

Annual Performance Review

2020-21



SBP Banking Services Corporation

Annual Performance Review

2020 - 21

Our Vision

To develop 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.

Our Mission

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



SBP Banking Services Corporation



The Team


Core Team

Mr. Hasnain Dahodwala	Head, SCAD
Mr. Haq Nawaz	Sr. Joint Director, SCAD
Syed Muhammad Nouman	Deputy Director, SCAD
Ms. Iqra Saleem	Assistant Director, SCAD

Key Facilitators

Syed Basit Aly	Director, HRMD
Qazi Shoaib Ahmad	Regional Head, South
Ms. Shahla Riaz	Joint Director, DFSD
Mr. Riaz Ahmed	Joint Director, IAD
Syed Nabeel Hassan	Joint Director, CMD
Ms. Sara Sajjad	Deputy Director, Acc. Dept.
Syed Muhammad Mehdi	Deputy Director, FEOD
Mr. Sarmad Kaleem	Deputy Director, FEAD
Mr. Adil Khan	Deputy Director, HRMD

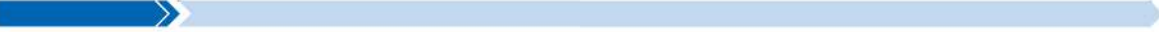
The team expresses its gratitude for guidance provided by the PRC of the Board, Managing Director, Group Heads, Directors and officers of BSC as well as counterpart departments of SBP for their contribution.




Contents

Message from Governor, SBP – Chairman Board of Directors of BSC	I
Message from Managing Director BSC	III
Executive Summary	V
About State Bank of Pakistan Banking Services Corporation	VII
Governance Structure	VIII
Network and Financial Management Group	1
1. Banking Services to Government and Banks	3
1.1 Overview	3
1.2 Key Stakeholders	3
1.3 Key Performance Highlights during the Year	4
1.4 Operational Performance	4
1.5 Development Initiatives	6
1.6 Future Outlook	7
2. Currency Management	9
2.1 Overview	9
2.2 Key Stakeholders	9
2.3 Key Performance Highlights during the Year	10
2.4 Operational Performance	10
2.5 Anti-Money Laundering and Combatting the Financing of Terrorism Compliance	15
2.6 Development Initiatives	16
2.7 Future Outlook	18
Forex and Development Finance Group	19
3. Development Finance	21
3.1 Overview	21
3.2 Key Stakeholders	21
3.3 Key Performance Highlights during the Year	22
3.4 Operational Performance	22
3.5 Developmental Initiatives	27
3.6 Future Outlook	28

4. Foreign Exchange Operations	29
4.1 Overview.....	29
4.2 Key Stakeholders	29
4.3 Key Performance Highlights during the Year	29
4.4 Operational Performance	30
4.5 Developmental Initiatives	32
4.6 Future Outlook.....	33
5. Foreign Exchange Adjudication	35
5.1 Overview.....	35
5.2 Key Stakeholders	35
5.3 Key Performance Highlights during the Year	35
5.4 Future Outlook.....	37
HR and Support Services Group	39
6. Human Resource Management	41
6.1 Overview.....	41
6.2 HR Profile	41
6.3 Career Development	42
6.4 Organizational Development	42
6.5 Resource Management.....	42
6.6 Industrial Relations	43
6.7 Training and Development	43
6.8 Employee Relations	44
6.9 Future Outlook.....	44
7. General & Support Services	45
7.1 Overview.....	45
7.2 General Services	45
7.3 Engineering Services	46
7.4 Internal Bank Security	48



8. Internal Audit	49
8.1 Overview.....	49
8.2 Key Performance Highlights during the Year.....	49
8.3 Operational Performance.....	49
8.4 Capacity Building of Audit Officials.....	50
8.5 Developmental Initiatives.....	50
8.6 Future Outlook.....	51
9. Strategic and Corporate Affairs	53
9.1 Overview.....	53
9.2 Key Performance Highlights.....	53
9.3 Operational Performance.....	53
9.4 Developmental Initiatives.....	55
9.5 Future Outlook.....	55
10. Financial Statements of BSC	57
11. List of Acronyms	85



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

It gives me immense pleasure to review the performance of BSC for FY21.

The period experienced a spillover of last year's challenges, which presented diverse dynamics, especially with regards to COVID-19 pandemic. Nonetheless, the BSC team continued to support SBP's policy measures taken in FY20 to mitigate the risks to the economy and to control the damage brought about by multiple waves of the pandemic in FY21.



Foremost, BSC played an important role for implementation of various SBP's targeted concessional refinance schemes to combat COVID-19 pandemic. These schemes have provided a safeguard to workforce against the risk of layoff, helped hospitals to strengthen their capacities, and laid a solid foundation for medium to long term industrialization in the country. BSC also ensured same level of zeal and commitment in the operational management of SBP's traditional subsidized refinance schemes and inclusive development finance initiatives vis-à-vis promoting financial literacy for broadening financial inclusion. I would like to acknowledge BSC management's efforts in helping the banks to improve service delivery with respect to government's low-cost-housing scheme 'Mera Pakistan Mera Ghar (MPMG)' whereby BSC established an online portal as also dedicated helpdesks at all its offices to address complaints & queries of general public. Moreover, monthly mystery shopping of designated banks for MPMG by BSC constantly provided feedback to the banks, resulting in timely corrective actions, where required.

Further, BSC has also contributed its fair share in supporting SBP's effort for enhancing utilization of digital financial services. Adopting wider use of ADCs in government collections witnessed significant growth, both in volume and value during the year. Continuing this trend, BSC operationally managed project on centralization of banks' accounts and direct credit to bank accounts for payments of internal & external stakeholders, and further augmented the scope of modern and automated payment system. A major development during the year was successful implementation of an online solution named FX RAS for submission of FX related cases by banks, which was complemented by banks' own portals for their customers, providing an end-to-end digitalized process with complete tracking system to the banks and customers.

I am pleased with the progress BSC has made in optimizing its own operations, whereby currency processing and destruction is being completely automated on fast-track basis within BSC. Automation of currency operations will not only enhance our processing and destruction capacity but will also raise the quality of our banknotes in circulation to international standards. Furthermore, BSC has introduced BPR in its operations with focus to bring efficiency, optimize resources, enhance internal controls, improve service delivery to stakeholders, and to further strengthen the compliance with global AML/CFT regime.

On this note, I would also like to express my gratitude to the BSC Board of Directors in providing guidance and support to the organization with special mention to Managing Director BSC and his colleagues for coming up to our expectations in fulfilling mandate of the central bank.

Dr. Reza Baqir

Message from Managing Director BSC

I am pleased to present APR of BSC for FY21. During the year under review, COVID-19 continued to affect our economy like rest of the world. The ebb and flow of the pandemic posed new challenges as well as new opportunities. We at BSC continued to enhance our capabilities to serve stakeholders efficiently in these testing times.

As in the recent past, BSC focus on improving service delivery and operational efficiency through automation, digitalization, BPR has resulted in significant efficiency gains. I am pleased to share that our efforts have been well received by our stakeholders comprising of the general public, government departments, commercial banks, and the SBP. Some major initiatives undertaken in the year are highlighted below.



During FY21, BSC made significant progress in automation of banking operations. BSC supplemented SBP's National Payment System Strategy that is mandated to provide modern and robust supervisory and regulatory framework through digitalization of payment systems for achieving a higher level of financial stability. In this regard, centralization of banks' accounts, consolidation of Naval and Air Force cheques, and usage of ADCs are noteworthy initiatives of BSC that significantly reduced paper based payment instruments across the country. Another major development of the year was centralized and direct payments under Income Tax Refund Payment to the bank accounts of relevant tax payers achieved through centralized treasury of the FBR. This new system has resulted in substantial reduction in turnaround time and human resource savings.

While conforming to national and international AML & CFT regulations and standards, BSC deployed a TMS. TMS generates STRs that help FMU in performing its duties under Anti-Money Laundering Act, 2010.

FY21 was also particularly exciting for currency and saving schemes operations at BSC as numerous BPRs were initiated to enhance efficiency, stakeholder satisfaction, and over all internal control mechanism in these areas. High end banknote processing, authentication, and destruction systems are being deployed at our offices which is a major shift from manual to automated processing. A new concept of digital prize bonds was proposed besides enhancing the scope of premium prize bonds across all conventional banks. The withdrawal of higher denomination prize bonds from the market was a major challenge which was successfully handled by BSC despite challenges posed by COVID-19.

As the central bank continued its pandemic related relief program for supporting the economy, BSC continued to move in step with SBP in implementing various special purpose refinance schemes, including Rozgar Scheme, Temporary Economic Refinance Facility, loan deferment and restructuring scheme and supporting the health sector with Refinance Facility for Combating COVID-19.

In addition to COVID-19 related measures, BSC continued to forge ahead in areas of development finance like low cost housing, SMEs and agri-credit financing, and also continued with its programs for promoting financial literacy. Details of the progress made in these areas are discussed in the report at length.

Automation and digitalization was also gainfully deployed in area of forex operations. BSC through BPR launched an online portal called RAS which has enabled online submission of FX related

cases by commercial banks to BSC. After the successful implementation of this phase, BSC fully supported the next phase which included development and deployment of commercial banks' FX portals to enable online submission of FX cases from customers to their banks, resulting in end-to-end digitalization of FX cases and complete elimination of paper based submissions. The automation in Foreign Exchange area further enhanced our capacity for off-site monitoring as significant export overdue proceeds were identified and realized before litigation procedures.

Similarly, other joint projects with various stakeholders are also in progress for instance Online Portal for Government's Schemes, Electronic Data Interchange, Portal for Exporters' Information, and Verification of Export Earning (EE) and Export Finance (EF) statements.

BSC also carried out extensive coordination with commercial banks, government departments, chambers of commerce, industries, and other trade bodies to advance & enable various initiatives, to obtain feedback on critical matters, and to facilitate its stakeholders.

To protect the employees of SBP and BSC from the effects of COVID-19, the medical services unit continued to provide prompt and reliable medical advice and services to all the employees of the central bank and its subsidiaries. The medical services unit also made special arrangements for the vaccination of employees and their families. Also, BSC ensured strict adherence to SOPs related to COVID-19 at its premises and continued a hybrid work approach while offering work from home arrangement to employees, conducting online meetings and trainings, and operating only the critical functions with minimal human interaction to largely remain safe from COVID-19 and ensure continuous service delivery.

The organization also remained focused on managing its risks systematically and maintaining a sound internal control environment through implementation of an organization wide ERM framework.

At BSC, we are in constant pursuit of improvement in our policies and operations. To document our mid-term roadmap of this journey, we are working on a strategic plan which will not only be in sync with the objectives of the SBP but would also take our automation, BPR, digitalization and inclusive development finance agenda to the next level.

I would like to pay gratitude to the Governor SBP and BSC Board of Directors for their continuous support and guidance in carrying out our mandate. Here I would also like to appreciate the hard work and dedication of all BSC staff, without which such accomplishments would not have been possible.

Muhammad Ashraf Khan

Executive Summary

As in FY20, COVID-19 pandemic continued to adversely impact our economy during FY21. Consequently, SBP's measures taken during FY20 to counter the effects of the pandemic also continued in FY21 to support economic recovery. The supportive environment resulting from SBP measures greatly insulated businesses and the vulnerable segments of society comprising salaried people and small businesses from the negative fallout of the pandemic and resultant economic slowdown.

Following in SBP's footsteps, BSC also enhanced its efforts to efficiently implement SBP's initiatives for strengthening the economy during the year under review.

BSC vigorously supported use of ADCs for collection of government receipts, which not only minimized human interactions but also resulted in greater efficiency, lower turnaround times, and greater transparency. During FY21, BSC collaborated with Finance Department, SBP and the FBR for promoting awareness amongst businesses and individuals for increased adoption of digitalization / ADCs of Government receipts. This process enabled the collection of income tax of corporate clients and custom duties of more than Rs. 1 million through ADCs and OTCs, which ensured timely credit to government treasury and reduction in reconciliation issues. In continued efforts to enhance digitalization, payments to vendors, suppliers, and pensioners, were made directly into their bank accounts instead of through cheques. BSC also centralized the accounts of commercial banks maintained with other field offices at Karachi Office which resulted in better liquidity management of the banks.

During the year, currency management function of BSC ensured uninterrupted supply of currency throughout the country by issuing 4.35 billion pieces of banknotes valuing Rs. 1.59 trillion. Moreover, 2.7 billion banknotes were received from banks and NBP chests to ensure removal of unfit banknotes and provision of good quality banknotes in circulation. In the area of Government Savings, a new Premium Prize Bond of Rs. 25,000 was launched to better cater to the public requirement, along with introduction of SMS service alerts related to Direct Credit Payments of prize bonds and its prize money for prompt intimation to customers.

BSC also maintained and monitored its risks through an organization wide framework of ERM. All reported incidents were monitored regularly as envisaged in the ERM framework and related operational policies.

To reduce the risk of spreading of COVID-19 through banknotes, BSC also provided balance sheet relief of Rs. 49.4 billion to banks with regards to quarantined cash received from hospitals and laboratories. This was in addition to issuance of various instructions and guidelines to BSC field offices and commercial banks to curb the spread of pandemic, in line with guidelines of NCOC.

BSC meticulously continued implementation of AML, CFT, and CPF framework to mitigate the risks emanating from money laundering and terrorism financing as well as to ensure compliance with local and international regulations. During FY21, TMS was developed for generating alerts based on pre-defined criteria to help identify suspicious transactions. Further, BSC issued its inaugural AML & CFT compliance policy in FY21 to outline its AML & CFT regime within the organization. Moreover, an extensive training and capacity building program was carried out to further compliment these initiatives in the AML & CFT area.

Facilitation to SBP in management of development finance initiatives remained on track in FY21. During the year, the banks disbursed Rs. 1,365.8 billion on account of Agriculture Credit Financing against a target of Rs. 1,500 billion, depicting a credit expansion of 12.4 percent in comparison to FY20. These disbursements were achieved through 50 PFIs. Further, in the area of SMEs financing, more than 1,200 loans amounting to Rs. 3.5 billion were refinanced for SMEs. Another key achievement during the year was development of SBP Service Desk Portal and establishment of dedicated helpdesks at BSC offices to assist the public in addressing their queries and complaints related to G-MSS. Over 4,000 complaints and 10,000 queries related to Housing Finance were addressed through the portal and helpdesks, respectively. Since November 2020, BSC also started a monthly exercise of mystery shopping surveys of 23 participating banks to assess their preparedness for implementing G-MSS for housing finance.

The implementation of National Financial Literacy Program remained in full swing to promote financial inclusion in the country in accordance with the strategic goals of SBP. During FY21, 12,487 classroom sessions were conducted, exceeding the target of 7,232 classroom sessions, to impart financial literacy to 362,223 participants. Moreover, multiple initiatives were taken for promoting Islamic Banking which included organizing series of workshops for local Muftian / Ulema that facilitated in allaying concerns of over 700 religious scholars. Furthermore, activities for promotion of other development finance areas also continued where BSC conducted 61 awareness sessions and seminars for Agriculture, 16 sessions for Microfinance, and more than 130 sessions for SMEs.

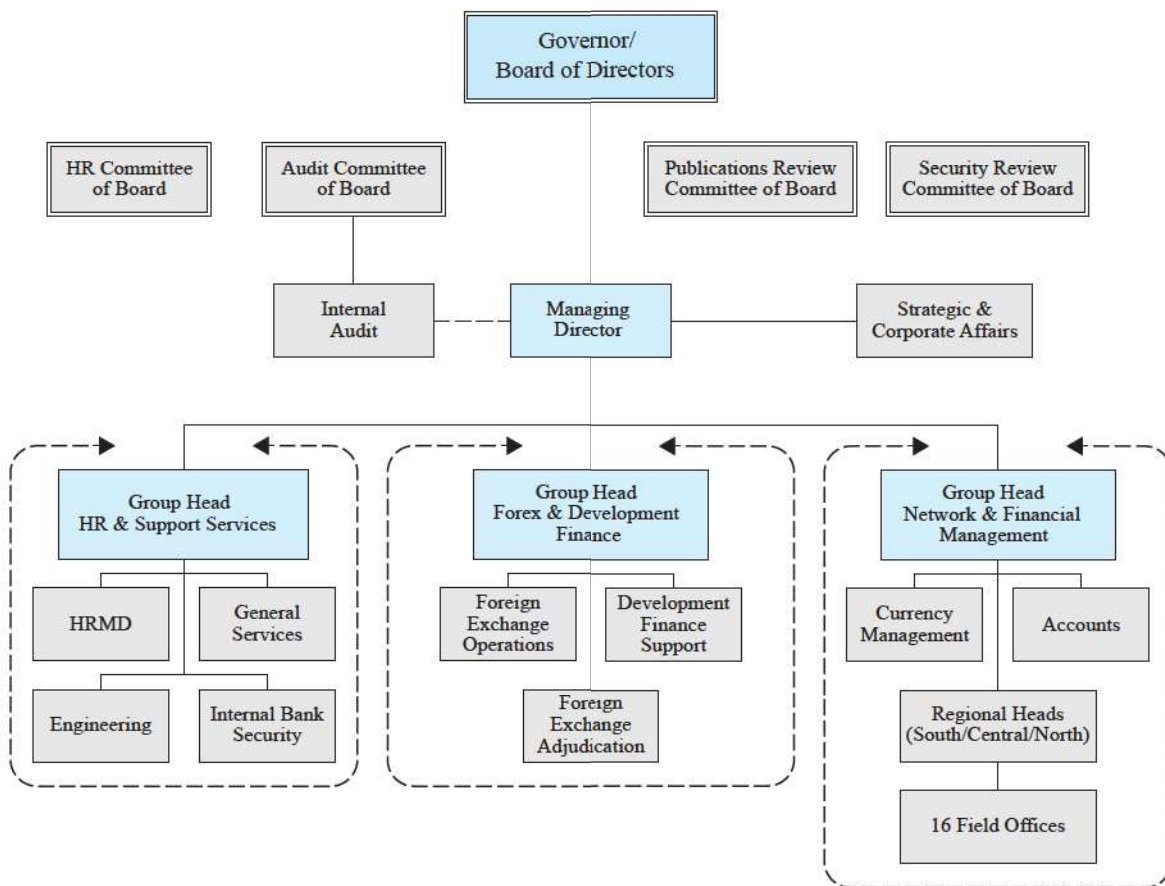
BSC has always been a step ahead when it comes to facilitation of the businesses community. One of the major steps taken in FY21 for facilitation of banks and their customers was completion of end-to-end digitalization of FX related cases. For the purpose, BSC implemented SBP's RAS to digitally receive FX related cases from commercial banks. Moreover, BSC also facilitated commercial banks in the development and implementation of their FX Portals through which banks can receive cases online from their customers, thereby promoting ease of doing business and transparency in the process. During the year, the Foreign Exchange function of BSC ensured repatriation of overdue export proceeds amounting to USD 1,266.6 million without adjudication as compared to USD 928.7 million in FY20. Likewise, export proceeds equivalent to USD 182.3 million were also realized through the adjudication process. Moreover, BSC also made disbursement of Rs. 18.1 billion under Government's Textile, Non-Textile and other duty drawback schemes. BSC also processed more than 89,000 instances of violations under section 23K of FERA 1947 and imposed penalties on 24 banks amounting to Rs. 222.7 million.

Maintaining and augmenting organizational capacity during COVID-19 was a challenging task. For this purpose, BSC aligned its HR management initiatives to ensure that aims and objectives of the organization were implemented smoothly. BSC also played its due role in the provision of support services to SBP and its subsidiaries. Albeit operational, these services were effective in keeping the organization functional during COVID-19 and facilitated in timely achievement of organizational objectives.

About State Bank of Pakistan Banking Services Corporation

BSC is a wholly owned subsidiary and an operational arm of SBP. Established under the BSC Ordinance 2001, it is mandated to provide banking services to the federal and provincial governments as well as to financial institutions. Through its network of 16 field offices across Pakistan, BSC is entrusted with management of currency and SBP's concessional refinance schemes. In addition, BSC facilitates inter-bank settlement system, manages sale and purchase of savings instruments of government on behalf of Central Directorate of National Savings, and plays an active role in expanding financial inclusion in the country. Further, it performs operational and monitoring functions related to FX and also conducts FX adjudication process as per relevant laws and regulations. Besides HR development, BSC also ensures delivery of support services to internal stakeholders and SBP in the areas of procurement, engineering, medical, and internal bank security of SBP's and BSC's premises across Pakistan.

Organogram of BSC



Governance Structure

General superintendence, direction, and management of the affairs and business of 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 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 BSC is comprised of:

- a) Members of the Central Board of the State Bank; and
- b) Managing Director, BSC

The members of Board of Directors of BSC include Governor SBP, Federal Secretary, Finance Division (as an ex-officio member), eight non-executive Directors nominated by the federal government, and Managing Director BSC. Governor SBP 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 fields of economics, finance, banking, and accountancy. Managing Director is the Chief Executive Officer appointed by the SBP as mandated under the BSC Ordinance 2001.

Board of Directors



Dr. Reza Baqir, Governor SBP, Chairman Board of Directors

Dr. Reza Baqir was appointed as the Governor of SBP by the President of Pakistan on May 04, 2019. Prior to his appointment, Dr. Baqir had eighteen years of experience with the IMF and two years of experience with the World Bank. He was the Head of the IMF's Office in Egypt and Senior Resident Representative since August 2017. He has also held positions as IMF's Mission Chief for Romania and Bulgaria, Division Chief of the IMF's Debt Policy Division overseeing IMF's work on debt relief and sovereign debt restructuring, Head of the IMF delegation to the Paris Club, Deputy Division Chief of the IMF's Emerging Markets Division overseeing IMF's loans and policies in emerging markets, IMF Resident Representative to the Philippines, and numerous other positions.

Dr. Baqir's academic research has been published in top journals of the economics profession, including the *Journal of Political Economy* and the *Quarterly Journal of Economics*. Dr. Baqir holds a PhD in Economics from the University of California at Berkeley and an A.B. (Magna cum Laude) in Economics from Harvard University.



Mr. Yusuf Khan (Member, Board since May 28, 2021)

Secretary, Finance Division, Government of Pakistan is an ex-officio member of the Board. Mr. Yusuf Khan belongs to Pakistan Administrative Service. In his career of 33 years, he has worked at the sub-district, district, provincial and federal levels. His key assignments in public-sector financial management have been Finance Secretary to the Government of Punjab, Finance Secretary to the Government of AJ&K and Joint Secretary (External Finance) at Finance Division. His previous assignment with the Government of Pakistan was Secretary, Benazir Income Support Programme, where he was responsible for the roll out of several key Ehsaas Program initiatives. Earlier, as Director General, Tobacco Control, he worked towards the successful introduction of the "pictorial health warning" on cigarette packs in Pakistan. Mr. Khan has led 11 development projects related to various socio-economic sectors. He has served as Deputy Commissioner in the province of Khyber Pakhtunkhawa and has lived and worked in former- Federally Administered Tribal Areas as Assistant Political Agent and Political Agent for five years. In 1996, he won the Britannia 'Premier Award', which is given to individuals possessing high academic credentials and the potential to contribute towards improvement of life in their country. Yusuf Khan has done MPhil in Development Studies, from the University of Cambridge, UK. He speaks nine languages and is an avid painter and calligrapher.

Governance Structure



Mr. Kamran Ali Afzal (Member, Board from December 24, 2020 to May 27, 2021)

Secretary, Finance Division, Government of Pakistan. Mr. Kamran is a career civil servant who has served provincial and federal governments in various positions for over 27 years. He possesses a strong portfolio of public administration and policymaking in varied functions of local government. Mr. Kamran holds a PhD degree in Political Economy from University of Melbourne, Australia.



Mr. Naveed Kamran Baloch (Member, Board from May 24, 2019 to December 24, 2020)

Secretary, Finance Division, Government of Pakistan is an ex-officio member of the Board. A civil servant with 35 years of experience in Public Administration. He has served the federal and provincial governments in various positions. Mr. Baloch holds an MSc in Social Policy and Planning in Developing Countries from London School of Economics, UK. Prior to his present posting, he had been posted as Secretary, Cabinet Division and Chief Secretary, Khyber Pakhtunkhwa. He also remained Federal Secretary, Ministry of National Health Services, Regulation & Coordination, Government of Pakistan. He also had an additional charge of Secretary, Revenue Division from June 2019 to July 7, 2020.



Dr. Tariq Hassan (Member, Board since July 23, 2019)¹

Attorney and Advocate, Supreme Court of Pakistan. Dr. Hassan is a former Chairman, Securities and Exchange Commission of Pakistan and the Audit Oversight Board and has served as advisor to the Finance Minister of Pakistan. He has also been associated as legal counsel with the World Bank Group in Washington, DC, International Fund for Agriculture Development in Rome, and Shearman & Sterling in New York. In addition to practicing law, he has been teaching law as an adjunct professor at George Washington University and Fletcher School of Law & Diplomacy, USA and Departments of Law at Lahore University of Management Sciences, International Islamic University, and Bahria University Pakistan. He received his Master's and Doctorate law degrees from Harvard Law School, USA.

^[1] Earlier Dr. Tariq Hassan served as a member SBP Board from March 22, 2016 to March 21, 2019.



Mr. Azam Faruque (Member since November 14, 2018)

Mr. Azam Faruque is CEO of Cherat Cement Company Limited, a company he has been associated with since 1987. Mr. Faruque is also serving as Director on the Board of Directors of International Industries Limited, Indus Motor Company, and Atlas Batteries Limited. He was Chairman Board of Directors of Khyber Pakhtunkhawa Oil & Gas Company Limited and has also served on the Board of Atlas Asset Management Limited, Atlas Insurance Company Limited, the National Committee of the Aga Khan Foundation Pakistan, Oil and Gas Development Corporation, and National Commission of Science and Technology. Mr. Faruque has a Master in Business Administration from Booth School of Business – University of Chicago and a Bachelor’s degree in Electrical Engineering and Computer Science from Princeton University, USA.



Mr. Ali Jameel (Member since July 23, 2019)

Mr. Ali Jameel is the CEO of TPL Corp Ltd which was established in 2001, and has diversified investments in Asset Tracking, Digital Mapping, Life Insurance, General Insurance, Fintech, Information Technology and Property Development. Today, four companies of TPL are listed on the Pakistan Stock Exchange (PSX). He has also recently setup a REIT Management Company in Pakistan.

Mr. Ali is also the Founding Sponsor and Director of TRG Pakistan Ltd; which consists of Afiniti and Ibex, and is listed on Pakistan Stock Exchange (PSX).

Mr. Ali has also held several advisory posts in Board of Investment, Economic Advisory Council, Pakistan’s information technology and telecommunication sectors, including appointments on the Task Force on Telecom Deregulation, the Fiscal Incentive Group of the IT Commission and the Task Force on Venture Capital. Currently, he is a Board Member of Port Qasim Authority and the State Bank of Pakistan.

Mr. Ali received his B.Sc. degree in Economics from London School of Economics and is also a Fellow Member of the Institute of Chartered Accountants in England & Wales and qualified in 1994 at Klynveld Peat Marwick Goerdeler Peat Marwick in London. In addition, he is a Member of YPO Pakistan, Pakistan Business Council and Overseas Investors Chamber of Commerce and Industry. Mr. Ali is also on the Board of the London School of Economics (South Asia Centre) and the Patient Aid Foundation of Jinnah Hospital



Mr. Muhammad Saleem Sethi (Member since July 23, 2019)

Mr. Saleem Sethi is a retired Federal Secretary of the Government of Pakistan. He belongs to the Pakistan Audit & Accounts Service. He possesses a diverse experience of 36 years in the field of public finance, policy formulation and audit. During his illustrious career, he served as Secretary Finance in Government of Baluchistan, AJ&K and as Controller General of Accounts besides various other important positions. He also served as Secretary Economic Affairs Division.

During his career, he has served as Executive Director at the Board of IDB and remained on the Audit Committee of the Board. Mr. Sethi has also been the Senior Advisor Middle Eastern Constituency at the Executive Board of the IMF, Washington DC.

He holds a Master's degree in Development Administration from USA and specialized training in Financial Programming and Policy from IMF Institute, Washington, DC.



Mr. Muhammad Ashraf Khan, Managing Director BSC

Mr. Muhammad Ashraf Khan assumed the office of Managing Director of BSC on February 1, 2019. During his distinguished career spanning over 32 years at SBP, he has held several key positions which include Executive Director, Banking Policy & Regulations and Development Finance Groups. Prior to being appointed as Managing Director BSC, Mr. Khan was serving as the CEO of Export Import Bank of Pakistan.

He has represented SBP in various high-level policy-making forums (including local and international) dealing with institutions vis-à-vis IMF, IDB, Asian Development Bank, World Bank, DFID, United States Agency for International Development, International Finance Corporation, and others on various levels, besides being in advisory position in Banking Policy at the Saudi Arabian Monetary Authority, Saudi Arabia. He is currently on the Board of Directors of BSC, NIBAF, and PSPC.

Mr. Khan holds a Master of Business Administration (MBA) in Finance from the University of Sindh, Pakistan and Diploma Associate Institute of Bankers Pakistan from the Institute of Bankers, Pakistan.

Corporate Secretary

Corporate Secretary is Secretary to the Board and its Committees and acts as focal person for communications between the Board and the management. Corporate Secretary is responsible for recording the proceedings of the meetings of the Board and its Committees as well as ensuring compliance with statutory and regulatory requirements for effective implementation of decisions of the Board and its Committees. Corporate Secretary is also responsible for ensuring effective Corporate Governance standards and availability of relevant information to the Board and its Committees to facilitate informed decision-making.

Committees of BSC Board

Committees of the Board assist in ensuring the oversight function of the Board in certain specialized areas. The functioning of the Committees is summarized as under:

A. Audit Committee

The Committee assists the Board in reviewing BSC's financial statements, auditing, accounting and related reporting processes, assurance on the system of internal controls, governance, business practices, risk management process, and standards of conduct established by the management and the Board. It is chaired by Mr. Muhammad Saleem Sethi with Dr. Tariq Hassan as member.

B. Human Resources Committee

The Committee assists the Board in reviewing and approving HR policies prepared by the management. It reviews all the proposals requiring approval of the Board on the formulation, revision, modification or interpretation of HR policies and submits its recommendations to the Board. It is chaired by Mr. Azam Faruque with Dr. Tariq Hassan and Mr. Ali Jameel as members along with Mr. Muhammad Ashraf Khan, Managing Director BSC.

C. Publications Review Committee

The Committee assists the Board in the review and approval of the BSC publications including the Annual Performance Review of BSC. The Committee deliberates on the draft reports and reviews them for the consideration and final approval of the Board. It is chaired by Mr. Muhammad Saleem Sethi with Mr. Azam Faruque, and Mr. Muhammad Ashraf Khan, Managing Director BSC, as members.

D. Security Review Committee

The Committee was constituted for carrying out a one-time review of security measures in place at SBP & BSC and to provide feedback to the Board / management on existing security and safety arrangements. The Committee is also mandated to oversee the smooth implementation of its recommendations and decisions of the Board. It is chaired by Dr. Tariq Hassan with Mr. Ali Jameel as member.

Management Committees

In order to discuss strategic and operational issues and take policy decisions, various management committees have been formed.

Heads of Departments (HoDs) Forum

Heads of Departments Forum is a senior management level, consultative, and coordination body at BSC which deliberates upon various policies, issues and challenges, and facilitates the Board as well as top management in making decisions and their smooth implementation for achieving strategic objectives of the organization.



Chief Managers (CMs) Forum

Chief Managers Forum is a consultative and coordination body which assures smooth implementation of various policies. It reviews operations of BSC, coordinates for addressing issues and challenges, and facilitates the HOD Forum in decision making.

In addition to the above, following Forums deliberate in their specified area of operations:

1. Management Committee on Strategy Development
2. Management Committee on Security
3. Enterprise Risk Management Committee
4. Management Committee on Budget
5. Engineering Projects Review Committee
6. Management Committee on Publications
7. Medical Review Committee
8. Currency Forum
9. Government Banking Forum

Head Office Management



Muhammad Ashraf Khan
Managing Director BSC



Mr. Amjad Manzoor
Group Head HR & Support Services



Mr. Shaukat Zaman
Group Head Network and Financial Management | Group Head Forex and Development Finance



Syed Shehzad Safdar Zaidi
Director Human Resource Management



Mr. Hasnain Taher Dahodwala
Head of Department Strategic & Corporate Affairs / Corporate Secretary



Mr. Javaid Iqbal
Director Currency Management



Mr. Ahsan Kamal
Director Development Finance Support



Mr. Fazli Hameed
Director Engineering Services



Mr. Asif Mumtaz
Head of Department Internal Audit



Mr. Irfan Ismail
Head of Department Accounts



Mr. Asad Shah
Director Foreign Exchange Adjudication



Mr. Tariq Riaz
Head of Department General Services



Mr. Khalid Mehmood Bhutta
Chief Security Officer



Mr. Shakeel Paracha
Head of Department Foreign Exchange Operations

BSC Field Office Management



Mr. Qazi Shoaib Ahmad
Regional Head – South



Mr. Javaid Ahmad Bhatti
Regional Head - Central



Sajjad Ali Shah
Regional Head - North



Mr. Sajid Ali Shah
Chief Manager, Karachi



Mr. Javaid Iqbal Marath
Chief Manager, Lahore



Mr. Umar Farooq Minhas
Chief Manager, Islamabad



Mr. Amjad Ali Imran
Chief Manager, Quetta



Mr. Sarfraz Ahmad Nadeem
Chief Manager, Faisalabad



Mr. Muhammad Saleem Khan
Chief Manager, Rawalpindi



Mr. Maqbool Ahmed Khan
Chief Manager, North Nazimabad



Mr. Waqas Bajwa
Chief Manager, Multan



Mr. Ishtiaq Ahmed
Chief Manager, Peshawar



Mr. Aijaz Hussain
Chief Manager, Hyderabad



Mr. Ansar Iftikhar Butt
Chief Manager, Sialkot



Mr. Muhammad Aftab Alam
Chief Manager, Muzaffarabad



Mr. Aamir Nazir Bhatti
Chief Manager, Sukkur



Mr. Muhammad Waheed Akhtar
Chief Manager, Gujranwala



Mr. Shehryar Khan
Chief Manager, Dera Ismail Khan



Mr. Najeeb Ahmad Bukhari
Chief Manager, Bahawalpur



Network & Financial Management Group



1 *Banking Services to Government and Banks*

As part of its statutory mandate set forth in BSC Ordinance 2001 and other functions delegated by SBP from time to time, BSC provides banking services to federal & provincial governments and financial institutions through its 16 field offices and authorized bank branches across the country. Additionally, BSC provides operational support to SBP which encompasses payment systems and maintenance of accounting & financial records.

1.1 Overview

BSC is entrusted with providing banking services to federal & provincial governments, and banks through its network of 16 field offices as well as agency arrangements across the country. These agency agreements authorize designated branches of NBP and Bank of Punjab to perform government banking operations on its behalf. BSC also closely monitors local clearing houses as well as performs settlement of interbank and 1-link transactions to ensure smooth functioning of payment systems.

1.1.1 Banker to the Government

As part of its statutory obligation of being banker to the government, BSC performs various functions in this ambit including but not limited to opening and maintenance of Government accounts and collection of designated revenues and payments. Additionally, BSC provides other services to federal and provincial governments such as remittances and safe deposit facility. Discharging its advisory responsibilities with an aim to enhance operational efficiency vis-à-vis SBP's vision, BSC also continually evaluates existing instructions, SOPs, and mechanisms to implement various improvements in its operations.

1.1.2 Banker to the Banks

As banker to the banking industry and as part of its regulatory responsibilities, BSC maintains Current and Subsidiary General Ledger Accounts of all scheduled banks and NBFIs. The notable services offered to the banks through account operations are maintenance of cash and liquidity reserves while ensuring timely and adequate availability of cash across Pakistan.

1.1.3 Payment System Support

In order to facilitate payments through the banking system, BSC provides clearing and settlement services to banks and governments through various channels. BSC also assists SBP in implementation of NPSS besides providing inputs to Payment Systems Department, SBP, on policy formulation.

1.1.4 Financial Services

BSC derives its mandate from BSC Ordinance as well as policies approved by its Board of Directors from time to time. In line with these provisions, BSC ensures proper maintenance of accounting and financial records, and preparation of financial statements. In addition, BSC is also focused on developing,

maintaining, and monitoring a sound internal control environment for reliable financial reporting through an organization wide framework of ERM. The ERM framework is implemented across BSC and all reported incidents are monitored regularly as envisaged in the framework and related operational policies. BSC also aims to warrant judicious allocation and utilization of its resources to achieve its objectives through a well-planned budgeting process which assigns due weightage to the implementation of financial controls.

1.2 Key Stakeholders

- Federal and Provincial Government Departments
- Commercial Banks and NBFIs
- AGPR, Accountant Generals of Provinces, and Military Accountant General
- Finance Division / Departments
- 1-Link
- CNA
- Pakistan Railways
- Pakistan Post
- Central Directorate of National Savings
- Federal and Provincial Revenue Authorities including excise and taxation departments
- National Institutional Facilitation Technologies
- Controller of Military Accounts
- CAAF

1.3 Key Performance Highlights during the Year

Box 1.1: Key Performance Highlights during FY21

Digitalization of Govt. Receipts

- Collaborated with Finance Department SBP and FBR to implement collection of income tax of corporate clients and custom duties (more than Rs. 1 million) through ADCs and OTC, resulting in timely credit to Government Treasury and reduction in reconciliation issues

Digitalization of Internal Payments

- Payments to vendors, suppliers, pensioners were paid directly through bank account transfers instead of cheques, thus achieving process efficiency, reduced workload, and HR savings

Reduction in CNA and CAAF Cheques

- Coordinated with CNA and CAAF for centralization of cheques, resulting in workload reduction and leaner processes

Centralized Issuance of Income Tax Refunds

- Digitalized Income tax refunds for issuance through centralized FBR treasury resulting in instant credit to beneficiary's account

Centralization of Commercial Bank Accounts

- Centralized commercial bank accounts maintained with all BSC field offices at Karachi Office, resulting in better liquidity management, more efficient work processes, and HR savings

1.4 Operational Performance

1.4.1 Collection of Government Revenue

As part of its banking services, BSC provides revenue collection services to federal and provincial governments which includes tax and non-tax revenues. During FY21, BSC maintained its enhanced focus on digitalization of payment systems and further strengthened its digital payments platform as underlined in NPSS. For this purpose, one of the key initiatives was enhancing the usage of ADCs and OTCs in government revenue collections through continuous orientation sessions for officials and trade bodies across the country.

Under the ADC initiative, BSC expanded its tax collection scope and services by capitalizing on banking industry's IT infrastructure i.e. internet banking, mobile banking, and ATMs, as well as commercial bank branches. These efforts resulted in enhanced collection of taxes, through means of ADC across the banking sector. These efforts were further bolstered by awareness sessions arranged by BSC to create awareness among various segments of taxpayers and to encourage them to use ADCs and OTC services for tax payments. These well-received orientation sessions resulted in a remarkable usage of ADC and OTC channels, an overview of which is given in Fig 1.1 and 1.2, exhibiting an increase of 225 percent in transaction numbers and 615 percent in total value.

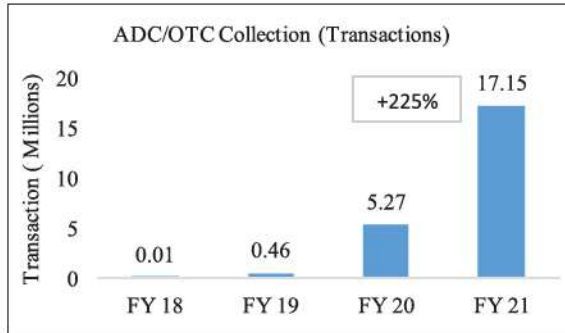


Fig 1.1: ADC / OTC Collection (Transactions)

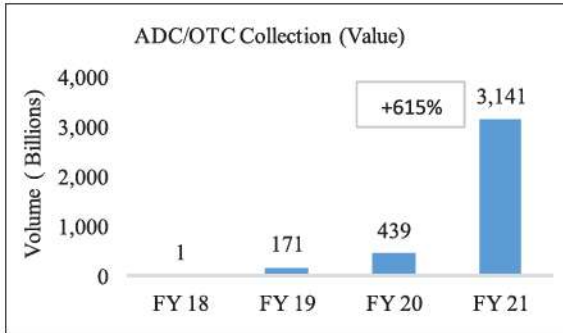


Fig 1.2: ADC / OTC Collection (Value)

1.4.1.1 Collection for Federal Board of Revenue

Taxes and duties collected by BSC on behalf of FBR during the year were Rs. 4,962.34 billion. The summary of FBR receipts and payments (refunds) for the last two years is given as under (Table 1.1). Both receipts and payments show an upward trend over the last year.

Tax Type	Receipts			Payments (Refunds)		
	FY20	FY21	Change	FY20	FY21	Change
Customs	669.20	802.51	20%	12.40	19.97	61%
Federal Excise Duty	249.70	276.80	11%	0.40	0.0002	-100%
Income Tax	1,525.60	1,720.92	13%	28.40	20.50	-28%
Sales Tax	1,656.00	2,162.11	31%	93.30	209.86	125%
Total	4,100.50	4,962.34	21%	134.50	250.33	86%

1.4.2 Making Payments on behalf of Government

BSC also makes payments on behalf of federal and provincial governments, which primarily include salaries, pensions, vendor / supplier payments, debt repayments, and others. During FY21, the total number of transactions pertaining to the government payments carried out by BSC were 5,144 thousand as compared to 4,903 thousand in the previous year, showing a slight increase of 5 percent. (Table 1.2)

1.4.3 Zakat Collection and Disbursement

BSC, through its network of field offices and authorized agents, plays an integral part in Zakat collection and disbursement. BSC also ensures timely reporting of balances to concerned stakeholders. During FY21, the total Zakat collection was Rs. 6,190 million, showing a substantial decrease of 22 percent over last year's collection i.e. Rs. 7,929 million.

*Table 1.2: Number of Govt. Payment Transactions
(Figures in '000)*

Field Office	FY20	FY21	Change
Karachi	858	1,258	47%
Lahore	697	726	4%
Rawalpindi	424	480	13%
Islamabad	913	478	-48%
Faisalabad	282	340	21%
Multan	334	326	-2%
Hyderabad	248	315	27%
Peshawar	259	270	4%
N. Nazimabad	240	242	1%
Quetta	142	154	8%
Sukkur	100	135	35%
Gujranwala	113	109	-4%
Sialkot	99	106	7%
Bahawalpur	90	94	4%
Muzaffarabad	61	66	8%
D. I. Khan	43	45	5%
Total	4,903	5,144	5%

1.4.4 Consolidation of Government Payment Instruments

As banker to the government, BSC is dedicated to bringing efficiency in government payment processes. With this objective, BSC approached different government departments including Military Accountant General for consolidation of salary and pension cheques. As a result of continuous coordination and collaboration with departments, CNA have consolidated their payment instruments on average from 13,000 to 1,500 cheques per month. Similarly, pension cheques of CAAF have been decreased from 800 to 80 cheques on average per month. This has significantly reduced requirement of over the counter facilitation at 16 field offices. Going forward, similar initiatives with other stakeholders are also underway.

1.5 Development Initiatives

1.5.1 Centralization of Bank Accounts

Historically, banks were maintaining separate and independent accounts at 16 field offices for their day-to-day operations. With an aim to enhance digitalization and ensure transparency as well as to achieve greater operational efficiency in banking operations, these bank accounts have been consolidated and centralized as a single account for each bank at Karachi Office with effect from 1st July, 2021. This initiative has not only made account operations more efficient by consolidating all allied activities of account maintenance, but has also assisted the banks in effectively managing their liquidity.

1.5.2 Centralized Issuance of Income Tax Refunds

During FY21, as per FBR's proposal on centralization of income tax refunds, the process has been end-to-end digitalized and accounts of beneficiaries are now directly credited without involving any physical instruments or manual interventions. This has resulted in reducing the turnaround time from three days to one day.

1.5.3 Digitalization of Internal Payments of BSC

In addition to digitalizing processes involving external stakeholders, BSC has also focused on revamping and digitalizing its internal payment processes. Last year, all paper-based instrument payments to employees, vendors, suppliers, and service providers were shifted to direct credit to bank accounts. During the current year, pension payments of SBP and BSC have been successfully shifted to direct credit to bank accounts through RTGS.

1.6 Future Outlook

BSC is fully committed to improve its operations and to strive for enhancement in its customer service standards for its external and internal stakeholders. BSC will also keep its focus on digitizing its infrastructure and minimizing manual operations through maximum utilization of technology and reengineering of current business processes. Further, BSC will continue to provide policy, operational, and payment systems support to SBP with an aim to develop and operate an efficient and secure national payment system.

In line with the above broad objectives, BSC is currently pursuing various projects including but not limited to extending assistance to SBP in implementation of Micro Payment Gateway called 'Raast', enhancing reach of ADC / OTC, consolidation of cheques for remaining Govt. departments, and reduction of Govt. cash payments.

2 Currency Management

Currency Management is one of the core operational areas of BSC which primarily deals with issuance, management, and withdrawal of banknotes and coins. Under this function, Bank is also responsible for operational management of Prize Bonds, Government Savings Certificates, and Bank-wide implementation of a rigorous AML, CFT & CPF regime.

2.1 Overview

BSC strives to ensure implementation of policies and guidelines relating to currency management and government savings schemes issued by the SBP and CDNS respectively. Accordingly, BSC consistently endeavors to adopt international best practices and to employ globally trusted technologies for following functions in Pakistan:

- i. Ensure adequate availability of good quality banknotes in the market and meet market's demand for currency for smooth functioning of the economy
- ii. Arrange for timely printing and effective stock management of currency notes and prize bonds in coordination with PSPC
- iii. Ensure swift withdrawal of soiled notes from the market and its subsequent processing with enhanced control environment to improve the overall quality of notes in circulation
- iv. Issue comprehensive instructions to BSC's 16 field offices for effective implementation of SBP's CMS
- v. Conduct on-site examinations through CMHs to ensure effective implementation of CMS strategy across the country
- vi. Implement BPRs to align BSC's existing currency management function with international best practices
- vii. Ensure effective operational management of Government Savings Schemes and Prize Bonds (Bearer, Premium / Registered) in coordination with CDNS
- viii. Conduct reliable and transparent prize bond draws
- ix. Develop an efficient and effective AML, CFT & CPF regime as well as strengthen it through continuous developments in the areas of technology, business processes, and HR capacity building
- x. Combat note counterfeiting in collaboration with LEAs in close coordination with SBP
- xi. Arrange public awareness programs on banknote security features for external stakeholders through network of 16 field offices

2.2 Key Stakeholders

- Federal and Provincial Governments
- Law Enforcement Agencies
- Pakistan Mint
- CDNS
- General Public
- State Bank of Pakistan
- PSPC
- Commercial Banks
- Currency Contractors
- National Bank of Pakistan

2.3 Key Performance Highlights during the Year

Box 2.1: Key Performance Highlights during FY21

Currency Operations

- Ensured uninterrupted supply of fresh notes across the country by issuing 4.356 billion pieces of banknotes valuing Rs. 1.59 trillion during FY21
- Record destruction of 3.1 billion pieces of soiled banknotes during FY21, which was 64 percent higher as compared to previous year
- Receipt of 2.7 billion soiled banknotes from commercial banks and NBP chests during FY21 to ensure removal of unfit notes from circulation and improving the quality of notes in circulation

Efforts to Combat COVID-19 Pandemic

- Issued detailed guidelines to field offices and commercial banks to curb the spread of COVID-19 pandemic
- Provided balance sheet relief of Rs. 49.4 billion to banks with regards to hospitals / laboratories quarantined cash
- Regular issuance of fresh banknotes to commercial banks for onward circulation to the general public

Government Savings Schemes

- Extended outreach of PPBs operations by authorizing 13 commercial banks to deal in PPBs
- Introduced SMS service facility for Direct Credit Payments to ensure prompt intimation to customer
- Revamped procedure for Defective NPBs through elimination of manual registers and introduction of direct credit
- Launched new denomination of Rs. 25,000 PPBs to make the scheme more attractive
- Managed the encashment of 25.6 million prize bonds of higher denomination withdrawn from circulation valuing Rs. 379.9 billion.

AML & CFT

- Issued BSC's inaugural AML, CFT & CPF Compliance Policy to delineate AML & CFT regime at BSC
- Implemented TMS for generating alerts against pre-defined criteria in order to identify suspicious transactions
- Conducted multiple training and capacity building sessions for BSC officials with an aim to enhance understanding of AML & CFT Regime

2.4 Operational Performance

2.4.1 Circulation of Banknotes

Pakistan is a highly cash-centric economy with presence of informal markets and businesses mostly relying on cash for their operations. As such, the value of CIC continues to increase, despite surge in usage of online, point-of-sale, and other alternative payment channels. This behavior is evident from the consistent increasing trend of CIC, as per data presented in **Table 2.1**. The CIC witnessed an annual growth of 13.2 percent in FY21, with the CIC as a percentage of GDP stood at 15.4 percent, highlighting the cash centric nature of Pakistan's economy.

Year	Nominal GDP ²	Currency in Circulation (CIC) ³	CIC as % of GDP	CIC Change over previous year
FY20	41,726,683	6,492,272	15.6%	22.0%
FY21	47,709,325	7,349,493	15.4%	13.2%

² Pakistan's GDP- https://www.sbp.org.pk/ecodata/GDP_table.pdf

³ Statement of Affairs- 25 June, 2021- <https://www.sbp.org.pk/publications/statements/2021/25-Jun-2021.pdf>

2.4.2 Currency Management

BSC endeavors to ensure availability of good quality banknotes across the country. The distribution of fresh notes is conducted through active and timely coordination between 16 field offices, 224 NBP Chest Branches, and commercial bank branches across the country. During FY21, the composition of fresh notes issuance regularized as effects of COVID-19 pandemic subsided. As evident from **Table 2.2** issuance of lower denomination banknotes increased by 100 percent in terms of pieces, mainly due to resumption of normal operations and regular issuance of fresh note tranches to commercial banks. On the other hand, the year on year decline in issuance of higher denomination banknotes was due to the extraordinary issuance of higher denominations during FY20 as part of payments for Ehsaas Program.

Year	Lower Denomination (Up to Rs. 100)				Higher Denomination (Rs. 500 & Above)			
	Pieces	% Increase	Value	% Increase	Pieces	% Increase	Value	% Increase
FY20	1,667	-32.6%	64,014	-17.2%	1,175	33.5%	1,611,167	31.4%
FY21	3,345	100.7%	151,535	136%	1,011	-6.2%	1,444,184	-10.3%

The CIC showed an increase of 12.8 percent YoY in terms of pieces. Moreover, the destruction of soiled banknotes shows an increase of 64 percent on YoY basis, due to automation of bank notes examination and destruction processes. (Fig 2.1)

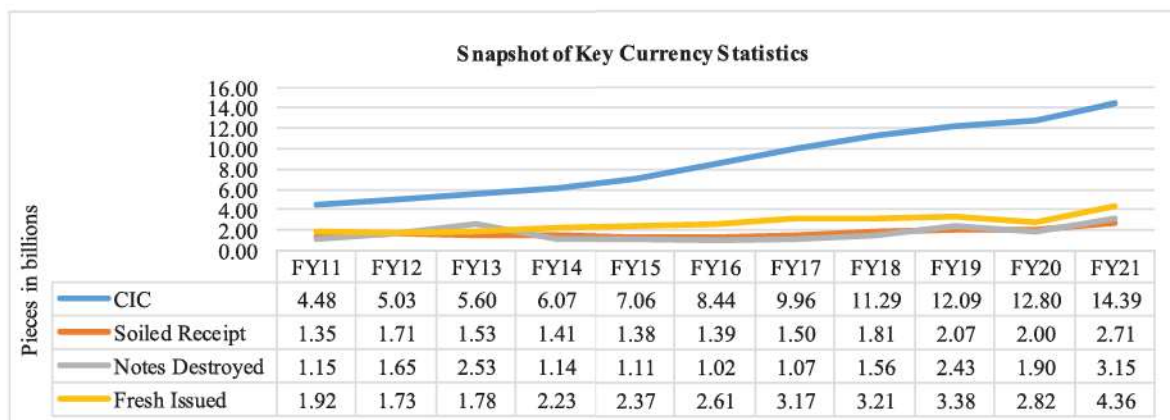


Fig 2.1: Snapshot of Key Currency Statistics

2.4.2.1 Counterfeit Reporting and Confiscation

After roll out of the CMS in 2015, the currency operations at commercial banks have been automated and banks are surrendering increased number of counterfeits to BSC reflecting an improvement in the counterfeit detection capabilities of the banking system. This is reinforced through conducting of on-site examinations by the CMHs as well as by the penalty imposition of 100 times the face value of the banknote if any counterfeit is detected during examination of balances at field offices.

2.4.3 Monitoring of Currency Operations

2.4.3.1 Cash Monitoring of Commercial Banks

One of the objectives of the CMS was to ensure circulation of good quality banknotes and curb the increasing spread of counterfeits in the economy. In order to gauge the compliance of banks in connection with the CMS guidelines, three dedicated CMHs were constituted at Karachi, Lahore, and Rawalpindi in October 2018. CMHs were responsible for evaluating commercial banks' non-compliance in terms of 28 currency-related areas and impose penalties in connection thereto.

During FY21, CMHs examined 854 branches despite facing major lockdowns, constricted mobility, and closure of operations for about five months owing to COVID-19 pandemic. These included 269 Cash Feeding Branches, 143 Cash Processing Centers, 345 Standalone Branches, and 97 Linked Branches. Furthermore, during these examinations, CMHs imposed penalties amounting to Rs. 13.5 million (a decline of 37 percent) compared to Rs. 21.59 million from the previous year, highlighting effectiveness of the cash monitoring exercises and presence of a strong oversight mechanism over commercial banks.

In addition, on-site monitoring was further reinforced through a newly developed compliance mechanism whereby banks were required to tender compliance of their delinquent branches on quarterly basis. Compliance by the banks is expected to further improve after amendments in CMS guidelines which is being undertaken in consultation with Finance Department, SBP.

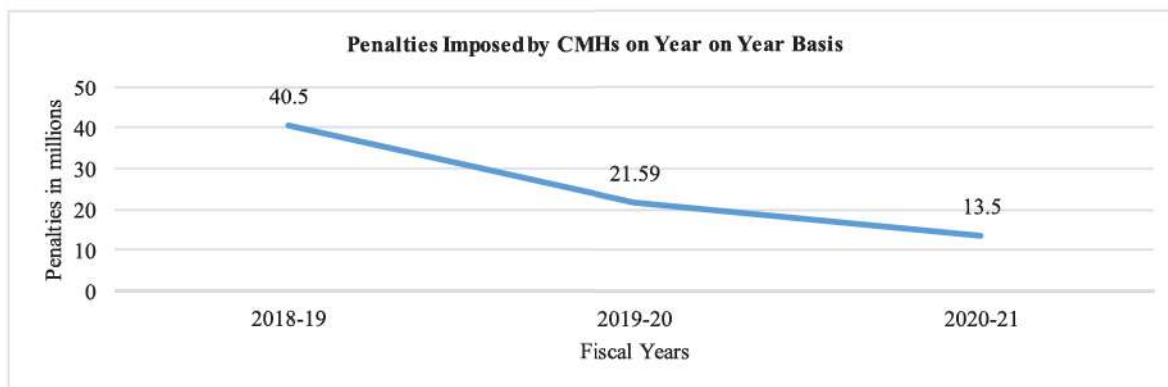


Fig 2.2: Penalties Imposed by CMHs on Year on Year Basis

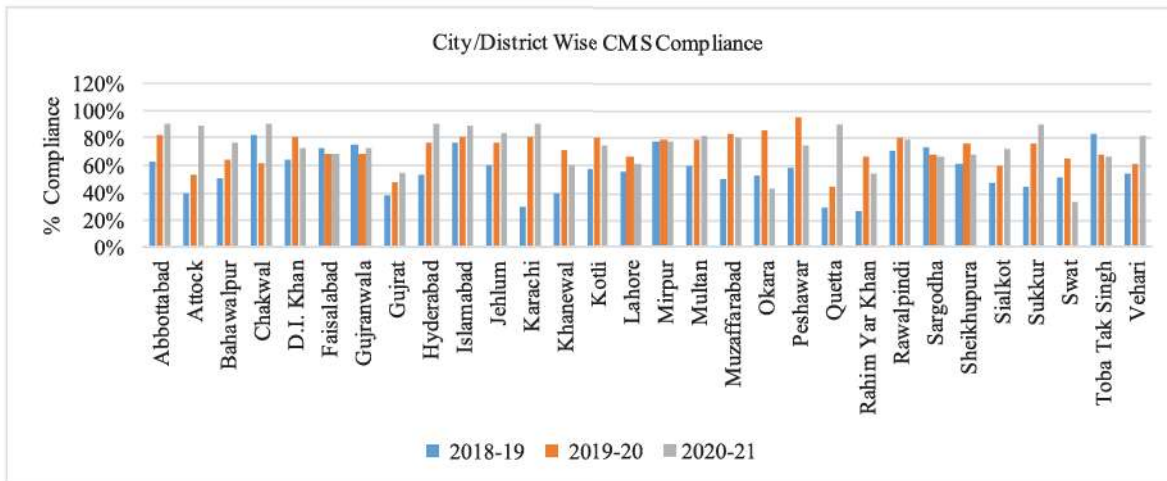


Fig 2.3: City / District Wise CMS Compliance

The CMH teams also conducted 47 classroom and online awareness sessions for capacity building of the cash officers of commercial banks to further improve the compliance.

2.4.3.2 NBP Chest Examination

During FY21, it was decided to conduct on-site examination of NBP Chest branches twice in a financial year. The first cycle was completed on a timely basis whereby 212 chest branches were examined with rigorous follow-up to get the irregularities / observations rectified. A comprehensive report, highlighting the non-compliant aspects and higher risk NBP branches, was submitted to the management. However, due to COVID-19 restrictions the second cycle could not be initiated.

2.4.4 Government Savings Schemes

Being an agent to the Government of Pakistan, BSC effectively managed operations of various NSS while observing NCOC guidelines regarding COVID-19.

Despite the pandemic and lockdowns, NPB instruments (prize bonds and certificates) amounting to Rs. 108.9 billion were issued during the outgoing fiscal year. Further, encashment related operations witnessed a substantial increase primarily due to withdrawal of Rs. 25,000, Rs. 15,000, and Rs. 7,500 denomination National Prize Bonds. During the year, NSS amounting to Rs. 398.9 billion were encashed at field offices constituting Rs. 137.9 billion, Rs. 144.9 billion, and Rs. 69.3 billion of Rs. 25,000, Rs. 15,000, and Rs. 7,500 denomination NPBs respectively.

Further, in the wake of COVID-19, business process re-engineering activity was continued where BSC focused on modernizing the operations of these schemes to achieve operational efficiency in terms of time, cost, and HR needs.

A brief overview of various Government Savings Schemes is given as follows:

2.4.4.1 National Prize Bonds

NPBs are bearer instruments available in four denominations i.e. Rs. 100, Rs. 200, Rs. 750, and Rs. 1500. The holders of these bonds are eligible for a prize in draws held on quarterly basis.

The sale and encashment of these bonds is carried out by all BSC field offices, authorized commercial bank branches, and National Savings Centers across Pakistan. The draws of NPBs are held at nine BSC field offices on quarterly basis as per schedule announced by the CDNS at the start of each year. Prize winning numbers are drawn by special children in presence of draw committee and general public attending the draw ceremonies.

The Government of Pakistan decided to convert bearer prize bond of higher denomination i.e. Rs. 7,500, Rs. 15,000, Rs. 25,000, and Rs. 40,000 into registered bonds. For the purpose, Finance Division GoP issued notifications regarding withdrawal of bearer prize bonds of Rs. 25,000, Rs. 15,000, and Rs. 7,500 during the year whereas Rs. 40,000 bearer bonds had been discontinued w.e.f. June 24, 2019. As of June 30, 2021, BSC has successfully encashed 99 percent of Rs. 40,000, 96 percent of Rs. 25,000, 75 percent of Rs. 15,000, and 55 percent of Rs. 7,500 denomination NPBs. Data pertaining to National Prize Bonds is elaborated in **Table: 2.3.**

Denom	FY20				FY21				Outstanding Value Held by Public
	Sale	Encashment	Prize Money Payment	Net Sale	Sale	Encashment	Prize Money Payment	Net Sale	
100	467	370	731	97	199	86	913	113	10,400
200	953	1,205	1,746	(251)	479	359	2,595	120	29,460
750	6,492	2,596	7,356	3,896	1,707	943	10,193	764	108,108
1,500	18,054	2,971	9,009	15,083	18,026	1,227	12,100	16,799	140,046
7,500	6,609	2,784	8,611	3,825	20,581	70,595	10,092	(50,014)	56,443
15,000	13,009	16,575	13,969	(3,566)	22,460	147,272	20,372	(124,812)	47,742
25,000	15,824	12,404	13,760	3,420	1,658	160,708	13,417	(159,050)	4,998
40,000	-	191,403	9,018	(191,403)	-	1,217	556	(1,217)	1,181
Total	61,409	230,308	64,200	(168,899)	65,110	382,407	70,238	(317,297)	398,378

Further, in order to promote digitalization of payments, BSC has taken various initiatives including Direct Credit of Prize Money, Face Value, and Profit payments etc. through RTGS which has not only significantly improved the efficiency of public debt operations managed by BSC, but has also reduced dependency on cash.

2.4.4.2 Premium Prize Bonds

Besides NPBs, BSC also manages the PPBs scheme whereby registered PPBs are issued in the name of investor after establishing identity through CNIC, National Identity Card for Overseas Pakistanis or Pakistan Origin Card. This scheme is a step towards increasing documentation of economy and enhancing financial inclusion as maintaining a formal bank account is mandatory for investment in this scheme.

The PPBs are eligible for both prize money (as admissible in the scheme) and profit payment as per rates notified by Government of Pakistan. The bi-annual profit and prize money (if any) are credited directly into the bank accounts of the investor and do not require personal visit for collection of profit or prize money.

A snapshot of the business conducted for PPBs in FY20-21 is tabulated below:

Table 2.4: Total PPB sale and encashment at BSC field offices (Rs. in millions)

PPB	FY20					FY21					Outstanding Value Held by Public
	Sale	Encashment	Net Sale	Profit	Prize Money	Sale	Encashment	Net Sale	Profit	Prize Money	
Rs. 25,000	-	-	-	-	-	15,625	491	15,134	30	105	15,134
Rs. 40,000	14,154	2,831	11,323	699	975	13,938	3,925	10,013	1,179	970	29,001
Total	14,154	2,831	11,323	699	975	29,563	4,416	25,147	1,209	1,075	44,135

2.4.4.3 Defence and Special Savings Certificates

DSC and SSC were introduced by CDNS in 1966 and 1990 respectively. DSC scheme provides long-term investment opportunity with ten years of maturity and annual profit accruing on the investment. The said certificates are available in denominations starting from Rs. 500 to Rs. 1 million. Whereas, the SSC scheme provides medium-term investment opportunity to the general public with a maturity of three years and bi-annual profit withdrawal facility.

During FY21, the net outstanding investment of DSC declined by two percent YoY whereas, the net outstanding investment of SSC grew by seven percent YoY to Rs. 66 billion and Rs. 55.2 billion respectively. A snapshot of the business conducted for SSC and DSC in FY20 & FY21 is tabulated below:

Table 2.5: Sale and encashment of SSC and DSC at field offices (Rs. in millions)

Scheme	FY20			FY21		
	Sale	Encashment	Profit	Sale	Encashment	Profit
DSC	14,629	5,422	6,725	4,153	5,271	6,868
SSC	34,761	29,738	3,522	10,501	6,868	3,840
Total	49,390	35,160	10,247	14,654	12,139	10,708

2.5 Anti-Money Laundering and Combatting the Financing of Terrorism Compliance

ML, TF&PF are a global menace and remain a threat for global as well as local economies including financial institutions. BSC is committed to having a robust and effective AML, CFT & CPF program to mitigate the ML / TF / PF risks. For this purpose and in line with international best practices, the AML & CFT Compliance Division adopted a three-pronged strategy i.e. 1) Introduction of Policies and Procedures 2) Technological Advancement and 3) Training & Capacity Building. Accordingly, various initiatives were taken during the year to strengthen prevailing AML & CFT regime at BSC and ensure compliance with legal / regulatory framework.

2.5.1 Introduction of Policies and Procedures

In line with applicable laws and regulations, BSC's inaugural AML, CFT & CPF compliance policy was issued delineating therein obligations and required actions under the AML & CFT compliance regime. The BSC Compliance Policy serves as guiding document for all departments, field offices, and employees with respect to AML & CFT obligations and measures.

Further, in order to develop better understanding of Sanctions Regime and STR / CTR regime at BSC, a detailed handbook for identification and reporting of CTR / STR was issued during the outgoing fiscal year. Additionally, numerous policy directives were issued to BSC departments at HOK and field offices including Red Flag Indicators for Reporting STRs while handling conversion / encashment requests of withdrawn NPBs.

BSC also implemented a customer identification mechanism for walk in / occasional customers. Further, BSC is in the process of enhancing customer due diligence mechanism by adopting Financial Action Task Force recommended Risk Based Approach.

2.5.2 Technological Advancement

As a part of AML & CFT Compliance Program, multiple system-based solutions were implemented during FY21, including enhancing scope of screening, in-house development of TMS and customer identification mechanism for walk-in customers (details available in Developmental initiatives section 2.6.9-10). Due to these technological interventions, significant increase was observed in STR reporting, as 729 STRs were reported in past five months as compared to 55 STRs identified by the dealing officials in the same period during the previous year, besides CNIC based real-time screening of customers.

2.5.3 Training & Capacity Building

Training & capacity building is a key component of the BSC's AML & CFT program. Therefore, a four-tier training program was developed, including senior management, middle management, AML & CFT focal persons, and concerned officials. Trainings were imparted to various BSC officials to foster their understanding of due diligence and STR reporting parameters. This enabled officers to focus on their responsibilities relating to AML & CFT regime and to analyze unusual / high-risk transactions. During the year, over 250 employees were trained in coordination with Banking Policy and Regulation Department, SBP and FMU. The number and quality of STRs also improved substantially during the fiscal year due to the concerted efforts to enhance understanding and awareness of BSC officials.

2.6 Development Initiatives

2.6.1 Currency Automation Strategy

In line with Currency Automation Strategy, installation of five BPAS was completed at BSC Lahore, Faisalabad, and Peshawar, while installation of remaining four machines shall be completed at Rawalpindi, Multan and Quetta during the next financial year. These BPAS machines are capable of high-speed processing, authentication, and online destruction of banknotes, providing 100 percent counterfeit detection, processing accuracy, standardization, and significant HR savings in comparison to the manual environment. It is expected that with the successful installation of the remaining BPAS machines, BSC's yearly capacity for processing and online shredding of higher denomination (Rs. 500 & above) banknotes will increase to approx. 1.4 billion pieces.

In addition, installation of four BDS at BSC Lahore, Faisalabad, Peshawar, and North Nazimabad was completed, while remaining three BDS shall be installed at BSC Rawalpindi, Multan, and Quetta by Q2 of FY22. With the implementation of BDS, BSC will be able to disintegrate more than 2.5 billion pieces of lower denomination (Rs. 100 & below) banknotes on a yearly basis in an efficient manner. In addition, these BDS machines are equipped with safety features and are manufactured as per approved international standards so as not to expose operators to any injury risks.

2.6.2 Centralization of Banknote Examination & Destruction

To complement the above automation initiatives, the internal examination procedures and practices were also streamlined by introducing the concept of Pool and Linked Offices. In line with the revised business model, the banknote examination procedures were restructured and dedicated examination and destruction hubs were created at eight Pool Offices having been equipped with BPAS and BDS machines. Moving forward, the remaining Linked Offices shall only act as deposit hubs for banknote receipt, and shall remit their balances to Pool Offices for further processing. Apart from operational efficiency, the initiative shall improve the internal security controls in banknote processing and destruction and shall rationalize the HR needed for the same.

2.6.3 Elimination of Manual Examination

Manual examination of banknotes at BSC was eliminated and in future all banknotes shall be processed on machines. The examination of lower denomination (up to Rs. 100) banknotes was shifted to desktop banknote authentication machines, with revised Minimum Productivity Levels for efficient processing of the same. The revised procedure has allowed field offices to effectively destroy considerable backlog of unexamined lower denomination balances.

2.6.4 Revamping of Evening Collection and Elimination of Defacement

The process of Evening Collection was revamped in line with the Pool Structure and machine-based examination procedures, thereby enhancing efficiency of the entire process and automating front end counter operations. In addition, the practice of defacement of banknotes was eliminated which also improved the health and safety standards in cash examination.

2.6.5 Improvements in Vaults

To improve the internal controls in vaults, Close Circuit Television (CCTV) surveillance system was installed in all vaults and the HR requirement of vaults was rationalized through merger of various currency vaults across field offices.

2.6.6 Digital Prize Bonds

In order to modernize public debt management function, a detailed proposal for launching “Digital Prize Bonds Scheme” was submitted to Ministry of Finance. The proposal has been developed in line with the Government’s ‘Digital Pakistan’ drive. Through this initiative, BSC envisages to reach masses using digital delivery channels and enabling them to purchase / encash prize bonds through the said portal remotely.

2.6.7 Incentivizing and Enhancing Premium Prize Bonds

A new denomination of Rs. 25,000 PPB was launched to make the scheme more attractive and give the general public an option to invest in smaller denomination PPBs. Moreover, the outreach of PPB operations was further extended by authorizing 13 more commercial banks to deal in PPBs. Accordingly, all 19 conventional commercial banks are now offering PPBs to their customers.

2.6.8 SMS Intimation for Direct Credit Payments

With a view to improve customer service delivery and enhance customer confidence, an SMS service was introduced for Direct Credit Payments whereby customers are able to receive intimation of their payments on real-time basis through SMS on their provided mobile number.

2.6.9 Implementation of Transaction Monitoring System

TMS was developed in core banking system i.e. T-24 system in-house to assist BSC officials in monitoring Prize Money claim transactions. The TMS is capable of generating alerts based on pre-defined criteria and quantitative red-flag indicators. Since development of TMS, significant increase has been observed in STR reporting showing a strong suspicion identification program.

2.6.10 Procurement of Screening Solution

In line with international best practice, BSC is in the process of procuring automated off-the-shelf Targeted Financial Sanction Screening Solution. To this end, a contract has been awarded to an international vendor during FY21 whereby system shall be deployed in FY22. The new system will enable BSC to screen individuals and entities based on multiple criteria such as name, aliases, addresses, etc. from diverse global watch lists.

2.7 Future Outlook

In line with its strategic direction and the changing business dynamics of cash operations in Pakistan, BSC endeavors to continue automating and modernizing currency and government savings operations at its offices. BSC also aims to focus on enhancement of documentation of informal economy, improving efficiency in examination procedures, and digitalization of various government schemes.

In addition, upgrading of currency logistics and storage infrastructure at BSC is under consideration. Moreover, consolidation of currency accounting and implementation of banknote inventory management system along with necessary software application enhancements are also underway.

In line with the international best practices and “Digital Pakistan” vision of the government, BSC in coordination with SBP and CDNS / Ministry of Finance is exploring options for issuance of a new Digital Prize Bonds Scheme, enabling customers to purchase desired prize bonds through online web-portal / mobile application. BSC will also consider using the digital platform for other public debt schemes such as SSCs / DSCs etc.

BSC is focused on strengthening AML, CFT & CPF regime through formulation and implementation of a risk based customer due diligence mechanism including development of centralized electronic Know Your Customer (eKYC). Further, existing IT solutions i.e. Transaction Monitoring System and Sanction Screening are planned to be upgraded to meet the evolving business needs and compliance requirements. Additionally, focused training program shall be imparted to BSC’s staff as part of compliance program.



Forex and Development Finance Group



3 Development Finance

To achieve SBP's strategic objectives related to the development of a sustainable and inclusive financial system in the country, BSC, by utilizing its geographical outreach, augments the role of SBP by catering to the financial needs of various segments of the economy as well as by connecting the unbanked and under-banked areas and sectors with financial markets.

3.1 Overview

BSC's development finance function complements the role of the Development Finance Group of the SBP in promoting an inclusive financial system in the country. All the BSC field offices facilitate implementation of SBP's policies, initiatives, and concessional financing schemes as well as arrange various events and programs to promote key priority areas of development finance.

Under NFLP, BSC surpassed all targets and sub targets for FY21 by conducting more than 12,000 classroom sessions and reaching out to over 360,000 individuals of the unbanked population for imparting financial literacy. To combat the impact of COVID-19 during FY21, BSC managed the implementation of SBP's concessional schemes including Wages & Salary Scheme (Rozgar), TERF and RFCC along with supporting initiatives for healthcare.

BSC proactively developed mechanisms for facilitation and implementation of these schemes across the country. In this context, the BSC launched a campaign for broad awareness and provided a platform for complaint handling of the end users. In another major activity, BSC took measures to promote G-MSS for housing finance since its launch on October 12, 2020. In a short span, BSC took three major initiatives to facilitate the low-cost house financing under the G-MSS. These initiatives include monthly mystery shopping survey of commercial banks' branches, establishment of a dedicated complaints' portal, and setting-up of housing finance helpdesks at all field offices. Furthermore, for promotion of SME financing in the country, all field offices worked on two key development projects, namely sector-of-the-year and SME finance clinics, to explore potential sectors for financing and reduction of gaps between credit supply and demand sides.

BSC is also at an advanced stage of a key project to automate and delegate its operational functions to participating banks under the EFS in order to enhance its offsite monitoring operations. During the year, BSC also conducted various conferences, focus-group meetings, and stakeholders' consultations to promote financing to various development finance areas.

3.2 Key Stakeholders

- Banking Industry
- Ministries / Local Government bodies
- Chamber of Commerce and Industries
- Trade Bodies
- Non-Governmental Organizations (NGOs)
- General Public

3.3 Key Performance Highlights during the Year

Box 3.1: Key Performance Highlights during FY21

Agriculture Credit Financing:

- Ensured disbursement of Rs. 1,365.8 billion against a target of Rs. 1,500 billion through 50 PFIs with a credit expansion of 12.4 percent in comparison to FY20

Islamic Banking

- Organized series of workshops on Islamic banking for local Muftian/ Ulema which facilitated in allaying concerns of more than 700 religious scholars regarding Islamic banking

National Financial Literacy Program

Milestone	FY21	
	Target	Achievement
No. of District	158	158
No. of Classroom Sessions	7,232	12,487 (173%)
No. of Beneficiaries	180,800	362,223 (200%)
Female Participation %	50%	58%
Account Conversion %	80%	90%

Management of Refinance Schemes

- Disbursed Rs. 1,394.54 billion under Export Refinance Schemes; Rs. 992.55 billion under conventional Export Financing Scheme and Rs. 401.99 billion under IERS
- Disbursed Rs. 54.57 billion under LTFF
- Disbursed Rs. 39.62 billion under Refinance Scheme for Renewable Energy
- Disbursed Rs. 2.61 billion under FFSAP
- Disbursed Rs. 178.08 billion under Refinance Scheme for Payment of Wages and Salaries
- Disbursed Rs. 123.28 billion under Temporary Economic Refinance Facility
- Disbursed Rs. 4.57 billion under RFCC

SBP Service Desk Portal - State Bank of Pakistan

- Addressed over 10,000 complaints and queries related to Government's Markup Subsidy Scheme for Housing Finance through helpdesks and web portal

Mystery Shopping Survey for Housing Finance

- Conducted 10,500 MS surveys of bank branches to assess staff's level of knowledge about the scheme, their behavior with customers, and quality of displays at branches' premises. The results of these surveys were regularly presented to SBP senior management & Housing Finance Steering Committee

Awareness Sessions

- Held 61 awareness sessions and seminars related to Agriculture Sector, 16 sessions related to Microfinance, and more than 130 sessions related to SME

3.4 Operational Performance

3.4.1 National Financial Literacy Program

NFLP was rolled out in September 2017 as a key initiative of SBP to increase financial inclusion in the country under the ambit of its National Financial Inclusion Strategy. The program aims to provide basic financial education to one million unbanked / underserved population comprising of an equal mix of males and females between the age of 18 to 60 years across rural and urban areas of the country over a span of five years.

Despite the fact that FY21 was a challenging year due to the ongoing COVID-19 pandemic, BSC proactively continued on-ground NFLP activities in an efficient manner while adhering to COVID-19 SOPs and surpassed all targets set for the fiscal year. Under NFLP, 362,223 participants were given financial education during FY21 against the target of 180,800 beneficiaries, through 12,487 classroom sessions. This comprised of 70% participants located in rural areas with significant female participation (58% against the target of 50%). The number of participants who opened a bank or mobile account at the end of these sessions reached 90% against the target of 80%. Since the initiation of NFLP in September 2017, financial education has been imparted to more than 900,000 adults.

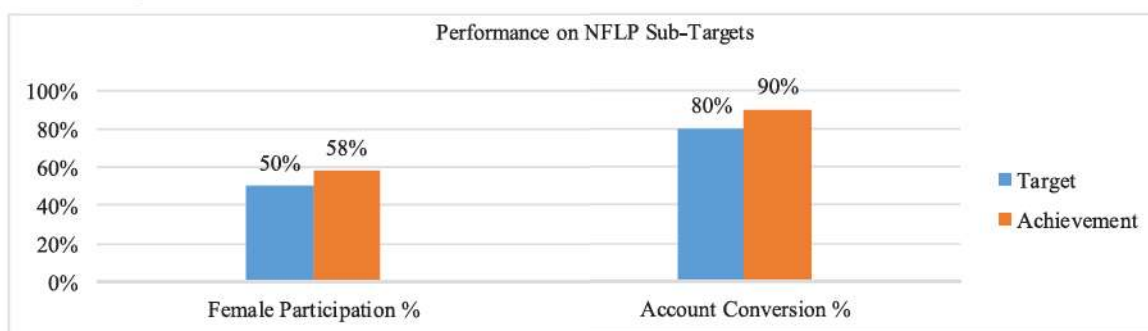


Fig 3.1 Performance on NFLP Sub-Targets

Furthermore, BSC has taken steps towards inclusive economic growth through enhanced access to finance. For this purpose, BSC has collaborated with organizations like Unilever Pakistan and All Pakistan Women Association to enhance overall level of financial literacy and entrepreneurship among females. On similar lines, BSC is also endeavoring to join hands with other organizations for the cause of improving financial literacy and inclusion in the country.

3.4.2 Management of Refinance Schemes

BSC continued to manage various short and long term concessionary refinancing schemes offered by SBP to fulfill credit requirements of the critical sectors of Pakistan's economy i.e. agriculture, exports, manufacturing, and energy. The performance of these schemes is tabulated below:

Sr	Scheme Name	Total Disbursements	% age Change from FY20
1	EFS	1,394.54	27.21%
2	LTFE	54.57	-22.26%
3	Financing Scheme for Renewable Energy	39.62	415.21%
4	FFSAP	2.61	133.04%
COVID-19 Related Schemes (since Mar-April 2020)			
5	Refinance Scheme for Payment of Wages & Salaries	178.08	376.28%
6	TERF	123.28	N/A*
7	RFCC	4.57	425.29%
Grand Total of Disbursements all Refinance Schemes		1,797.27	48.10%

* No financing was disbursed under TERF during FY20

Other Refinance and Credit Guarantee Schemes

3.4.2.1 Refinance and Credit Guarantee Scheme for Women Entrepreneurs

Under the scheme, 19 banks were allocated limits of Rs. 2,500 million during the year. As of June 30, 2021, over 900 active borrowers were availing the scheme, whereas the amount disbursed since the scheme's inception was Rs. 796 million. The scheme witnessed considerable growth with cumulative disbursements growing by 70 percent in FY21 as compared to last year.

To create awareness of this scheme among potential women borrowers, 21 sessions were conducted by field offices during the year. Further, a webinar was arranged to promote dialogue on the challenges faced by women in availing financing and the steps taken by SBP, BSC, and commercial banks to address this issue. This webinar was attended by participants from field offices, banks / development finance institutions, regional women associations and foundations, chambers of commerce, Small and Medium Enterprise Development Authority, and women entrepreneurs. Similarly, coordination with provincial government bodies was increased in order to propose absorption of mark up under the scheme to facilitate women borrowers.

3.4.2.2 Refinance and Credit Guarantee Scheme for Rice Husking Mills in Sindh

Under this facility, 12 banks were allocated limits of Rs. 1,000 million till end of FY22. As of June 30, 2021, an amount of Rs. 127.42 million was outstanding against 18 borrowers while ten new borrowers were added during the year. Further, to promote the scheme, BSC closely interacted with the relevant stakeholders i.e. banks, concerned associations, and rice millers for their feedback, based on which amendments in the scheme have been proposed to the competent authorities.

3.4.2.3 Refinance Scheme for Modernization of SMEs

Cumulative disbursement since inception of the scheme reached Rs 2.07 billion on June 30, 2021 against Rs. 1.11 billion for the same period last year. 20 banks have been allocated limits of Rs. 8.275 billion under the Scheme and limit utilization by banks on their cumulative financing stood at 25.03 percent at the end of the year.

3.4.2.4 Prime Minister Youth Business Loan Scheme

BSC is entrusted with the responsibility of processing claims of banks under Prime Minister's Youth Business Loan Program launched by the GoP in 2013. During FY21, subsidy claims and credit loss subsidy claims amounting to Rs 1.112 billion were processed and forwarded to the Finance Division, GoP for payments to the concerned banks.

3.4.2.5 Prime Minister Youth Entrepreneurship Scheme

During the year, a dedicated DAP was developed to facilitate swift processing of claims received from banks under Prime Minister's Youth Entrepreneurship Scheme. This facility enabled banks to upload data of subsidy claims directly on the portal followed by its reporting to Ministry of Finance for timely payments of subsidy and loss claims. During FY21, subsidy claims amounting to Rs 34.6 million were paid to three banks.

3.4.2.6 Credit Guarantee Scheme for Small and Rural Enterprises

CGS-SRE was launched by SBP with the funding support of the UK's DFID for lending to marginalized and collateral-deficient segments by providing an opportunity to financial institutions to share their credit risk. Under the scheme, guarantees amounting to Rs. 327.5 million were issued against 310 loans for FY21. An analysis of the guaranteed portfolio, since inception of CGS-SRE, shows that 47,468 guarantees were issued against lending of around Rs. 40 billion to 25 PFIs. Moreover, the loans were granted to borrowers from 60 different sectors covering 150 districts of the country.

3.4.2.7 Credit Guarantee Scheme for Small and Marginalized Farmers

SBP introduced CGS for Small and Marginalized Farmers with the assistance of Government of Pakistan in January 2016 to provide an opportunity to PFIs to explore the financing potential in the underserved farming community. The scheme provides 50 percent risk sharing to PFIs against their collateral-free lending to small and marginalized farmers. During FY21, guarantees amounting to Rs. 700 million were issued against 20,096 loans to six PFIs under the scheme.

3.4.3 Agriculture Finance

To meet the credit requirements of farmers and to boost the agricultural activity, BSC monitored agriculture credit disbursement target of Rs. 1,500 billion allocated to 50 PFIs for FY21. During the year, credit amounting Rs. 1,365.8 billion was disbursed by the banks with a credit expansion of 12.4 percent in comparison to FY20.

A three day mega event was arranged by DALFA (Dairy, Agriculture & Livestock Farmers Association) titled "DALFA Cattle Show-2021" to promote non-farm sector. This event brought all agriculture-related stakeholders under a single roof thereby enabling exchange of knowledge, networking, and exploring of investment options. BSC supported the event in collaboration with SBP. During the said event, the banking industry also showcased its products and briefed visitors about the availability of financial products. Further, a seminar was also arranged to brief participants about the steps taken by SBP to promote agriculture and related subsidy schemes.

3.4.4 Microfinance

Microfinance sector is the largest contributor towards financial inclusion at the base of the societal pyramid in Pakistan. It is also a major engine for poverty reduction and employment for the unbanked and underserved segment of the economy. For capacity building of bankers and public in the microfinance area, field offices collectively conducted 16 awareness sessions and focus group meetings.

Further, to equip BSC teams with the necessary knowledge on priority sectors of SBP, a two-day training workshop on the microfinance sector was organized with the objective to orient participants with the latest information and global trends in the sector. Around 60 BSC officers belonging to OG-2 - OG-4 cadre participated in the training.

3.4.5 SME Finance

BSC facilitates in implementation and monitoring of SBP's refinance and credit guarantee schemes aimed at providing low-cost financing for SMEs. Under the refinance schemes for SMEs, more than 1,200 loans were refinanced with an amount of Rs. 3.5 billion up to June 30, 2021.

For promotion of SME Finance, more than 130 awareness sessions were conducted during FY21. For first-hand knowledge of regional SMEs with respect to their banking inclusion, field offices prepared SME financing profiles of their respective regions on half-yearly basis. Moreover, they also followed 'Sector-of-the-Year' approach and conducted SME Clinics for their selected sectors. To augment the promotion of SBP schemes, banks were mandated to place promotional material in their branches / ATM vestibules, which was monitored by BSC cash monitoring teams. During the year, eight monitoring cycles were completed and analyzed for necessary policy decisions. To evaluate the regional performance of banks with respect to different aspects of SME Finance including their portfolio under SBP's SME schemes, 22 meetings of SME Finance Focus Groups with regional bankers were also held across field offices.

3.4.6 Islamic Finance

Considering the influential role that local religious scholars can play in creating awareness of Islamic Banking amongst the masses, a series of workshops on Islamic Banking were conducted for local Muftian / Ulema. So far, more than 700 religious scholars have participated in such sessions, which facilitated in addressing their concerns and misunderstandings regarding the current Islamic Banking practices and SBP's focus on facilitating an Islamic economic system.

During the year, field offices created Islamic Banking profiles for their respective regions which depicted an overview of the Islamic Banking infrastructure, potential, portfolio, and products available across the regions. The profiles were used to identify various trends in terms of deposits and financing in different regions, as well as opportunities and challenges for the promotion of Islamic Banking.

To augment SBP's efforts in building the capacity of all stakeholders, field offices conducted training sessions in the provincial capitals for officials of selected provincial departments and ministries.

3.4.7 Housing Finance

SBP announced G-MSS in October 2020 in order to enhance formal credit to low-cost housing sector. BSC was given the responsibility of coordinating with banks for resolution of complaints for which the MSSP was developed. The portal is accessible to the public for lodging their queries and complaints against banks regarding the scheme. BSC's senior management and Chief Managers were closely involved in the complaints' resolution mechanism.

Further, BSC has been constantly coordinating with commercial banks' focal persons to equip and train their staff to handle complaints on the MSSP, helping them in resolution of concerns of potential G-MSS customers, and to facilitate public in availing low-cost housing finance. During the year, over 4,000 complaints lodged on the portal were addressed. In addition, Housing Finance Helpdesks were established at all field offices to facilitate the public where over 10,000 queries with respect to G-MSS were received, whereas BSC officials were also accessible to the public via telephone for any assistance regarding the scheme. Throughout the year, field offices were also involved in Mystery Shopping exercise for ascertaining the knowledge and service delivery of regional bank staff regarding G-MSS.

During FY21, four Housing Finance conferences, one in each provincial capital, were conducted by BSC Lahore, Peshawar, Quetta, and North Nazimabad field offices. Conferences were attended by diverse groups of stakeholders, including banks, Pakistan Mortgage Refinance Company, builders and developers, architects, local development authorities etc.

3.5 Developmental Initiatives

3.5.1 Deployment of NFLP Data Acquisition Portal

To streamline the reporting and payment mechanism under NFLP, a DAP was developed and deployed to enable the banks to provide error-free online information to BSC. Moreover, the payment mechanism was also centralized for timely processing. To familiarize NFLP teams of banks with DAP-NFLP, an orientation session was conducted and detailed SOPs and User Manual were shared with banks for guidance and facilitation.

3.5.2 Analytical Study on the Utilization of Accounts opened under NFLP

An internal analytical study on the utilization of bank / mobile accounts opened under NFLP in the first three years of the program was conducted. It revealed that 74% of bank / mobile accounts opened during NFLP are active.

3.5.3 Strengthening of Off-site Monitoring of Export Finance Scheme Cases

To strengthen the off-site monitoring of EFS and IERS cases, new reports were developed in the system for detecting and calculating the specified penalties for various irregularities under the schemes.

3.5.4 ‘Sector of the Year’ – Sectoral Interventions by Field Offices

‘Sector of the Year’ initiative continued during FY21. Under the initiative, various stakeholders were engaged to improve access to finance, collect regional data from banks, organize trainings / orientations for banks and promote SBP schemes. During promotion of rice sector, Hyderabad Office helped to finance ten new rice mills during FY21 under Markup Subsidy and Guarantee Facility for Rice Husking Mills in Sindh. While mobilizing stakeholders, Lahore Office facilitated the IT sector in terms of encouraging banks to introduce accounts for freelancers.

3.5.5 SME Finance Clinics

To enhance the awareness of SMEs on available financial products / services offered by various banks and to address their financial needs, 49 sessions under SME Finance Clinics were conducted during the year which were attended by more than 1,000 SMEs. These sessions facilitated approval of 97 loans amounting to Rs. 1.14 billion. Moreover, participation of banks proved to be conducive towards gaining insights on the issues faced by SMEs, while providing opportunities to address their concerns and giving banks the chance to pursue potential leads.

3.5.6 Targeted Intervention for Agriculture Sector

To enhance availability of agricultural credit to underserved districts of Pakistan, BSC identified six districts across the country including the Gilgit-Baltistan region for targeted intervention. Around 20 meetings were conducted with the regional teams of relevant banks and ten one-to-one meetings were held

with the Agri Heads of selected banks. As a result of these focused interventions, banks have initiated an analysis to review existing financial products and HR requirements in the identified districts.

3.6 Future Outlook

Promotion of development finance is a rapidly evolving area for BSC and it will therefore continue contributing in achieving all the major goals set out under SBP's vision for the provision of sustainable financial services to priority segments, such as Housing, Agriculture, SME and Islamic Banking etc. In this pursuit, BSC will identify new opportunities besides working on current initiatives to increase access and usage of financial services for marginalized sectors like potential women entrepreneurs, physically challenged persons, small businesses and financially underserved areas.

Another key priority of BSC is to facilitate SMEs for their mainstreaming into the financial system by promoting and implementing SBP's schemes for SMEs, particularly newly launched 'SME Asaan Finance' or SAAF, a clean lending facility. Further, with respect to the 'Sector of the Year' initiative and positive impact of the same observed during FY21, the approach will be continued for the next year with special focus on promotion of renewable energy amongst SMEs through all field offices. To achieve these goals, BSC will further increase interactions with concerned government departments, chambers of commerce & industry & trade associations, as well as other stakeholders with the aim for creating broader awareness and seeking enhanced consultation & feedback.

BSC will remain an integral part of SBP's ongoing strategy and its efforts to develop a strong and robust housing finance market in the country. For this purpose, BSC will expand its current facilitative role for housing finance and coordinate with major stakeholders at grass root level for increasing their awareness and seeking their feedback on issues and possible solutions. Furthermore, BSC will follow-up with banks with large number of complaints in improving their service delivery with respect to MSSP. Moreover, BSC will take steps to increase awareness of the MSSP amongst the public in order to facilitate them in resolving their issues in availing financing under the housing scheme.

Promotion of Islamic banking is another key focus area for BSC. To address the issue of misperception about Islamic banking amongst masses and religious community, BSC will increase scope of its awareness and capacity building programs across the country in line with SBP's Strategic Plan for Islamic Banking Industry 2021-25.

Since NFLP is scheduled to conclude in FY22 after completing its five years, BSC aims to explore avenues for increasing the outreach of financial literacy through a sustainable market-led strategy. It is envisioned that further collaboration with private and social organizations shall be undertaken to expand the financial literacy campaign in the country.

In addition, BSC plans to automate and delegate functions under EFS to participating banks. The main objectives under this initiative are centralization of EFS functions, automation of processes, and electronic submission of data by banks. For this purpose, a portal hosted by BSC will be developed for electronic submission of all export refinance transactions resulting in elimination of extensive paperwork. This will also allow BSC to effectively monitor the banks' activities under refinance facilities and make refinance functions more HR efficient across the organization.

Moreover, in line with the management's decision to transfer certain operational functions from SBP to BSC, the management and supervision of call center of Banking Conduct & Consumer Protection Department, SBP will be operationalized from Lahore.

4 Foreign Exchange Operations

BSC is mandated to effectively manage operational aspects relating to foreign exchange under the jurisdiction of FERA, Foreign Exchange Manual and instructions of EPD- SBP, with an aim to safeguard the country's foreign exchange reserves as well as to ensure facilitation of stakeholders through a multitude of initiatives.

4.1 Overview

BSC Ordinance, 2001 mandates BSC to perform operational work relating to foreign exchange. BSC performs a pivotal role to ensure timely repatriation of export proceeds, approve foreign exchange payments as per applicable regulations, and implement government duty drawback schemes in accordance with applicable SROs. BSC is also responsible to initiate legal actions against delinquent exporters who fail to repatriate export proceeds, monitor trade related transactions and levy penalties against regulatory violations under section 23K of FERA, 1947 in coordination with SBP. Moreover, BSC facilitates the export of currencies other than US Dollars through the joint booths of SBP and Pakistan Customs and verifies exporters' performance required for eligibility under EFS - Part II.

4.2 Key Stakeholders

- GoP through various ministries
- Government departments and Armed Forces
- Importers & Exporters
- Exchange Companies
- Banks / ADs
- Field Offices, BSC
- Shipping Agencies & Freight Forwarders
- FEA Courts
- EPD, SBP
- Statistics & Data Warehouse Department, SBP
- Domestic Markets & Monetary Management Department, SBP

4.3 Key Performance Highlights during the Year

Box 4.1: Key Performance Highlights during FY21

- Completed End-to-End digitalization of FX related case submission process from customers to banks and from banks to BSC under the KM Program
- Addressed 43,520 FX related cases received from banks through the RAS
- Ensured repatriation of overdue export proceeds amounting to USD 1,266.6 million in FY21 without adjudication as compared to USD 928.7 million in FY20
- Disbursed Rs. 18.1 billion under Government's Textile, Non-Textile, and other duty drawback schemes
- Processed 89,746 instances of violations under Section 23K of the FERA 1947 resulting in total penalty of Rs. 222.7 million on 24 banks
- Processed 11,890 cases of commercial, private, and trade related remittances
- Verified 770,579 entries under EE / EF Statements in FY21 as compared to 684,147 in FY20
- Filed eight STRs on detection of suspicious activities during off-site monitoring
- Identified and referred 72 cases of tampered Form 'E' valuing USD 3 million to respective Collector of Customs
- Recovered duty drawback of Rs. 58 million from exporters after identification of ineligible claims along with penalty of Rs. 15.9 million from relevant banks
- Prepared 'Business Process Handbook' wherein all instructions governing FX operations at BSC were compiled

4.4 Operational Performance

4.4.1 Management of Government Schemes

BSC continued to play its pivotal role in implementation of all government duty drawback schemes such as DDT, LTLD for textile and non-textile, sugar, wheat etc. as per the SROs / notifications issued by different ministries of federal and provincial governments from time to time. The primary objective of these schemes is to support exports and industrial growth for promoting overall economic development of the country.

A total of Rs. 18.1 billion was disbursed to exporters against 147,331 claims under DDT, LTLD, and other schemes pertaining to Textile, Non-Textile, Sugar, and Wheat during FY21 as compared to Rs. 54.7 billion in FY20 (Fig 4.1). Out of Rs. 18.1 billion, Rs. 8.0 billion was released by Ministry of Commerce & Textile on June 30, 2021, which was disbursed by BSC on the same day and unutilized balance was surrendered by day-end.

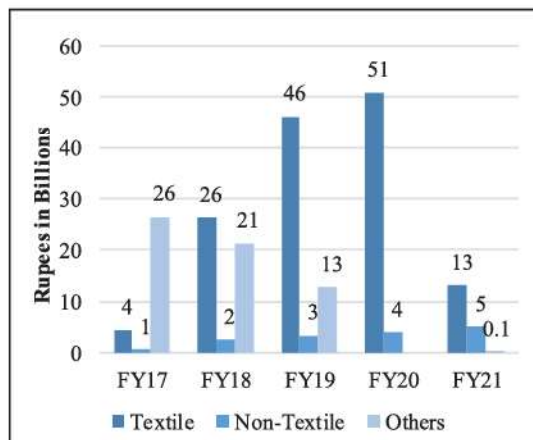


Fig 4.1: Disbursements under subsidy schemes

4.4.2 Commercial, Private and Trade Remittances

Another key function performed by BSC related to FX regime includes processing of commercial, private, and trade remittance requests with due diligence and scrutiny. During FY21, BSC enhanced scrutiny criteria by adopting risk based approach in view of AML & CFT threats and vulnerabilities to include various risk factors for case processing and to enable authorization of authentic cases only. During the year under review, BSC processed 11,890 remittance cases as compared to 12,908 cases in FY20. This decline of 7.9 percent is attributed to delegation of case processing tasks to banks up to USD 10,000 and acknowledgement of service level agreements instead of case-to-case processing.

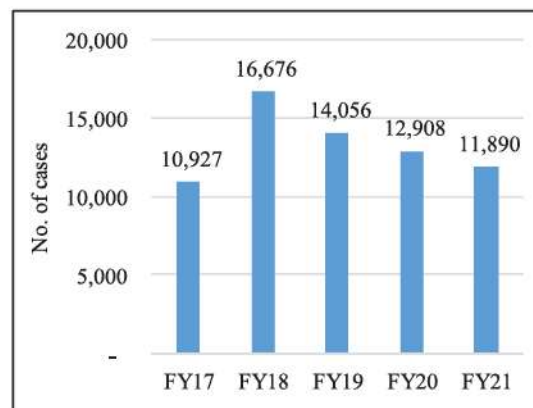


Fig 4.2: Cases of remittances processed

4.4.3 Off-Site Monitoring

BSC is entrusted with task of identification and monitoring of fraudulent transactions and delinquent stakeholders. During FY21, quarterly 'Forex Monitoring Reports' were prepared based on diligent monitoring exercises and critical analysis in close coordination with relevant departments of SBP. Similarly, vigorous monitoring of exports resulted in recovery of overdue export proceeds expeditiously without resorting to litigation process. These concentrated efforts resulted in 36.4 percent increase in repatriation of overdue export proceeds prior to initiation of adjudication proceedings. The statistics are summarized in table below. (Table 4.1)

	FY20	FY21	Change	Change (%)
Export overdue cases (No.)	49,331	48,077	(1,254)	-2.5%
Export overdue cases (USD in millions)	1,353.5	1,364.1	10.6	0.8%
Export proceeds repatriated (USD in millions)	928.7	1,266.6	337.9	36.4%

* Reported by banks during FY20 and FY21

During FY21, monitoring of export overdue cases also led to identification of 56,447 EFE / export forms valuing USD 1.78 billion that were neither reported as realized in WeBOC nor reported as overdue despite the expiry of due dates as compared to 45,532 EFEs in FY20. This delinquency caused understatement of export overdue position, which was subsequently discussed with concerned stakeholders and as a result, 49,633 EFEs valuing USD 1.68 billion were regularized (Fig 4.3). Appropriate actions were also taken for the remaining cases accordingly.

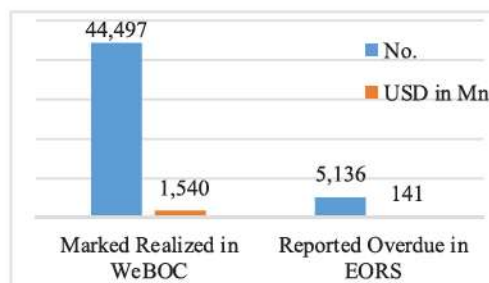


Fig 4.3: Monitoring of WeBOC & EORS

Further, authenticity of more than 13,800 manual E-Forms was confirmed during the year under review. A total of 72 tempered manual E-Forms valuing USD 3 million were also identified and referred to respective Collector of Customs for action under Customs Act 1969. Additionally, BSC also reviewed the eligibility and authenticity of export finance claims by conducting verification and scrutiny process of EE-1 and EF-1 Statements through a system-based module. Resultantly, 770,579 entries in FY21 as compared to 684,147 in FY20 were verified and based on that export performance was calculated and limits were allocated under EFS Part II.

Moreover, BSC processed a total of 5,786 requests for revision in ITRS, received from banks as compared to 5,130 in FY20 (Fig 4.4). Besides, monitoring of transactional data in ITRS enabled identification of more than 4,800 discrepancies, which were taken up with the concerned ADs for rectification while ensuring completeness and accuracy of the data. ITRS discrepancies continued to decline after implementation of Balance of Payment Manual-6, which may be attributed to the optimum support provided by BSC to concerned ADs.

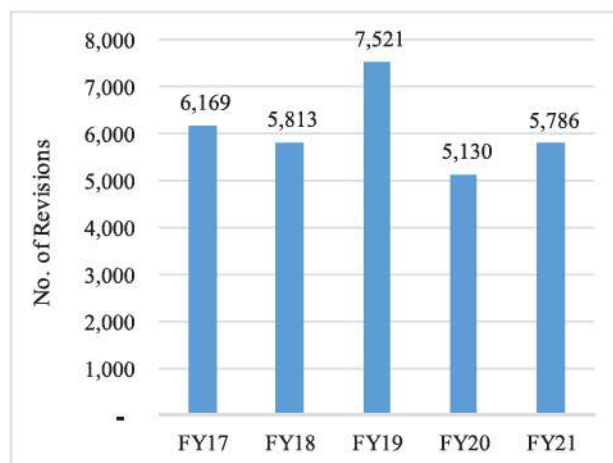


Fig 4.4: ITRS Revisions

4.4.4 Enforcement under Section 23K of FERA

FERA, 1947 was amended through insertion of Section 23K, which empowered SBP to exercise powers of levying penalty on all regulatory FX violations of ADs, which was subsequently delegated to BSC. During FY21, around 89,746 instances of violations were processed under Section 23K, which entailed issuing of show cause notices and providing hearing opportunity to concerned banks. As a result, collectively BSC and SBP levied a total penalty of Rs. 222.7 million on 24 banks.

4.4.5 Maintenance of FX Allocation & Facilitation Desk

BSC maintains and issues permits for utilization of foreign exchange allocated by Ministry of Finance to different government departments. During FY21, a total of 9,890 approval / verification requests received from various government departments were processed besides coordination on ancillary matters.

Further, a Facilitation Desk was established to assist the external stakeholders in cases of commercial remittances and other FX related issues. The Desk handled more than 500 queries received through emails and phone calls during the year.

4.4.6 Complaints and Litigation

BSC effectively handled the litigation / prosecution process and focused on pleading record number of complaints lodged before AOs at FEA Courts. Effective pleading and prosecution before AOs lead to decision of 11,711 cases resulting in repatriation of USD 182.4 million as export proceeds. AOs were kept apprised regarding realization status of more than 14,000 cases to ensure smooth disposal of cases. Further, 13,569 complaints were lodged in FY21 against delinquent exporters, who failed to repatriate export proceeds within stipulated time.

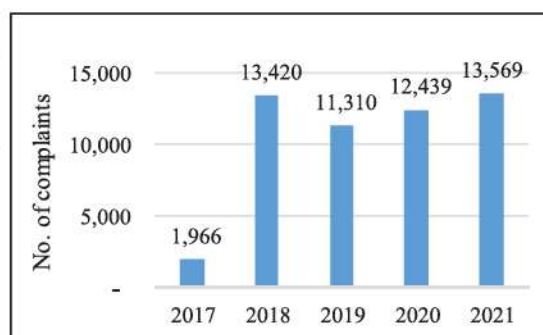


Fig 4.5: Complaints referred for adjudication

In addition, BSC successfully defended and pleaded 29 out of 38 appeals at Foreign Exchange Regulation Appellate Board without hiring external legal counsel since 2018, whereas the remaining appeals are being pursued. Moreover, BSC also prepared comprehensive counter-replies of 18 cases in High Courts across the country in consultation with LSD and submitted the same in Courts. Besides, BSC had also successfully pleaded a petition in Sindh High Court in its favor and another five constitution petitions in Sindh High Court are being pleaded and prosecuted.

4.5 Developmental Initiatives

4.5.1 End-to-End Digitalization of FX Portal

In order to facilitate businesses, BSC successfully implemented the second phase of its KM Project for End-to-End digitalization of FX related case submission from customers to banks. BSC had effectually launched RAS for submission of FX related cases from banks to BSC last year, which provided the building stone for second phase of the KM Project. With BSC's fully extended support, 27 banks were able to successfully develop their portals for customers as on June 30th 2021.

With implementation of RAS, banks were able to capture, retain, and share knowledge in a centralized repository, thereby, allowing easy access to information and documents with advanced content search capability. The case management system enabled remote access and timely decisions for FX cases during challenging times of COVID-19. Besides, due to automation, physical record has substantially reduced while saving time, courier, and storage costs for the organization.

4.5.2 Electronic Data Interchange

In order to enable the availability of shipment data of EFEs and Electronic Import Forms through an automated daily feed from WeBOC, an EDI was successfully established between Pakistan Customs and SBP during FY21 after finalization of data security protocols. Data received through daily feeds shall facilitate various foreign exchange operations including verification and monitoring of FX transactions.

4.5.3 End-to-End Automation of Export Earning and Export Finance Verification Process

During the year under review, BSC undertook end-to-end automation of EE / EF statement verification process which will enable banks to perform system-based verification of export performance statements under EFS. The initiative will completely automate the laborious and time-intensive function of EE / EF Verification at BSC, thereby reducing HR requirements and turnaround time significantly. The system is presently at advanced stages of its completion.

4.5.4 Online Portal for Government Schemes

BSC is proactively facilitating the development of 'OPGS'. User Acceptance Testing (UAT) of system was successfully completed and the implementation is expected in due course in coordination with Ministry of Commerce (MoC). The End-to-End development will significantly reduce processing time, cost per case, HR requirements, duplication of work, and human errors due to manual interventions.

4.5.5 Policy Revisions

BSC significantly contributed towards revision of Foreign Exchange policy / regulations by sharing its practical and operational insights, supporting comments, and findings with SBP from time to time.

4.5.6 Other Developments

'AML Monitoring Program for FX Transactions' was also devised during FY21, which enabled risk based monitoring of FX transactions, reported by banks, through customizable risk criteria. Furthermore, 'Business Process Handbook' was issued wherein all the instructions governing foreign exchange operations at BSC were consolidated and updated in a single document, which will help officials in efficient processing of cases and further strengthen internal controls / compliance mechanism at BSC.

4.6 Future Outlook

In the future, initiatives such as OPGS and automation of EE / EF Statement verification are expected to enrich operational efficiency through automation and process re-engineering, thereby enhancing off-site monitoring role of BSC. Access to FMU's GoAML portal and Custom's data through EDI is expected to pave way for BSC's off-site monitoring team to detect suspicious / unusual transaction patterns in the FX operations and address the evolving risks in FX regime.

Further, successful pursuit for the End-to-End digitalization of FX case submission from customers to banks under the second phase of KM Project is expected to improve the dynamics of the FX regime manifold in the near future through enhanced efficiency, transparency, and time bound decision making in a paperless environment.

Moreover, the continuity of effective enforcement actions on regulatory violations of ADs under Section 23K of FERA 1947 will bring further discipline in FX operations of banks, while keeping the flows of foreign exchange in check, thereby instilling a culture of monitoring and compliance in the banking industry.

5 Foreign Exchange Adjudication

Foreign Exchange Adjudication was established at SBP in 1990 in the wake of amendments made in 1987 in FERA, 1947, by virtue of which trials of certain trade related violations of FERA, 1947 were brought under the jurisdiction of Adjudicating Officers in place of Sessions Judges. Consequent upon establishment of State Bank of Pakistan Banking Services Corporation, this function was transferred and housed at BSC.

5.1 Overview

FEA, established under Section 23B of Foreign Exchange Regulation Act, 1947, is housed at BSC. The judicial proceedings are conducted under Adjudication Proceedings and Appeal Rules, 1988 to ensure fair and just resolution of complaints for protection of economic interests of the country and rights guaranteed to the stakeholders through 12 country-wide Adjudication Offices run by independent AOs. These Adjudication Officers are empowered to impose penalties subject to presence of substantial evidence for willful contravention. These AOs approach relevant authorities for recovery of penalties in exercise of Section 23J of the FER Act 1947.

In order to ensure expeditious judicial process, BSC has divided FEA functions into three wings at Head Office viz. (i) Adjudication Offices, (ii) Registrar, and (iii) Administration and Recovery.

5.2 Key Stakeholders

- Exporters
- Importers
- EPD, SBP
- Government Departments
- ADs - Banks
- LSD, SBP
- FEOD - BSC

5.3 Key Performance Highlights during the Year

Box 5.1: Key performance Highlights during FY21

- Realized USD 182.3 million export proceeds despite global economic hardships, lockdown due to COVID-19 and Work From Home limitations
- Developed efficient MIS for penalty, accounting for over 16,000 decided cases entries
- Achieved highest-ever penalty recovery amounting to Rs. 26 million from exporters
- Disposed-off 11,711 outstanding cases lodged by FEOD BSC against delinquent exporters

5.3.1 Repatriation of Export Proceeds

The adjudication proceedings commenced in 1990. Since then, a total of USD 1,253 million has been repatriated through BSC's adjudication function. FY21 alone proved to be a year of substantial progress for BSC wherein export proceeds equivalent to USD 182.3 million were realized which equates to almost 15 percent of the total realization since inception of adjudication proceedings (**Fig 5.1**). This phenomenal growth in repatriation is the reflection of background efforts made during the year in terms of capacity building of adjudication officers and allied team members, development of effective MIS, digitization of

Foreign Exchange Adjudication

complaints receipt through Internal Case Management, and introduction of “Complaint Management System” - an Oracle based custom-built application for maintaining systematic record of export overdue cases.

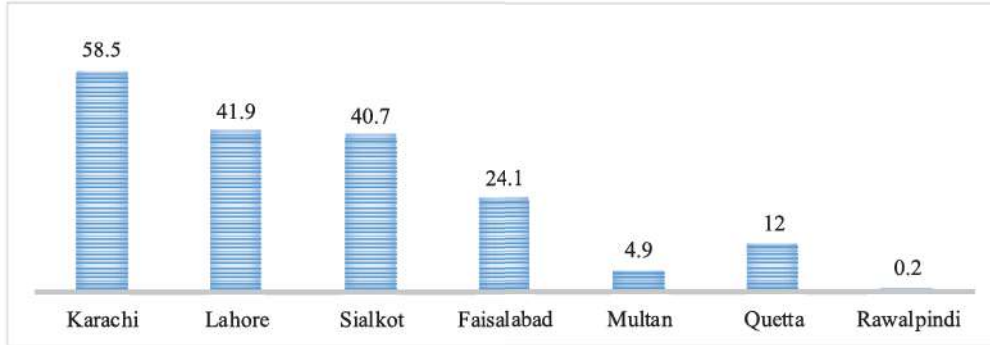


Fig 5.1: Location-wise Realization of Export Overdue Proceeds (in million USD)

5.3.2 Disposal of Cases

11,711 cases were disposed of during FY21 which is 18 percent of the total cases disposed of since inception. Moreover, 10,384 new cases were lodged during FY21 (Fig 5.2)

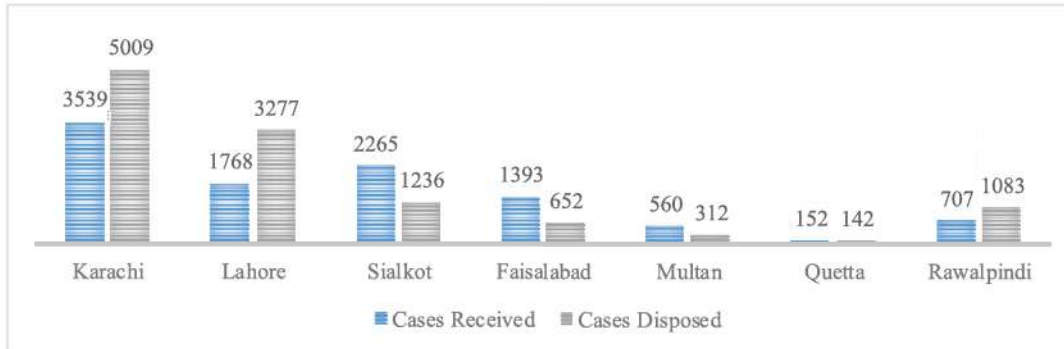


Fig 5.2: Location-wise Disposal of Export Overdue Cases

5.3.3 Recovery of Penalty Imposed on Defaulting Exporters

Cases of long outstanding recoveries were rigorously pursued and efficient MIS of penalty was developed at north and south regions (comprising of Adjudication Offices located at Punjab, Sindh and Baluchistan respectively). This endeavor has resulted in an all-time high recovery of Rs. 26 million penalty from defaulting exporters during FY21. This single year recovered amount of penalty accounts for around 46 percent of total recovery made from exporters since inception of FEA Courts in 1990 (Fig 5.3)

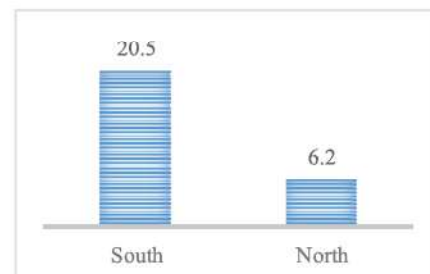


Fig 5.3: Penalty Recovered (in million Rs.)

5.3.4 MIS of Penalty

During FY21, an efficient MIS of penalty accounting for over 16,000 case entries was developed. The information related to penalty imposed and recovered was physically checked and entered into the database after proper scrutiny. This MIS has enabled timely follow-up of cases with ADs and issuance of recovery certificates to District Revenue Authorities.

5.3.5 Knowledge Management-based Electronic Complaint Lodgment and Management System

In line with the ongoing organization wide initiative of Knowledge Management, BSC initiated a developmental project 'Knowledge Management-based Electronic Complaint Lodgment and Management System at HOK'. This initiative has facilitated in smooth and efficient lodgment of complaints and its proceedings.

5.3.6 Standardization of Court Documents

During FY21, adjudication-related documents including show cause notices, summons, notices to other Government agencies etc. were standardized for uniformity and efficiency in proceedings.

5.4 Future Outlook

BSC aims at enhancing operational efficiency in its adjudication function through enhanced use of technology and improved skill set of officers involved in Adjudication process. BSC is in the process of developing Recovery Module in Electronic Complaint Lodgment and Management System under organization-wide Knowledge Management program which will facilitate end-to-end desired automated environment resulting in timely follow-up of cases with ADs and issuance of recovery certificates to District Revenue Authorities.



HR and Support Services Group



6 Human Resource Management

Human Resource Management (HRM) function at BSC is critical in many aspects, ranging from talent resourcing to career development and succession planning. It also plays an integral role in forming a performance-oriented culture and creating an enabling environment for employees to contribute towards achievement of organizational objectives

6.1 Overview

Human resource function of BSC endeavors to bring in best of the human resource through successful recruitment and selection. Human Resource Management function continues to take various initiatives to achieve the desired HR objectives in line with strategic priorities at organizational level, with an emphasis on talent management, career development, strengthening of industrial relations function, review of major HR policies, training & development of workforce, and automation of HR processes.

6.2 HR Profile

Workforce rationalization and achieving desired HR level is an ongoing process especially in the wake of automation, digitalization and BPR initiatives being undertaken by BSC. As a result of such initiatives, BSC has witnessed 63 percent reduction in the workforce since inception. Nonetheless, the gaps arising out of early retirements have been managed through fresh inductions that were planned in a rational manner. The grade-wise comparison of headcount since inception vis-à-vis for FY20 and FY21 is given in **Table 6.1**.

Table 6.1: BSC Working Strength

Grade	No. of Employees					
	At inception in 2002		FY20		FY21	
	Total strength	%	Total Strength	%	Total Strength	%
OG-7	-	-	3	0.13%	3	0.14%
OG-6	-	-	9	0.38%	12	0.55%
OG-5	36	0.60%	45	1.92%	45	2.06%
OG-4	71	1.19%	80	3.41%	91	4.17%
OG-3	296	4.96%	267	11.38%	265	12.14%
OG-2	958	16.06%	786	33.50%	750	34.36%
OG-1	2,091	35.06%	833	35.51%	746	34.17%
Below OG-1	2,512	42.12%	323	13.77%	271	12.41%
Total	5,964	100.00%	2,346	100.00%	2,183	100.00%

6.3 Career Development

BSC management strives to structure the career progression of its employees, provide them with growth opportunities and identify talented individuals with high potential for succession management. In this regard, the promotion cycles of officers and clerical / non-clerical cadres were completed, wherein 163 staff members were promoted in FY21 in line with the policies in vogue as detailed in **Table 6.2**.

Cadre	No. of Employees Promoted
Officers	110
Clerical/Non-Clerical Staff	53
Total	163

To keep track of employees' performance and to conduct their appraisals, it was ensured that all stages of performance management cycle viz. planning, monitoring, and appraisal were completed as per the guidelines across BSC. For this purpose, dissemination and compliance of guidelines was ensured at HOK departments and field offices to improve the effectiveness of Performance Management System and satisfaction of the employees.

6.4 Organizational Development

During FY21, BSC continued its focus on change management initiatives as part of its continuous improvement plan. Accordingly, a comprehensive compensation and benefits survey was conducted through engagement of external consultants. Based on the survey results, the Board of BSC allowed grade-wise increase in salaries of all officers. Further, non-binding internal guidelines for pension increase were devised containing principle parameters and factors that could be considered for pension increase. Keeping in view high inflation during FY20 and the resulting hardships being faced by pensioners, particularly the ones with low pension base, the minimum guaranteed increase was set to Rs.2,500 which resulted in a more equitable increase in pensions.

In addition to above, TBRP for OG-1 to OG-3 officers posted at field offices was devised to provide them the necessary exposure to the policy development side of the business at Head Office. This exposure will help diversify their experience and enable them to compete for leadership roles in future.

In the wake of COVID-19 pandemic, BSC took numerous initiatives to prevent the spread of COVID-19 and protect its employees from any health hazard. Some of the major HR initiatives which were taken are given in **Box 6.1**:

Box 6.1: Major initiatives to prevent COVID-19 spread during FY 21

- Continued the Work-From-Home (WFH) initiative to enable employees to safely work from their homes remotely throughout the year
- Maintained Workforce flexibility while closely monitoring the COVID-19 situation at SBP and BSC
- Held official meetings via video link while large gatherings, official events, and trainings remained suspended
- Carried out daily thermal scanning of employees and ensured availability of hand sanitizers, face masks, and disinfectant sprays throughout SBP and BSC

6.5 Resource Management

During the year, BSC experienced a substantial shift in HR dynamics due to multiple automation and BPR initiatives across the organization. Resultantly, the scope of Resource Management function was enhanced

to achieve optimum HR strength through workforce rationalization and its effective utilization. For the purpose, BSC adopted multi-pronged strategy to meet manpower needs that included structured transfers and rotation of 113 Officers (OG-1 to OG-6) across the organization and implementation of TBRP whereby 26 officers from field offices were transferred to Head Office. Moreover, effective management of the employment contracts of 351 resources was also ensured to continue resourcing of support services in the areas requiring specialized skillset. BSC also pursued hiring against specialized areas such as security, IT, and medical for which various recruitment drives are at advanced stages of completion.

6.6 Industrial Relations

BSC made concentrated efforts to maintain industrial peace across the organization adopting consultative approach with key stakeholders as mandated under the law. Further, the agreement made with the CBA on CoD FY 2019-21 was implemented while spadework for effective negotiations on CoD FY 2021-23 with CBA has also been completed. Some other key achievements during the year are given below:

Box 6.2: Key Achievements during FY 2020-21

- Processed severance benefits under the New Contributory Provident Fund and New Gratuity Fund Schemes for 605 contractual workers, as admissible under CoD FY 2019-21
- Promoted 53 Clerical / Non-Clerical employees and drivers as per Bank's rules
- Completed BSC-wide Performance Evaluation Reporting process for 323 Clerical / Non-Clerical employees who were allowed performance increase in their salaries along with one-time performance award based on their performance-category

6.7 Training and Development

During FY21, BSC continued to focus on capacity building of employees across the organization despite facing significant challenges due to suspension of face-to-face / classroom trainings due to COVID-19. A number of bank-wide awareness sessions and diverse capacity building opportunities were arranged at NIBAF, domestic institutions of repute (Institute of Bankers Pakistan, Pakistan Society for Training & Development and others), and e-learning avenues.

Moreover, training budget to all field offices was allocated for conducting in-house training sessions and for nominations of officers in local training institutions. Resultantly, there was 164 percent increase in the number of training participants, which reflects BSC's commitment to ensure ongoing learning and development. Brief summary of various training tracks and number of participants is given in **Table 6.3** and major initiatives are provided in **Box 6.3**.

Training Tracks	Participants
NIBAF (ISB, KHI and LHR)	3,157
In-House / Local Domestic Trainings arranged by Field Offices	2,521
Local Domestic Trainings arranged by HRMD	68
Foreign Trainings	6
Foreign Webinars	51
LAMS (Cyber Security and ERM)	1,724
Total	7,527

Box.6.3: Training Initiatives during FY21

- Implemented Domestic Training Workflow System which utilized the Knowledge Management System functionality to manage training nominations, approvals, and attendance through system-based workflows
- Undertook Employee Training Satisfaction Survey under the broader ambit of Training Impact Analysis. The findings of the survey shall be used to devise an action plan for improved training need identification, enhancing supervisors' role in learning and development, and improving impact of trainings on the overall learning of employees
- Completed two BSC-wide awareness drives on the topics of Workplace Harassment and Cybersecurity. In addition, a BSC-wide drive on Enterprise Risk Management was initiated through LAMS
- Conducted series of iterations on topics required as per business needs such as AML & CFT, focused workshops for appraisers, capacity building on industrial relations
- Provided employees ongoing opportunities of learning and development by mobilizing virtual modes of learning i.e. virtual instructor-led trainings at NIBAF, e-learning portals (LAMS & NIBAF), as well as international and domestic webinars despite COVID-19-based restrictions on face-to-face trainings
- Trainings at NIBAF – Lahore Campus were initiated and 500 man-days were covered
- Employee Training Score Card Report was developed which provides access of complete training history to employees
- An iteration of Management Development Program was undertaken which was attended by 19 newly promoted OG-3 officers
- The onboarding of 26 officers posted at Head Office Karachi under TBRP was arranged to provide them a comprehensive overview of HOK functions

6.8 Employee Relations

Overall mandate of Employee Relations function includes looking after various HR related litigations, verification and confirmation of employees, disciplinary and audit matters, liaising with external stakeholders, retirements and benefits, HR related budget, and sports activities. Timely guidance was provided to all field offices and departments in disciplinary and HR related legal matters. Moreover, during FY21, Employee Relations played a key role in containment of the spread of COVID-19 by assisting MSD in the vaccination drive by maintaining close coordination with all field offices.

6.9 Future Outlook

The evolving dynamics of BSC along with the ongoing automation and BPR initiatives necessitate continuous streamlining of HR policies and rationalization of workforce that are in line with the changing business requirements. BSC is therefore focused on skills upgradation, leadership development, and credible succession planning to motivate the existing workforce and provide them with ample opportunities for professional development and career growth. As part of this strategy, BSC aims to mobilize its HR from field offices and provide them exposure on the policy development side in order to equip them with the necessary skills and experience enabling them to assume leadership roles in future.

7 General & Support Services

The dynamic nature of business at State Bank of Pakistan and its subsidiaries demands provision of sustainable and efficient support services which are provided by BSC through its General Services, Engineering, and Internal Bank Security functions.

7.1 Overview

BSC provides efficient and reliable support to SBP and its subsidiaries through its General Services, Engineering, and Internal Bank Security functions. During FY21, the focus of all support services was on continuous service delivery and improvements in turnaround time to meet the stakeholders' requirements.

7.2 General Services

Provision of cost effective, timely, and quality support services to SBP and BSC is a key mandate of the General Services function. Under this function, BSC carried out procurement of goods, services, and consultancy in accordance with PPRA 2004 and Procurement of Consultancy Services Regulations 2010, to fulfill its own procurement requirements as well as those of SBP. In addition, this function of BSC also provides services in areas pertaining to healthcare, pension, salary disbursement & employee benefits, and printing of SBP's and BSC's publications. Moreover, General Services also provides expert advice regarding various types of procurement related to SBP and BSC field offices.

Being a dynamic organization, BSC believes in effective use of technology and IT solutions to achieve operational excellence. In this connection, significant BPR and IT related initiatives were undertaken during FY21 to improve service delivery standards.

7.2.1 Performance Highlights

Despite COVID-19 pandemic constraints, a total of 198 procurement projects amounting to over Rs. 3 billion were undertaken in FY21 under PPRA and World Bank Procurement Framework, a summary of which is depicted below:



Fig 7.1: Value of Procurement Contracts during FY21

The MSD of BSC remained at the forefront in implementing organizational strategy to combat COVID-19. It played a vital role in managing the situation and provided healthcare services & consultancy by following means:

- Establishment of emergency cell with four doctors who provided tele-medical consultancy to stakeholders over extended hours as well as during the weekends
- Procurement and provisioning of safety equipment (such as surgical masks, gloves, and sanitizers) to all stakeholders
- Effective liaison with hospitals and laboratories to ensure provision of swift services to stakeholders during the pandemic
- Provision of medical equipment e.g. oxygen cylinders, pulse oximeters, and oxygen concentrators for critical COVID-19 patients

7.2.2 Key Performance Highlights during the Year

Box 7.1: Key Performance Highlights of General Services for FY21

- Carried out procurement of “Communication circuits for connectivity of SBP with 1-Link & AGPR” and “Targeted Financial Screening Solution”
- Provided consultancy services for “Legal and Oversight Framework” in line with the National Payment Systems Strategy
- Facilitated in development of web portal - Investments in Technical Systems / Platforms supporting improvements in market infrastructure
- Implemented SBP’s COVID-19 combat strategy by establishing special emergency cell for the purpose
- Conducted real-time monitoring and reporting of COVID-19 positive cases’ data
- Carried out consolidation and rationalization of outsourced services contracts across SBP and BSC
- Organized procurement training session (PPR-2004 & 2010) for indenting departments
- Provided accommodation & logistic support to SBP and BSC employees during urban flood when BCP was also invoked
- Carried out renovation of stationery store / record room
- Completed print orders received from SBP, BSC departments, NFLP and NFLP-Youth with total cost of Rs. 26.6 million

7.2.3 Future Outlook

With a commitment for continuous enhancement in operational excellence, General Services function plans to capitalize on implementation of IT intensive solutions. In this regard, forthcoming major areas of focus include, among others, the following:

- Establishment of system-based Service Helpdesk
- Introduction of system-based procurement mechanism by adopting the e-procurement strategy
- Working towards efficient management of physical record and eventually its digitization
- Conducting awareness programs to encourage healthy lifestyle among all employees

7.3 Engineering Services

BSC through its Engineering function supports, maintains, and upgrades the physical working environment at office premises of SBP and its subsidiaries. It also supports SBP’s and BSC’s functions through its dedicated teams who are serving round the clock. In FY21, the Engineering function achieved its objectives while complying with various regulations.

7.3.1 Key Performance Highlights during the Year

Box 7.2: Key Performance Highlights of Engineering for FY21

- Completed engineering work on BDS sites at Quetta, Rawalpindi, and Multan offices despite tight timelines
- Successfully utilized 83 percent of cash flows against 60 capital projects, despite COVID-19 constraints (i.e. Rs. 1.14 billion was utilized from the available cash flow of Rs. 1.376 billion)
- Deployed a computerized Complaint Management System (Service Desk) at HOK to ensure seamless helpdesk services
- Alerted senior management about disruption of electrical supply to the I.I. Chundrigar Road complex during unprecedented rain in August 2020, which facilitated in successful transition of critical operations to BCP sites and prevented shutdown of business operations
- Conducted procurement process of mega projects after obtaining in-principle approval from the Board for (a) construction of building project residential buildings at Lalazar, Queens Road, and (b) hiring of consultancy services for the project of new office building cum parking plaza at I.I Chundrigar Road
- Resolved over 3,000 complaints related to telecommunication, electrical, mechanical, civil, and janitorial works
- Ensured regular disinfection of office premises during COVID-19 at HOK departments and all field offices

7.3.2 Operational Performance

Engineering projects completed by BSC during the year include:

- Reconstruction of mosque and reinforcement of ground and slope stability with provision of storm water drainage system at Muzaffarabad Office
- Renovation of 6th floor to house ITD, ISD, and Information Technology Strategy & Project Management Department
- Installation of 350TR (Tons Refrigeration) chiller at main building
- Upgradation of Heating, Ventilation, and Air Conditioning (HVAC) system at Rawalpindi Office
- Installation of lift and upgradation of electrical systems at Islamabad Office

Engineering projects initiated during the year include:

- Upgradation of electrical systems at Multan and Rawalpindi Offices
- Waterproofing treatment at Quetta and Peshawar Offices
- Upgradation of power distribution synchronization system at main building
- Execution work of new office building at Sialkot

7.3.3 Development Initiatives

A service desk was established to ensure effective resolution of engineering related complaints and improve service delivery standards. Regular disinfection of all workplaces and public areas was also carried out to safeguard employees of SBP and BSC from the COVID-19 pandemic.

7.3.4 Future Outlook

BSC through its Engineering function is currently conceptualizing and designing various new building projects and working to improve the outlook of its existing office premises which will enhance the physical environment for employees as well as customers visiting its offices. Key building projects which are planned to be carried out in the future comprise new office buildings at various cities including D.I Khan, Gujranwala, and Islamabad as well as Lalazar Hostel Building Karachi.

7.4 Internal Bank Security

BSC reviews and prioritizes its internal bank security measures to assist SBP and its subsidiaries to accomplish their overall strategic objectives. It ensures safe and secure work environment through issuance and compliance of security instructions, implementation of security controls, and periodic assessment of security risks to SBP and its subsidiaries in collaboration with senior management and LEAs.

7.4.1 Operational Performance

During the year, BSC managed physical security, firefighting, and associated safety requirements of SBP and its subsidiaries to safeguard employees, and bank-owned assets from potential threats. Internal Bank Security maintained close liaison and coordination with relevant LEAs, Civil Defense, and Fire Brigade for assistance on need basis. Further, regular firing practice exercises and periodic Physical Efficiency Tests of security personnel were conducted.

7.4.2 Developmental Initiatives

During FY21, coordination with National Electronics Complex of Pakistan was maintained for upgradation of security arrangements and systems at SBP HOK Complex and field offices. Capacity building of security staff was carried out through on-the-job trainings, in-house firefighting rehearsals, and mock / tabletop exercises conducted throughout the year. Further, procurement of weapons, security and surveillance equipment, and firefighting apparatus was ensured for the security and safety of SBP, BSC HOK departments, and field offices situated across the country.

7.4.3 Future Outlook

Going forward, the Internal Bank Security function intends to enhance its capacity through various measures which are listed below:

- Installation of Integrated Security Systems at various sites of SBP & BSC
- Skill upgradation of the security staff in a phased program to manage varying level of security threats
- Enhancement of escort / protection for Very Important Persons (VIPs)
- Review of procedures of surveillance, security, and fire safety equipment
- Conversion from analogue to digital wireless communication system all over Pakistan in a phased manner

8 Internal Audit

Internal Audit is a catalyst for improving on organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.

8.1 Overview

BSC's Internal Audit function assists Board's Audit Committee in its responsibilities to oversee internal controls, governance, and business practices of the organization through provision of summarized audit results.

The Internal Audit function utilizes a risk based Internal Audit Plan to review enterprise-wide operational processes and their associated risks. A risk ranking system, in line with the enterprise wide risk management framework, is used to prioritize audit activities in order to ensure complete coverage of significant risk areas.

8.2 Key Performance Highlights during the Year

Box 8.1: Key performance Highlights during FY21

- Conducted 28 audit engagements including annual audits of eight major field offices and six key functional departments, one Hub Audit, one Thematic Audit as well as 12 coordinated audits with IACD. Thus, Internal Audit covered 75 percent of the total transactional workload of BSC
- Audited core functions of Currency Management, Banking, Forex Operations, Development Finance and General Services at Head Office during the year
- Ensured continuity of audit assurance despite challenges posed by COVID-19 through implementation of Continuous Audit Framework of key risk areas
- Designed and conducted specialized audits to assess compliance of SOPs pertaining to COVID-19 across major field offices
- Arranged more than 20 in-house training sessions and webinars for capacity building of concerned officials under Audit's Knowledge Sharing Initiative
- Conducted root cause analysis of repeated audit observations and outlined mitigating strategies in collaboration with controlling departments
- Developed fraud scenarios for major business operations of BSC
- Resolved 241 audit memos through active follow-up

8.3 Operational Performance

8.3.1 Audit Engagements

With the outbreak of COVID-19, the risk of impairment of audit activity was looming due to lockdown and travel restrictions as well as WFH arrangements. However, Internal Audit took a pragmatic approach in its planning for uninterrupted continuity of audit assurance as well as to assess the emerging risk of COVID-19 to BSC. In view of the challenges posed by COVID-19, an improvised audit plan was introduced to audit high-risk areas with minimal contact and staff presence which enabled Internal Audit to conduct 28 audit engagements as depicted in **Table 8.1**. In addition, specialized assignments were

Audit Engagement Type	Engagements Conducted
Annual Audits	14
Coordinated Audits with IACD, SBP	12
Hub Audits	1
Thematic Audits	1
Total	28

designed to gauge the efficacy and implementation of measures taken by the organization to combat spread of COVID-19.

8.3.2 Resolution of Audit Observations

During FY21, the Internal Audit function ensured active follow-up for timely resolution of audit observations. The efforts put forth resulted in resolution of 241 audit memos having 1,185 observations during the year.

8.4 Capacity Building of Audit Officials

Keeping in view the significance of training and development of auditors, maximum efforts were made for capacity building of Internal Audit's officials during the year. Accordingly, Knowledge Sharing Program was implemented under which more than 20 in-house training sessions were conducted for capacity building of peers across all three audit hubs. These sessions covered key areas including Audit Report format, Institute of Internal Auditors standards, auditing techniques of Currency, Prize Bonds, Development Finance, Banking, and Foreign Exchange Operations etc.

8.5 Developmental Initiatives

8.5.1 Agile Auditing

Assessment of potential impediments and ways for a successful transition to agile auditing was carried out. This initiative resulted in the recommendation of gradual adoption of agile practices till the working environment is congenial for full implementation.

8.5.2 Impact Analysis of Audit Observations

During the year, Impact Analysis of recurring audit observations was conducted in coordination with controlling departments. Various causes for recurring audit observations were analyzed during the exercise and mitigation strategies were identified to minimize their recurrence.

8.5.3 Fraud Risk Assessment

A Fraud Risk Assessment Framework was developed which encapsulated various fraud scenarios covering major business operations of BSC. This initiative will facilitate Internal Audit in conducting audit field work effectively. Management of departments and field offices will also be able to design, refine, and implement effective internal controls by utilizing fraud listing and respective control measures outlined in this framework.

8.5.4 Revised Audit Report Format

The Audit Report Format was revised during the year to effectively communicate the audit results to each level of management.

8.5.5 Continuous Audit Framework

During FY21, the implementation of Continuous Audit Framework ensured uninterrupted audit activity despite COVID-19 lockdowns and WFH situation. The framework utilized system-based data and tools to

analyze information and highlight anomalies across major operational areas of Currency, Banking, and Prize Bonds and presented the same to each Chief Manager and concerned Regional Head for quick resolution and compliance. Further, quarterly reports were also shared with the Managing Director.

8.6 Future Outlook

Internal Audit envisions to align its future initiatives with the automation and digitalization journey of BSC. For this purpose, Audit Manual will be updated to encompass evolving changes in Banking, Currency Management, Foreign Exchange, and Prize Bonds operations. The capacity building of Audit officials will be conducted in Business applications, Cyber Security, and ERM to enable them to carry out audit assignments proficiently. In addition, assessing risks of insider threat in the wake of digitalization of business operations and applications will facilitate preparation of mitigation plans to cover such risks faced by the organization. Further, development of Combined Assurance Framework and enhanced cooperation and teamwork between IAD, BSC and IACD, SBP is envisaged which will enable evaluation of risk mitigation in common business areas across the enterprise.

9 Strategic and Corporate Affairs

Strategic and Corporate Affairs Department facilitates the Corporate Governance Framework at BSC through a diverse set of activities and ensures that bank-wide initiatives are aligned with the strategic vision and initiatives of SBP and BSC.

9.1 Overview

A key responsibility of the Strategic and Corporate Affairs function is the management of Board and its Committees' affairs and enabling compliance of decisions thereof. Furthermore, the function also organizes meetings of Heads of Departments and Chief Managers forums to enable inclusive decision making by senior management. It also carries out the BP process across the organization for the formulation, rationalization, and execution of yearly business plans in accordance with BSC's short and long-term objectives as well as the Strategic Vision of SBP. Additionally, it formulates and disseminates the Annual Performance Review, the flagship publication of BSC, which encapsulates the organization's yearly performance. Furthermore, the function also provides first-level helpdesk support in the areas of T-24 (Currency and Banking), ERP, and CBAs across all offices and departments of BSC. Moreover, IT Project Management function extends essential support to ITG SBP for development and deployment of IT related initiatives of the Corporation.

9.2 Key Performance Highlights

Box 9.1: Key performance Highlights during FY21

- Facilitated 15 meetings of BSC Board and its Committees
- Digitally archived remaining record of BSC Board and its Committees whereby now all Board-related physical record is stored in electronic format
- Revamped the Business Planning process to align BP projects with BSC's strategic initiatives
- Resolved over 18,000 incidents of T-24 (Banking and Currency) and Oracle ERP system across BSC through first-level helpdesk
- Played pivotal role in implementation of KM system at HOK Departments and Karachi and North Nazimabad field offices
- Facilitated and monitored the automation of key business initiatives e.g. centralization of commercial bank accounts, discontinuation of various denominations of bearer national prize bonds etc.
- IT Project Management function was established to expedite the development and deployment of BSC IT projects

9.3 Operational Performance

9.3.1 Board and its Committees

As Corporate Secretariat, 15 meetings of the BSC Board and its Committees (Audit, HR, and Publications Review) were conducted and decisions were subsequently disseminated to relevant stakeholders for compliance. The meetings of the BSC Board and its Committees held during FY21 are enumerated in **Table 9.1**.

In addition, SOPs for Corporate Secretarial functions including coordination were reviewed and aligned with the SOPs of Office of the Corporate Secretary, SBP. Moreover, remaining past record of BSC Board and its Committees spread across 221 files for the period 2008-2015 was digitally archived whereby now all Board-related physical record is stored in electronic format for timely search and retrieval.

Table 9.1: Meetings of the BSC Board and its Committees held during FY21

Name of the Forum	Number of Meetings held
BSC's Board of Directors	5
Audit Committee of the Board	6
Human Resources Committee of the Board	3
Publications Review Committee of the Board	1
Total	15

9.3.2 Business Planning at BSC

During the year under review, the team actively liaised with HOK departments, field offices, ISD and ITD for monitoring and execution of 296 Business Plan projects envisaged in FY21. Further, the progress of projects was also monitored by the senior management in quarterly business plan review meetings. The decisions of those meetings were communicated to all stakeholders for timely compliance. As a result, 247 projects were completed during the year, whereas remaining 49 developmental and operational projects were rolled-over to FY22 mainly due to resource constraints and COVID-19 restrictions, while some being multi-years projects.

Further, during the year, the BP process was refined to focus on the inclusion of quality and value-added projects and to clearly assign the role and responsibilities of all stakeholders. Accordingly, a top-down approach was adopted by BSC during the planning and formulation phase that resulted in effective rationalization of projects. Resultantly, in line with strategic initiatives of BSC and SBP Strategic Vision, 213 developmental and operational projects were approved for next year, i.e. FY22.

Table 9.2: Business Plan Projects

Regions	FY21	FY22
HOK Departments	89	73
North Region Field Offices	74	44
Central Region Field Offices	73	50
South Region Field Offices	60	46
Total	296	213

9.3.3 Annual Performance Review of BSC

The APR is a flagship publication of BSC, which outlines the organizational performance during the year and provides a brief outlook of the future direction of BSC. During the year, the APR team, after coordinating with all stakeholders across BSC, finalized the APR FY20. Subsequently, after review by senior management and recommendation of the PRC, the document was approved by the BSC Board. Thereafter, the APR FY20 was printed, disseminated, and published on BSC's website.

9.3.4 Heads of Departments and Chief Managers Forum

HOD and CM forum provides senior management the opportunity to deliberate on various policies, functions, and issues of BSC. The platform facilitates the management in doing timely and meticulous decision-making, through collective wisdom, on important issues. During FY21, two meetings of the HOD / CM Forum were held to discuss various operational matters and issues particularly those emanating from COVID-19 pandemic. Accordingly, various decisions were taken in accordance with BSC's policies and additional measures were employed to enable continuation of smooth operations during the COVID-19 pandemic.

9.3.5 Systems and Procedures

The Systems and Procedures function provides first-level helpdesk support in the areas of T-24 (Currency and Banking), ERP, and CBAs across all offices and departments of BSC. During the year, 18,843 incidents raised by BSC departments and field offices were resolved details of which are depicted in **Table 9.3**. The teams also facilitated business departments during review of Business Requirement Documents and closely coordinated with ISD in development, testing and implementation of IT requirements and projects.

Table 9.3: Helpdesk Incidents Raised and Resolved During FY20 and FY21

Area	FY20	FY21
T24 Banking	10,491	10,942
T24 Currency	3,494	4,438
ERP	1,603	3,463
Total	15,588	18,843

9.4 Developmental Initiatives

9.4.1 IT Project Management at BSC

Automation and digitalization is the need of the hour for enhancing process efficiency, work optimization and systematic monitoring of functions. BSC took various initiatives in this direction including centralization of banking and currency activities, financial inclusion, refinance and credit guarantee schemes etc. During the year, an IT Project Management function was established comprising of six officials with IT background, selected from across BSC, who were attached with different teams of ITG, SBP as Functional and Techno-functional resources to support timely development and deployment of BSC's IT projects.

9.4.2 Knowledge Management System

KM is a major shift towards an automated and paperless working environment, which allows access to digital information remotely, strengthens team collaboration and provides robust case processing. The ICM system of KM permits automated processing of cases and the ECM system allows centralized storage and swift retrieval. During the year, ICM and ECM systems of KM were successfully implemented across HOK departments, as well as Karachi and North Nazimabad field offices. Implementation of KM at remaining field offices is planned to be rolled out after procurement of necessary hardware / network equipment and services.

9.5 Future Outlook

While continuing to strengthen the Corporate Governance Framework at BSC, the Strategic and Corporate Affairs function also aims to play a vital role in the development and formulation of BSC's Strategic Plan and closely align it with that of SBP's. Moreover, the function will continue to focus on optimizing the BP process, ensuring effective compliance, timely resolving helpdesk incidents, strengthening in house development of BSC's IT projects and implementing KM at remaining BSC field offices.

10 *Financial Statements of BSC*

Audited Financial Statements of BSC are presented which comprise the balance sheet as at 30th June 2021, profit and loss account, statement of comprehensive income, statement of change in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and State Bank of Pakistan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the SBP Banking Services Corporation (the Corporation), which comprise the balance sheet as at June 30, 2021, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of our report. We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partners on the audit resulting in this independent auditor's report are **Salman Hussain** (A. F. Ferguson & Co.) and **Muhammad Taufiq** (KPMG Taseer Hadi & Co.).

A. F. FERGUSON & CO.
Chartered Accountants

KPMG TASEER HADI & CO.
Chartered Accountants

Dated:

Karachi

Financial Statements of BSC

SBP BANKING SERVICES CORPORATION BALANCE SHEET AS AT JUNE 30, 2021

	Note	2021	2020
----- (Rupees in '000) -----			
ASSETS			
Current account with the State Bank of Pakistan		51,241,327	52,124,619
Investments	5	514,944	550,774
Employee loans	6	10,780,287	8,899,704
Advances, deposits and prepayments	7	125,849	58,811
Medical and stationery consumables	8	315,953	311,241
Property and equipment	9	2,845,984	1,191,228
Total assets		65,824,344	63,136,377
LIABILITIES			
Deposits and other liabilities	10	5,578,520	5,477,757
Deferred liabilities - unfunded staff retirement benefits	11	59,245,824	56,658,620
Total liabilities		64,824,344	62,136,377
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.

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head Network and
Financial Management

**SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2021**

	Note	2021 ----- <i>(Rupees in '000)</i> -----	2020
Discount and interest earned	14	47,188	66,717
Net operating expenses	15	15,350,272	18,113,651
Reimbursable from the State Bank of Pakistan	15	(8,282,727)	(8,249,267)
Allocated to the State Bank of Pakistan:			
- (Credit loss) / reversal of credit loss on employee loans	6.2 & 15	(47)	29
- Others	15	(7,067,498)	(9,864,413)
		-	-
Operating profit		47,188	66,717
Gain on disposal of property and equipment		3,286	2,623
Profit for the year		50,474	69,340

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head Network and
Financial Management

Financial Statements of BSC

SBP BANKING SERVICES CORPORATION STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021	2020
		----- (Rupees in '000) -----	
Profit for the year		50,474	69,340
Other comprehensive income			
<i>Items that will not be reclassified subsequently to the profit and loss account:</i>			
Loss on remeasurements of defined benefit plans	15.3.4.1	(2,342,489)	(6,297,792)
Allocated to the State Bank of Pakistan		2,342,489	6,297,792
		-	-
Total comprehensive income for the year		<u>50,474</u>	<u>69,340</u>

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head Network and
Financial Management

**SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2021**

	Share capital	Unappropriated profit (Rupees in '000)	Total
	-----	-----	-----
Balance as at July 1, 2019	1,000,000	-	1,000,000
Profit for the year	-	69,340	69,340
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	69,340	69,340
Transaction with the owner			
Total comprehensive income for the year transferred to the State Bank of Pakistan	-	(69,340)	(69,340)
Balance as at June 30, 2020	1,000,000	-	1,000,000
Profit for the year	-	50,474	50,474
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	50,474	50,474
Transaction with the owner			
Total comprehensive income for the year transferred to the State Bank of Pakistan	-	(50,474)	(50,474)
Balance as at June 30, 2021	1,000,000	-	1,000,000

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head Network and
Financial Management

Financial Statements of BSC

SBP BANKING SERVICES CORPORATION STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2021

	Note	2021 ------(Rupees in '000)-----	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after adjustment of non-cash items	16	556	850
Total comprehensive income for the year transferred to State Bank of Pakistan		<u>(50,474)</u>	<u>(69,340)</u>
		(49,918)	(68,490)
Decrease / (increase) in assets			
Current account with the State Bank of Pakistan - excluding depreciation, expense in respect of staff retirement benefits and compensated absences		3,671,341	87,938
Medical and stationery consumables		(4,712)	(63,884)
Employee loans		(1,880,583)	706,101
Advances, deposits and prepayments		(67,038)	1,599
Increase / (decrease) in liabilities			
Deposits and other liabilities		264,566	(75,400)
Net cash generated from operating activities		<u>1,933,656</u>	<u>587,864</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		82,462	32,645
Capital expenditure		(2,019,911)	(623,467)
Proceeds from disposal of property and equipment		3,793	2,958
Net cash used in investing activities		<u>(1,933,656)</u>	<u>(587,864)</u>
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of the year		-	-
Cash and cash equivalents at the end of the year		<u>-</u>	<u>-</u>

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head Network and
Financial Management

**SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

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 (the 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 the SBP, as transferred or delegated by the SBP under the provisions of the Ordinance and mainly include:

- 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 Federal (the Government); and
- operational work relating to the 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 the SBP while the cost incurred by the Corporation in carrying out the above activities are either reimbursed from or allocated to the 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 the 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 which is the Corporation's functional and presentation currency and rounded to the nearest thousand rupees.

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, liabilities, income and expenses 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, 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 15.3.2 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. Rate of depreciation is disclosed in note 9.1 to these financial statements.

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.

3.3.4 Expected credit losses

The expected credit losses (ECL) allowance is based on the credit losses expected to arise over the life of the asset [the lifetime expected credit loss (LTECL)], unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in 4.1.3.1. The Corporation's policies for determining if there has been a significant increase in credit risk is set out in note 18.1.4.

3.4 Standards, interpretations of and amendments to the IFRSs that are effective in the current year

There are certain new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2020, but are considered not to be relevant or do not have any significant effect on the Corporation's operations and are, therefore, not disclosed in these financial statements.

3.5 Standards, interpretations of and amendments to the IFRSs that are not yet effective:

3.5.1 The following standards, amendments and interpretations of IFRSs would be effective from the dates mentioned below against the respective standard or interpretation:

Standards	Effective date (annual periods beginning on or after)
- IAS 1, 'Presentation of financial statements' (amendments)	January 1, 2023
- IAS 8, 'Accounting policies, changes in accounting estimates and errors' (amendments)	January 1, 2023
- IAS 16, 'Property, plant and equipment' (amendments)	July 1, 2022
- IAS 37, 'Provisions, contingent liabilities and contingent assets' (amendments)	July 1, 2022
- IFRS 9, 'Financial instruments' (amendments)	January 1, 2022
- IFRS 7, 'Financial instruments - disclosures' (amendments)	January 1, 2021

The management is in the process of assessing the impact of these amendments on the financial statements of the Corporation.

3.5.2 There are certain other new and amended standards and interpretations that are mandatory for the accounting period beginning on or after July 1, 2021, but are considered not to be relevant or will not have any significant effect on the Corporation's operations and are, therefore, not disclosed in these financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies are consistently applied from year to year.

4.1 Financial assets and financial liabilities

4.1.1 Classification

All financial assets and liabilities are measured initially at fair value plus, for an item not at FVPL, transaction costs that are directly attributable to its acquisition or issue.

Financial instruments carried on the balance sheet include investments, employee loans, certain items of advances and deposit, current account with the State Bank of Pakistan, certain items of deposits and other liabilities. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each financial instrument.

All financial assets are initially recognised on the trade date, i.e. the date at which the Corporation becomes a party to the contractual provisions of the instruments. This includes purchases or sale of financial assets that require delivery of asset within the time frame generally established by regulations in market conventions.

The financial assets are categorised as: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) and financial assets held at amortised cost. The Corporation classifies its financial assets based on both a) the Corporation's business model for managing those financial assets and; b) the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless there is a change in the Corporation's business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

4.1.2 Financial assets at amortised cost

The Corporation classifies its financial assets as at amortised cost only if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest (SPPI).

After initial measurement, these financial instruments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment in accordance with 4.1.3 below.

4.1.3 Impairment of financial instruments

4.1.3.1 Overview of the ECL principles

The Corporation has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset [(the lifetime expected credit loss (LTECL)), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Corporation's policies for determining if there has been a significant increase in credit risk is set out in note 18.1.4 to these financial statements.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Corporation has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Corporation groups its loans into stage 1, stage 2 and stage 3 as described below:

- stage 1: when financial instruments are first recognised, the Corporation recognises an allowance based on 12mECL. Stage 1 financial instruments also include facilities where the credit risk has improved and the loan has been reclassified from stage 2.
- stage 2: when a financial instrument has shown a significant increase in credit risk since origination, the Corporation records an allowance for the LTECL. Stage 2 financial instruments also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- stage 3: financial assets considered credit-impaired (as outlined in note 18.1.1). The Corporation records an allowance for the LTECL.

The financial assets, for which the Corporation has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of those financial assets is reduced. This is considered a (partial) derecognition of the financial asset.

4.1.3.2 Calculation of ECL

The Corporation calculates ECL based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Corporation in accordance with the contract and the cash flows that the Corporation expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD Probability of default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. EAD is further explained in note 18.1.2.
- LGD Loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of EAD. LGD is further explained in note 18.1.3.

When estimating the ECL, the Corporation considers three scenarios (a base case, a best case and a worse case). Each of these is associated with different PDs as set out as above. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received from selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument.

The mechanics of the ECL method are summarised below:

- stage 1: the 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Corporation calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- stage 2: when a loan has shown a significant increase in credit risk since origination, the Corporation records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- stage 3: for financial instruments considered credit-impaired, the Corporation recognises the lifetime expected credit losses for these financial instruments. The method is similar to that for stage 2 assets, with PD set at 100%.
- financial guarantee contracts: the Corporation's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the profit and loss account, and the ECL provision. For this purpose, the Corporation estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios.

4.1.3.3 Forward looking information

The Corporation formulates a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information. This process involves developing three different economic scenarios, which represent a range of scenarios linked to various macro-economic variables.

4.1.4 Derecognition of financial assets and financial liabilities**a) Financial assets**

The Corporation derecognises a financial asset, such as a loan, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Corporation records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Corporation also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

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 unless the modification does not result in a significant difference between the carrying amount of the original liability and the present value of revised future cash outflows discounted by the original EIR. If such difference is insignificant, the original liability is not derecognised and gain / loss on modification is recognised in the profit and loss account on such modification.

4.1.5 Fair value measurement principles

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotation without any deduction for transaction costs. If there is no active market for a financial asset, the Corporation establishes fair value using valuation techniques. These include the use of recent arms length transactions, discounted cash flow analysis and other revaluation techniques commonly used by market participants.

4.1.6 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 initially recognised at fair value and subsequently carried at amortised cost less estimates made for any impairment loss measured in accordance with note 4.1.3 above.

4.3 Medical and stationery consumables

Medical and stationery consumables are valued at weighted average cost.

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

Net realisable value represents estimated selling price 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 reporting date.

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

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 benefits 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 Capital work-in-progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction are carried under this head. These are transferred to specific assets as and when assets become available for use.

4.6 Impairment of non-financial assets

The carrying amounts of the Corporation's assets are reviewed at each reporting date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of such asset is estimated. The recoverable amount is higher of an asset's 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.

4.7 Compensated absences

The Corporation makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates using the projected unit credit method.

4.8 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 (the old scheme) for transferred employees who joined the SBP prior to 1975 and opted to remain under the old scheme. The Corporation provided an option to employees covered under the old scheme to join the funded new contributory provident fund scheme - NCPF (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 monetised 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 the SBP prior to 1975 but have opted for this new scheme. Under this scheme, contribution is made only by the employee at the rate of 5% of the monetised 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 New Gratuity Fund (NGF) which 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 SBP after 1975 and before the introduction of NGF which is effective from July 1, 2010;

- an un-funded contributory benevolent fund scheme;
- an un-funded post retirement medical benefit scheme; and
- six months post retirement benefit facility.

Obligations for contributions to defined contribution provident fund 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 has been carried out as at June 30, 2021. 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 15.3.2 to these financial statements.

4.9 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.
- All other revenues are recognised on a time proportion basis.

4.10 Taxation

The income of the Corporation is exempt from tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001 and clause 66 (xx) of Part 1 of the Second Schedule to the Income Tax Ordinance, 2001.

4.11 Provisions, contingent assets and contingent liabilities

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.

Contingent assets are disclosed when there is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation. Contingent assets are not recognised until their realisation become virtually certain.

Contingent liability is disclosed when:

- there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation; or
- there is a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

5	INVESTMENTS	Note	2021 ------(Rupees in '000)-----	2020
	Amortised cost			
	Market treasury bills	5.1 & 5.2	<u>514,944</u>	<u>550,774</u>
5.1	The effective yield on market treasury bills ranges from 7.59% to 7.67% per annum (2020: 12.71 % to 12.74% per annum) and having maturity latest by November 4, 2021 (2020: November 5, 2020).			
5.2	The fair value of these investments as at June 30, 2021 is Rs. 514.81 million (2020: Rs. 559.86 million).			

Financial Statements of BSC

	Note	2021	2020
		----- (Rupees in '000) -----	
6 EMPLOYEE LOANS			
Employees	6.1	10,787,436	8,906,806
Credit loss allowance	6.2	(7,149)	(7,102)
		<u>10,780,287</u>	<u>8,899,704</u>
6.1			
This represents 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. 12.83 million (2020: Rs. 18.25 million) that carry mark up at 10% per annum (2020: 10% per annum) on 62.5% of the loan amount. Maximum maturity of loans is upto year 2059 (2020: upto year 2059).			
These loans have been given in respect of:-			
<ul style="list-style-type: none"> - Housing loans - secured against equitable mortgage of the property; - Motor vehicle loans - secured against hypothecation of the vehicle; and - Computer and personal loans, given on personal guarantee of two employees of the Corporation. 			
	Note	2021	2020
		----- (Rupees in '000) -----	
6.2 Credit loss allowance			
Opening balance		7,102	7,131
Charge / (reversals) during the year - net		47	(29)
Closing balance		<u>7,149</u>	<u>7,102</u>
7 ADVANCES, DEPOSITS AND PREPAYMENTS			
Prepayments		75,670	40,948
Advances and deposits		7,988	8,116
Others		42,191	9,747
		<u>125,849</u>	<u>58,811</u>
8 MEDICAL AND STATIONERY CONSUMABLES			
Medicines		188,841	143,416
Stationery		24,934	35,936
Engineering		37,876	37,643
Others		64,571	95,505
		<u>316,222</u>	<u>312,500</u>
Provision against obsolete items	8.1	(269)	(1,259)
		<u>315,953</u>	<u>311,241</u>
8.1			
Provision against obsolete items			
Opening balance		1,259	1,274
Reversals during the year - net		(990)	(15)
Closing balance		<u>269</u>	<u>1,259</u>
9 PROPERTY AND EQUIPMENT			
Operating fixed assets	9.1	2,576,852	913,497
Capital work-in-progress	9.2	269,132	277,731
		<u>2,845,984</u>	<u>1,191,228</u>

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

	Furniture and fixtures	Office equipment and machinery	Electronic data and processing equipment	Motor vehicles	Total
----- (Rupees in '000) -----					
As at 01 July 2019					
Cost	107,337	1,887,213	565,878	286,697	2,847,125
Accumulated depreciation	(55,712)	(1,286,220)	(512,464)	(159,173)	(2,013,569)
Net book value	<u>51,625</u>	<u>600,993</u>	<u>53,414</u>	<u>127,524</u>	<u>833,556</u>
Year ended 30 June 2020					
Opening net book value	51,625	600,993	53,414	127,524	833,556
Additions	16,817	102,262	17,401	24,910	161,390
Transfers from capital work-in-progress (note 9.2)	-	182,908	-	-	182,908
Disposals					
Cost	(532)	(33,028)	(36,599)	(21,979)	(92,138)
Accumulated depreciation	532	33,025	36,599	21,647	91,803
	-	(3)	-	(332)	(335)
Transferred (to) / from SBP					
Cost	-	(2,792)	-	3,277	485
Accumulated depreciation	-	2,792	-	(1,839)	953
	-	-	-	1,438	1,438
Depreciation charge	(9,646)	(172,409)	(36,016)	(47,389)	(265,460)
Net book value	<u>58,796</u>	<u>713,751</u>	<u>34,799</u>	<u>106,151</u>	<u>913,497</u>
As at 30 June 2020					
Cost	123,622	2,136,563	546,680	292,905	3,099,770
Accumulated depreciation	(64,826)	(1,422,812)	(511,881)	(186,754)	(2,186,273)
Net book value	<u>58,796</u>	<u>713,751</u>	<u>34,799</u>	<u>106,151</u>	<u>913,497</u>
Year ended 30 June 2021					
Opening net book value	58,796	713,751	34,799	106,151	913,497
Additions	19,238	136,851	44,765	38,305	239,159
Transfers from capital work-in-progress (note 9.2)	-	1,789,351	-	-	1,789,351
Disposals					
Cost	(654)	(31,409)	(30,653)	(12,288)	(75,004)
Accumulated depreciation	560	31,409	30,653	11,875	74,497
	(94)	-	-	(413)	(507)
Depreciation charge	(10,625)	(274,928)	(34,151)	(44,944)	(364,648)
Net book value	<u>67,315</u>	<u>2,365,025</u>	<u>45,413</u>	<u>99,099</u>	<u>2,576,852</u>
As at 30 June 2021					
Cost	142,206	4,031,356	560,792	318,922	5,053,276
Accumulated depreciation	(74,891)	(1,666,331)	(515,379)	(219,823)	(2,476,424)
Net book value	<u>67,315</u>	<u>2,365,025</u>	<u>45,413</u>	<u>99,099</u>	<u>2,576,852</u>
Annual rate of depreciation	<u>10%</u>	<u>10% - 20%</u>	<u>33.33%</u>	<u>20%</u>	

9.2 Capital work-in-progress

The following is a statement of capital work in progress

	Note	2021	2020
----- (Rupees in '000) -----			
Opening as at 1 July		277,731	-
Additions		1,780,752	460,639
Transferred to operating fixed assets		(1,789,351)	(182,908)
Closing as at 30 June	9.2.1	<u>269,132</u>	<u>277,731</u>

Financial Statements of BSC

9.2.1 This pertains to installation of three Banknote Disintegration Systems (BDS) and four Banknote Processing and Authentication Systems (BPAS) at field offices of the Corporation. Three BDS and five BPAS systems have been transferred to operating fixed assets during the year.

	Note	2021	2020
------(Rupees in '000)-----			
10. DEPOSITS AND OTHER LIABILITIES			
Provision for employees' compensated absences	15.3.10	4,377,022	4,540,825
Deposits		143,061	363,825
Others	10.1	1,058,437	573,107
		<u>5,578,520</u>	<u>5,477,757</u>

10.1 This includes amount of Rs. 50.096 million payable to State Bank of Pakistan in lieu of training rendered by NIBAF.

	Note	2021	2020
------(Rupees in '000)-----			
11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS			
Gratuity		9,530	7,588
Pension		36,162,938	34,716,029
Benevolent fund scheme		852,661	880,302
Post retirement medical benefits		21,580,069	20,372,554
Six months post retirement benefits		150,985	127,149
	15.3.4	58,756,183	56,103,622
Provident fund scheme		489,641	554,998
		<u>59,245,824</u>	<u>56,658,620</u>

12. SHARE CAPITAL

2021	2020		2021	2020
(Number of shares)			------(Rupees in '000)-----	
		Authorised share capital		
<u>1,000</u>	<u>1,000</u>	Ordinary shares of Rs. 1,000,000 each	<u>1,000,000</u>	<u>1,000,000</u>
		Issued, subscribed and paid-up share 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
<u>1,000</u>	<u>1,000</u>		<u>1,000,000</u>	<u>1,000,000</u>

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

Claims against the Corporation not acknowledged as debts	13.1.1	<u>4,381</u>	<u>161,381</u>
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13.1.1 These mainly represent various cases filed by ex-employees of the Corporation on account of computational differences in settlement of their retirement benefit amounts. The management believes that these cases will be decided in favour of the Corporation and hence no provision has been recognised in these financial statements.

	Note	2021	2020
------(Rupees in '000)-----			
13.2 Commitments			
Capital commitments	13.2.1 & 13.2.2	<u>1,232,851</u>	<u>2,200,887</u>

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

13.2.2 This includes payment to be made for Bank Notes Disintegration System and Bank Notes Processing and Authentication System amounting to Rs. 0.383 billion (€2.03 million) and Rs. 0.726 billion (€3.846 million) respectively.

		2021	2020
------(Rupees in '000)-----			
14. DISCOUNT AND INTEREST EARNED			
Interest income on market treasury bills		46,632	65,867
Interest on employee loans		556	850
		<u>47,188</u>	<u>66,717</u>

15. NET OPERATING EXPENSES	Note	2021	2020
------(Rupees in '000)-----			
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		5,949,884	6,017,811
Rent and taxes		56,128	48,569
Insurance		25,707	21,761
Electricity, gas and water		418,655	424,156
Repair and maintenance		414,298	319,596
Auditors' remuneration	15.1	11,718	10,800
Legal and professional		9,048	9,027
Travelling		10,702	22,091
Daily expenses		28,652	39,040
Passages / rest and recreational allowance		291,162	318,520
Fuel		5,376	5,730
Conveyance		19,260	18,826
Postages and telephone		21,028	17,359
Training	15.2	136,820	215,678
Remittance of treasure		216,223	180,119
Stationery		29,764	24,692
Books and newspapers		2,415	1,862
Advertisement		10,811	14,908
Bank guards charges		230,218	209,879
Uniforms		32,626	35,086
Others		362,232	293,757
		8,282,727	8,249,267
Allocated to the State Bank of Pakistan			
Credit loss / (reversal of credit loss) on employee loans		47	(29)
Others			
Retirement benefits and employees' compensated absences	15.3.1	6,702,850	9,598,953
Depreciation	9.1	364,648	265,460
		7,067,498	9,864,413
		15,350,272	18,113,651

15.1 Auditors' remuneration

	2021			2020		
	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total	A. F. Ferguson & Co.	KPMG Taseer Hadi & Co.	Total
------(Rupees in '000)-----						
Audit fee	3,873	3,873	7,746	3,570	3,570	7,140
Out of pocket expenses	1,552	1,552	3,104	1,430	1,430	2,860
Sindh sales tax on services	434	434	868	400	400	800
	5,859	5,859	11,718	5,400	5,400	10,800

15.2 This includes Rs. 130.639 million (2020: Rs. 201.008 million) relating to NIBAF representing reimbursement of training expenses relating to employees of the Corporation.

15.3 Staff retirement benefits

15.3.1 This includes an amount relating to defined contribution plan aggregating Rs. 357.548 million (2020: Rs. 231.752 million) and employee compensated absences amounting to Rs. 483.397 million (2020: Rs.1.711.804 million).

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

	2021	2020
- Discount rate for year end obligation	9.25% p.a.	9.25% p.a.
- Salary increase rate (where applicable)	FY 2021: 8.75% p.a. plus 12% additional on alternate years from July 2021 onwards	FY 2020: 8% p.a. plus 12% additional on alternate years from July 2021 onwards
- Pension increase rate (where applicable)	8% p.a.	7.25% p.a.
- Medical cost increase rate (where applicable)	10.00% p.a.	9.25% p.a.
- Normal retirement age	60 years	60 years

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.

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

Discount rate risk

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

Salary increase / inflation risk

The risk that the actual salary increase is higher / lower than the expected salary increase, where benefits are linked with final salary at the time of cessation of service, is likely to have an impact on liability.

Mortality risk

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

Withdrawal risk

The risk of actual withdrawals experience may differ from that assumed in the calculation.

Pension increase risk

The risk that the actual pension increase is higher than expected, where benefits are being paid in form of monthly pension, is likely to have an impact on liability.

15.3.4 Change in present value of defined benefit obligation

2021						
Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Rupees in '000						
Present value of defined benefit obligation as on July 1, 2020	34,716,029	7,588	20,372,554	880,302	127,149	56,103,622
Current service cost	534,101	708	381,089	2,280	12,530	930,708
Interest cost on defined benefit obligation	2,989,418	702	1,853,116	78,994	8,967	4,931,197
	3,523,519	1,410	2,234,205	81,274	21,497	5,861,905
Benefits paid	(4,795,988)	-	(677,734)	(52,625)	(60,412)	(5,586,759)
Liability transferred from the SBP	26,019	-	7,450	472	985	34,926
Remeasurements:						
Actuarial losses / (gains) from changes in financial assumptions	2,693,359	532	(356,406)	(56,762)	61,766	2,342,489
Present value of defined benefit obligation as on June 30, 2021	<u>36,162,938</u>	<u>9,530</u>	<u>21,580,069</u>	<u>852,661</u>	<u>150,985</u>	<u>58,756,183</u>
2020						
Pension	Gratuity Scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
Rupees in '000						
Present value of defined benefit obligation as on July 1, 2019	30,688,317	4,733	18,100,363	745,023	135,210	49,673,646
Current service cost	568,887	492	444,676	1,248	9,811	1,025,114
Interest cost on defined benefit obligation	3,900,269	674	2,533,767	99,589	14,007	6,548,306
	4,469,156	1,166	2,978,443	100,837	23,818	7,573,420
Benefits paid	(6,636,017)	-	(639,089)	(92,305)	(73,825)	(7,441,236)
Liability transferred from the SBP	-	-	-	-	-	-
Remeasurements:						
Actuarial losses / (gains) from changes in financial assumptions	6,194,573	1,689	(67,163)	126,747	41,946	6,297,792
Present value of defined benefit obligation as on June 30, 2020	<u>34,716,029</u>	<u>7,588</u>	<u>20,372,554</u>	<u>880,302</u>	<u>127,149</u>	<u>56,103,622</u>

15.3.4.1 Amount recognised in other comprehensive income

2021						
Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
- Actuarial losses / (gain) from changes in financial assumptions	2,693,359	532	(356,406)	(56,762)	61,766	2,342,489

2020						
Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
- Actuarial (gains) / losses from changes in financial assumptions	6,194,573	1,689	(67,163)	126,747	41,946	6,297,792

15.3.5 Amount recognised in the profit and loss account

2021						
Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
Current service cost	534,101	708	381,089	2,280	12,530	930,708
Interest cost on defined benefit obligation	2,989,418	702	1,853,116	78,994	8,967	4,931,197
	3,523,519	1,410	2,234,205	81,274	21,497	5,861,905

2020						
Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
Current service cost	568,887	492	444,676	1,248	9,811	1,025,114
Interest cost on defined benefit obligation	3,900,269	674	2,533,767	99,589	14,007	6,548,306
	4,469,156	1,166	2,978,443	100,837	23,818	7,573,420

15.3.6 Movement of present value of defined benefit obligation

2021						
Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	Total	
-----Rupees in '000-----						
Net recognised liabilities at July 1, 2020	34,716,029	7,588	20,372,554	880,302	127,149	56,103,622
Amount recognised in the profit and loss account	3,523,519	1,410	2,234,205	81,274	21,497	5,861,905
Remeasurements	2,693,359	532	(356,406)	(56,762)	61,766	2,342,489
Benefits paid during the year	(4,795,988)	-	(677,734)	(52,625)	(60,412)	(5,586,759)
Liability transferred from the SBP	26,019	-	7,450	472	985	34,926
Net recognised liabilities at June 30, 2021	36,162,938	9,530	21,580,069	852,661	150,985	58,756,183

	2020					Total
	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility	
	-----Rupees in '000-----					
Net recognised liabilities at July 1, 2019	30,688,317	4,733	18,100,363	745,023	135,210	49,673,646
Amount recognised in the profit and loss account	4,469,156	1,166	2,978,443	100,837	23,818	7,573,420
Remeasurements	6,194,573	1,689	(67,163)	126,747	41,946	6,297,792
Benefits paid during the year	(6,636,017)	-	(639,089)	(92,305)	(73,825)	(7,441,236)
Net recognised liabilities at June 30, 2020	34,716,029	7,588	20,372,554	880,302	127,149	56,103,622

15.3.7 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-----	
Pension			
Discount rate	1	(2,556,052)	2,958,515
Salary increase rate	1	942,135	(880,193)
Pension increase rate	1	1,956,098	(1,669,839)

	Impact on defined benefit obligation - increase / decrease		
	Change in assumption	Increase in assumption	Decrease in assumption
	%	-----Rupees in '000-----	
Gratuity scheme			
Discount rate	1	(140)	144
Salary increase rate	1	178	(176)
Post retirement medical benefits			
Discount rate	1	(2,442,211)	3,002,414
Medical cost increase rate	1	2,999,812	(2,467,234)
Benevolent fund scheme			
Discount rate	1	(32,563)	35,850
Six months post retirement facility			
Discount rate	1	(5,821)	6,333
Salary increase rate	1	6,645	(6,229)

The above sensitivity analysis is 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.

15.3.8 Duration of defined benefit obligation

	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement facility
Weighted average duration of the defined benefit obligation	7.26 years	1.49 years	12.61 years	4.01 years	4.02 years

15.3.9 Estimated expenses to be charged to the profit and loss account for the year ending June 30, 2022

Based on the actuarial advice, the management estimates that charge in respect of defined benefit plans for the year ending June 30, 2022 would be as follows:

	Pension	Gratuity scheme	Post retirement medical benefits	Benevolent fund scheme	Six months post retirement benefits	Total
	-----Rupees in '000-----					
Current service cost	598,804	7,665	431,977	2,221	8,842	1,049,509
Interest cost on defined benefit obligation	2,044,387	11,972	666,383	85,266	13,780	2,821,788
Amount chargeable to the profit and loss account	<u>2,643,191</u>	<u>19,637</u>	<u>1,098,360</u>	<u>87,487</u>	<u>22,622</u>	<u>3,871,297</u>

15.3.10 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. 4,377.022 million (2020: Rs. 4,540.825 million). An amount of Rs. 483.397 million (2020: Rs.1,711.804 million) has been charged to the profit and loss account in the current year based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2022 would be Rs. 606.504 million. The benefits paid during the year amounted to Rs. 655.458 million (2020: Rs. 1,098.221 million). In case of 1% increase / decrease in discount rate, the net charge for the year would decrease / increase by Rs. 148.142 million and Rs. 161.003 million respectively and the net liability would also be affected by the same amount. In case of 1% increase / decrease in salary rate, the net charge for the year would increase / decrease by Rs. 171.916 million and Rs. 161.458 million respectively and the net liability would also be affected by the same amount. The weighted average duration for the liability against employee's compensated absences is 3.53 years.

	2021	2020
	----- (Rupees in '000) -----	
16 PROFIT AFTER ADJUSTMENT OF NON-CASH ITEMS		
Profit before tax	50,474	69,340
Adjustments for:		
Interest income on market treasury bills	(46,632)	(65,867)
Gain on disposal of property and equipment	(3,286)	(2,623)
	<u>(49,918)</u>	<u>(68,490)</u>
	<u>556</u>	<u>850</u>
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 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 the 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.

The transactions and balances with related parties are as follows:

	2021	2020
	----- (Rupees in '000) -----	
Associated undertaking - National Institute of Banking and Finance (Guarantee) Limited - subsidiary of the parent entity		
Balances at the year end		
Payable against training programs	-	122,474
Transactions during the year - reimbursable from the State Bank of Pakistan		
Training expense charged during the year	130,639	201,008
Payments made during the year	203,017	88,037

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 18.6 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 a 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.

18.1.1 Definition of default

The Corporation defines a financial instrument as in default when the financial asset is credit - impaired and meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments are considered default by the Corporation.

Qualitative criteria

- a breach of contract, such as default or past-due event;
- the lenders of the counterparty have granted a concession to the counterparty for economic or contractual reasons relating to the counterparty's financial difficulty that the lender would not otherwise consider;
- the likelihood or probability that the counterparty will enter bankruptcy or other financial reorganisation; or
- the dissolution of an active market for that financial asset due to financial difficulties.

18.1.2 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the counter party's ability to increase its exposure while approaching default and potential early repayments too. To calculate EAD for stage 1 financial instruments, the Corporation assesses the possible default events within 12 months for the calculation of the 12mECL. For stage 2 and stage 3, the exposure at default is considered for events over the lifetime of the instrument. The Corporation determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. PDs are then assigned to each economic scenario based on the outcome of the Corporation's models.

18.1.3 Loss given default

Loss given default (LGD) represents the Corporation's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

18.1.4 Significant increase in credit risk

The Corporation considers a financial asset to have experienced a significant increase in credit risk when:

- credit rating falls below the investment grade in case of investments made in financial assets, or
- the contractual payments are 30 days past due.

18.2 Concentration 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 reporting 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 reporting date are geographically located in Pakistan only.

18.2.2 Industrial analysis

	2021		
	Sovereign	Others	Grand total
	(Rupees in '000)		
Financial assets			
Current account with the State Bank of Pakistan	51,241,327	-	51,241,327
Investments	514,944	-	514,944
Employee loans	-	10,780,287	10,780,287
Advances and deposits	-	50,179	50,179
	<u>51,756,271</u>	<u>10,830,466</u>	<u>62,586,737</u>

	2020		
	Sovereign	Others	Grand total
	(Rupees in '000)		
Financial assets			
Current account with the State Bank of Pakistan	52,124,619	-	52,124,619
Investments	550,774	-	550,774
Employee loans	-	8,899,704	8,899,704
Advances and deposits	-	17,863	17,863
	<u>52,675,393</u>	<u>8,917,567</u>	<u>61,592,960</u>

18.2.3 Credit exposure by credit rating:

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

	2021		
	Sovereign (18.2.3.1)	Unrated	Grand total
	(Rupees in '000)		
Financial Assets			
Current account with the State Bank of Pakistan	51,241,327	-	51,241,327
Investments	514,944	-	514,944
Employee loans	-	10,780,287	10,780,287
Advances and deposits	-	50,179	50,179
	<u>51,756,271</u>	<u>10,830,466</u>	<u>62,586,737</u>

	2020		
	Sovereign (18.2.3.1)	Unrated	Grand total
	(Rupees in '000)		
Financial Assets			
Current account with the State Bank of Pakistan	52,124,619	-	52,124,619
Investments	550,774	-	550,774
Employee loans	-	8,899,704	8,899,704
Advances and deposits	-	17,863	17,863
	<u>52,675,393</u>	<u>8,917,567</u>	<u>61,592,960</u>

18.2.3.1 Government securities and balances are rated as sovereign. The international credit rating of Pakistan is B3 (2020: B3) as per Moody's.

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

	Gross amount		Impairment / provision	
	2021	2020	2021	2020
	(Rupees in '000)			
Employee loans	<u>10,787,436</u>	<u>8,906,806</u>	<u>7,149</u>	<u>7,102</u>

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 minimise its exposure to this risk.

Interest / markup rate	2021						Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	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 w ith the State Bank of Pakistan*	-	-	-	51,241,327	-	51,241,327	51,241,327
Investments 7.59% - 7.67%	514,944	-	514,944	-	-	-	514,944
Employee loans 10%	844	11,987	12,831	1,260,472	9,506,984	10,767,456	10,780,287
Advances and deposits	-	-	-	33,798	16,381	50,179	50,179
	515,788	11,987	527,775	52,535,597	9,523,365	62,058,962	62,586,737
Financial liabilities							
Deposits and other liabilities	-	-	-	1,201,498	-	1,201,498	1,201,498
On balance sheet gap	515,788	11,987	527,775	51,334,099	9,523,365	60,857,464	61,385,239
Off balance sheet gap	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap	515,788	11,987	527,775	51,334,099	9,523,365	60,857,464	61,385,239
Cumulative yield / interest risk sensitivity gap	515,788	527,775					

Interest / markup rate	2020						Total
	Interest / mark-up bearing			Non interest / mark-up bearing			
	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 w ith the State Bank of Pakistan*	-	-	-	52,124,619	-	52,124,619	52,124,619
Investments 12.71% - 12.74%	550,774	-	550,774	-	-	-	550,774
Employee loans 10%	1,229	17,024	18,253	1,030,308	7,851,143	8,881,451	8,899,704
Advances and deposits	-	-	-	8,116	9,747	17,863	17,863
	552,003	17,024	569,027	53,163,043	7,860,890	61,023,933	61,592,960
Financial liabilities							
Deposits and other liabilities	-	-	-	936,932	-	936,932	936,932
On balance sheet gap	552,003	17,024	569,027	52,226,111	7,860,890	60,087,001	60,656,028
Off balance sheet gap	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap	552,003	17,024	569,027	52,226,111	7,860,890	60,087,001	60,656,028
Cumulative yield / interest risk sensitivity gap	552,003	569,027					

*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 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 the reporting date, all of the Corporation's financial instruments are denominated in local currency.

18.6 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. The maturity profile of the Corporation's financial assets and financial liabilities are given in note 18.4 to these financial statements.

19 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between carrying value and the fair value estimates.

Underlying the definition of fair value is the presumption that the Corporation is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

As per the requirements of IFRS 13, 'Fair Value Measurement', the Corporation shall classify fair value instruments using a fair value hierarchy that reflects the significance of inputs in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices within level 1 that are observable for the asset or liabilities, whether directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying amounts of all the financial assets and financial liabilities are considered to be reasonable approximation of fair value except for investments carried at amortised cost whose fair value is disclosed in note 5.2 to these financial statements which have been valued under level 2. These are carried at amortised cost in accordance with the Corporation's policy.

20 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets

Current account with the State Bank of Pakistan
 Investments
 Employee loans
 Advances and deposits

2021	
Amortised cost	Total
----- (Rupees in '000) -----	
51,241,327	51,241,327
514,944	514,944
10,780,287	10,780,287
50,179	50,179
<u>62,586,737</u>	<u>62,586,737</u>

Financial assets

Current account with the State Bank of Pakistan
 Investments
 Employee loans
 Advances and deposits

2020	
Amortised cost	Total
----- (Rupees in '000) -----	
52,124,619	52,124,619
550,774	550,774
8,899,704	8,899,704
17,863	17,863
<u>61,592,960</u>	<u>61,592,960</u>

Financial liabilities - at amortised cost

Deposits and other liabilities

2021	2020
----- (Rupees in '000) -----	
<u>1,201,498</u>	<u>936,932</u>

21 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison the effect of which is immaterial. There has been no significant rearrangement or reclassification during the current year.

22 GENERAL

22.1 Rounding off

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

23 DATE OF AUTHORISATION FOR ISSUE

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

Muhammad Ashraf Khan
Managing Director

Shaukat Zaman
Group Head Network and
Financial Management

A

AD(s)	Authorized Dealer(s)
ADC(s)	Alternate Delivery Channel(s)
AGPR	Accountant General of Pakistan Revenue
AJ&K	Azad Jammu and Kashmir
AML	Anti-Money Laundering
AO(s)	Adjudication Officer(s)
APR	Annual Performance Review
ATM(s)	Automated Teller Machine(s)

B

BCP	Business Continuity Planning
BDS	Banknote Destruction System
BP	Business Planning
BPAS	Banknote Processing and Authentication System
BPR	Business Process Re-engineering
BSC	State Bank of Pakistan Banking Services Corporation

C

CAAF	Controller Accounts Air force
CBAs	Custom Built Applications
CBA	Collective Bargaining Agent
CDNS	Central Directorate of National Savings
CEO	Chief Executive Officer
CFT	Counter Financing Terrorism
CGS	Credit Guarantee Scheme
CIC	Currency in Circulation
CM	Chief Manager
CMH(s)	Cash Monitoring Hub(s)
CMS	Currency Management Strategy
CNA	Controller Naval Accounts
CNIC	Computerized National Identity Card
CoD	Charter of Demand
COVID-19	Corona Virus Disease of 2019
CPF	Counter Proliferation Financing
CTR	Currency Transaction Report

D

DAP	Data Acquisition Portal
DC	District of Columbia
DDT	Duty Drawback of Taxes
DFID	Department For International Development
DSC(s)	Defence Savings Certificate(s)

E

ECM	Electronic Content Management
EDI	Electronic Data Interchange
EE	Export Earnings
EF	Export Finance
EFE(s)	Electronic Form E(s)
EFS	Export Finance Scheme
EORS	Export Overdue Reporting System
EPD	Exchange Policy Department
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning

List of Acronyms

F

FBR	Federal Board of Revenue
FEA	Foreign Exchange Adjudication
FEAD	Foreign Exchange Adjudication Department
FEOD	Foreign Exchange Operations Department
FERA	Foreign Exchange Regulation Act
FFSAP	Financing Facility for Storage of Agriculture Produce
FMU	Financial Monitoring Unit
FX	Foreign Exchange
FY	Financial Year

G

GDP	Gross Domestic Product
GoP	Government of Pakistan
G-MSS	Government Markup Subsidy Scheme

H

HOD	Head of Department
HOK	Head Office Karachi
HR	Human Resource
HRMD	Human Resource Management Department

I

IACD	Internal Audit and Compliance Department
IAD	Internal Audit Department
ICM	Internal Case Management
IDB	Islamic Development Bank
IERS	Islamic Export Refinance Scheme
IMF	International Monetary Fund
ISD	Information Systems Department
IT	Information Technology
ITD	Information Technology Department
ITG	Information Technology Group
ITRS	International Transaction Reporting System

J

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K

KM	Knowledge Management
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L

LAMS	Learning Activity Management System
LEA(s)	Law Enforcement Agency (Agencies)
LSD	Legal Services Department
LTFE	Long Term Financing Facility
LTLD	Local Taxes and Levies Drawback

M

MIS	Management Information Systems
ML	Money Laundering
MSSP	Markup Subsidy Scheme Portal
MSD	Medical Services Division

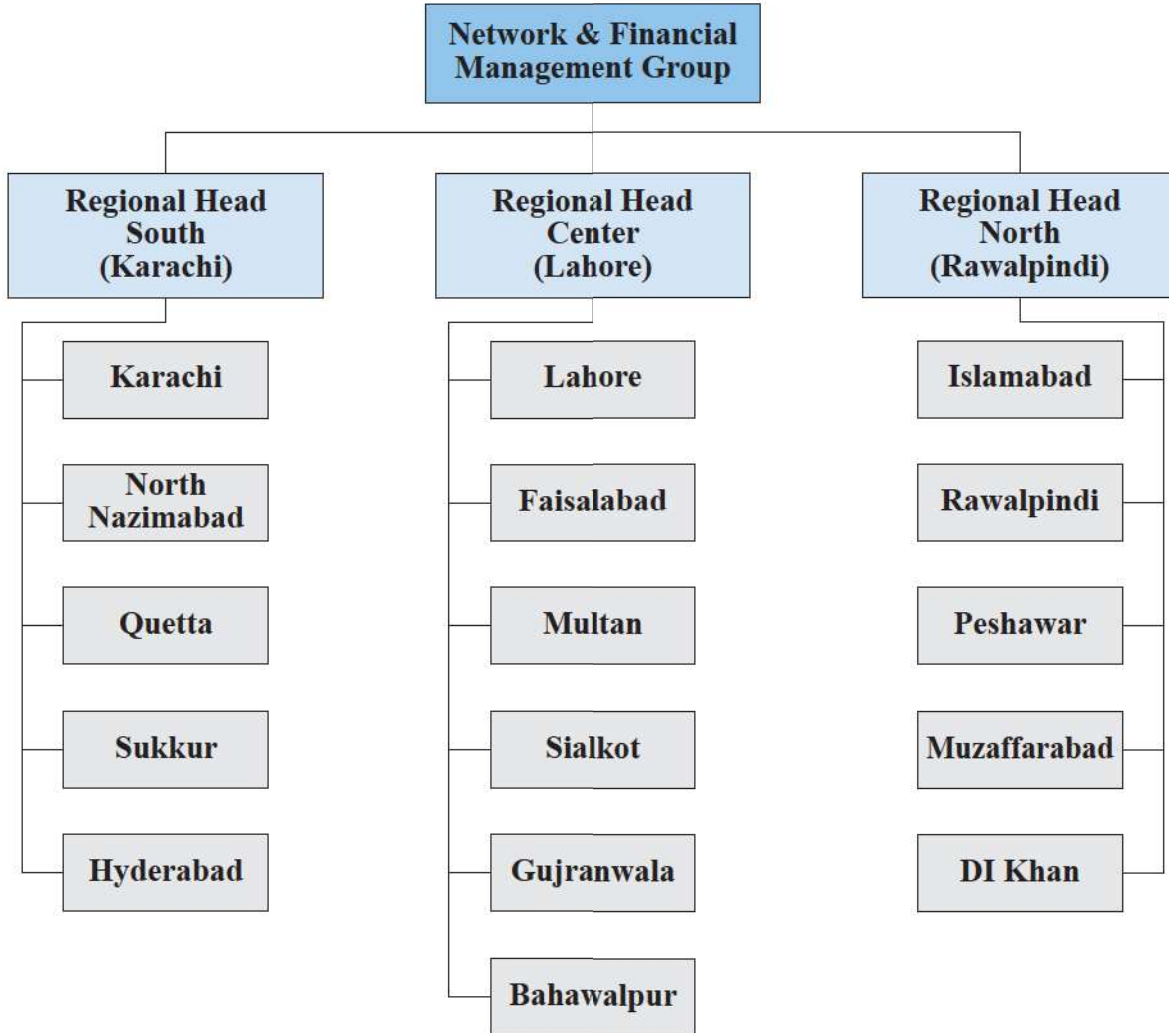
N

NBFI(s)	Non-Banking Financial Institution(s)
NBP	National Bank of Pakistan

NCOC	National Command and Operation Center
NFLP	National Financial Literacy Program
NIBAF	National Institute of Banking and Finance
NPB(s)	National Prize Bond(s)
NPSS	National Payment Systems Strategy
NSS	National Savings Schemes
O	
OPGS	Online Portal for Government Schemes
OTC(s)	Over the Counter(s)
P	
PF	Proliferation Financing
PFI(s)	Participating Financial Institution(s)
PPB(s)	Premium Prize Bond(s)
PPRA	Public Procurement Rules Authority
PRC	Publications Review Committee
PSPC	Pakistan Security Printing Corporation
Q	
--	
R	
RAS	Regulatory Approval System
RFCC	Refinance Facility for Combating COVID-19
RTGS	Real Time Gross Settlement
S	
SBP	State Bank of Pakistan
SME(s)	Small and Medium Enterprise(s)
SOP(s)	Standard Operating Procedure(s)
SRE	Small and Rural Enterprises
SRO(s)	Statutory Regulatory Order(s)
SSC(s)	Special Savings Certificate(s)
STR(s)	Suspicious Transaction Report(s)
T	
TBRP	Time Bound Rotation Plan
TERF	Temporary Economic Refinance Facility
TF	Terror Financing
TMS	Transaction Monitoring System
U	
UK	United Kingdom
USA	United States of America
USD	United States Dollar
V	
-	
W	
WeBOC	Web Based One Customs
WFH	Work From Home
X	
-	
Y	
-	
Z	
-	

ANNEXURE

Organogram of Regions/Field Offices





Launching Ceremony Digitalization of SBP FX Regulatory Approval System on Friday October 16, 2020