at NIBAF, Islamabad, these officers have been posted in Departments/Field Offices.

(4) Hiring of Engineers

Owing to shortage of technical staff in Engineering Department, three recruitment drives were initiated so as to hire resources at various levels i.e. Entry, Supervisory and Divisional Head. Eleven officers have been inducted through a competitive process.

(5) Hiring of contractual Security Officers and Security Guards

In order to further strengthen the Internal Bank Security Department and to cope with any untoward security situation, HRMD initiated two drives for hiring of ex-servicemen as Security Officers and Security Guards on contract basis.

(6) Annual Manpower Planning Exercise

A structured HR planning process was initiated by HRMD in the form of 'Annual Manpower Planning' in order to identify HR needs of Departments/Field Offices. The objective was to support business operations through timely provision of talent. The departments/offices were advised to conduct a brief job analysis and assess HR requirements in line with their respective Business Plans, expected retirements and succession planning arrangements, with a view to ensuring adequate availability of talent.

6.4 Career Development

One of the key objectives of HRMD is to provide career development opportunities to the talented employees along with proper succession planning. Keeping this in view, HRMD has successfully completed Promotion Cycle during FY15 **(Table 6.2)** in which a large number of Officers and Clerical/ Non-Clerical staff were promoted.

Table 6.2: Cadre-wise Promotions

Cadre	No. of Employees Promoted
Officers	323
From Clerical/Non-Clerical Staff to Officer Cadre	78
Clerical/Non-Clerical Staff (Scale Promotions)	299
Total	**700**

Out of 700 promotions, 323 Officers and 299 Clerical/Non-Clerical employees were promoted to next Grade/Scale, whereas 78 Clerical/Non-Clerical employees were promoted to Officers cadre. In order to provide opportunities for career development and progression, options were provided to Clerical/Non-Clerical employees for changing their side. Upon completion of selection process, 23 employees were re-designated as Assistants/Sr. Assistants (Cash/General side) in Clerical cadre. Moreover, to overcome shortage of employees at Cash side, options were provided to Non-Clerical employees for re-designation as Vault Peons/Head Vault Peons. Eight employees were re-designated as Head Vault Peons on completion of selection process.

6.5 Performance Management System

In continuance of its efforts to further strengthen the PMS, HRMD has introduced Mid Year Review for appraisal cycle 2014-15. The underlying objective was to provide timely feedback to all employees, meet expectations for development and to ensure that employees' goals are aligned with departmental objectives. The following Bell-Curve quota distribution **(Table 6.3)** was observed for the performance year 2014-15:

Table 6.3: Bell Curve Quota Distribution

A	B+	B	C	D
10 percent On earning basis	18 percent	47 percent	15 percent	10 percent On earning basis

During the year under review, the exception of quota was allowed to 3.19 percent of total employees as compared to 3.42 percent in the previous year. Thus, SBP BSC is moving towards complete normalization of the bell curve.

6.5.1 Annual Merit Increase Budget

In line with the objective to develop a Pay-for-Performance culture, the AMI budget for officers was fixed at 7 percent of salary budget. This is expected to incentivize and motivate high performers to deliver the desired results and add value to the organization. The AMI rates for officers in terms of bell curve are given in **Table 6.4.** Similarly, the Clerical/Non-Clerical employees were awarded 7 percent performance increase across the board. Moreover, one time performance award of 3 percent of monetized salaries for the year 2014-15, on the basis of rendering satisfactory performance, as evaluated in their Performance Evaluation Reports (PERs), was given as detailed in **Table 6.5**.

Table 6.4:Annual Merit Increase Rates for Officers

Grade	Increase (percent)
A	10.0
B+	7.5
B	6.0
C	5.0
D	Nil

Table 6.5:Performance Award for Clerical/Non-Clerical Staff

Performance Categories	PER Range of Marks	Rate of one-time Performance Award per employee per year
Very Good	41-50	Rs 37,000
Good	31-40	Rs 30,000
Satisfactory	11-30	Rs 27,000
Unsatisfactory	0-10	Nil

6.6 Policy Review and Development

With the on-going transformation phase in SBP BSC, the department undertook several Organizational Development (OD) initiatives to review its existing HR policies. As part of aligning our compensation structures with market, a compensation and benefits survey was conducted by an external HR Consultant. Based on the findings of the survey report, an across the board 13% increase was given to all OG-1 & above Officers. Further, in order to attract and retain young talent in the organization, the minimum salary scales of OG-1 and OG-2 Officers were fixed at Rs.49,000/- and Rs.82,000/- respectively[5]. The overall salary scales were also redefined as per best market practices. In addition to Officers, Clerical/Non-Clerical Staff were also given an across the board 12% increase

[5] This salary revision was effective from July 01, 2015.

in salaries along with certain increase in various allowances and benefits. Additionally, a number of policies have been revised/ introduced as under:

6.6.1 Promotion Policy

The major objective to revise the Promotion Policy was to further streamline the promotion process, which would also be instrumental in developing a pool of qualified officers with diversified experience. The major revisions include varying eligibility period and PMS/PER score for different grades, fast track promotions, desktop evaluation, increase in salary upon promotion and continuous professional development.

6.6.2 Training and Development Policy

Training and Development Policy has been introduced to augment the capacity building of officers and to develop managerial and leadership skills. The Policy is aimed at providing a sustained and robust mechanism for meeting the capacity development needs of SBP BSC in terms of availability of current and future skills set, talent development and succession planning. The broad features of the Policy include instituting the mechanism of Training Needs Analysis (TNA), establishing training tracks, (function specific/ soft skills/ executive development), introduction of e-learning methodology and constitution of Training Steering Committee.

6.6.3 Contract Employment Policy

The objective of Contract Employment Policy is to standardize and streamline the process of recruitment on contract basis. The broad features of this Policy include steps in recruitment and selection process, succession planning, performance appraisal, compensation package and other benefits.

6.6.4 Higher Education Policy

The Higher Education Policy has been introduced which is aimed at equipping the human capital of SBP BSC with relevant and quality education, ensuring contribution towards development in core functional areas. The Policy features Study Leave to all eligible employees under Full-time Master Program at local and foreign universities.

6.6.5 Professional Development Incentive Program-Reimbursement of Examination / Registration Fee

In order to further encourage professional development of the employees, SBP BSC has allowed re-imbursement of examination/registration fee for various foreign qualifications. Further, as part of organizational development initiatives, instructions on following HR matters have been issued:

(1) Revision in Designations of Officers.
(2) Standardization of KPIs for Chief Managers.
(3) Additional Group Term Assurance facility for SBP BSC employees.
(4) Delegation of Power for Disciplinary Proceedings.
(5) Establishment of Travel Help Desk.

6.7 HR Manual

In order to facilitate employees and provide easy access to all instructions, HR Manual has been developed, which is a compendium of all existing instructions in a chapter-wise format. The Manual will enable employees to have a complete understanding about HR policies and practices. Moreover, it will bring consistency and standardization in HR practices across all Field Offices.

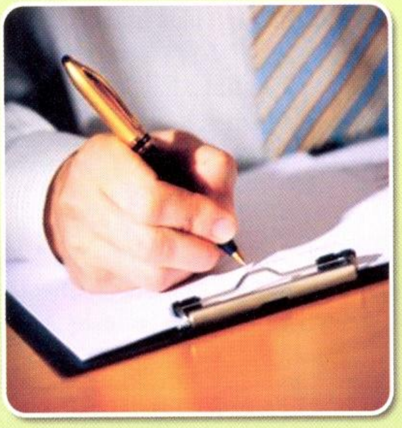
6.8 CBA Referendum (2014)

During the Performance period 2014-15, a referendum for determination of CBA in SBP BSC was held under the supervision of National Industrial Relations Commission (NIRC), which formulated the Code of Conduct for the contesting unions during the poll. The Referendum-2014 was held in a peaceful manner.

6.9 Future Outlook

One of the key objectives of HRMD is to enable our workforce to help achieve the organizational strategic goals along with effective delivery of HR services to the stakeholders. Keeping a futuristic outlook, the department consistently monitors inflow of human resources and early retirements, so as to maintain an optimal balance of HR through a systematic exercise of HR Planning. In order to promote a performance-oriented culture, Employee Engagement Survey is being undertaken to analyze the determinants of employees' performance. The findings of survey will enable the Management to take informed decisions that will have positive impact on the welfare of employees. Further, HRMD plans to carry out a workload analysis through the support of an external HR consultant to help determine the ideal headcount for the organization.

Internal Audit



7 Internal Audit

Internal Audit Department (IAD) provides independent assurance on effectiveness of governance, risk management framework and control processes.

7.1 Overview

The role of internal auditing in SBP BSC is to examine and evaluate whether the organization's framework of risk management, internal controls and governance processes is adequate and functioning properly. In addition, the objectives of Internal Audit Department (IAD) include advising and recommending senior management to improve internal control and risk management systems. Under the revised Audit Charter, the IAD's role has been expanded to bring about improvements in operations by evaluating and indicating exposure to risks in operational areas.

7.2 Working Performance

During the year under review, IAD carried out annual audits of 16 Field Offices and 10 Departments of SBP BSC. Further, 63 audit engagements were performed by Audit Hubs located in Karachi and Lahore. The results of audit activities have led to further improvements in the internal control environment, which would support SBP BSC in achieving the organizational objectives.

During FY15, IAD also carried out various special audits pertaining to the operations of FEOD, FEAD and assessment of security-related matters. On the basis of observations made during these special audits, IAD has recommended various internal control measures and value addition in the operations of SBP BSC.

7.3 Developmental Initiatives

The IAD, in line with its Charter and with a view to improving its approach in conducting audit and ensuring compliance to its observations, planned and proposed the following developmental projects during FY15:

(1) Upgrading business data in Auditware.
(2) Addition of Compliance Module in Auditware.
(3) Re-defining the scope and working of Audit Hubs.
(4) Risk framework for BSC's Core Operations.
(5) Preparedness for external review of IAD practices.

For improving efficiency and reducing redundant workload of the departmental activities, a project was initiated to introduce Audit Management Software to automate the audit working. As part of Business Process Re-engineering (BPR) of Audit Hubs, the ToRs of Audit Hubs have been modified, thereby strengthening their working/checklists and reporting requirements, which have also been revised in order to streamline the functions and increase their efficiency.

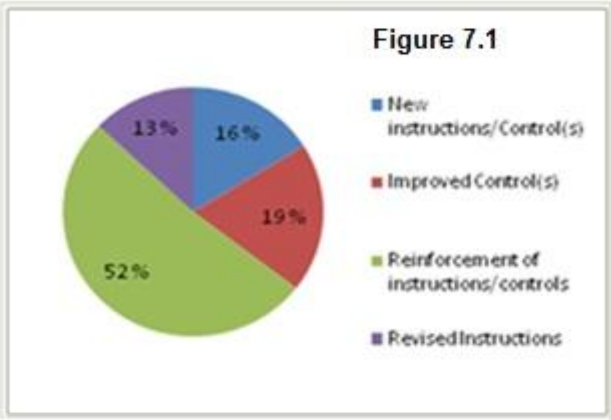
Control & Risk Rating System (CRRS) for offices and departments and BSC-wide Risk Framework have been completed during FY15. These frameworks will enable the Audit to effectively rank offices and departments as per their respective control environments in the context of their specific inherent risk profile and will also provide an enterprise-wide risk rating of BSC, once the linkage between two frameworks is established. Training on these frameworks and relevant Internal Auditing Standards has also been imparted to auditors. The frameworks are being applied on trial basis and the gaps identified will be addressed through follow up trainings.

7.4 Risk-based Annual Audit Plan

Before the beginning of FY15, a risk-based annual audit plan was made for audit activities, keeping in view the organizational goals and objectives. The plan was devised by incorporating the risk factors from risk inventory. To achieve the desired results of these audit activities, the risk inventory was reviewed in consultation with the Field Offices. Accordingly, the prioritization of business operations based on risk ranking was updated. Further, the work load analysis and assessment of internal controls based on last year's audit reports of Field Offices and Departments, was used in preparing the plan.

7.5 Impact of Audit Observations

The impact of audit observations for FY15 was assessed on the basis of value addition to the organization and improvements that were brought in the control environment. As shown in **Figure 7.1**, approximately combined impact of 35 percent audit observations resulted in recommending new and improved controls in the organization. In addition, a significant chunk of audit observations also resulted in reinforcement of relevant instructions and controls.



7.6 Compliance & Enforcement Unit

The audit observations identified during audit engagements are rigorously followed up by Review and Enforcement Division. The compliance of audit observations reported in audit reports and briefs of respective departments and offices are ensured so that adequate response and regularization is done in a minimum time period.

During FY15, IAD pursued the compliance status of audit observations that were reported in audit reports of FY14 and FY15. The follow up reports were prepared to apprise the higher management of post audit compliance and status of unresolved audit observations with timelines of their compliance.

7.7 Information Technology Audit

This year, IAD has taken the initiative to further strengthen its IT audit scope. For this, IAD initiated a proposal in coordination with Internal Audit and Compliance Department (IA&CD) and Information Systems and Technology Department (ISTD) of SBP. As a result, following types of SBP BSC specific audits are being covered under the revised scope of IAD:

(1) IT infrastructure Audits.
(2) Application Audits.
(3) Change Management Audits.
(4) Wide Area Network Audits.
(5) Pre and post implementation Audits.

(6) Business Continuity Planning (BCP) design and arrangements Audit (significant portion of BSC's operations is IT-based).

7.8 Performance of Internal Audit Department Audit Hubs

The function of Audit Hubs, set up in Karachi and Lahore, is based on a pre-defined high risk area specific scope that needs to be audited on periodic basis.

During FY15, the Audit Hubs conducted 63 short and focused audits that helped in achieving effective monitoring of internal controls. The scope of Audit Hubs was revised and re-determined in the light of activity-based processes carrying high risks and requiring frequent assurance and oversight. Frequently observed weaknesses in controls identified during audits were highlighted in order to facilitate the management focus on them.

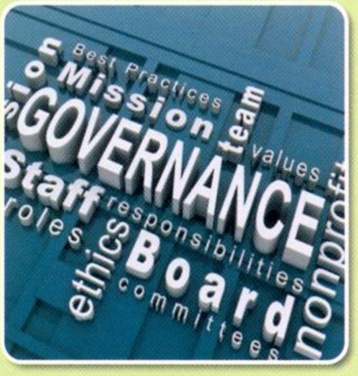
7.9 Capacity Building of Internal Auditors

Enhancement of auditors' skill set and proficiency is one of the key areas of focus at IAD. Training programs, based on priority and requirement, were held continually throughout FY15. IAD personnel participated in 18 trainings during the year under review, which helped diversify the skill set of the auditors, enabling them to work efficiently in a variety of key areas. These capacity building initiatives also helped to inculcate latest audit techniques among officers of IAD, besides moving towards improvement in audit practices in line with international best practices.

7.10 Future Outlook

Looking forward, IAD has taken initiative of adopting a more automated environment for its activities. The department is also planning to procure a suitable audit management software. Further, a risk framework for SBP BSC's core operations is being developed to ascertain strategic and major business risks along with underlying Key Risk Indicators in such operations to help minimize the level of risk exposure to the organization. IAD also plans to have its practices externally reviewed, which will help in identifying the gaps with regard to international best practices and suggest measures to overcome the gaps.

Corporate Governance



8 Corporate Governance

Strategic & Corporate Planning Department (SCPD) has recently completed its first performance year. SCPD and OCS (Office of the Corporate Secretary) have been aligned and assigned to facilitate and support the Corporate Governance Framework at SBP BSC.

8.1 Overview

SCPD has been assigned to facilitate and support the Corporate Governance Framework at SBP BSC. Recently, the department has been expanded and entrusted with responsibilities of the Office of Corporate Secretary (OCS) to facilitate the SBP BSC Board and its Committees, which was earlier handled by the OCS of SBP.

The department provides support to the management to develop strategic plans, define business goals and implement the same in line with SBP BSC's vision. For this purpose, SCPD facilitates holding of meetings of Heads of Department (HoDs) Forum, Chief Managers (CMs) Conference and other Management Committees. The department's role has, therefore, been enhanced as repository of information, coordination and facilitation for improved corporate governance.

Box 8.1: **Highlights**

SCPD

- Completion of the first performance year by SCPD with revised ToRs and enhanced roles and responsibilities.
- Steering the Strategic Planning Process at SBP BSC.
- Coordination of the Business Planning Process of SBP BSC.
- Streamlining BPR activities under a single domain, removing redundancy and delays.
- Centralized business applications system support for operational functions in coordination with ISTD.

Office of the Corporate Secretary (OCS)

- Serving as Secretariat for Management Committees on: (a) Strategy Development, (b) Business Process Re-engineering, (c) Publications, (d) Budget, (e) Land, Buildings and Projects, (f) Enterprise Risk.
- Compliance of decisions of the Board of Directors of SBP BSC and the CMT of SBP by the concerned departments of SBP BSC.

SCPD also coordinates and monitors the Business Planning exercise along with facilitating the Business Process Reengineering (BPR) activity through its Systems and Procedures Division (SPD). As the business processes at SBP BSC are largely driven by Globus and Oracle ERP Applications, there is a continuous focus to make them more user-friendly and efficient. SCPD has coordinated finalization of web content relating to SBP BSC to be placed on SBP and SBP BSC website, which is in its final stages of revamping.

8.2 Performance Review of Strategic and Corporate Planning Department

8.2.1 Strategic Planning in SBP BSC

Formulation of a Strategic Plan is one of the most vital functions of SCPD for which the department is initiating an exercise of hiring services of an experienced external consultant to guide the Strategic Plan formulation and implementation process at SBP BSC.

8.2.2 Business Planning in SBP BSC

An important role assigned to SCPD is to serve as a facilitator for carrying out Business Planning exercise at SBP BSC as well as to coordinate the related activities. In this regard, facilitation is provided by the department towards monitoring the progress of various activities and projects approved in the Annual Business Plans.

8.2.3 Annual Performance Review

Preparation and printing of Annual Performance Review (APR) and relevant material of SBP BSC for inclusion in SBP Annual Report are two important assignments managed by SCPD. The Management Committee on Publications, which helps in the finalization of contents of the APR and its design, is also steered by SCPD.

8.2.4 Systems & Procedures

SCPD is entrusted with the responsibility of providing services and solutions to SBP BSC to improve and strengthen it to effectively and efficiently utilize the core business solutions developed through Globus and Oracle Applications. For the purpose, SCPD continues to initiate and seek active feedback of different users for consistent improvements in operational activity as well as strengthening of system-based internal controls. SCPD ensures close interaction with the users through better business planning, business process re-engineering (BPR) and monitoring processes. Frequent interaction with users helps the Systems and Procedures Division (SPD) to correctly prioritize needs for development of new system applications and/or improvements in existing processes by eliminating redundancies.

During FY15, multiple projects have been implemented e.g. launch of Dashboard Application for senior management along with focused e-mail alerts on operational activities to the concerned Chief Managers and management, electronic stamping of Government Cash Receipt Challans and providing E-statement to commercial banks through Data Acquisition Portal (DAP) etc. Moreover, SPD provides first level helpdesk support to 16 Field Offices of SBP BSC and its Head Office in the areas of Globus Banking (Public Accounts Unit, Deposit Accounts Unit, Prize Bonds, NSS and Export Refinance etc.) and Globus Currency till close of business signal is received from all offices.

8.2.5 Meetings of Heads of Departments Forum and Chief Managers Conference

Convening and organizing meetings, development and circulation of agenda, drafting / dissemination of minutes and ensuring compliance of the decisions made at the meetings of HoDs and CMs Forums are some of the important responsibilities of SCPD and newly-created OCS.

8.2.6 Management Committees Secretariat

The responsibility of providing secretarial support to the six Management Committees has also been assigned to OCS. **Box 8.2** and **8.3** depicts the secretarial role and activities of OCS-SBP BSC:

Box 8.2:Management Committees Secretariat

SBP BSC has been assigned the responsibility of acting as central repository of information pertaining to six Management Committees, as well as to provide secretarial support in order to facilitate the smooth and efficient holding of meetings of the following Management Committees and ensuring follow up of their decisions:

1. Management Committee on Strategy Development.
2. Management Committee on Business Process Re-engineering.
3. Management Committee on Publications.
4. Management Committee on Budget.
5. Management Committee on Land, Buildings and Projects (since dissolved).
6. Enterprise Risk Management Committee.

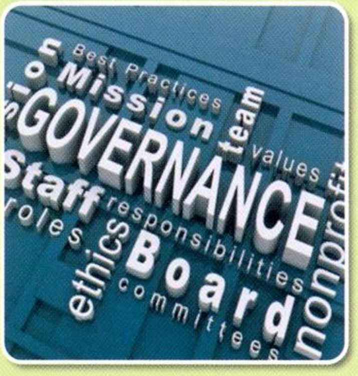
Box 8.3: Meetings of Management Committees(MCs) during FY15

MC on Strategy Development	MC on BPR	MC on Publications	MC on Budget	MC on Land, Buildings and Projects	Enterprise Risk Management Committee
01	04	03	04	01	01

8.3 Going Forward

Traditionally, the function of OCS is to ensure the establishment of corporate governance framework by facilitating the Board of Directors and its Committees to perform their role. The department will act as a conduit between the Board and Management to ensure that the Board's decisions are implemented in letter and spirit and in line with the strategic vision of SBP BSC. OCS, which is likely to be fully functional during FY16, also plans to further improve and build efficiency in the use of system-based applications by all the Departments and Field Offices of SBP BSC, particularly during the planned up-gradation of Globus T-24 Application.

Corporate Governance



8 Corporate Governance

Strategic & Corporate Planning Department (SCPD) has recently completed its first performance year. SCPD and OCS (Office of the Corporate Secretary) have been aligned and assigned to facilitate and support the Corporate Governance Framework at SBP BSC.

8.1 Overview

SCPD has been assigned to facilitate and support the Corporate Governance Framework at SBP BSC. Recently, the department has been expanded and entrusted with responsibilities of the Office of Corporate Secretary (OCS) to facilitate the SBP BSC Board and its Committees, which was earlier handled by the OCS of SBP.

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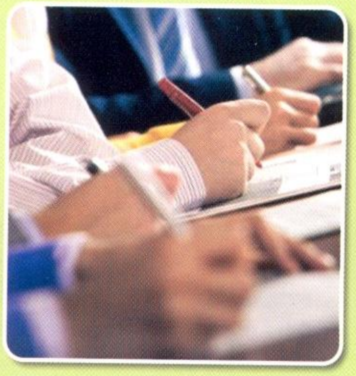
Training and Development



10 Training and Development

Training and Development Department (TDD) has been striving constantly towards the focused capacity building by identifying and addressing the skill gaps between desired level of performance and the actual capabilities of SBP BSC employees. NIBAF, being the prime partner of TDD, caters to designing and imparting quality training programs.

10.1 Overview

Training and Development Department continued its focus on capacity building of SBP BSC employees in order to align their capabilities with organizational needs by conducting various training programs during FY15. The key focus remained on arranging quality training programs in the light of management priorities for skills enhancement and professional development of employees. Major source of training needs identification has been based on each department's performance planning and functional needs, prepared in close coordination with the concerned HoDs and CMs.

A brief summary of broad training tracks is placed at **Box 10.1.**

Box 10.1: Participation levels in Training tracks

Training Track	No. of Participants
Recruitment Driven Training/Orientation	298
In-house/NIBAF Function Specific Training	620
Mandatory Training Programs (promotion-linked)	147
External Institutions Training Programs	237
Foreign Trainings	36
Total	**1,338**

10.2 Induction-Based Training/Orientation Programs

TDD, being an instrumental partner with HRMD for on-boarding the newly-hired batches of Deputy Directors Training Program (DDTP), Young Professionals Induction Program (YPIP) and Junior Officers Training Program (JOTP), has been entrusted with designing and imparting comprehensive training plans, in coordination with NIBAF. Details of these programs are mentioned in **Table 10.1**.

Table 10.1: Induction-Based Training / Orientation Programs

Program	Duration	No. of Participants	Venue
YPIP – 3rd batch	12 Weeks (June 23, 2014 – Sep 19, 2014)	60	NIBAF Islamabad
OTP – 2nd batch	4 Weeks (Aug 4, 2014 – Sep 7, 2014)	60	NIBAF Islamabad
Deputy Directors Training Program (OG-3)	6 Weeks (Jan 5, 2015 – Feb 13, 2015)	12	NIBAF Islamabad
YPIP – 4th batch	12 Weeks (Mar 16, 2015 – June 5, 2015)	83	NIBAF Islamabad
OTP – 3rd batch	4 Weeks (June 1, 2015 – June 26, 2015)	83	NIBAF Islamabad
	Total	**298**	

Moreover, a 6-week hands-on training for YPIP-3 was also conducted at HOK and Karachi Office to provide newly-hired officers with practical implementation of theoretical training. Similarly, a 6-

week hands-on training/orientation for YPIP-4 was also conducted at HOK, Karachi Office and North Nazimabad Office.

10.3 In-house/National Institute of Banking and Finance Training Programs

Based on the analysis of PMS-based Training Need Assessment (TNA) and feedback from HoDs, priority training programs were conducted at NIBAF Karachi and Islamabad so as to cater to the function-specific, professional and career development training needs at individual and organizational levels.

10.4 Function-Specific Training Programs

TDD arranged 29 function-specific programs for 620 employees of SBP BSC during FY15. These programs/modules were designed, in consultation with the concerned stakeholders, duly considering the emerging needs and individual/group training needs highlighted through PMS planning process.

For the capacity building of security staff of SBP BSC, Basic First Aid training workshops were conducted, in coordination with Pakistan Red Crescent Society, at Rawalpindi, Lahore and Karachi Offices for 15, 25 and 24 participants respectively.

10.4.1 Career Development/Mandatory Training Programs

Mandatory training program for OG-1 and OG-2, in line with the promotion policy 2009, was conducted at NIBAF, Islamabad for 48 employees eligible for promotion as per list provided by HRMD. Similarly, in close coordination with HRMD, four iterations of customized training program were designed for recently re-designated Assistants/Senior Assistants. Moreover, to ensure robust security, firing practice exercises are conducted twice a year for the Bank's security personnel. All offices, with the exception of Lahore and Hyderabad Office, have confirmed that 100 percent of their guards have gone through firing practice during FY15. Lahore Office has been promised firing range availability in October, whereas, 30 percent of Hyderabad Office's security personnel will undergo firing practice soon.

In addition, first iteration of a 5-day Skills Development Program for 22 newly-promoted OG-3 officers was conducted at NIBAF, Islamabad with special focus on supervisory and team management skills. This workshop also included an outdoor activity for the participants where they had to perform certain team building and supervisory tasks while being monitored by an independent assessor. Two more iterations of this program are planned in August and September, 2015. A summary of these programs is provided in **Table 10.2**.

Table 10.2: Mandatory Training Programs

S.No.	Training Module	Participants	Duration	Venue
1	Mandatory Training Program for OG-1 and 2	48	03 Days	Islamabad
2	Professional Skills Development Program for Clerical Staff (4 Iterations)	77	03 Days	Islamabad and Karachi
3	Skills Development Program for Newly-Promoted OG–3 Officers	22	05 Days	Islamabad
	Total	**147**		

10.5 Training Programs at External Institutes

After a thorough analysis of PMS-based training needs, few specific training needs have been identified for which in-house arrangements were not feasible. In order to cater to such specific individual training needs, TDD identified quality local institutions including Institute of Bankers

(IBP), Pakistan Institute of Management (PIM) and Pakistan Society for Training and Development (PSTD) and sent SBP BSC employees to these institutions for developing their soft skills and exposure to market practices and networking. During FY15, 237 employees were sent to 63 training programs. Twelve employees were also sent to Lahore University of Management Sciences (LUMS) for attending their three workshops.

10.6 Foreign Trainings/Exposure Visits

In line with management philosophy, TDD facilitated the approval of suitable nominations from SBP BSC in world class international training institutions/central banks. Taking into consideration the procurement of high-end machines in currency management, timely support/coordination was extended in arranging study visits and seminars offered by central banks in the region. New learning opportunities at Central Banks were explored to provide international exposure to SBP BSC employees. Thirty six employees of SBP BSC were sent to 21 workshops/seminars at various Central Banks including Bundesbank Germany, Czech National Bank, De Nederlandsche Bank Amsterdam, Central Bank of Republic of Turkey and Bank Negara Malaysia etc. during FY15

Box 10.2: Highlights – Implementation of Training & Development Policy

- Issuance of revamped Role Profile for Training Coordinators
- Initiation of process regarding delegation of Training Budget to Field Offices.
- Development of E-Learning Portal to be launched in 3Q CY15.
- Commencement of hiring process of consultancy for Management Development Centre.

Future Outlook

- Development of SOPs for Master Trainers and Train the Trainer program for selected master trainers
- NIBAF flagship program for Management Development of OG–4 & above officers

10.7 Internship Programs

TDD is fully committed to fulfilling Corporate Social Responsibility of SBP BSC. In pursuance of this goal, internship programs were organized to provide students with an opportunity to get practical understanding of the working of SBP BSC and test their knowledge and skills in a challenging environment. Under this program, Winter Internship Program was launched at SBP BSC, Quetta exclusively to provide more opportunities to the students of Balochistan. Twenty students attended this program. Summer Internship Program has also been launched for 295 students across all the 16 Field Offices.

10.8 Policy Initiatives

A new Training and Development Policy was issued during FY15 so as to streamline framework of training and development activities across SBP BSC. Accordingly, TDD has taken the following steps to ensure smooth and timely implementation of this Policy:

- Revamped Role Profile of Training Coordinators after deliberations in Training Steering Committee.
- In order to expand training opportunities available to the employees of Field Offices, specific training budget will be allocated. TDD has carried out necessary analysis in this regard and final proposal has been sent to Accounts Department for required changes in the Expenditure Regulations.
- The process of E–Learning has been initiated so as to provide boundary-less learning opportunities to all employees of SBP BSC. This self-learning computer-based training concept will allow the employees to access online learning portal of SBP BSC and satisfy their learning needs in any area pertaining to the functions of SBP BSC.

- Engagement of external consultants to conduct Management Development Exercise in order to identify potential middle management employees to be groomed for senior positions through suitable development activities.

Financial Statements of SBP BSC

Financial Statements of SBP BSC

Audited Financial Statements of SBP BSC are presented which comprise the balance sheet as at 30th June 2015, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

A. F. FERGUSON & CO.
Chartered Accountants
State Life Building No. 1 – C
I. I. Chundrigar Road
P. O. Box 4716
Karachi-74000

ERNST & YOUNG FORD RHODES SIDAT HYDER
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541
Karachi-75530

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of SBP Banking Services Corporation ("the Corporation") which comprise the balance sheet as at June 30, 2015, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the "financial statements").

Management's Responsibility for the Financial Statements

Management of the Corporation is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The financial statements of the Corporation for the year ended June 30, 2014 were audited by A.F. Ferguson & Co. and KPMG Taseer Hadi & Co. who had expressed an unmodified opinion thereon vide their report dated October 30, 2014.

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Salman Hussain
Audit Engagement Partner

Date: October 26, 2015

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Karachi

Omer Chughtai
Audit Engagement Partner

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2015

	Note	2015	2014
		------(Rupees in '000)------	
ASSETS			
Current account with the State Bank of Pakistan		**40,635,754**	37,876,846
Investments	5	**571,720**	569,449
Employee loans	6	**10,577,857**	10,577,916
Advances, deposits and prepayments	7	**39,107**	32,283
Medical and stationery consumables	8	**132,479**	125,061
Property and equipment	9	**284,665**	237,867
Total assets		**52,241,582**	49,419,422
LIABILITIES			
Deposits and other liabilities	10	**5,752,762**	5,900,571
Deferred liabilities - unfunded staff retirement benefits	11	**45,488,820**	42,518,851
Total liabilities		**51,241,582**	48,419,422
Net assets		**1,000,000**	1,000,000
REPRESENTED BY:			
Share capital	12	**1,000,000**	1,000,000
CONTINGENCIES AND COMMITMENTS	13		

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2015

	Note	**2015**	2014
		------(Rupees in '000)------	
Discount and interest earned	*14*	**48,573**	48,907
Net operating expenses	*15*	**14,179,759**	13,980,071
Reimbursable from the State Bank of Pakistan		**(6,873,983)**	(7,086,827)
Allocated to the State Bank of Pakistan		**(7,305,776)**	(6,893,244)
		-	-
Operating profit		**48,573**	48,907
Gain on disposal of property and equipment		**1,263**	121
Other income		**655**	1,081
Profit for the year		**50,491**	50,109

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2015

	Note	**2015**	2014
		------(Rupees in '000)------	
Profit for the year		**50,491**	50,109
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Loss on remeasurements of defined benefit plans	*15.1.5*	**(2,073,949)**	(12,972,476)
Allocated to the State Bank of Pakistan		**2,073,949**	12,972,476
		-	-
Total comprehensive income for the year		**50,491**	50,109

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz	**Muhammad Habib Khan**
Managing Director	**Director Accounts**

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2015

	Share capital	Unappropriated profit	Total
	----------------	(Rupees in '000)	----------------
Balance as at July 1, 2013	1,000,000	-	1,000,000
Total comprehensive income for the year	-	50,109	50,109
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(50,109)	(50,109)
Balance as at June 30, 2014	1,000,000	-	1,000,000
Total comprehensive income for the year	-	50,491	50,491
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(50,491)	(50,491)
Balance as at June 30, 2015	**1,000,000**	**-**	**1,000,000**

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Qasim Nawaz
Managing Director

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SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Note	**2015**	2014
		-------(Rupees in '000)-------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	*16*	**139,379**	131,943
Profit transferred to the State Bank of Pakistan		**(50,491)**	(50,109)
Retirement benefits and employees' compensated absences paid during the year		**2,942,921**	11,329,509
Income on Government securities received during the year		**31,767**	34,390
		3,063,576	11,445,733
(Increase) / decrease in assets			
Current account with the State Bank of Pakistan		**(2,758,908)**	(11,892,353)
Medical and stationery consumables		**(7,418)**	(5,469)
Employee loans		**59**	446,734
Advances, deposits and prepayments		**(6,824)**	3,647
Increase / (decrease) in liabilities			
Deposits and other liabilities		**(120,761)**	(199,350)
Net cash generated from / (used in) operating activities		**169,724**	(201,058)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		**(17,926)**	329,205
Capital expenditure		**(154,608)**	(130,964)
Proceeds from disposal of property and equipment		**2,810**	2,817
Net cash (used in) / generated from investing activities		**(169,724)**	201,058
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of the year		**-**	-
Cash and cash equivalents at end of the year		**-**	-

The annexed notes from 1 to 23 form an integral part of these financial statements.

Qasim Nawaz	**Muhammad Habib Khan**
Managing Director	**Director Accounts**

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

1. STATUS AND NATURE OF OPERATIONS

1.1 SBP Banking Services Corporation (the Corporation) was constituted under the SBP Banking Services Corporation Ordinance, 2001 (the Ordinance) as a wholly owned subsidiary of the State Bank of Pakistan (SBP) and commenced its operations with effect from January 2, 2002. The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance mainly including:

- disbursing of loans and advances to the Governments, banks, financial institutions and local authorities and facilitating in inter-bank settlement system;

- collecting revenue and making payments for and on behalf of, and maintaining accounts of the Governments, local bodies, authorities, companies, banks and other financial institutions;

- receipt, supply and exchange of bank notes and coins;

- dealing in prize bonds and other savings instruments of the Government; and

- operational work relating to management of debt and foreign exchange.

Any assets, liabilities, income and expenditure directly relating to the above activities are accounted for in the books of SBP while the cost incurred by the Corporation in carrying out the above activities are either reimbursed from or allocated to SBP (including the portion charged to the statement of comprehensive income) and are accounted for as deduction from the expenditure while net profit / loss, if any, of the Corporation is transferred to / recovered from SBP.

1.2 The head office of the Corporation is situated at I.I. Chundrigar Road, Karachi, in the province of Sindh, Pakistan.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention, except that certain staff retirement benefits and provision for employees' compensated absences have been carried at present value of defined benefit obligations.

3.2 The financial statements are presented in Pakistani Rupees (PKR) which is the Corporation's functional and presentation currency.

3.3 Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRSs), requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgments about the carrying values of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Judgments made by the management in the application of International Financial Reporting Standards (IFRSs) and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities are as follows:

3.3.1 Retirement benefits

The key actuarial assumptions concerning the valuation of defined benefit plans and sources of estimation are disclosed in note 15.1 to these financial statements.

3.3.2 Useful life and residual value of property and equipment

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. Rates of depreciation are given in note 9.1.

3.3.3 Provision against obsolete medical and stationery consumables

The Corporation exercises judgment and makes provision for obsolete items based on their future usability. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

3.4 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

New Standards, Interpretations and Amendments

The Corporation has adopted the following accounting standard and the amendments and interpretation of IFRSs which became effective for the current year:

IAS 19 - Employee Benefits - (Amendment) - Defined Benefit Plans: Employee Contributions

Improvements to Accounting Standards Issued by the IASB

IFRS 2 Share-based Payment - Definitions of vesting conditions

IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination

IFRS 3 Business Combinations - Scope exceptions for joint ventures

IFRS 8 Operating Segments - Aggregation of operating segments

IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets

IFRS 13 Fair Value Measurement - Scope of paragraph 52 (portfolio exception)

IAS16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation / amortisation

IAS 24 Related Party Disclosures - Key management personnel

IAS 40 Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

The adoption of the above amendments, improvements to accounting standards and interpretations did not have any material effect on the financial statements.

3.5 New and amended standards and interpretations that are not yet effective

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The management is in the process of assessing the impact of IFRS 15 on the financial statements of the Bank.

The following standards, amendments and interpretations with respect to the approved accounting standards would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01 January 2016
IFRS 11 Joint Arrangements-Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IFRS 14 – Regulatory Deferral Accounts	01 January 2016
IAS 1 – Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 16 Property, Plant and Equipment and IAS 38 intangible assets - Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 27–Separate Financial Statements–Equity Method in Separate Financial Statements (Amendment)	01 January 2016

The above standards and amendments are not expected to have any material impact on the Bank's financial statements in the period of initial application.

In addition to the above standards and amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2016. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These have been consistently applied to all the years presented.

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

The management determines the appropriate classification of its financial assets in accordance with the requirements of International Accounting Standard 39 (IAS 39) "Financial Instruments: Recognition and Measurement" at the time of purchase of financial assets and re-evaluates this classification on a regular basis. The financial assets of the Corporation are categorised as follows:

a) Financial assets 'at fair value through profit or loss'

Financial assets that are acquired principally for the purpose of generating profit from short-term fluctuations in prices are classified as financial assets 'at fair value through profit or loss' category.

b) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Corporation's loans and receivables comprise of current account with the State Bank of Pakistan, employee loans and other advances and deposits.

c) Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Corporation has a positive intent and ability to hold till maturity.

d) Available for sale financial assets

These are the non derivative financial assets which are either designated in this category or which do not fall in any of the other categories.

4.1.1.2 Initial recognition and measurement

All financial assets are recognised at the time the Corporation becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Corporation commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs except for financial assets carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value while the transaction costs associated with these financial assets are taken directly to the profit and loss account.

4.1.1.3 Subsequent measurement

Subsequent to initial recognition, financial assets are valued as follows:

a) Financial asset 'at fair value through profit or loss' and 'available for sale'

Financial assets 'at fair value through profit or loss' are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are taken to the profit and loss account in the period in which these arise.

'Available for sale' financial assets are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are recognised in other comprehensive income, except investments in those securities the fair value of which cannot be determined reliably and are stated at cost.

b) Financial assets classified as 'Loans and receivables' and 'held to maturity'

Loans and receivables and held to maturity financial assets are carried at amortised cost.

4.1.1.4 Impairment

The Corporation assesses at each balance sheet date whether there is an objective evidence that a financial asset is impaired.

a) Assets carried at amortised cost

For financial assets carried at amortised cost, the Corporation first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for individually assessed financial assets, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying value of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occuring after the write down, the write down or allowance is reversed through profit and loss account.

b) Assets classified as 'available for sale'

In case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If any evidence for impairment exists, the cumulative loss is removed from other comprehensive income and recognised in the profit and loss account. For investments, other than equity instruments, the increase in fair value in a subsequent period thereby resulting in reversal of impairment is reversed through profit and loss account. Impairment losses recognised in profit and loss account on equity instruments are not reversed through profit and loss account.

4.1.2 Financial liabilities

Financial liabilities with a fixed maturity are measured at amortised cost using the effective interest rate. These include deposits and other liabilities.

4.1.3 Derecognition of financial assets and financial liabilities

a) Financial assets

The Corporation derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit and loss account.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of new liability, and the difference in the respective carrying amount is recognised in the profit and loss account.

4.1.4 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

4.2 Employee loans

These are stated at cost less estimates made for any doubtful receivables based on a review of all outstanding amounts at the balance sheet date.

4.3 Medical and stationery consumables

Medical and stationery consumables are valued at lower of weighted average cost and the net realisable value.

Provision for obsolete items is determined based on the management's assessment regarding their future usability.

Net realisable value represents estimated selling prices in the ordinary course of business less the estimated cost necessary to make the sale.

4.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, except capital work-in-progress which is stated at cost less accumulated impairment losses, if any. Historical cost includes expenditure that are directly attributable to the acquisition of the items.

Depreciation on property and equipment is charged to profit and loss account by applying the straight-line method at the rates specified in note 9.1 to the financial statements, whereby the depreciable amount of an asset is written off over its estimated useful life. Depreciation on additions is charged to the profit and loss account from the month in which the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

Estimates of useful life and residual value of property and equipment are based on the management's best estimate. The assets' residual value, depreciation method and useful life are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property and equipment are recognised in the profit and loss account.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to the profit and loss account as and when incurred.

4.5 Impairment of non-financial assets

The carrying amounts of the Corporation's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated. The recoverable amount is higher of an asset fair value less cost to sell and value in use. In assessing the value in use, estimated future cash flows are discounted to present value using a discount rate that reflects the current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset or a group of assets exceeds its recoverable amount.

4.6 Compensated absences

The Corporation makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates using Projected Unit Credit Method.

4.7 Staff retirement benefits

The Corporation operates the following staff retirement benefit schemes for employees transferred from SBP (transferred employees) and other employees:

a) an un-funded contributory provident fund (old scheme) for transferred employees who joined SBP prior to 1975 and opted to remain under the old scheme. The Corporation provided an option to employees covered under old scheme to join the funded Employer Contributory Provident Fund Scheme - ECPF (new scheme) effective from July 1, 2010. Under this scheme contribution is made by both the employer and employee at the rate of 6% of the monetized salary. Moreover, employees joining the Corporation service after July 1, 2010 are covered under the new scheme.

b) an un-funded general contributory provident fund (new scheme) for transferred employees who joined SBP after 1975 or who had joined SBP prior to 1975 but have opted for this new scheme. Under this scheme contribution is made by the employee at the rate of 5% of the monetized salary.

c) the following other staff retirement benefit schemes:

- an un-funded gratuity scheme (old scheme) for all employees other than the employees who opted for the new general contributory provident fund scheme or transferred employees who joined SBP after 1975 and are entitled only to pension scheme benefits;

- a funded Employees Gratuity Fund (EGF) was introduced by the Corporation effective from July 1, 2010 for all its employees other than those who opted for pension scheme or unfunded gratuity scheme (old scheme);

- an un-funded pension scheme for those employees who joined the Bank after 1975 and before the introduction of EGF which is effective from July 1, 2010;

- an un-funded contributory benevolent fund scheme;

- an un-funded post retirement medical benefit scheme; and

- an un-funded six months post retirement benefit scheme.

Obligations for contributions to defined contribution provident plans are recognised as an expense in the profit and loss account as and when incurred.

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 2015. The amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the period in which they occur. The amount arising as a result of remeasurement is allocated to the State Bank of Pakistan however, the liability is retained in the balance sheet of the Corporation.

The key actuarial assumptions concerning the valuation of defined benefit plans and the sources of estimation are disclosed in note 15.1 to the financial statements.

4.8 Revenue recognition

Discount, interest / mark-up and / or return on loans and investments are recorded on a time proportion basis that takes into account the effective yield on the asset.

4.9 Taxation

The income of the Corporation is exempt from tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001.

4.10 Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

	Note	**2015**	2014
5. INVESTMENTS		**------(Rupees in '000)------**	
Held to maturity			
Market Treasury Bills	*5.1*	**524,942**	522,837
Pakistan Investment Bond	*5.2*	**46,778**	46,612
		571,720	569,449

5.1 Market Treasury Bills carry mark-up at the rate of 6.79% to 9.48% per annum (2014: 9.98% to 9.99% per annum) and are due to mature by March 2016 (2014: June 2015).

5.2 Pakistan Investment Bond carry mark-up at the rate of 9.60% per annum (2014: 9.60% per annum) and is due to mature by June 2016 (2014: June 2016).

	Note	**2015**	2014
6. EMPLOYEE LOANS		**------(Rupees in '000)------**	
Considered good		**10,577,857**	10,577,916
Considered doubtful		**8,366**	9,021
	6.1	**10,586,223**	10,586,937
Provision against doubtful loans	*6.2*	**(8,366)**	(9,021)
		10,577,857	10,577,916

6.1 Represent loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 43.178 million (2014: Rs. 70 million) that carry mark up at 10% per annum (2014: 10% per annum). Maximum maturity of loans is upto year 2052 (2014: year 2051).

These loans have been given in respect of:-

- Housing loans - Secured against equitable mortgage of the property.
- Motor vehicle loans - Secured against hypothecation of the vehicle.
- Computer and personal loans, given on personal guarantee of two employees of the Corporation.

		Note	**2015**	2014
6.2	**Provision held against employee loans**		**------(Rupees in '000)------**	
	Opening balance		**9,021**	9,706
	Charge for the year		**-**	-
	Reversals		**(655)**	(685)
	Closing balance		**8,366**	9,021
7.	**ADVANCES, DEPOSITS AND PREPAYMENTS**			
	Advances, deposits and prepayments		**30,483**	26,472
	Others		**8,624**	5,811
			39,107	32,283
8.	**MEDICAL AND STATIONERY CONSUMABLES**			
	Medical and stationery consumables	*8.1*	**133,584**	126,166
	Provision against obsolete items		**(1,105)**	(1,105)
			132,479	125,061

8.1 These include stocks of medicine, stationery, engineering items and printing press.

9.	**PROPERTY AND EQUIPMENT**			
	Operating fixed assets	*9.1*	**284,665**	237,867

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	2015							
	Cost			Accumulated Depreciation				
	As at July 01, 2014	Additions / (deletions) / adjustment *	As at June 30, 2015	As at July 01, 2014	Charge for the year / (deletions) / adjustment *	As at June 30, 2015	Net book value as at June 30, 2015	Annual rate of depreciation %
	--(Rupees in '000)--							
Furniture and fixtures	128,938	10,022	137,562	83,716	9,669	92,757	44,805	10
		(1,323)			(1,306)			
		(75) *			678 *			
Office equipment	933,340	60,231	989,159	787,112	56,357	844,132	145,027	20
		(4,723)			(3,740)			
		311 *			4,403 *			
EDP equipment	352,554	52,516	420,849	329,334	26,856	373,466	47,383	33.33
		(94)			(91)			
		15,873 *			17,367 *			
Motor vehicles	108,676	31,839	127,546	85,479	13,381	80,096	47,450	20
		(13,214)			(12,670)			
		245 *			(6,094) *			
	1,523,508	154,608	1,675,116	1,285,641	106,263	1,390,451	284,665	
		(19,354)			(17,807)			
		16,354 *			16,354 *			

	2014							
	Cost			Accumulated Depreciation			Net book value as at June 30, 2014	Annual rate of depreciation %
	As at July 01, 2013	Additions / (deletions)	As at June 30, 2014	As at July 01, 2013	Charge for the year / (deletions)	As at June 30, 2014		
	--(Rupees in '000)--							
Furniture and fixtures	115,291	15,057 (1,410)	128,938	76,893	8,233 (1,410)	83,716	45,222	10
Office equipment	858,580	75,846 (1,086)	933,340	736,591	51,369 (848)	787,112	146,228	20
EDP equipment	328,729	25,712 (1,887)	352,554	322,099	9,122 (1,887)	329,334	23,220	33.33
Motor vehicles	99,777	14,349 (5,450)	108,676	68,837	19,634 (2,992)	85,479	23,197	20
	1,402,377	130,964 (9,833)	1,523,508	1,204,420	88,358 (7,137)	1,285,641	237,867	

* Adjustments represents reclassification within different categories of assets incorporated during the current year as a result of reconciliation exercise.

	Note	2015	2014
		----------(Rupees in '000)-------	
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	*15.1.9*	**5,375,626**	5,402,674
Deposits		**200,070**	362,725
Others		**177,066**	135,172
		5,752,762	5,900,571

11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS

	Note	2015	2014
Gratuity		**1,580**	1,277
Pension		**30,780,494**	30,676,912
Benevolent fund scheme		**1,108,267**	1,017,022
Post retirement medical benefits		**12,628,628**	9,882,770
Six months post retirement benefits		**87,976**	76,678
	15.1.3	**44,606,945**	41,654,659
Provident fund scheme		**881,875**	864,192
		45,488,820	42,518,851

12. SHARE CAPITAL

2015	2014		**2015**	2014
(Number of shares)			---------(Rupees in '000)---------	
		Authorised share capital		
1,000	1,000	Ordinary shares of Rs. 1,000,000 each	**1,000,000**	1,000,000
		Issued, subscribed and paid-up capital		
		Fully paid-up ordinary shares of		
		Rs. 1,000,000 each		
509	509	- issued for cash	**509,000**	509,000
491	491	- issued against consideration in kind	**491,000**	491,000
1,000	1,000		**1,000,000**	1,000,000

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

13.1.1 The Corporation does not have any contingencies as at June 30, 2015 and June 30, 2014.

13.2 Commitments

		2015	2014
Capital commitments	*13.2.1*	**47,508**	77,390

13.2.1 This represent amounts committed by the Corporation to purchase assets from successful bidders.

14. DISCOUNT AND INTEREST EARNED

	2015	2014
	---------(Rupees in '000)---------	
Discount income on Government securities	**47,713**	48,229
Interest on employee loans	**860**	678
	48,573	48,907

15. NET OPERATING EXPENSES

	Note	2015	2014
		----------(Rupees in '000)-------	
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		**5,686,410**	5,955,069
Rent and taxes		**20,952**	17,142
Insurance		**6,197**	5,374
Electricity, gas and water		**288,219**	302,524
Repair and maintenance		**149,793**	124,422
Auditors' remuneration	*15.2*	**5,950**	5,950
Legal and professional		**6,266**	2,665
Travelling		**16,918**	15,791
Daily expenses		**29,397**	22,066
Passages / rest and recreational allowance		**192,225**	217,782
Fuel		**2,949**	3,843
Conveyance		**12,913**	14,057
Postages and telephone		**24,590**	18,650
Training		**70,270**	37,915
Remittance of treasure		**67,043**	69,190
Stationery		**10,542**	12,796
Books and newspapers		**1,504**	1,292
Advertisement		**17,607**	10,773
Bank guards charges		**124,618**	120,676
Uniforms		**23,451**	17,779
Others		**116,169**	111,071
		6,873,983	7,086,827
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	*15.1 to 15.1.10*	**7,199,513**	6,804,886
Depreciation	*9.1*	**106,263**	88,358
		7,305,776	6,893,244
		14,179,759	13,980,071

15.1 Staff retirement benefits

15.1.1 During the year the actuarial valuations of the defined benefit obligations were carried out under the Projected Unit Credit Method using following significant assumptions:

		2015	2014
-	Discount rate for year end obligation	9.75% - 11.00%p.a.*	13.25% - 13.50% p.a.
-	Salary increase rate	9.75% p.a	13.25% p.a.
-	Pension indexation rate	7.25% p.a.	10.75% p.a.
-	Medical cost increase rate	11% p.a.	13% p.a.
-	Personnel turnover	10% p.a.	2.1% p.a.
-	Normal retirement age	60 Years	60 Years

* 11.00% has been used for post retirement medical benefits. For all other benefits rate of 9.75% is used.

Assumptions regarding future mortality are based on actuarial advice in accordance with the published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with 1 year setback.

15.1.2 Through its defined benefit plan, the Corporation is exposed to a number of risks, the most significant of which are detailed below:

Discount rate risks

The risk of changes in discount rate since discount rate is based on corporate / government bonds. Any change in bond yields will impact plan liabilities.

Salary increase / inflation risks

The risk that the actual salary increase is higher / lower than the expected where benefits are linked with final salary at the time of cessation of employment.

Mortality risks

The risk that the actual mortality experience is different than that of expected i.e. the actual life expectancy is different from assumed.

Withdrawal risks

The risk of actual withdrawals experience is different from assumed.

Medical inflation risks

The risk of actual medical inflation experience is different from assumed.

15.1.3 Change in present value of defined benefit obligation

	2015					
	Gratuity	**Pension**	**Benevolent fund scheme**	**Post retirement medical benefits**	**Six months post retirement benefits**	**Total**
	----------Rupees in '000----------					
Present value of defined benefit obligation as on July 1, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	**41,654,659**
Current service cost	226	955,681	49,896	245,213	4,669	**1,255,685**
Interest cost on defined benefit obligation	169	3,735,000	119,962	1,310,180	9,863	**5,175,174**
Benefits paid	-	(4,969,278)	(223,301)	(355,465)	(4,478)	**(5,552,522)**
Remeasurements:						-
Actuarial (gains)/losses from changes in financial assumptions	-	-	-	-	-	-
Experience adjustments	(92)	382,179	144,688	1,545,930	1,244	**2,073,949**
Present value of defined benefit obligation as on June 30, 2015	**1,580**	**30,780,494**	**1,108,267**	**12,628,628**	**87,976**	**44,606,945**

	2014					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	----------Rupees in '000----------					
Present value of defined benefit obligation as on July 1, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328
Current service cost	363	774,129	87,105	263,606	2,944	1,128,147
Interest cost on defined benefit obligation	471	2,512,004	116,958	523,251	6,778	3,159,462
Benefits paid	(29,823)	(6,549,109)	(336,408)	(448,770)	(644)	(7,364,754)
Remeasurements:						-
Actuarial (gains)/losses from changes in financial assumptions	-	-	(681,803)	-	-	(681,803)
Experience adjustments	11,259	8,821,822	42,568	4,770,293	8,337	13,654,279
Present value of defined benefit obligation as on June 30, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659

15.1.4 Amount recognised in the profit and loss account

	2015					
	Gratuity	**Pension**	**Benevolent fund scheme**	**Post retirement medical benefits**	**Six months post retirement benefits**	**Total**
	----------Rupees in '000----------					
Current service cost	226	955,681	49,896	245,213	4,669	**1,255,685**
Interest cost on defined benefit obligation	169	3,735,000	119,962	1,310,180	9,863	**5,175,174**
Contribution made by employees	-	-	(9,042)	-	-	**(9,042)**
	395	**4,690,681**	**160,816**	**1,555,393**	**14,532**	**6,421,817**

	2014					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	----------Rupees in '000----------					
Current service cost	363	774,129	87,105	263,606	2,944	1,128,147
Interest cost on defined benefit obligation	471	2,512,004	116,958	523,251	6,778	3,159,462
Contribution made by employees	-	-	(18,271)	-	-	(18,271)
	834	3,286,133	185,792	786,857	9,722	4,269,338

15.1.5 Movement of present value of defined benefit obligation

	2015					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	-------------Rupees in '000-------------					
Net recognised liabilities at July 1, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	**41,654,659**
Amount recognised in the profit and loss account	395	4,690,681	160,816	1,555,393	14,532	**6,421,817**
Remeasurements	(92)	382,179	144,688	1,545,930	1,244	**2,073,949**
Benefits paid during the year	-	(4,969,278)	(223,301)	(355,465)	(4,478)	**(5,552,522)**
Employees contribution / amount transferred	-	-	9,042	-	-	**9,042**
Net recognised liabilities at June 30, 2015	**1,580**	**30,780,494**	**1,108,267**	**12,628,628**	**87,976**	**44,606,945**

	2014					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	-------------Rupees in '000-------------					
Net recognised liabilities at July 1, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328
Amount recognised in the profit and loss account	834	3,286,133	185,792	786,857	9,722	4,269,338
Remeasurements	11,259	8,821,822	(639,235)	4,770,293	8,337	12,972,476
Benefits paid during the year	(29,823)	(6,549,109)	(336,408)	(448,770)	(644)	(7,364,754)
Employees contribution / amount transferred	-	-	18,271	-	-	18,271
Net recognised liabilities at June 30, 2014	1,277	30,676,912	1,017,022	9,882,770	76,678	41,654,659

15.1.6 The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
		---------(Rupees in '000)---------	
Gratuity			
Discount rate	1%	(116)	127
Future salary increase	1%	126	(117)
Pension			
Discount rate	1%	(2,532,683)	2,502,295
Future salary increase	1%	1,258,372	(1,174,310)
Future pension increase	1%	1,375,161	(1,539,722)
Expected mortality rates	1 Year	(356,591)	92,431
Benevolent fund scheme			
Discount rate	1%	1,057,155	1,203,279
Post retirement medical benefits			
Discount rate	1%	(2,398,712)	1,634,272
Future medical cost increase	1%	1,244,923	(2,150,252)
Expected mortality rates	1 Year	(948,986)	600,841
Six months post retirement benefits			
Discount rate	1%	(5,294)	5,903
Salary increase	1%	6,050	(5,525)

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the liability of all schemes recognised within the balance sheet.

15.1.7 Duration of defined benefit obligation

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits
The weighted average duration of the defined benefit obligation is	8 Years	8 Years	7 Years	16 Years	6 Years

15.1.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2016

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2016 would be as follows:

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	--			Rupees in '000		--
Current service cost	241	842,567	54,477	285,440	5,465	1,188,190
Interest cost on defined benefit obligation	205	3,001,098	108,056	1,389,149	8,578	4,507,086
Amount chargeable to profit and loss accou	446	3,843,665	162,533	1,674,589	14,043	5,695,276

15.1.9 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 5,375.626 million (2014: Rs. 5,402.674 million). An amount of Rs. 747.326 million (2014: Rs. 2,614.851 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2016 would be Rs. 745.741 million. The benefits paid during the year amounted to Rs. 774.374 million (2014: Rs. 1,055.070 million).

15.1.10 Charge for the year in respect of defined contribution plan amounted to Rs. 30.370 million (2014: Rs. 62.901 million).

15.2 Auditors' remuneration

	2015			2014		
	E&Y Ford Rhodes Sidat Hyder & Co.	**A.F. Ferguson & Co.**	**Total**	KPMG Taseer Hadi & Co.	A.F. Ferguson & Co.	Total
	--			**(Rupees in '000)**		--
Audit fee	**2,090**	**2,090**	**4,180**	2,090	2,090	4,180
Out of pocket expenses	**885**	**885**	**1,770**	885	885	1,770
	2,975	**2,975**	**5,950**	2,975	2,975	5,950

16. PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS

	2015	2014
	-------- (Rupees in '000) --------	
Profit for the year	**50,491**	50,109
Adjustments for:		
Amortisation of discount on Government securities	**(16,112)**	(13,839)
Amortisation of premium on Government securities	**-**	7,436
Gain on disposal of property and equipment	**(1,263)**	(121)
Depreciation	**106,263**	88,358
	88,888	**81,834**
	139,379	**131,943**

17. RELATED PARTY TRANSACTIONS

The Corporation is a wholly owned subsidiary of the State Bank of Pakistan (parent entity), therefore all subsidiaries and associated undertakings of the Parent entity are the related parties of the Corporation. Other related parties comprise of key management personnel of the Corporation which include members of the Board of Directors, Managing Director and other executives of the Corporation who have responsibilities for planning, directing and controlling the activities of the Corporation.

The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance. The accounting treatment of assets, liabilities, income and expenditure relating to such activities are detailed in note 1.1 to these financial statements (also refer note 15).

Transaction and balances with related parties are as follows:

Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - Subsidiary of Parent entity	**2015**	**2014**
	-------- (Rupees in '000) --------	
Balances at the year end - transferred to State Bank of Pakistan		
Payable against training programs	34,658	3,995
Transactions during the year - reimburseable from State Bank of Pakistan		
Tranining expense charged during the year	67,561	7,868

18. RISK MANAGEMENT POLICIES

The Corporation is primarily subject to interest / mark-up rate and credit risks. The policies and procedures for managing these risks are outlined in notes 18.1 to 18.7 to these financial statements. The Corporation has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Managing Director on the monitoring and management of these risks.

18.1 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. Advances to employees are made in the normal course of business for various business expenses and security deposit held with entities for ensuring future services and there is low chance of default on suspension of services. The remaining balances are recorded as recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

18.2 Concentrations of risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Corporation's significant concentration arising from financial instruments at the balance sheet date without taking any collateral held or other credit enhancements is shown below:

18.2.1 Geographical analysis

All the financial instruments of the Corporation at the balance sheet date are present in Pakistan only.

18.2.2 Industrial analysis

	2015			
	Sovereign	**Banks & Financial Institutions**	**Others**	**Grand Total**
	------------------------ (Rupees in '000)----------------------			
Financial assets				
Current account with the State Bank of Pakistan	-	40,635,754	-	**40,635,754**
Investments	571,720	-	-	**571,720**
Employee loans	-	-	10,577,857	**10,577,857**
Advances and deposits	-	-	15,399	**15,399**
	571,720	40,635,754	10,593,256	**51,800,730**

	2014			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	------------------------ (Rupees in '000)----------------------			
Financial assets				
Current account with the State Bank of Pakistan	-	37,876,846	-	37,876,846
Investments	569,449	-	-	569,449
Employee loans	-	-	10,577,916	10,577,916
Advances and deposits	-	-	7,743	7,743
	569,449	37,876,846	10,585,659	49,031,954

18.2.3 Credit exposure by credit rating:

Financial assets of the Corporation essentially represents amounts due from the State Bank of Pakistan (central bank of the country), sovereign investments and amounts due from Corporation's own employees as detailed below:

	2015		
	Sovereign (18.2.3.1)	**Unrated**	**Grand Total**
	(Rupees in '000)		
Financial Assets			
Current account with the State Bank of Pakistan	-	40,635,754	**40,635,754**
Investments	571,720	-	**571,720**
Employee loans	-	10,577,857	**10,577,857**
Advances and deposits	-	15,399	**15,399**
	571,720	51,229,010	**51,800,730**

	2014		
	Sovereign (18.2.3.1)	Unrated	Grand Total
	(Rupees in '000)		
Financial Assets			
Current account with the State Bank of Pakistan	-	37,876,846	37,876,846
Investments	569,449	-	569,449
Employee loans	-	10,577,916	10,577,916
Advances and deposits	-	7,743	7,743
	569,449	48,462,505	49,031,954

18.2.3.1 Government securities and balances are rated as sovereign. The international rating of Pakistan is B- (as per Standards and Poor's).

18.3 Details of financial assets impaired and provision recorded there against:

	Gross amount		**Impairment / Provision**	
	2015	2014	**2015**	2014
	(Rupees in '000)			
Employee loans	**10,586,223**	10,586,937	**8,366**	9,021

18.4 Liquidity analysis with interest rate risk

Interest rate risk is the risk that the value of a financial instrument or its cash flow will fluctuate due to changes in the market interest rates. The Corporation has adopted appropriate policies to minimize its exposure to this risk.

	2015						
	Interest / mark-up bearing			**Non interest / mark-up bearing**			**Total**
	Maturity upto one year	**Maturity after one year**	**Sub total**	**Maturity upto one year**	**Maturity after one year**	**Sub total**	
	(Rupees in '000)						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	40,635,754	-	40,635,754	**40,635,754**
Investments	571,195	-	571,195	525	-	525	**571,720**
Employee loans	12,543	30,635	43,178	1,729,358	8,805,321	10,534,679	**10,577,857**
Advances and deposits	-	-	-	6,775	8,624	15,399	**15,399**
	583,738	30,635	614,373	42,372,412	8,813,945	51,186,357	**51,800,730**
Financial liabilities							
Deposits and other liabilities	-	-	-	377,136	-	377,136	**377,136**
On balance sheet gap	583,738	30,635	614,373	41,995,276	8,813,945	50,809,221	**51,423,594**

	2014						
	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
	(Rupees in '000)						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	37,876,846	-	37,876,846	37,876,846
Investments	522,837	46,087	568,924	525	-	525	569,449
Employee loans	12,960	57,040	70,000	1,493,916	9,014,000	10,507,916	10,577,916
Advances and deposits	-	-	-	1,932	5,811	7,743	7,743
	535,797	103,127	638,924	39,373,219	9,019,811	48,393,030	49,031,954
Financial liabilities							
Deposits and other liabilities	-	-	-	497,897	-	497,897	497,897
On balance sheet gap	535,797	103,127	638,924	38,875,322	9,019,811	47,895,133	48,534,057

*All cash settlements of the Corporation are routed through the current account maintained with the State Bank of Pakistan as the Corporation functions and acts on behalf of the SBP.

18.5 The interest / mark-up for the financial assets and liabilities are mentioned in their respective notes to and forming part of the financial statements.

18.6 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. However, at balance sheet date all of the Corporation's financial instruments are denominated in local currency.

18.7 Liquidity risk management

Liquidity risk is the risk that the Corporation will encounter difficulties in raising funds to meet commitments associated with the financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk as all its settlements are routed through the State Bank of Pakistan.

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. The following tables summarizes the carrying amounts and fair values of financial assets and liabilities.

	Carrying value		**Fair value**	
	2015	2014	**2015**	2014
	(Rupees in '000)			
Financial assets				
Current account with the State Bank of Pakistan	**40,635,754**	37,876,846	**40,635,754**	37,876,846
Investments	**571,720**	569,449	**575,472**	569,098
Employee loans	**10,577,857**	10,577,916	**10,577,857**	10,577,916
Advances and deposits	**15,399**	7,743	**15,399**	7,743
Financial Liability				
Deposits and other liabilities	**377,136**	497,897	**377,136**	497,897

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2015		
	Loans and receivables	**Held to maturity**	**Total**
	----------------(Rupees in '000)---------------------		
Financial assets			
Current account with the State Bank of Pakistan	40,635,754	-	**40,635,754**
Investments	-	571,720	**571,720**
Employee loans	10,577,857	-	**10,577,857**
Advances and deposits	15,399	-	**15,399**

	2014		
	Loans and receivables	Held to maturity	Total
	---------------(Rupees in '000)--------------------		
Financial assets			
Current account with the State Bank of Pakistan	37,876,846	-	37,876,846
Investments	-	569,449	569,449
Employee loans	10,577,916	-	10,577,916
Advances and deposits	7,743	-	7,743

	2015	
	Carried at amortised cost	**Total**
	---------(Rupees in '000)-----------	
Financial liabilities		
Deposits and other liabilities	377,136	**377,136**

	2014	
	Carried at amortised cost	Total
	--------(Rupees in '000)---------	
Financial liabilities		
Deposits and other liabilities	497,897	497,897

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on _______________ by the Board of Directors of the Corporation.

22. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison.

23. GENERAL

Figures in these financial statements have been rounded off to the nearest thousand rupees.

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Qasim Nawaz	**Muhammad Habib Khan**
Managing Director	**Director Accounts**

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