Annual Performance Review 2013-14

SBP Banking Services Corporation

Vision	*Mission*
To develop SBP-BSC into a dynamic and efficient organization equipped with requisite technology and human resource capable of extending sustainable support to the State Bank of Pakistan in achieving its objectives	***To provide excellent banking and financial services to stakeholders besides ensuring implementation of SBP policies in order to command their trust and respect***

Annual Performance Review 2013-14

About this Report

Annual Performance Review is a regular publication of SBP Banking Services Corporation (Bank). The report envisages detailed record of BSC's performance and operational functions conducted during the year 2013-14. Following are the broad areas covered in the report:

- Key business areas and institutional framework of SBP-BSC
- Detailed profile of Departments serving as operational and supporting wings of SBP-BSC
- Financial Statements of SBP-BSC

Annual Performance Review is available at the following website:
www.sbp.org.pk/publications

For more information, please contact:

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SBP Banking Services Corporation, Head Office, 4th Floor, BSC House,
I.I. Chundrigar Road, Karachi.

About SBP Banking Services Corporation

Being a functional subsidiary of State Bank of Pakistan, SBP Banking Services Corporation performs currency management functions (distribution of fresh currency notes and coins, and lifting of soiled banknotes from the market), provides banking services to the Government and financial institutions, and promotes and implements SBP policies in the areas of Development Finance (SME, Agriculture, and Microfinance), Foreign Exchange Operations & Adjudication and in different credit schemes through its Field Offices across Pakistan.

Priorities	Strategic Framework	Goal

• *Provision of quality banking services to Government, banks etc;*
• *Currency Management;*
• *Promotion and implementation of SBP policies;*
• *Foreign Exchange Operations and Adjudication;*
• *Managing the risks; and*
• *Nurturing organization's efficient & dynamic human resource.*
	• *Optimum use of technology to enhance efficiency;*
	• *Continue to act on behalf of State Bank of Pakistan;*
	• *Maintain a sound financial and organizational footing; and*
	• *Pursue a changing management and organizational development policy.*
		• *Acquiring higher level of satisfaction of stakeholders through:*
		  • *Improved efficiency;*
		  • *Reducing processing time;*
		  • *Friendly attitude towards customers; and*
		  • *Improving effectiveness in SBP's policy implementation.*

The Team

Team Leader

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Additional Director
Strategic & Corporate Planning Department ayubul.hasan@sbp.org.pk

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Strategic & Corporate Planning Department ubaidullah.sufyan@sbp.org.pk

The Team Appreciates …

and expresses gratitude for the valuable support by all Directors, Chief Managers and APR Contributors, in addition to the guidance of the Management Committee on Publications, for making this publication a standardized document.

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

It is a matter of great satisfaction indeed that the Banking Services Corporation (BSC) with the outgoing financial year has completed over twelve years of its existence as a subsidiary of the State Bank of Pakistan. The staff and the management of BSC can genuinely take pride in achieving this important milestone.

Immediately after my appointment as Governor, I started interacting with the BSC management and the Board to get firsthand knowledge of the issues and challenges being confronted by the BSC. This consultation process helped me in taking decisions that resulted in a) appointment of a full time Managing Director to ensure continuity in the BSC leadership and b) to empower the new incumbent and provide him enough space and freedom of action to deliver on my expectations. I have already assured the MD, BSC of my fullest support in accomplishing the shared vision for BSC.

Let me take this opportunity to share a few thoughts on some of the areas where BSC needs to make visible improvements. Firstly, there is a need to bring about an all-round improvement in the efficiency and service standards to meet expectations of the multitude of stakeholders that BSC Offices cater to on a daily basis. This is essential for improving turn-around-time in delivery of various services with improved work ethics and strong inculcation of organizational values across BSC.

Secondly, BSC has to draw a long term plan and roadmap with a view to take its existing performance and delivery standards to the next level and align all its policies and processes to these strategic objectives. I am glad to know that the new management of BSC has already initiated the process and plans to roll out the Strategic Plan 2016-2020 next year.

Thirdly, SBP being the most critical stakeholder needs to be meaningfully engaged in order to evolve a mechanism for seamless coordination in different functional areas. In the past such coordination has either been lacking or remained dormant due to various reasons. Consequently, respective roles and responsibilities in functional areas have at times remained blurred, resulting not only in sub-optimal performance but also ambiguity among various internal and external stakeholders. Now that four coordination committees, primarily under the lead of Managing Director, BSC, have been set up and announced, I look forward to seeing their effectiveness.

Fourthly, special focus needs to be given on developing the human resource base of the Corporation with a view to improve skill-mix, fully geared to meet the emerging challenges and the optimum and efficient use of technology in banking and currency management. For this purpose, besides undertaking business process re-engineering, BSC also requires to focus on different training initiatives with a view to arrange need-based trainings rather than supply-driven courses.

Lastly, we need to promote a performance- and merit-based culture in the Corporation to ensure a high level of motivation among the deserving employees and institute an accountability culture to nudge the under-performers to improve their performance to the acceptable levels.

I wish the management and staff of BSC all the best in their endeavours to achieve common objectives.

ASHRAF MAHMOOD WATHRA
Governor
State Bank of Pakistan

It is a matter of pride for me to present the Annual Performance Review (APR) of SBP-BSC for the Financial Year 2013-14 (FY14), which was unusual on two counts; i) frequent changes at the top level of the BSC and ii) rapid depletion in the Corporation's experienced human resources. It is encouraging to note that the officers and staff of the Corporation continued to ensure execution of their normal operations for achieving organizational objectives with zeal and commitment, and thus deserve my appreciation.

During FY14, a number of initiatives were taken to overcome HR gaps and other related issues, which include inductions of officers at the entry & middle management levels and in specialized areas like industrial relations, procurements, engineering and bank health clinics. Concurrently, the BSC management has embarked upon an initiative to introduce high-end banknote processing machines to not only automate currency management at the Corporation but also to kick-start, with the active coordination of State Bank of Pakistan, the process of cash cycle automation by the market participants. This will not only improve the skill-set of our staff and raise their efficiency levels but would also help in the implementation of the clean note policy regime of the State Bank of Pakistan.

Going forward, a similar initiative has also been planned in the area of banking operations where a project on e-banking is being contemplated in coordination with all relevant stakeholders. Though its success will be largely dependent on the willingness of our major stakeholders to automate payment process at their end, however when implemented it will bring a paradigm shift in the way the Corporation serves its important institutional stakeholders like AGPR, FBR, Provincial Governments, Federal Government and its departments, as well as the commercial banks, etc.

In order to ensure continuity in the reforms process, efforts are being made to institutionalize the reforms. For this purpose various management committees have been set up to deliberate and discuss critical issues in their respective areas and make recommendations for approval and implementation. A mechanism of monitoring and evaluation has also been put in place to ensure effective follow-up on the decisions made at various fora like Heads of Departments (HoDs) Forum, Chief Managers (CMs) Conference and the management committees. All Field Offices have also been advised to create a similar committee structure to ensure that local matters are properly addressed in a timely manner.

In the long term perspective, a number of key initiatives have been planned to be included in the Strategic Plan 2016-2020 expected to be rolled out during FY16. In the proposed Strategic Plan, we want to outline a comprehensive change management agenda to transform SBP-BSC into a vibrant institution, fully capable of effectively achieving the organizational objectives. At the same time, we want further strengthening of the internal controls by defining performance benchmarks in all the functional areas around which an appropriate accountability system will be woven.

In conclusion, I must say that while BSC has come a long way, there is a lot to be achieved further with team spirit, collective wisdom and commitment. I would like to take this opportunity to compliment my team members and pay my gratitude to the honorable Governor, SBP and the BSC Board of Directors for extending their complete support and guidance in transforming SBP-BSC into an apex institution.

QASIM NAWAZ
Managing Director
SBP Banking Services Corporation

Governance Structure of SBP Banking Services Corporation

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

As an operational arm of the Central Bank, the SBP-BSC is engaged in i) managing currency and foreign exchange operations; ii) providing banking services to the federal and provincial governments, financial institutions and general public; iii) conducting development finance activities in support of the development finance group of the SBP; iv) implementing export refinance schemes; and v) performing agency functions like sale/purchase of prize bonds including managing prize money draws, sale and purchase of national saving schemes or any other functions assigned by State Bank of Pakistan.

Board of Directors

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

The Board of Directors of SBP-BSC comprises of:

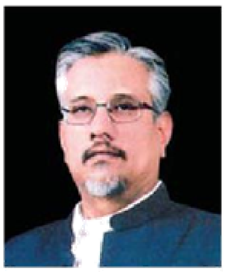
a. Members of the Central Board of Directors of State Bank of Pakistan; and
b. Managing Director, SBP-BSC.

The members of Central Board of Directors of State Bank of Pakistan comprise of the Governor SBP, Secretary Finance, and eight non-executive Directors nominated by the Federal Government. The Governor SBP acts as the Chairman of the Board. The Directors, at least one from each province, are appointed by the Federal Government who shall be eminent professionals from the fields of economics, finance, banking, and accountancy. The Managing Director is appointed by SBP as mandated by the SBP-BSC Ordinance 2001.

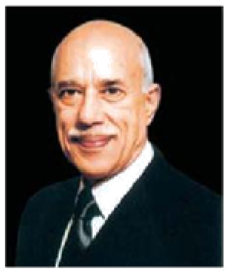
During the year, the Board of SBP-BSC met six times and the decisions taken include approval of financial statements of SBP-BSC, annual budget, and HR policies.

Board of Directors*

Chairman
Mr. Ashraf Mahmood Wathra
Governor
(Replaced Mr. Yaseen Anwar on January 31, 2014)



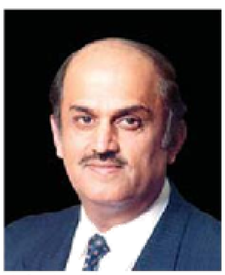
Dr. Waqar Masood Khan
Secretary, Finance Division,
Government of Pakistan
Appointed on April 16, 2013



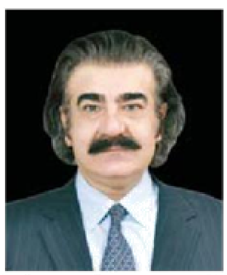
Mirza Qamar Beg
Appointed on May 27, 2009
Present term ends on
May 25, 2015

Mr. Mehmood Mandviwalla
Appointed on February 26, 2013
Present term ends on
February 25, 2016

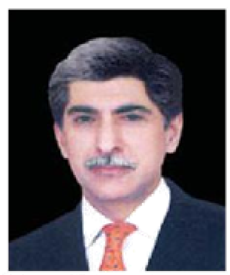
Mr. Shahid Ahmed Khan
Appointed on February 26, 2013
Present term ends on
February 25, 2016



Mr. M. Nawaz Tiwana
Appointed on February 26, 2013
Present term ends on
February 25, 2016



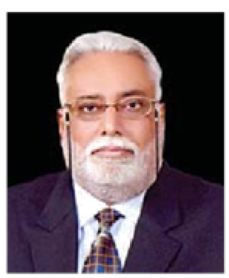
Mr. Iskander Mohammed Khan
Appointed on February 26, 2013
Present term ends on
February 25, 2016



Khawaja Iqbal Hassan
Appointed on February 26, 2013
Present term ends on
February 25, 2016

Mr. Muhammad Hidayatullah
Appointed on March 15, 2013
Present term ends on
March 14, 2016

Mr. Zafar Masud
Appointed on March 16, 2013
Present term ends on
March 15, 2016



Mr. Qasim Nawaz
Managing Director SBP-BSC
Appointed on May 26, 2014
(Replaced Mr. Muhammad Haroon Rasheed)

Sahar Z. Babar
Corporate Secretary

* Position as on June 30, 2014

Committees of the Board of SBP-BSC

The SBP-BSC Ordinance 2001 allows the Bank to formulate Committees consisting of an adequate number of Directors, having a specific Term of Reference (ToR), which outlines powers, functions, duties and other terms of appointment of the Committee of Directors as it may determine. The designated Committees independently deal with the matters entrusted to them.

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

A. Committee of SBP-BSC Board on HR

The Committee assists the Board in human resources area. It reviews all the proposals requiring approval of the Board regarding revision, modification or interpretation of human resources policies, and submits its recommendations to the Board. The committee has the following composition:

1.	Mirza Qamar Beg	Chairman
2.	Mr. M. Nawaz Tiwana	Member
3.	Mr. Mehmood Mandviwalla	Member
4.	Mr. Zafar Masud	Member
5.	Managing Director, SBP-BSC	Member
6.	Director, PMD, SBP-BSC	Secretary

During the year, the Committee held nine meetings, including four combined meetings with the Committee of SBP Board on HR.

B. Committee of SBP-BSC Board on Audit

The Committee assists the Board on issues related to audit and reviews audit proposals required to be submitted to the Board. During the year, the Committee held 10 meetings and comprised of the following members:

1.	Mr. Muhammad Hidayatullah	Chairman*
2.	Mirza Qamar Beg	Member
3.	Khawaja Iqbal Hassan	Member
4.	Mr. Iskander M. Khan	Member
5.	Mr. Shahid Ahmed Khan	Member

*Replaced Mr. Shahid A. Khan on April 9, 2014 as Chairman

Management Structure

The Managing Director (MD) is the Chief Executive Officer of SBP-BSC and controls the affairs of the Bank on behalf of the Board of Directors. The MD has been empowered to conduct business and manage the affairs of the Bank except for the matters that fall, specifically, under the purview of the Board. The MD is being assisted by a team of Directors/Heads of Departments and Chief Managers.

Heads of Departments (HoDs) Forum

The forum consists of Directors/Heads of Departments of SBP-BSC. The forum is responsible to set the operational policy parameters that help the BSC in achieving the strategic direction of the Bank as set by its Board. The forum also deliberates upon various policies for the approval of the Board.

Chief Managers (CMs) Conference

The forum consists of Chief Managers of SBP-BSC Field Offices situated in 16 major cities of Pakistan. The forum mainly discusses the operational areas of the Bank and suggests measures to bring improvement in the same for approval by the higher management.

1 Banking Services to the Government and Financial Institutions

As a statutory obligation, on behalf of State Bank of Pakistan, SBP-BSC carries out operational work relating to Governments' banking business through its Field Offices and a wide network of currency chests/sub-chests established at NBP branches throughout the country.

1.1 Overview

Being the country's Central Bank, State Bank of Pakistan acts as a banker to the state. Under clause 21 of SBP Act 1956 and clause 15(3) e of the SBP-BSC Ordinance 2001, the Corporation provides banking services on behalf of State Bank of Pakistan to the Government, Commercial Banks and Non-Banking Financial Institutions (NBFIs) through a network of its 16 Field Offices across the country. The details of services provided are given in **Box 1.1**.

Box 1.1 Services Provided to the Government, Banks and NBFIs

a. Collection of revenue and making payments on behalf of Government departments.
b. Reporting of transactions of revenue collection to Federal Board of Revenue (FBR), on daily basis, through online network under Collection Automation Project (CAP).
c. Making settlement of Government payments and receipts made by National Bank of Pakistan (NBP) as an agent to the SBP.
d. Management of Public Debt.
e. Maintenance of commercial bank accounts.
f. Remittance facilities to the Government and financial institutions for transfer of funds.

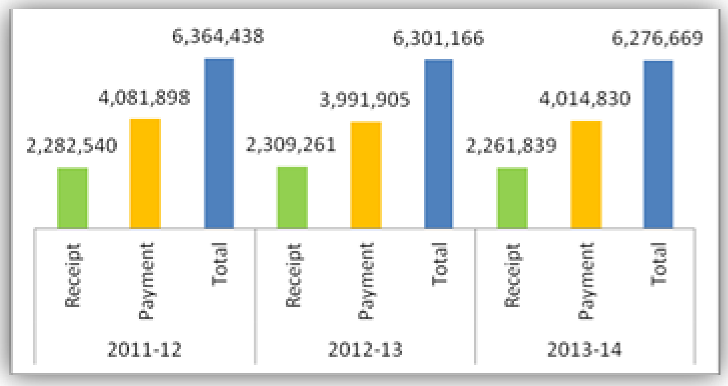
1.2 Management of Government Accounts

The management and reporting of accounts of Federal and Provincial Governments is one of the main responsibilities of SBP-BSC's Accounts Department. Data pertaining to Government transactions carried out in various accounts is reported to respective stakeholders (i.e. Accountant Generals of provinces, Accountant General Pakistan Revenue, Pakistan Railway and other Government departments) on daily/periodic basis. The daily position of Government balances is also provided to the Finance Department of State Bank of Pakistan for onward submission. BSC's Field Offices also provide the following banking services:

- Facility of transfer of funds of Government departments from one to another place;
- Arranging payments of pensions through BSC Field Offices to the pensioners of various Government departments;
- Locker facilities to the Government for safe deposit of articles; and
- Other banking services as and when required by the Government departments.

The Field Offices of the BSC executed 2.26 million and 4.01 million transactions pertaining to Government receipts and payments, respectively during FY14 as compared to 2.31 and 3.99 million transactions handled during the previous year **(Fig 1.1)**.

Fig 1.1 Government Receipts/Payments Number of Transactions



1.2.1 Reporting of Zakat Balances

SBP-BSC plays an important role in Zakat collection by banks and reporting of the same to the concerned Ministry. During the year under review, the banks reported/deposited total collection of Zakat amounting to Rs. 4.82 billion as compared to Rs. 4.05 billion collected last year. After constitutional amendments passed under the 18th Amendment Bill, Zakat has been classified as a provincial revenue source. To facilitate the Ministry of Religious Affairs for disbursement of Zakat among provinces, IT-based reporting has been developed where Zakat accounts have been made available in terms of area/province of collection.

1.2.2 Reporting of FBR Transactions

The collection, consolidation and reporting of FBR taxes is another important function performed by the Accounts Department. In order to streamline the system of depositing of Income tax and to facilitate the tax payers, Collection Automation Project–II (CAP) has been implemented in the Field Offices. With the implementation of CAP-II, Income Tax receipt is being reported to FBR on real-time basis. The tax revenue collected by SBP-BSC Offices and the network of NBP branches on behalf of the Government and credited to the relevant accounts during the year was around Rs. 2,305 billion as compared to Rs. 1,974 billion last year. The summary of FBR receipts and payments for FY14 is given in **Table 1.1**.

(Rupees in Millions)

Head of Account	Receipts			Payments		
	FY 12	**FY 13**	**FY 14**	**FY 12**	**FY 13**	**FY 14**
Sales Tax	831,746	849,880	1,010,756	45,238	29,025	32,028
Federal Excise	128,348	131,428	150,688	281	532	323
Customs	220,606	245,350	263,347	8,476	10,462	9,845
Income Tax	789,604	747,297	880,361	64,668	21,151	24,486
Total	1,970,304	1,973,955	2,305,152	118,663	61,170	66,682

1.3 Management of Current Accounts of Commercial Banks

SBP-BSC maintains current accounts of all scheduled banks and NBFIs at its 16 Field Offices. These accounts, besides facilitating banks in maintaining their Cash and Statutory Liquidity Reserves (CRR and SLR), as required under Banking Companies Ordinance, 1962, also help them in managing their current account balances.

2 Currency Management

State Bank of Pakistan (SBP), being the Central Bank of the country, is responsible for issuance of bank notes. The responsibilities for circulating the bank notes and the coins have been entrusted to the SBP-BSC. Within SBP-BSC, the Currency Management Department (CMD) is responsible to manage the supply chain for bank notes and coins with the active participation of the 16 Field Offices of the BSC. At the same time, CMD is keeping abreast of latest developments in the field of currency and making efforts to introduce these developments in the existing set up to meet the increasing demand of bank notes. CMD has also been trying to be in line with the international best practices in currency management.

2.1 Overview

Currency Management Department (CMD) primarily deals with matters relating to circulation of bank notes & coins - including National Prize Bonds - across Pakistan, retrieval of unfit bank notes from circulation and destruction of the same through a systematic and secure process. The Department strives to ensure circulation of clean notes in the market and to maintain trust of the public in the currency through (a) ensuring smooth and equitable distribution of bank notes across the country through NBP chests/sub-chests as well as some commercial banks; (b) ensuring circulation of clean notes in the market as part of implementation of SBP's Clean Note Policy; and (c) reviewing/rationalizing the working procedures and upgrading the same keeping in view the innovative international practices across the world.

Besides ensuring uninterrupted supply of good quality currency notes to stakeholders, CMD, in close coordination of the concerned department of the State Bank of Pakistan, also makes efforts to combat note counterfeiting in collaboration with Law Enforcement Agencies. The Department is in the process of upgrading its capacity to check counterfeiting through use of better equipments and establishing of a forensic lab. In addition, it also works in collaboration with the Finance Department of SBP for identifying measures to improve security features in the currency notes.

The Department also arranges public awareness programs round the year with the help of different Field Offices of SBP-BSC for stakeholders from commercial banks, educational institution, general public and key Government institutions involved in currency handling. These programs focus on dissemination of the "security features of bank notes in circulation" and also "awareness regarding SBP's Clean Note Policy". The key purpose of such programs is to help the external stakeholders in combating circulation of counterfeit notes and also ensuring circulation of clean notes in the market.

The Department also provides its feedback to the concerned Department(s) of the State Bank in formulation of policies related to (a) printing of bank notes; and (b) forecasting the demand for fresh notes and coins, based on past consumption trends and expected growth of the economy.

2.2 Circulation of Banknotes

In Pakistan, despite increasing use of plastic money and number of bank accounts, the general public still prefers to make payments in cash, which is one of the main reasons for increase in Currency in Circulation (CIC) in the economy. During the past few years, CIC has increased manifold as is evident from **Table 2.1**.

The annual growth in CIC in FY14 was at 13 percent, which was lower than the growth of 15 percent recorded during FY13. However the CIC, as a percentage of GDP, witnessed a marginal increase of 9.0 percent as compared with 8.9 percent in the previous year.

Table 2.1 Currency in Circulation as Percentage of GDP

Years	Nominal GDP (MP) (Billion Rs.)	CIC (Billion Rs.)	CIC as % of GDP	Percentage (%) Change in CIC over Previous Year	Percentage change in CIC since base year (2009)
FY09	13,199.71	1,223.72	9.3	17	0
FY10	14,867.00	1,377.40	9.3	13	13
FY11	18,284.87	1,600.00	8.8	16	31
FY12	20,090.86	1,777.12	8.8	11	45
FY13	22,909.08	2,042.55	8.9	15	67
FY14	25,401.90	2,309.24	9.0	13	89

The data shows that the CIC recorded a substantial growth from Rs. 1,223 billion during FY09 to Rs. 2, 309 billion in FY14, during the last five years showing a considerable increase of 89 percent.

2.3 Issuance of Fresh Notes

To ensure adequate and uninterrupted availability of good quality bank notes in circulation, CMD supplies fresh notes in the market round the year, through the Field Offices of SBP-BSC **(Table 2.2)**.

Table 2.2: Issuance of Fresh Bank Notes

Number of Pieces in million
(Figures rounded off to nearest decimal)

Year	Denomination (Rs.)							
	10	20	50	100	500	1000	5000	Value (in millions)
FY14	990	251	206	280	182	259	17	489,997
FY13	608	206	172	600	214	303	-	519800
FY12	755	194	125	244	183	310	-	443601

2.3.1 Distribution of Fresh Notes to Public through Commercial Banks on the Occasion of Eid-ul-Fitr

SBP-BSC makes special arrangements every year for the distribution of fresh notes on the occasion of Eid-ul-Fitr to meet the unusual demand, especially for small-denomination notes. Accordingly fresh notes, amounting to Rs. 138 billion were issued on the occasion of Eid-ul-Fitr in FY14 as against Rs. 114.2 billion issued during the corresponding period last year, a 20.8 percent increase in terms of value and 69.8 percent increase in terms of number of pieces **(Table 2.3)**.

Table 2.3 Distribution of Fresh Notes to Public on the Occasion of Eid-ul-Fitr Pieces in million, Value in billion Rs. (Figures rounded off to nearest decimal)										
		Denomination								
		Rs.10/-	Rs.20/-	Rs.50/-	Rs.100/-	Rs.500	RS.1000/-	Rs.5000/-	Total Pieces	Total Value
Ramadan 2014	Total	642	152	129	152	44	74	2	1,194	138
Ramadan 2013	Counters	62	19	8	7	3	6	0	27	13.4
	Govt. Payment	7	2	2	3	1	3	3	18	4.0
	Banks	281	76	47	66	50	59	1	580	100.6
	Total	350	97	57	76	54	68	1	703	114.2

2.4 Mechanization of Currency Management Operations

Currency Management is a complex process and involves activities related to printing, distribution, lifting of unfit notes from the markets and their destruction. Keeping in view the predominantly cash-based nature of the economy of Pakistan and consequent excessive demand pressure for fresh notes, the Bank has extensively invested in the procurement of new and up-graded Cash Handling equipments having counting, bundling, packeting, sorting and destruction features. However, these efforts are still short of international best practices. Therefore CMD is currently in the process of planning for the procurement of high-speed bank note processing solutions to gradually replace manual processing of the bank notes. These machines, when put into operation, will help CMD in adopting the new technology besides implementing the said technology, which would greatly enhance the internal controls in the area of sorting, counterfeit detection, online shredding, packeting, bundling, etc. with little or no human involvement.

2.5 Highlights of Currency Management during FY14

2.5.1 Revision in Existing Instructions

- Issuance of Master Circular in the area of Prize Bonds, to facilitate implementation of the scheme; and
- Updation of Issue Department Manual to facilitate cash management by the Field Offices.

CMD is working in collaboration with Information Systems & Technology Department (ISTD) of SBP and Information & Technology Department (IT) of National Bank of Pakistan (NBP) on the development of an online interface, i.e. Data Acquisition Portal (DAP-4) for currency chests to submit online chest reports. The pilot design of the Data Acquisition Portal has been completed, and the same is being tested at one Issue Office. Once finalized for all four Issue Offices, it will make monitoring of chest operations of the NBP more prompt and efficient.

2.6 National Prize Bonds

This is a bearer type security available in the denominations of Rs. 100, Rs. 200, Rs. 750, Rs. 1,500, Rs. 7,500, Rs. 15,000, Rs. 25,000 and Rs. 40,000. At present, the sale of National Prize Bonds (all eight denominations) is carried out through 16 Field Offices of

SBP-BSC (Bank), authorized branches of scheduled banks and National Savings Centers of Central Directorate of National Savings (CDNS). Prize draws are held on quarterly basis at nine SBP-BSC Field Offices, as per schedule announced by CDNS every year.

The total number of first prizes paid on various denominations of prize bonds increased from 711 in FY13 to 788 during FY14, showing a rise of 11 percent. Similarly, the total number of second and third prizes paid on various denominations increased by 13 and 19 percent, respectively, in the same period.

The Field Offices of SBP-BSC settled 1,743,240 cases of prize money payment during FY14 as compared with 1,558,778 cases during FY13, showing an increase of 11.8 percent.

The aggregate value of sale of National Prize Bonds of all denominations stood at Rs. 155.0 billion during FY14, as compared with Rs. 162.2 billion in FY13, depicting a decline of 4.4 percent **(Table 2.4)**. The total encashment of prize bonds amounted to Rs. 98.8 billion during FY14 as compared with Rs. 105.9 billion in the previous year, indicating a decline of 6.6 percent. This decline in encashment indicates that people are investing more in purchase of bonds and considering it as a secure saving instrument.

An increase of 16.9 percent has been observed in the value of prize bonds issued by SBP-BSC that increased from Rs. 332.5 billion in FY13 to Rs. 388.7 billion during FY14. This rise indicates the increasing popularity of prize bonds among the general public and their trust in its management by BSC **(Table 2.4)**.

SBP-BSC Field Offices paid prizes amounting to Rs. 32.8 billion during FY14, as compared with payment of prize money equaling Rs. 27.5 billion in FY13, which was 19 percent higher than the prize money amount paid during the previous year. **Table 2.4** below gives denomination-wise details of prize bonds' sale, encashment, and prize money paid during FY13 and FY14.

Table 2.4: Total Sale & Encashment of National Prize Bonds at Field Offices of BSC

(Rupees in millions)

Sr	Denom	FY 13				FY 14			
		Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC held by public	Sale	Encashment	Prize Money Payment	Value of Prize Bonds issued by SBP BSC held by public
1	100	4,701.44	348.27	105.96	4,353.17	2267.14	604.84	381.09	1662.30
2	200	6,082.62	4,684.17	1,709.12	20,195.08	5380.91	4411.10	1708.35	970.57
3	750	14,946.45	9,210.86	4,464.02	49,942.27	14543.80	9855.79	4529.37	4688.01
4	1,500	17,527.54	10,857.85	4,983.70	56,016.72	18137.77	11627.02	5077.26	6510.74
5	7,500	18,799.64	13,464.50	4,145.24	48,125.54	17659.16	13372.37	4503.00	4286.78
6	15,000	31,128.65	22,326.09	6,252.14	70,664.93	32940.83	23994.92	6407.11	8945.91
7	25,000	26,556.78	14,095.25	2,805.50	40,312.35	25448.88	14273.75	3956.17	11175.13
8	40,000	35,258.64	23,839.36	8,339.10	99,125.56	45225.92	26416.96	9308.40	18808.96
Total		**155,001.76**	**98,826.35**	**32,804.78**	**388,735.62**	**161604.39**	**104556.75**	**35870.75**	**57048.40**

2.7 Automation/Other Achievements in respect of National Prize Bonds

- A new on-line system has been developed in Globus for confirmation of PB-18 from Public Debt Offices (PDO) for all individual prizes exceeding Rs. 18,500. Manual processing of PB-27 has been discontinued for all prizes, and the same is now done using online information available in Globus at the time of settlement of Payment Order.
- Development of a mechanism in Globus for destruction/disposal of higher-denomination National Prize Bonds (Rs.7,500, 15,000, 25,000 & 40,000) to enable the Offices to destroy bonds themselves instead of sending the same to their concerned PDOs.

2.7.1 Special Saving Certificates

Special Saving Certificates (SSC) Scheme, introduced in 1990 by CDNS, provides an avenue to the middle- and lower-income groups, households and small investors to invest their savings in a secure investment guaranteed by the Government with steady income. These certificates are available in multiple denominations of Rs. 500, Rs. 1,000, Rs. 5,000, Rs. 50,000, Rs. 100,000, Rs. 500,000 and Rs. 1,000,000, with a maturity period of three years and six profit coupon leaves, each payable after the end of six months. At present, the profit on the first five coupons is paid at the rate of 11.4 percent per annum, while it is 12.00 percent on the last coupon.

During FY14, 19,913 requests for purchase of these certificates valuing Rs. 32.7 billion were settled by the Field Offices of SBP-BSC as compared with 11,751 cases for Rs. 24.3 billion during the previous year, showing an increase of 3.46 percent.

2.7.2 Defence Saving Certificates

Defence Saving Certificates (DSC) Scheme is a long-term investment scheme, introduced in 1966 with a tenor of up to 10 years. These certificates are available in multiple denominations of Rs. 500, Rs. 1,000, Rs. 5,000, Rs. 10,000, Rs. 50,000, Rs. 100,000, Rs. 500,000 and Rs. 1,000,000.

During FY14, SBP-BSC Field Offices settled 47,766 requests for purchase of DSCs valuing to Rs. 5.3 billion as compared with 5,741 requests for around Rs. 23.4 billion during FY13, showing a three-fold increase in the pieces sold **(Table 2.5)**. The main factor contributing to this significant rise in the value of sale of DSCs is that institutions have been allowed to invest individual funds (such as pension, gratuity, superannuation, contributory provident funds and trusts, etc.) in such certificates according to the instructions issued vide the Federal Government's Notification No. F.21 (I)GS-1/2011-876 dated June 27, 2012.

The combined sale of SSCs and DSCs for FY14 has increased by 36 percent as compared with FY13. In the previous fiscal year, the major chunk of the total sales of Rs. 47.6 billion pertained to SSCs whereas in FY14 both SSCs and DSCs almost equally accounted for the increase in the total sale of Rs. 38 billion.

Table 2.5.Number of DSC Cases handled by SBPBSC Field Offices									
Office	**FY 12**			**FY 13**			**FY 14**		
	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment	Sale	Encashment	Profit Payment
Bahawalpur	1	16	18	3	21	21	0	6	6
Faisalabad	556	1713	1710	261	932	932	315	651	651
Hyderabad	152	406	406	181	285	285	80	473	228
Islamabad	84	296	296	91	296	290	122	173	230
Karachi	4892	6744	6744	3,361	5,942	5,705	4,061	6,391	5,888
Lahore	957	2013	2013	583	2,143	2,143	508	1,895	1,895
Multan	0	94	94	0	26	26	0	2	2
Muzaffarabad	11	9	8	18	17	17	8	20	20
NNB	633	469	469	532	1,092	1092	2366	1,585	1585
Peshawar	14	242	242	100	237	237	24	95	95
Quetta	124	451	451	109	305	305	44	418	418
Rawalpindi	382	1191	1420	356	1,025	1,303	304	697	1,177
Sialkot	35	66	66	87	230	230	72	98	98
Sukkur	57	129	125	58	135	123	36	60	60
Gujranwala	0	0	0	0	0	0	0	0	0
D.I Khan	0	0	0	1	2	2	0	1	1
Total:	7898	13839	14062	**5,741**	**12,688**	**12,711**	**47,766**	**66,127**	**107,052**

3 Development Finance Support Services

The Development Finance Support Department at SBP Banking Services Corporation has been set up to augment the efforts of State Bank of Pakistan in pursuing an important strategic objective i.e. development of an inclusive financial system in the country that could cater to the financial services needs of all segments of the economy.

3.1 Overview

The Development Finance Support Department (DFSD) in SBP Banking Services Corporation (BSC) plays an important role in complementing the role of the Development Finance Group (DFG) of the State Bank of Pakistan in promoting, disseminating, monitoring and implementing various SBP's policies, initiatives and schemes through different activities discussed in the following paragraphs.

3.2 Performance Review

Under the Agricultural Lending Diversification Project 2013 (ALDP), efforts for channelizing credit to the underserved agri intensive areas of the country on a fast-track basis continued during the year under review. DFSD collaborated in this pilot project through various monitoring initiatives, focus group meetings and around 40 in-house meetings and on-site visits. As many as 1,582 Farmers Financial Literacy and Awareness Programs (FFLP) on Agricultural Financing were arranged in collaboration with the commercial banks during the period from July, 2013 to March, 2014.

During FY14, a total of 65 Focus Group meetings were held to disseminate SBP initiatives and policies in the realm of development finance, out of which 18 pertained to Agri-finance, 13 to Micro-finance, 16 to SME finance, 14 to Islamic Banking and 4 joint sessions.

The creation of awareness of SBP policies aiming at financial and business development services among the target groups is always a major challenge for the SBP and DFSD. 112 programs were arranged by the Field Offices in collaboration with DFG-SBP, commercial banks and other stakeholders of the respective regions. These programs included 43 awareness sessions, two conferences/exhibitions, 23 seminars and workshops, and 44 capacity-building programs, of which 35 were training sessions for the credit/lending officers of commercial banks & financial institutions, while nine were for other stakeholders including seven joint sessions (two for SBP-BSC Officers and one for the chamber & traders of Sahiwal region). Moreover, special focus was given on establishing linkages with academia and research institutes to introduce and orient them to the emerging financial market in the country. Towards this end, internship programs were arranged at 10 BSC offices, besides 11 on-site visits and meetings with faculty members of educational institutions. Further, eight in-house meetings at Field Offices were held and 18 on-site visits to the offices of the representatives of Government functionaries and other stakeholders at different regions were also made.

3.3 Developmental Initiatives

A project for compiling regional profiles of selected districts, in collaboration with Field Offices, to facilitate DFG-SBP and DFSD was initiated. This was aimed at improving the mechanism of regional development finance, taking appropriate initiatives for uplifting the socio-economic profile of a particular area, and devising adequate strategies for addressing specific development finance-related issues. Accordingly, regional profiles of Larkana, Bahawalpur and D.I. Khan Districts were completed. Moreover, a Development Finance Compendium has also been developed as a tool for quick reference for Chief Managers and other SBP-BSC officials. Going forward, DFSD has planned to conduct a series of seminars/workshops on 'Promoting Financial Literacy among Women' & 'Innovative Financial Inclusion through Branchless and Agents Banking' in collaboration with its field units, regional banks and other stakeholders.

3.4 Operational Management of Export Finance & other Refinancing Schemes

SBP has introduced various credit schemes for priority sectors aimed at boosting foreign exchange earnings and promoting investment in export-oriented industries which include; Export Finance Scheme (Part I&II), Islamic Export Refinance Scheme, Long Term Financing Facility for Service Sector, Export Finance Mark-up Rate Facility, etc. DFSD at SBP-BSC has been entrusted the responsibility to monitor and implement all such schemes in coordination with field units.

The prime responsibility of the field units is to provide refinance facility to commercial banks/DFIs and ensure timely recovery of principal and mark-up amounts. Besides, BSC verification teams are responsible to examine the EFS/IERS cases with all requisite documents at the dealing branches of commercial banks, to discipline banks in preventing mis-utilization of funds and ensuring adherence to provisions of schemes in letter and spirit. Based on the reports of verification teams of Field Offices, a consolidated position is forwarded by DFSD to the concerned department(s) of SBP for further action at their end.

During FY14, a total of 97,234 cases relating to grant, repayment and remuneration (share of profit) were processed under EFS (Part I &II), IERS & LTFF, while 838 cases amounting to Rs.1,360.8 million, under Export Finance Mark-Up Rate Facility of 2.5 percent to the exporters of Textile Industry, were handled. The verification teams of BSC Offices visited 272 bank branches across the country during FY14 and examined 8,328 cases under EFS Part-I. Penalties against various lapses worth Rs.19.6 million were imposed. Similarly, the teams examined 4,895 cases and recovered penalties amounting to Rs.49.0 million on account of various irregularities detected under EFS Part-II during the period under review. Moreover, 1,182 cases of IERS were also verified by the team members and fine amounting to Rs.0.280 million was recovered during the reporting period.

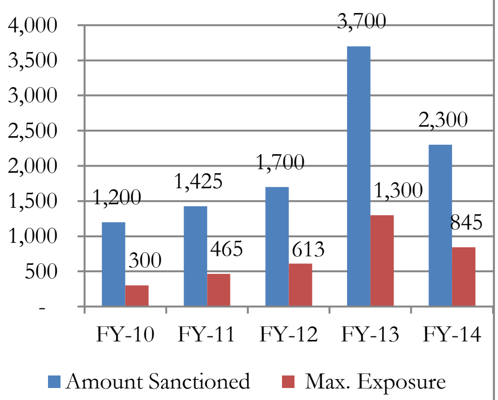
3.5 Implementation of SBP's Credit Guarantee Schemes

3.5.1. Microfinance Credit Guarantee Facility

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

The year-wise utilization of Microfinance Credit Guarantee Facility (MCGF) has shown an increasing trend till 2013. However, the guarantees issued declined in FY14, mainly because previous funding was for the longer term tenor and a transitional plan was being chalked out for MCGF **(Figure 3.1)**.

Fig. 3.1. Year Wise Trend of MCGF Utilization



3.5.2. Credit Guarantee Scheme for Small & Rural Enterprises

During the year, PFIs' guarantee requests amounting to Rs. 597.7 for lending to 2,563 Small Enterprises (SEs) and Agri borrowers were processed by DFSD against the sanctioned amount of Rs. 1,494.4 million. Further, around 10,000 borrowers have been served so far.

3.5.3. Mark up Subsidy & Guarantee Facility for Rice Husking Mills in Sindh

SBP launched "Mark up Subsidy & Guarantee (MS&G) Facility for Rice Husking Mills in Sindh" vide its Circular No. 06 of 2013 dated March 12, 2013 with a view to modernize and upgrade rice husking mills of Sindh. DFSD has been entrusted with the responsibility to supervise operational implementation of the subject scheme. The facility comprises of two components, i.e. Mark-up Subsidy, and Partial Guarantee incentive. Under the provisions of the scheme, out of a total mark-up of 9.00 percent, interest subsidy to the extent of 6.25 percent will be provided and the borrower will be charged markup at the rate of 2.75 percent only. The facility is also meant to provide partial guarantee facility up to 30 percent against outstanding loans under the scheme, if classified as Loss. During the year, only one guarantee cover of Rs. 3.0 million has been provided by DFSD against a sanctioned loan of Rs. 10.0 million.

4 Foreign Exchange Operations

The Foreign Exchange Operations Department acts as an operational arm of the Exchange Policy Department of SBP, and besides processing the requests from commercial banks for commercial remittances and release of payments under different incentives announced by the Governments, it also facilitates operations of Part-II of the SBP's Export Finance Scheme. Prosecution of defaulter exporters, who fail to repatriate foreign exchange within the stipulated time frame, is a core function of FEOD which ultimately provides input to Foreign Exchange Adjudication Department to prosecute and impose penalty, if needed, under the related Para of FER Act, 1947.

4.1 Overview

Being an operational arm of Exchange Policy Department (EPD) of SBP, Foreign Exchange Operations Department (FEOD) is mainly responsible for monitoring and repatriation of export proceeds, granting approvals for commercial, private and Government foreign exchange remittances, processing of applications under various Subsidy Schemes introduced by the Government for exporters, etc. and collection & analysis of various returns/data on foreign exchange-related transactions. FEOD operates under the ambit of Foreign Exchange Regulations Act 1947, Foreign Exchange Manual 2002 and various instructions/circulars issued by the Exchange Policy Department (EPD). The organizational setup comprises of FEOD located at SBP-BSC Head Office, Karachi and FEO Units at different Field Offices of the Corporation.

4.2 Performance Review

Amongst its various activities, the main emphasis of FEOD has been on repatriation of stuck-up export proceeds as export earnings are a vital contributor in our Foreign Exchange reserves. The strategy adopted for this includes proactive monitoring of overdue export cases on priority, follow-up of fresh cases due to better chances of repatriation, sensitization and close liaison with the banks to impress upon exporters for repatriation of overdue proceeds, preference of recent overdue cases for filing cases in Adjudication Courts, etc. Administratively, efforts are being made to build organizational capacity in the FEO function at Head Office and Field Offices through technical trainings, enhanced coordination between Head Office and Field Offices and increased utilization of automation modules. Contacts have also been made with Customs Authorities and other stakeholders for better coordination and exchange of information on export and import activities related to FEOD/EPD. Brief highlights of FEOD performance in FY14 are given in **Box 4.1**.

Box 4.1 Highlights

1. Number of export overdue cases reduced to 5,165 till May 2014 from 10,643 as of July 2013.
2. In terms of value, export overdue as of May 2014 decreased to equivalent of US$ 214 million as compared to US$ 539 million in the beginning of FY14.
3. About Rs. 1.93 billion were paid on account of Drawback of Local Taxes and Levies against around 20,000 claims.
4. Permission for export of raw cotton was allowed to 1,663 applicants in FY14.
5. Around 491,000 entries of EE/EF statements submitted by exporters were verified for the purpose of Export Refinance Scheme.
6. Cases relating to approvals sought by the commercial banks i.e. authorized dealers (ADs) for matters not covered by existing instructions numbered 7,385 during FY14 as against 7,216 in FY13.

5 Foreign Exchange Adjudication

Foreign Exchange Adjudication Department, set up under Section 23B of the Foreign Exchange Regulations Act 1947, runs nine courts countrywide and is the only legal forum available to SBP & SBP-BSC for adjudicating cases of delinquent exporters having failed to realize export proceeds. It also adjudicates complaints against Authorized Dealers for non-compliance of Foreign Exchange Regulation Act (FERA) & SBP instructions. The Department imposes penalties in case of violation of prevalent laws/regulations as per the procedure laid down in FERA & Adjudication Proceedings & Appeal Rules, 1988.

5.1 Overview

Foreign Exchange Adjudication Department (FEAD) at SBP-BSC adjudicates the complaints received from Foreign Exchange Operations Department (FEOD) against the delinquent exporters for non-realization of foreign exchange and ensures timely inflow of exports receipts. In case of non-compliance, exporters as well as Authorized Dealers (commercial banks) are penalized under the powers vested with the Adjudicating Officers under Section 23B of Foreign Exchange Regulations Act (FERA) 1947 after due process.

Box 5.1 Highlights

- While FEAD has managed realization of US$ 346 million by the delinquent exporters since its inception, it has achieved the following milestones in FY14:
  - Stuck-up export proceeds equivalent to US$ 49.4 million were realized through the Department.
  - A total of 6,521 complaints of delinquent exporters on a country-wide basis were taken up during the year, out of which 2,099 complaints were disposed of.

5.2 Achievements during FY14

The FEA Courts managed to arrange repatriation of sizeable amounts of otherwise stuck-up foreign exchange proceeds in recent years. During FY14, stuck-up export proceeds equivalent to US$ 49.4 million were realized **(Table 5.2)**.

The FEAD, through its Adjudicating Officers in nine Adjudicating Courts of the country, heard and processed 6,521 complaints against the delinquent exporters in the year under review as compared to 5,957 complaints in the preceding year FY13.

Table 5.1 Decision on Complaints

Adjudication Courts	Number of cases		% Change
	FY13	FY14	
Karachi	512	1057	106.4
Lahore	773	546	-29.4
Faisalabad	137	250	82.5
Multan	33	39	18.2
Sialkot	222	207	-6.7
Total	**1,677**	**2,099**	**25.1**

Table 5.2 Realization of export proceeds (US $)

Adjudication Courts	Export Proceeds Realized in Million US$		% Change
	FY13	FY14	
Karachi	31.7	31.2	-1.6
Lahore	8.4	12.0	42.0
Faisalabad	6.0	4.1	-30.5
Multan	0.6	0.7	4.5
Sialkot	2.7	1.4	-46.3
Total	**49.4**	**49.4**	**0.0**

Box 5.2 Recovery Cell

FEA Department also has a Recovery Cell to pursue the Revenue Authorities/Government Departments in order to recover penalty from defaulting exporters. As a result of consistent efforts by FEAD, these authorities have collected Rs.27.2 million out of the total penalty of Rs. 32.7 billion imposed by the FEA Courts on defaulting exporters since inception. An amount of Rs. 98.2 million was waived by the superior courts, and as such an amount of Rs. 32.6 billion is still to be collected by the Revenue Authorities of respective Provincial Governments and District Officers. The Recovery Cell continuously pursues the respective Revenue Authorities for the purpose.

5.3 Strengthening of Due Diligence Process by Authorized Dealers (Banks)

State Bank of Pakistan has extended Authorized Dealers' licenses to the commercial banks in the country in order to deal in foreign exchange. An Authorized Dealer is required to comply with such general or special instructions which the State Bank may give from time to time and may not engage in any transaction involving foreign exchange which is not in conformity with the terms of its authorization.

However, in a number of cases, ADs violate FERA 1947 which causes delays in initiation of legal proceedings against defaulting exporters. FEOD, therefore, lodged a number of complaints against ADs for non-submission of documents required for completion of pre-Adjudication formalities. It has been observed that the Authorized Dealers, at the time of certification of E-forms in some cases do not comply with the instructions communicated to them by SBP, which later on make it easy for the exporters to remain non-compliant to the requirements of FERA 1947. It was further noted that ADs in many cases do not carry out due diligence/risk management at the time of Form-E certification such as verifying credentials of the importer/foreign buyer and also do not obtain undertaking from the exporter on export of goods against DA/TR basis.

Besides, in a large number of overdue bills reported by the ADs in V-16 over "EORS" where shipments are made on D.P (documents against payment) or C.A.D (cash against documents), banks assume no responsibility to take up the matter with the foreign banks as to why they released the original 'Title Documents' to the importer without obtaining payment of the goods.

6 Human Resource Management

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

6.1 Overview

Personnel Management Department (PMD)[1] continued to advance its strategic contribution towards attainment of organizational objectives during 2013-14. In this regard, various important initiatives were taken in order to further strengthen the human capital-base and its effective utilization on an organization-wide level. The prime emphasis remained on (i) rationalization of workforce; (ii) talent resourcing; (iii) HR policy review; and (iv) implementation of a performance-driven culture.

6.2 HR Profile

The grade-wise comparison of head-count for FY13 and FY14 **(Table 6.1)** shows that the working strength of BSC has reduced by 483 employees, i.e. from 3,589 to 3,106 or 13.5 percent. The Bank's futuristic HR requirements would entail high caliber, cost-effective and technology-savvy professionals to be inducted in appropriate numbers and at suitable intervals. Additionally, the major interventions would focus on targeted trainings, leadership development, and credible succession planning arrangements, robust PMS, technology up-gradation and outsourcing of selected non-core activities.

Table 6.1: SBP-BSC Working Strength

Grade	No. of Employees	
	FY13	FY14
OG-6	3	2
OG-5	19	17
OG-4	68	61
OG-3	178	158
OG-2	1,027	864
OG-1	1,188	1,004
Below OG-1	1,106	1,000
Total	**3,589**	**3,106**

6.3 Talent Resourcing

PMD pursued a merit-based talent management policy, under which several recruitment drives were initiated to resource the Bank with qualified candidates, both at entry and mid-level positions. A brief on the recruitment drives in the year under review is given in **Box 6.1**.

[1] Renamed as "Human Resource Management Department (HRMD)" in terms of Circular No. PMD/(ODD-112)/41/2014 dated October 2, 2014.

Box 6.1 Brief on Recruitment Drives FY14

1. Young Professionals Induction Program (YPIP) – 3rd Batch

A batch of 60 candidates has been selected under YPIP for appointment as OG-2 officers in the SBP-BSC. The candidates are currently undergoing a 12-week extensive training program at NIBAF, Islamabad.

2. Junior Officers (OG-1) – 2nd Batch

To fill in the gap of human resources prevalent in the cash management and banking services, particularly at the Field Offices, 60 candidates have been selected as Junior Officers. The candidates are set to undergo training of up to eight weeks at NIBAF, Islamabad.

3. Hiring of Engineers

In order to meet skill gap in the Engineering Department, two recruitment drives for hiring of engineers were initiated under which three Executive Engineers and 14 Assistant Executive Engineers (on contract) have been selected. The induction of these engineers is aimed at capacity building of the engineering function and to augment the restructuring of the Department.

4. Hiring of Doctors

The recruitment drive for hiring of contractual doctors for the Bank's dispensaries across the country was initiated. The selection process in this regard has been completed and the successful candidates are expected to join the Bank shortly.

5. Hiring of contractual Security Officers and Security Guards

In order to further strengthen the security function in the Bank, PMD initiated two drives for hiring of ex-servicemen as Security Officers and Security Guards on contract basis. Accordingly, 70 Security Guards have so far joined the Bank while hiring of 10 Security Officers is expected to be completed shortly.

6. Specialized Professionals

To strengthen the Procurement and Industrial Relations areas, a drive for hiring of experienced professionals at OG-4 level was initiated. After a competitive process, three professionals have been inducted in the Bank.

6.4 Policy Review & Development

6.4.1 Revision in Compensation and Benefits Structure of BSC Officers

Based on the compensation policy of the Bank, a salary survey was conducted through an external consultant in order to align the officers' compensation structure with that of the market. In this regard, surveys were conducted for two separate categories of officers i.e. i) officers under the Old Monetized Salary structure (OMS); and ii) officers under the New Contributory Provident Fund (NCPF) & New Gratuity Fund (NGF) schemes. Based on the survey results, the salary increase was announced for the officers. Further, benefits to OG-4 and above officers were also enhanced, including car allowance, mobile phone cost/charges, driver salary, and fuel allowance. The salaries of contractual staff like Security Officers, Doctors, and Security Guards were also revised keeping in view their performance with certain inflationary adjustment.

6.4.2 Increase in Pension/Minimum Pension to the Bank's Pensioners

Keeping in view the increase in cost of living, an across the board 13 percent increase in pension has been allowed to the pensioners/family pensioners for employees retired/expired up to June 30, 2013. Moreover, the limit of minimum pension/family pension has been enhanced from Rs. 6,000 to Rs. 8,000 per month.

6.4.3 Charter of Demand Agreement 2013

As a result of signing of Charter of Demand with CBA, the salary and benefits of clerical/non-clerical employees were increased. In addition to 13 percent salary increase, a number of enhanced benefits were extended like limit of overtime allowance, conveyance allowance, benevolent fund grant, severe winter allowance, hardship allowance, uniform payment, reimbursement of education expenses, medical facility, and cash award on improvement of academic qualification.

6.4.4 Annual Merit Increase (AMI) Budget

In line with the objective to develop Pay-for-Performance Culture, the AMI budget for officers was increased to 11 percent of the salary budget. This would further incentivize and motivate the top performers towards delivery of desired results and add value to the organization's functioning.

6.4.5 Revision of HR Policies

As a part of organizational development initiatives, various HR policies were reviewed like revision in travelling & transportation facility, grant of personal loan, HBA installments for construction purposes, merit scholarship scheme, rate of incidental allowance during training at NIBAF, etc.

6.5 Improvements in the Performance Management System

In order to reinforce the performance-driven culture, the following initiatives were taken during the year:

a. The PMS Bell-Curve quota for officers was further improved and made applicable on the population size of a group of 15 or below with the ratio of 40:60 (A & B+ = 40% and B, C & D = 60%). Accordingly, the Bell-Curve quota distribution for the performance year 2013-14 was determined as under:

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

b. In order to strengthen the performance feedback mechanism, a mandatory performance feedback process was initiated under which all officers were to be provided formal feedback on their performance during the performance year. Other changes relating to PMS were introduced to streamline the system and remove certain incongruities at the implementation level.

7 Internal Audit and Control

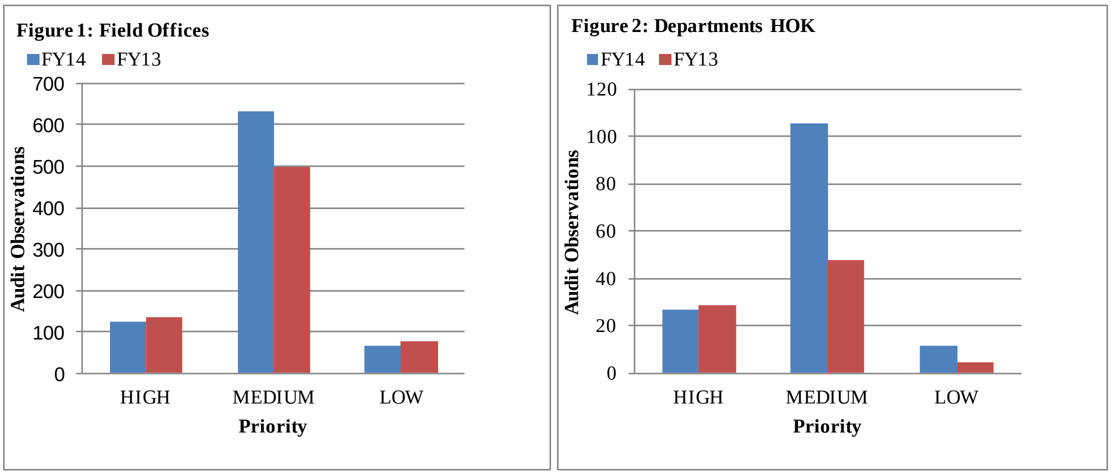
Internal Auditing helps an organization's executive management, board and other stakeholders to achieve their business objectives. This might be a lot to ask from one organizational resource, but for Internal Auditors — it's all in a day's work.

7.1 Overview

The role of Internal Auditing in SBP-BSC is to examine and evaluate whether the BSC's framework of risk management, internal controls, and governance processes, is adequate and functioning properly. In addition, the objectives of the Internal Audit Department include advising and making recommendations to the senior management regarding strengthening of internal controls and risk management frameworks and practices. With the expansion of its role consequent to the revised Audit Charter, the Internal Audit Department (IAD) has been able to propose and bring improvements in operations by evaluating and indicating exposure to risks in operational areas as well.

7.2 Achievements

In the year under review, IAD carried out annual audits of 16 Field Offices and eight Departments of HOK. Further, 63 short audit engagements were performed by Audit Hubs located at Karachi and Lahore. In total, 823 audit observations were made in Field Offices, while these observations numbered 140 in HOK during FY14, compared to 82 in HOK and 713 in Field Offices during FY13 **(Figures 1 &2)**.



Further, IAD carried out some special audits during the year. These special assignments pertained to operations of FEOD (Foreign Exchange Operations Department), FEAD

(Foreign Exchange Adjudication Department), and assessment of security-related matters pertaining to IBSD (Internal Bank Security Department). On the basis of observations made during these special audits, IAD recommended various internal control measures and thus added value in the operations of SBP-BSC.

7.3 Developmental Initiatives

The IAD planned and proposed the following developmental projects during FY14 and successfully accomplished them:

1. Customization of Auditware for IAD
2. Setting-up and formalizing of Off-site Supervision/Continuous Auditing Mechanism
3. Updating components of Audit Manual
4. Updating IT Audit Manual
5. Framework for audit of management and governance practices

For improving efficiency and reducing redundant workload of the departmental activities, a project was initiated to introduce audit management software to automate the audit working. For this purpose, software "Auditware" developed by IA&CD of SBP has been acquired and customized according to the working of IAD.

Setting-up and formalizing of Off-site Supervision Mechanism project was accomplished during FY14, which would help off-site monitoring of the Offices and Departments through application systems and other MIS systems. This project is aimed at encouraging the stakeholders to streamline their performance while minimizing their exposure to various risks. Initial reports have been generated through this system and disseminated to the concerned officials for taking remedial measures.

A project was launched in FY14 to update the Audit Manual and IT Audit Manual. Various components of the Audit Manual have been updated, such as the Risk Registers, Checklists, Process Studies, and Audit Programs. The updating of IT Audit Manual has also been accomplished while further upgrading will be carried out after upgrading of the IT set-up in SBP-BSC. It is aimed at aiding the auditors to provide assistance during their assignments to reduce oversights and improve efficiency.

A "Framework for Audit of Management and Governance Practices" has been developed by the Department for assessing the effectiveness of management and governance activities in SBP-BSC. The framework has provided a standardized approach suited for governance audit in SBP-BSC.

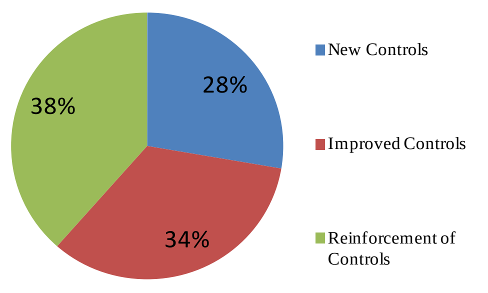
7.4 Risk-based Annual Audits Planning

Before the beginning of FY14, a risk-based annual audit plan was prepared for audit engagements keeping in view the organizational goals and objectives. The plan was devised by incorporating the risk factors from the risk inventory. To achieve the desired results of these audit engagements, the risk inventory was reviewed in consultation with the Field Offices. Accordingly, the prioritization of business operations based on risk ranking was updated. Further, the workload analysis and assessment of internal controls based on last year's audit reports of Field Offices and Departments was used in preparing the plan.

7.5 Impact of Audit Observations

The impact of audit observations from July, 2010 to April, 2014 was assessed on the basis of value-addition to the organization and improvements that were brought in the control environment. As shown in **Figure 3**, approximately combined impact of 62 percent audit observations resulted in new and improved controls, where new control recommendations resulted from almost 28 percent and improved controls resulted from almost 34 percent of audit observations.

Figure 3: Impact of Audit Observations



7.6 Compliance & Enforcement Unit

The audit observations identified during audit engagements are rigorously followed-up by the Review & Enforcement Division. The compliance of audit observations reported in audit reports and briefs of respective Departments or Field Offices are ensured so that adequate response and regularization is done in minimum time period.

During FY14, IAD pursued the compliance status of 959 observations that were reported in audit reports, out of which 147 were significant in nature and highlighted in audit briefs.

The follow-up reports were prepared to apprise the higher management of post-audit compliance and status of unresolved audit observations with timelines of their compliance. Resultantly, most of the observations have been complied and vital instructions were issued by concerned Departments to strengthen the control environment.

7.7 Information Technology Audit

In line with the revised scope of IT Audit, IAD carried out audits of IT Centre Lahore and User Acceptance Test of ERP upgrade this year. The objective of IT Centre audit was to perform an assessment of the control structure within the IT Centre at Lahore as it serves the operations of Offices falling under Lahore's jurisdiction. The objective of UAT audit was to evaluate the adequacy and effectiveness of UAT process.

7.8 Performance of Internal Audit Hubs

The function of the Audit Hub is based on a pre-defined, area-specific scope that needs to be audited on periodic basis. The Audit Hub is divided in two parts; one based in Karachi and the other in Lahore.

During FY14, 56 short and focused audit engagements were conducted by the Audit Hub, which helped in achieving an effective monitoring of internal controls. The scope of the Audit Hub was revised and re-determined in light of activity-based processes carrying high risks and requiring frequent assurance and oversight.

Further, to emphasize the weaknesses in controls that were repeatedly observed during the audit engagements, such observations were highlighted in the audit reports. Such observations were specifying them as “R1” and “R2”, i.e. repeated once and twice during preceding audits, respectively.

7.9 Capacity building of Internal Auditors

Enhancement of auditors’ skill-set and proficiency is one of the key areas of focus at IAD. Training programs, based on priority and requirement, were held continually throughout FY14. IAD personnel participated in over 29 trainings during FY14. The training programs helped diversify the skill-set of the auditors, enabling them to work efficiently in a variety of key areas instead of remaining stagnant in a single position.

8 Strategic and Corporate Planning

Strategic & Corporate Planning Department (SCPD) has replaced the previous Department named Quality Assurance. The newly-created Department has been entrusted with a broader portfolio of responsibilities, which embodies an extended milieu including enhanced quality assurance standards, Board matters, Management Committees, etc.

8.1 Overview

Strategic & Corporate Planning Department (SCPD) has replaced the erstwhile Quality Assurance Department (QAD). The Department's previous purview included the responsibilities of organizing events/meetings at corporate level like Conferences, Meetings of the Heads of Departments (HoDs) Forum and the Chief Managers (CMs) Conference, Joint Sessions of HoDs and CMs Forums as well as ensuring compliance regarding decisions made in these meetings.

Box 8.1 Highlights

- Creation of "Strategic & Corporate Planning Department (SCPD)" in place of QAD
  - Redefined Terms of Reference (TORs)
  - Enhanced role and responsibilities as a repository of information and a facilitator
- Management Committees' Secretariat
  - Management Committees on: Strategy Development; Business Process Re-engineering; Publications; Budget; Lands, Buildings & Projects; Enterprise Risk Management Committee
- Steering Strategic Planning Process at SBP-BSC
- Coordination of the Business Planning Process of SBP-BSC
- Resolution of Systems & Procedures-related Issues
  - Systems & Procedures Division assigned to this Department, to streamline BPR activities under a single domain, removing redundancy and time delays

8.2 Performance Review

8.2.1 Meetings of the HoDs Forum and CMs Conference

The responsibilities of SCPD include convening and organizing important meetings circulating agenda, drafting minutes and assuring compliance of the decisions made at the meetings of HoDs and CMs Forums. During FY14, the Department managed holding of 31 meetings of these Fora, which included regular as well as special meetings **(Table 8.1)**.

Table 8.1 Meetings Managed by SCPD

Sr.No.	Subject	No. of Meetings
1.	Meetings of the Heads of Departments (HoDs) Forum	15
2.	Meetings of the Joint Chief Managers (CMs) and Heads of Departments (HoDs) Forum	4
3.	Meetings of the SBP-BSC Departments (HOK) with the ex-MD (Acting)	12
	Total	**31**

8.2.2 Strategic Planning in SBP-BSC

Formulation of a Strategic Plan, in a structured way, is a relatively recent initiative at SBP-BSC as compared to SBP. The task for the same has also been assigned to SCPD, which has already taken the requisite initial actions in this regard. To start with, the Department has arranged conferences of the Heads of Departments and Chief Managers to sensitize BSC's hierarchy about the Strategic Planning process and the requisite framework used in the development of the same. The Department has also been asked to complete the remaining framework for holding of a strategic conference for the development of a five-year strategy for the Corporation.

8.2.3 Business Planning in SBP-BSC

The other critical role assigned to SCPD is to act as a facilitator for carrying out the Business Planning exercise in SBP-BSC and coordinate the rest of the related activities. The Department helps monitor the progress on various activities and projects approved in the yearly business plans to see that they are on track.

8.2.4 Annual Performance Review

Coordination with internal stakeholders is also the key responsibility of SCPD that helps it in finalization and publication of the Annual Performance Review (APR) of the Corporation. To further streamline the development of APR and its publication, SCPD is developing an appropriate template that will serve as a guide to the APR Contributors. The Department also steers the Management Committee on Publications, which helps in the finalization of the contents of the APR and its design.

8.2.5 Management Committees' Secretariat

As part of the new role assigned to SCPD, the Secretariat of the six Management Committees has also been entrusted to this Department. **Box 8.2** sums up the secretarial role of SCPD.

Box 8.2 Management Committees' Secretariat

SCPD has been assigned with the responsibility of acting as central repository of information pertaining to six Management Committees, as well as to perform all secretarial functions in order to facilitate the smooth and efficient holding of the meetings of the following Management Committees and ensuring follow-up of their decisions:

1. Management Committee on Strategy Development;
2. Management Committee on Business Process Re-engineering;
3. Management Committee on Publications;
4. Management Committee on Budget;
5. Management Committee on Lands, Buildings & Projects; and
6. Enterprise Risk Management Committee.

9 Support Services Management

To ensure that a safe, healthy, and productive work environment continues to prevail in SBP and all its subsidiaries (SBP-BSC and NIBAF), a comprehensive support services structure has been established at SBP-BSC. The structure comprises General Services Department (including Medical Services Division), Engineering Department and Internal Bank Security Department.

9.1 General and Medical Services

General Services Department (GSD) is responsible for providing cost-effective and quality support services to SBP and SBP-BSC. The key areas, besides others, include procurements of IT equipments and services, professional consultancy services, vehicles, office equipment, furniture & fixtures, medicines and printing. GSD is also responsible for providing quality and cost effective health care services to Bank's employees and their eligible dependents through dispensaries located at Head Office, Karachi (HOK) and the Field Offices. These services are being provided by a combination of an in-house facility and by enlisting various quality hospitals, labs and consultants across Pakistan.

GSD, during FY14, has taken a number of initiatives to further improve the quality of support services, covering a wide variety of areas. Some of the area-wise key initiatives taken during FY14 include the following:

9.1.1 Procurement of IT Equipments, Services and Consultancy

During FY14, GSD accomplished 17 procurement projects amounting approximately to Rs. 570.0 million.

Similarly, GSD completed 17 projects relating to services, amounting to approximately Rs. 5.4 million. It procured services of 11 different firms for different Departments of SBP and SBP-BSC, amounting to Rs. 52 million.

9.1.2 Procurement and Maintenance of Office and Staff Vehicles

GSD is responsible for arranging procurement and maintenance of vehicles for SBP and SBP-BSC Offices and officers as per their entitlements. Accordingly, GSD purchased approximately 50 vehicles and ensured timely allocation from the suppliers. GSD has also ensured cost-effective and timely repair and maintenance to its stakeholders through settlement of insurance claims from NIC. GSD has also provided useful guidance and help to the Bank's officers regarding settlement of insurance claims and vehicle registration.

9.1.3 Printing and Publication Services

The Bank's printing press offers a dependable range of relevant functions i.e. designing, printing, finishing and binding of monthly, quarterly, half-yearly and annual publications that include SBP Annual Report (Volume I&II), SBP-BSC Annual Performance Review, Import/Export of Goods and Services, Inflation Monitor, SBP News, Report on the State of Pakistan's Economy, Performance Review of Banking System in Pakistan, etc.

During FY14, GSD printing press received, finished and delivered 656 jobs in comparison with 560 jobs during FY13.

9.1.4 Healthcare and Medical Services

Provision of quality and cost-effective medicines is central to ensure provision of the best healthcare services to the Bank's officers and staff. At present, there are 1892 medicines in the Bank's formulary which is much lower as compared to the number (around 3000) in FY13. It has been planned to further rationalize this number and bring it down to a maximum of 1000 to 1200 by FY15.

Concerted efforts have been made to ensure cost-effective procurement of medicines by minimizing the role of the middle-man by procuring medicines directly from the concerned manufacturers or through their authorized distributors, thereby getting an average discount of up to 25 percent besides ensuring procurement of genuine products. GSD also obtained discounts in the range of 10 to 30 percent from the Bank's panelists (consultants, hospitals and labs).

A total number of 40 doctors are working with the Bank's medical set-up across all Field Offices including HOK. For SBP and SBP-BSC, the total number of stakeholders is 38,902 and on average, every doctor examines around 49 patients per day. To reinforce the existing medical set-up for Karachi, the dispensary at North Nazimabad Office has been expanded, renovated and upgraded. In addition, the number of staff and doctors has been increased to provide full-fledged medical services including reimbursement of medical expenditures.

To enhance technical skills of doctors and staff, a number of sessions have been organized by inviting top-rated consultants, belonging to various areas of specialties, of Karachi. At the same time, various general health awareness programs have been organized on common diseases like hepatitis, diabetes, smoking hazards, etc. In addition, several screening camps were organized to proactively diagnose diseases like hepatitis, diabetes, etc. among the Bank's employees. Similarly, special reviews have been arranged for the patients who have chronic illnesses or have crossed the age of forty years, to ensure that they get the best medical treatment and could work up to their potential with zeal and vigor.

9.2 Engineering Services

During FY14, Engineering Department continued to strive to promote and maintain a good physical working environment with a special focus on further improvement to ensure a comfortable environment, ensuring a stable power supply and enhancement of building aesthetics and infrastructure.

During the period, Engineering Department completed 16 capital budget projects and various revenue budget works related to construction, renovation, refurbishing and improvement in physical infrastructure.

- The up-gradation of central HVAC system at HOK and Lahore Office has been completed and a comfortable environment is being maintained, besides saving cost otherwise being incurred on replacement of split air-conditioners.
- To further enhance the cash holding capacity, the space of existing additional bonded vault is being extended by converting the vault area in the basement of main Lahore Office building, presently used as a store room for stationery and official record room. To improve the working efficiency of the cash dealing staff, 30 counters at the first floor of Lahore Office and 12 cash counters at Faisalabad Office have been remodeled.
- With a view to reduce movement risk of currency in the Office, an Examination Hall at the ground floor of Islamabad Office has been constructed.
- In view of official visits to Multan Office by the Bank's officials from SBP and SBP-BSC, the old dispensary area at the second floor (Annexe Block) of Multan Office has been converted/renovated into six Guest Rooms.
- To improve air-conditioning environment of the entire building, the existing old DFA Central HVAC systems at NIBAF are being replaced/rehabilitated with new electric operated 350TR chiller, cooling tower, internal piping network in plant room, pumps, 12 AHUs, 128 FCUs and electric panel. To improve the academic facilities at NIBAF, the works of auditorium, internal development and refurbishing of the second floor of the Academic Block have been completed as per approved timelines.

9.3 Internal Bank Security

During FY14, the operational priorities of Internal Bank Security Department were devised in line with the overall security environment in the country, by ensuring efficient and effective management of the available security resources. At the same time, efforts were made to maintain close and continuous liaison with various security agencies.

9.3.1 Achievements

IBSD initiated various measures to step-up the security environment. In this regard, some major measures included raising of the height of walls with reinforcement by

Concertina Wire, Construction of Watch Towers, strengthening of security of HOK complex, procurement of weapons and induction of modern equipments. These security measures significantly mitigated the risk of any untoward incident and potentially addressed immediate deficiencies with long-term effects. Other achievements during FY14 include the following:

- To meet the shortfall, ten Security Officers (SOs) at all Field Offices have been inducted. Based on the input from CMs and SOs, the hiring process of 61 guards has been completed.
- A project for strengthening of main entry gates at HOK with Crash-Rated barriers has been undertaken and the Work Order for the project has been issued.
- Purchase Order for explosive detectors has been issued to the vendor and the equipment has since been delivered.
- Six prohibited bore licensed weapons (three G3s and three SMGs) have been procured for HOK in addition to 30 SMGs along with the required quantity of ammunition.
- IBSD conducted emergency evacuation exercises for all employees in SBP, SBP-BSC (HOK) i.e. Main Building, BSC House and LRC. This was followed by security demonstrations and lectures.
- Another significant achievement of IBSD was the management of successful shifting of illegal parking/hoardings from Mumtaz Hassan Road and Boulton Market areas.

10 Training and Skill Development

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

10.1 Overview

The main focus of Training & Development Department during FY14 remained on arranging diversified training programs at both local and international levels.

TDD has also been an instrumental partner in conducting recruitment-driven training programs for newly hired batches (YPIP and JOTP), in coordination with NIBAF. To make these programs more effective and comprehensive, the training curriculum and design of YPIP-3rd batch was upgraded after seeking feedback from functional Departments/Offices and officers of YPIP-1st & 2nd batches.

Box 10.1 Highlights

- New foreign training venues identified.
- Conduct of Promotion-Focused Fast-Track Trainings for OG-1 to OG-4 level officers.
- Revised rates of incidental charges for NIBAF Islamabad and Karachi.
- Conduct of Organization-Wide PMS Appraisal-Focused Workshops.
- Design and conduct of Recruitment-Driven Training/Orientation programs for new hires.
- Expanding outreach of training opportunities at external local institutions.
- Developed a post-training evaluation mechanism.
- Successfully initiated special internship program for underprivileged areas of Balochistan.

One of the major achievements of TDD included extensive efforts to explore and identify world-class foreign training opportunities relevant to the HR/functional profile of SBP-BSC. During FY14, a total of 15 nominations were processed for participation in international seminars/workshops/conferences at Bundes Bank Germany, Bank of Korea, and Czech Republic, etc.

10.2 Training Programs

10.2.1 Specialized training Programs

PMS Appraisal-Focused Workshops for 57 officers (OG-4 and above) were arranged at NIBAF Islamabad and Karachi to provide orientation on the annual appraisal process. TDD also focused on upgrading the IT skills of employees through conducting training programs on MS-Office and MS-Project to cater to PMS-based needs in the South and North regions. A comprehensive TNA mini-survey was conducted to analyze the training needs for MS-Excel (Advanced). Moreover, individual training needs for advanced level were also accommodated by sending officials to external venues where needed.

Programs of a similar nature were also launched at NIBAF Karachi focusing on 'Trade Finance' for officials working in Foreign Exchange Operations Department. A special program on 'Introduction to Legal Framework of Industrial Relations Management' was also arranged in which 26 members of CBA participated.

10.2.2 Leadership/Management Development Programs

To enhance the leadership skills of middle management, 'Leadership Grid Programs' of four-day duration were arranged at NIBAF Islamabad in October, 2013 and May, 2014. Participants included 35 officers (OG-4 and above, including HoDs and CMs). The program comprised of extensive group/individual exercises, case studies, etc.

10.2.3 Mandatory Training Programs

Mandatory training programs for officers of OG-1 to OG-3 levels, eligible for promotion as of June 30, 2013, were designed and conducted at NIBAF Karachi and Islamabad. For the first time, MTP for OG-4 level officers was successfully organized at Serena Hotel, Faisalabad in close coordination with NIBAF and Faisalabad Office. TDD also sent 20 IBSD officials to attend a one-day course on 'Safety and Security, Fire Prevention, Emergency Evacuation and Safety Measures to Counter Kidnapping', organized by Pakistan Navy in Karachi. In addition, five officials from IBSD Islamabad were nominated to attend a two-days 'International Safety and Security Exhibition' held in Islamabad. A two-week residential security training program for newly hired Security Guards (10) was also arranged at Pakistan Naval Academy, Karachi.

10.2.4 Internship Programs

SBP-BSC is fully aware of its corporate social responsibility. In pursuing this objective, this year also TDD invited applications from accredited institutions across the country for a six week summer/winter internship program. Under this initiative, 205 students have been engaged at the 16 Field Offices across the country for the summer internship program and 18 students have already completed the six-week winter internship program held at Quetta Office.

For Balochistan, in addition to the regular Winter Internship Program, TDD proposed a special Summer Internship Program, which was approved by the competent authority, considering the prevalent unemployment and lack of opportunities in the province. Under this program, 16 students were selected and invited to participate from universities located in Quetta, Khuzdar, Turbat and Lasbela.

To enhance the effectiveness of the Internship Program and to bring uniformity in the whole process, TDD has developed an Internship Manual. This document includes all the relevant guidelines required for conducting the program.

Financial Statements of SBP-BSC

Audited Financial Statements of SBP-BSC are presented which comprise the balance sheet as at 30th June 2014, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of SBP Banking Services Corporation ("the Corporation") which comprise the balance sheet as at June 30, 2014, and the profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (here-in-after referred to as the financial statements).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Corporation as at June 30, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Mohammad Mahmood Hussain
Audit Engagement Partner

A. F. Ferguson & Co.
Chartered Accountants
Karachi

Salman Hussain
Audit Engagement Partner

Date: October 30, 2014

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2014

	Note	**2014**	2013	July 1, 2012
		------(Rupees in '000)------		
ASSETS				
Current account with the State Bank of Pakistan		**37,876,846**	25,984,493	22,259,608
Investments	*5*	**569,449**	926,641	937,420
Employee loans	*6*	**10,577,916**	11,024,650	10,971,563
Advances, deposits and prepayments	*7*	**32,283**	35,930	28,018
Medical and stationery consumables	*8*	**125,061**	119,592	117,128
Property and equipment	*9*	**237,867**	197,957	244,704
Total assets		**49,419,422**	38,289,263	34,558,441
LIABILITIES				
Deposits and other liabilities	*10*	**5,900,571**	4,540,140	4,388,078
Deferred liabilities - unfunded staff retirement benefits	*11*	**42,518,851**	32,749,123	29,170,363
Total liabilities		**48,419,422**	37,289,263	33,558,441
Net assets		**1,000,000**	1,000,000	1,000,000
REPRESENTED BY:				
Share capital	*12*	**1,000,000**	1,000,000	1,000,000
CONTINGENCIES AND COMMITMENTS	*13*			

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014	2013
		------(Rupees in '000)------	
Discount and interest earned	14	**48,907**	58,031
Net operating expenses	15	**13,980,071**	12,091,341
Reimbursable from the State Bank of Pakistan		**(7,086,827)**	(6,213,009)
Allocated to the State Bank of Pakistan		**(6,893,244)**	(5,878,332)
		-	-
Operating profit		**48,907**	58,031
Gain / (loss) on disposal of property and equipment		**121**	(776)
Other income		**1,081**	1,911
Profit transferred to the State Bank of Pakistan		**50,109**	59,166

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2014

	Note	**2014**	2013
		------(Rupees in '000)------	
Profit for the year		**50,109**	59,166
Other comprehensive income			
Items that will not be reclassified subsequently to the profit and loss account:			
Remeasurements of defined benefit plan	*15.1.5*	**(12,972,476)**	(4,038,181)
Allocated to the State Bank of Pakistan		**12,972,476**	4,038,181
		-	-
Total comprehensive income for the year		**50,109**	59,166

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

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

SBP BANKING SERVICES CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

	Share capital	Unappropriated profit	Total
	----------------	(Rupees in '000)	----------------
Balance as at July 1, 2012	1,000,000	-	1,000,000
Total comprehensive income for the year	-	59,166	59,166
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(59,166)	(59,166)
Balance as at June 30, 2013	1,000,000	-	1,000,000
Total comprehensive income for the year	-	50,109	50,109
Transaction with the owner			
Profit transferred to the State Bank of Pakistan	-	(50,109)	(50,109)
Balance as at June 30, 2014	**1,000,000**	**-**	**1,000,000**

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

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

SBP BANKING SERVICES CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014	2013
		-------(Rupees in '000)-------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) after adjustment of non-cash items	*16*	**43,585**	40,630
Profit transferred to the State Bank of Pakistan		**(50,109)**	(59,166)
Retirement benefits and employees' compensated absences allocated to the State Bank of Pakistan		**11,329,509**	3,835,855
Depreciation allocated to the State Bank of Pakistan		**88,358**	95,036
Discount income on Government securities received		**34,390**	32,047
		11,445,733	3,944,402
(Increase) / decrease in assets			
Current account with the State Bank of Pakistan		**(11,892,353)**	(3,724,885)
Medical and stationery consumables		**(5,469)**	(2,464)
Employee loans		**446,734**	(53,087)
Advances, deposits and prepayments		**3,647**	(7,912)
Increase / (decrease) in liabilities			
Deposits and other liabilities		**(199,350)**	(105,033)
Net cash generated from operating activities		**(201,058)**	51,021
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments - net		**329,205**	(1,956)
Capital expenditure		**(130,964)**	(52,553)
Proceeds from disposal of property and equipment		**2,817**	3,488
Net cash used in investing activities		**201,058**	(51,021)
Net increase in cash and cash equivalents		**-**	-
Cash and cash equivalents at beginning of the year		**-**	-
Cash and cash equivalents at end of the year		**-**	-

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

Qasim Nawaz
Managing Director

Muhammad Habib Khan
Director Accounts

SBP BANKING SERVICES CORPORATION
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. STATUS AND NATURE OF OPERATIONS

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

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

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

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

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

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

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

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

2. STATEMENT OF COMPLIANCE

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

These financial statements represent the first annual financial statements of the Corporation prepared in accordance with IFRS. The Corporation has adopted IFRS as the reporting framework in accordance with 'IFRS-1 First time Adoption of International Financial Reporting Standards'. The first date at which IFRS was applied was July 1, 2012 (i.e. "Transition date").

The Corporation's financial statements were previously prepared in accordance with the approved accounting standards as adopted by the Board of Directors of the Corporation.

3. BASIS OF MEASUREMENT

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

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

3.3 Use of estimates and judgments

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

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

3.3.1 ***Retirement benefits***

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

3.3.2 ***Useful life and residual value of property and equipment***

Estimates of useful life and residual value of property and equipment are based on the management's best estimate.

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 and recoverable value. Management believes that changes in outcome of estimates will not have a material effect on the financial statements.

3.4 **New and amended standards and interpretations that are not yet effective**

There are certain new and amended standards and interpretations that are mandatory for the Corporation's accounting periods beginning on or after July 1, 2014 but are considered not to be relevant or do not have any material effect on the Corporation's operations and are therefore not detailed in these financial statements.

3.5 **Transition to IFRS**

These financial statements represent the first annual financial statements of the Corporation prepared in accordance with IFRS, as issued by the IASB. The Corporation has adopted IFRS in accordance with 'IFRS-1, First-time adoption of IFRS. The first date at which IFRS was applied is July 1, 2012 (i.e. Transition date). In accordance with IFRS, the Corporation has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented; and
- retrospectively applied all effective IFRS standards as at June 30, 2014, as required.

The reconciliation of the transition to IFRS from previous financial reporting framework (i.e approved accounting standards as adopted by the Board of Directors of the Corporation) on the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flows is given in notes 3.5.1 and 3.5.2 to these financial statements.

3.5.1 **Reconciliation of balance sheet:**

	June 30, 2013				July 1, 2012			
	-------------------(Rupees in '000)-------------------							
	Previous financial reporting framework	Adjustments: IAS - 19 (Note 15.1)	Adjustments: Other adjustment	IFRS	Previous financial reporting framework	Adjustments: IAS - 19 (Note 15.1)	Adjustments: Other adjustment	IFRS
ASSETS								
Current account with the State Bank of Pakistan	8,475,848	17,508,645	-	25,984,493	7,453,254	14,806,354	-	22,259,608
Investments	926,641	-	-	926,641	937,420	-	-	937,420
Employee loans	11,024,650	-	-	11,024,650	10,971,563	-	-	10,971,563
Advances, deposits and prepayments	35,930	-	-	35,930	28,018	-	-	28,018
Medical and stationery consumables	119,592	-	-	119,592	117,128	-	-	117,128
Property and equipment	197,957	-	-	197,957	244,704	-	-	244,704
Total assets	20,780,618	17,508,645	-	38,289,263	19,752,087	14,806,354	-	34,558,441
LIABILITIES								
Deposits and other liabilities	4,540,140	-	-	4,540,140	4,388,078	-	-	4,388,078
Deferred liabilities - unfunded staff retirement benefits	15,240,478	17,508,645	-	32,749,123	14,364,009	14,806,354	-	29,170,363
	19,780,618	17,508,645	-	37,289,263	18,752,087	14,806,354	-	33,558,441
Net assets	1,000,000	-	-	1,000,000	1,000,000	-	-	1,000,000
REPRESENTED BY:								
Share capital	1,000,000	-	-	1,000,000	1,000,000	-	-	1,000,000

3.5.2 Change in Accounting Policy

3.5.2.1 Employee future benefits

Under the previous financial reporting framework, the Corporation was also using IAS 19 for accounting of its employee benefits. This IAS has been revised and the revised standard became applicable during the year. As the Corporation, has applied IFRS as the financial reporting framework in the current year, the effects of this change in accounting policy are also required to be disclosed as part of transition to IFRS . The change in accounting policy and related impacts are summarised as follows:

Actuarial gains and losses

Previous Financial Reporting Framework: Actuarial gains and losses were recognised in the profit and loss account over the future expected average remaining working lives of the employees to the extent of the greater of 10% of the present value of the defined benefit obligation at the end of previous reporting period and 10% of the fair value of plan assets at the end of previous reporting period.

IFRS: The IFRS requires immediate recognition of past service cost and also requires recognition of net interest cost based on net defined benefit asset or liability by using the discount rate at the beginning of the year. Further, a term remeasurement has been used which is made up of actuarial gains and losses and the difference between the actual investment returns and the returns implied by the net interest cost. The "remeasurements" are required to be recognised in the "balance sheet" immediately with a charge or credit to "other comprehensive income" in the periods in which they occur.

The effects on the balance sheet, profit and loss account, statement of comprehensive income and statement of changes in equity are summarised below:

	2013	July 1, 2012
	---------(Rupees in '000)---------	
Impact on balance sheet		
Increase in deferred liabilities - unfunded staff retirement benefits	17,508,645	14,806,354
Increase in current account with the State Bank of Pakistan	17,508,645	14,806,354
	For the year ended June 30, 2013	For the year ended June 30, 2012
Impact on profit and loss account		
Decrease in net operating expense	1,335,890	-
Decrease in expenses allocated to the State Bank of Pakistan	1,335,890	-
Impact on statement of comprehensive income		
Remeasurement losses on defined benefit plan	(4,038,181)	-
Remeasurements losses on defined benefit plan allocated to the State Bank of Pakistan	4,038,181	-

3.5.2.2 Cash and cash equivalents

Until last year, current account with the State Bank of Pakistan was considered as cash and cash equivalent. This presentation in the statement of cash flows has been changed and the movement in current account with the State Bank of Pakistan is reflected as an operating activity in the statement of cash flows. In the opinion of the management, the revised presentation reflects more appropriately the substance of the account balance.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Financial instruments

4.1.1 Financial assets

4.1.1.1 Classification

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

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

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

b) Loans and receivables

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

c) Held to maturity

These are financial assets with fixed or determinable payments and fixed maturity with the Corporation having positive intent and ability to hold till maturity.

d) Available for sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets 'at fair value through profit or loss', (b) loans and receivables and (c) held to maturity.

4.1.1.2 Initial recognition and measurement

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

4.1.1.3 Subsequent measurement

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

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

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

'Available for sale' financial assets are marked to market using the closing market rates and are carried on the balance sheet at fair value. Net gains and losses arising on changes in fair values of these financial assets are recognised in other comprehensive income.

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

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

4.1.1.4 Impairment

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

a) Assets carried at amortised cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty or default in payments, the probability that they will enter bankruptcy, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced by the impairment amount and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the profit and loss account.

b) Assets classified as 'available for sale'

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

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

4.1.2 Financial liabilities

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

4.1.3 Derecognition of financial assets and financial liabilities

a) Financial assets

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

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

b) Financial liabilities

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

4.1.4 Offsetting of financial assets and financial liabilities

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

4.2 Employee loans

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

4.3 Property and equipment

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

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

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

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

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

4.4 Medical and stationery consumables

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

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

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

4.5 Impairment of non-financial assets

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

4.6 Compensated absences

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

4.7 Staff retirement benefits

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

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

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

c) the following other staff retirement benefit schemes:

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

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

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

- an un-funded contributory benevolent fund scheme;

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

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

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

Annual provisions are made by the Corporation to cover the obligations arising under defined benefits schemes based on actuarial recommendations. The actuarial valuations are carried out under the "Projected Unit Credit Method". The most recent valuation in this regard is carried out as at June 30, 2014. As more fully stated in note 3.5.2 the amount arising as a result of remeasurements are recognised in the balance sheet immediately, with a change or credit to other comprehensive income in which they occur.

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

4.8 Revenue recognition

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

4.9 Taxation

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

4.10 Provisions

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

		Note	2014	2013	July 1, 2012
5.	**INVESTMENTS**		------(Rupees in '000)------		
	Held to maturity				
	Market Treasury Bills	*5.1*	**522,837**	532,593	539,090
	Pakistan Investment Bond	*5.2*	**46,612**	394,048	398,330
			569,449	926,641	937,420

5.1 Market Treasury Bills carry mark-up at the rate of 9.98% to 9.99% per annum (2013: 9.21% to 10.29% per annum) and are due to mature by June 2015 (2013: June 2014).

5.2 Pakistan Investment Bond carry mark-up at the rate of 9.60% per annum (2013: 8.00% to 9.60% per annum) and is due to mature by June 2016 (2013: June 2016).

		Note	2014	2013	July 1, 2012
6.	**EMPLOYEE LOANS**		------(Rupees in '000)------		
	Considered good		**10,577,916**	11,024,650	10,971,563
	Considered doubtful		**9,021**	9,706	12,010
		6.1	**10,586,937**	11,034,356	10,983,573
	Provision against doubtful loans	*6.2*	**(9,021)**	(9,706)	(12,010)
			10,577,916	11,024,650	10,971,563

6.1 Represent loans given to the permanent employees of the Corporation, which are recoverable in equal monthly installments till the retirement of an employee except that the personal loan are repayable in twenty four equal monthly installments. These include loans amounting to Rs. 70 million (2013: Rs. 110.790 million) that carry mark up at 10% per annum (2013: 10% per annum). Maximum maturity of loans is upto year 2051 (2013: year 2049).

These loans have been given in respect of:-

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

		Note	2014	2013	July 1, 2012
6.2	**Provision held against employee loans**		------(Rupees in '000)------		
	Opening balance		**9,706**	12,010	12,241
	Charge for the year		**-**	-	-
	Reversals		**(685)**	(2,304)	(231)
	Closing balance		**9,021**	9,706	12,010
7.	**ADVANCES, DEPOSITS AND PREPAYMENTS**				
	Advances, deposits and prepayments		**26,472**	30,583	22,687
	Others		**5,811**	5,347	5,331
			32,283	35,930	28,018
8.	**MEDICAL AND STATIONERY CONSUMABLES**				
	Medical and stationery consumables	*8.1*	**126,166**	120,740	118,276
	Provision against obsolete items		**(1,105)**	(1,148)	(1,148)
			125,061	119,592	117,128

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

		Note	2014	2013	July 1, 2012
9.	**PROPERTY AND EQUIPMENT**				
	Operating fixed assets	*9.1*	**237,867**	197,957	244,704

9.1 Operating fixed assets

The following is a statement of operating fixed assets:

2014

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

2013

	Cost			Accumulated Depreciation				
	As at July 01, 2012	Additions/ (deletions)	As at June 30, 2013	As at July 01, 2012	Charge for the year / (deletions)	As at June 30, 2013	Net book value as at June 30, 2013	Annual rate of depreciation %
	-----------	-----------	-----------	(Rupees in '000)	-----------	-----------	-----------	
Furniture and fixtures	113,312	5,759 (3,780)	115,291	71,090	8,355 (2,552)	76,893	38,398	10
Office equipment	823,012	37,729 (2,161)	858,580	685,246	53,213 (1,868)	736,591	121,989	20
EDP equipment	330,836	4,163 (6,270)	328,729	308,126	19,221 (5,248)	322,099	6,630	33.33
Motor vehicles	98,468	4,902 (3,593)	99,777	56,462	14,247 (1,872)	68,837	30,940	20
	1,365,628	52,553 (15,804)	1,402,377	1,120,924	95,036 (11,540)	1,204,420	197,957	

	2012							
	Cost			Accumulated Depreciation				
	As at July 01, 2011	Additions/ (deletions)/ transfers*	As at June 30, 2012	As at July 01, 2011	Charge for the year / (deletions) / transfers*	As at June 30, 2012	Net book value as at June 30, 2012	Annual rate of depreciation %
	---(Rupees in '000)---							
Furniture and fixtu	107,905	5,374	113,312	63,160	7,930	71,090	42,222	10
		-			-			
		33 *			- *			
Office equipment	763,161	59,639	823,012	633,651	52,262	685,246	137,766	20
		(5,049)			(4,913)			
		5,261 *			4,246 *			
EDP equipment	308,230	467	330,836	273,022	20,700	308,126	22,710	33.33
		(380)			(380)			
		22,519 *			14,784 *			
Motor vehicles	82,889	23,132	98,468	45,035	14,290	56,462	42,006	20
		(9,077)			(4,387)			
		1,524 *			1,524 *			
	1,262,185	88,612	1,365,628	1,014,868	95,182	1,120,924	244,704	
		(14,506)			(9,680)			
		29,337 *			20,554 *			

	Note	**2014**	2013	July 1, 2012
		----------**(Rupees in '000)**----------		
10. DEPOSITS AND OTHER LIABILITIES				
Provision for employees' compensated absences	*15.1.9*	**5,402,674**	3,842,893	3,585,798
Deposits		**362,725**	600,854	677,902
Others		**135,172**	96,393	124,378
		5,900,571	4,540,140	4,388,078

11. DEFERRED LIABILITIES - UNFUNDED STAFF RETIREMENT BENEFITS

Gratuity		**1,277**	19,007	23,560
Pension		**30,676,912**	25,118,066	21,976,728
Benevolent fund scheme		**1,017,022**	1,788,602	1,619,375
Post retirement medical benefits		**9,882,770**	4,774,390	4,483,395
Six months post retirement benefits		**76,678**	59,263	-
	15.1.3	**41,654,659**	31,759,328	28,103,058
Provident fund scheme		**864,192**	989,795	1,067,305
		42,518,851	32,749,123	29,170,363

12. SHARE CAPITAL

2014	2013	July 1, 2012		Note	**2014**	2013	July 1, 2012
(Number of shares)					---------(Rupees in '000)---------		
			Authorised share capital				
1,000	1,000	1,000	Ordinary shares of Rs. 1,000,000 each		**1,000,000**	1,000,000	1,000,000
			Issued, subscribed and paid-up capital				
			Fully paid-up ordinary shares of Rs. 1,000,000 each				
509	509	509	- issued for cash		**509,000**	509,000	509,000
491	491	491	- issued against consideration in kind		**491,000**	491,000	491,000
1,000	1,000	1,000			**1,000,000**	1,000,000	1,000,000

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

13.1.1 The Corporation does not have any contingencies as at June 30, 2014 and June 30, 2013.

13.2 Commitments

	Note	2014	2013	July 1, 2012
Capital commitments	*13.2.1*	**77,390**	29,931	45,272

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

14. DISCOUNT AND INTEREST EARNED

	Note	**2014**	2013
		---------(Rupees in '000)---------	
Discount income on Government securities		**48,229**	55,641
Interest on employee loans		**678**	2,390
		48,907	58,031

15. NET OPERATING EXPENSES

	Note	2014	2013
Reimbursable from the State Bank of Pakistan			
Salaries, wages and other benefits		**5,955,069**	5,243,803
Rent and taxes		**17,142**	11,833
Insurance		**5,374**	5,404
Electricity, gas and water		**302,524**	244,753
Repair and maintenance		**124,422**	71,915
Auditors' remuneration	*15.2*	**5,950**	5,950
Legal and professional		**2,665**	4,122
Travelling		**15,791**	12,578
Daily expenses		**22,066**	18,704
Passages / rest and recreational allowance		**217,782**	189,249
Fuel		**3,843**	3,329
Conveyance		**14,057**	18,049
Postages and telephone		**18,650**	16,797
Training		**37,915**	42,152
Remittance of treasure		**69,190**	49,870
Stationery		**12,796**	13,629
Books and newspapers		**1,292**	1,402
Advertisement		**10,773**	12,018
Bank guards charges		**120,676**	121,944
Uniforms		**17,779**	23,725
Others		**111,071**	101,783
		7,086,827	6,213,009
Allocated to the State Bank of Pakistan			
Retirement benefits and employees' compensated absences	*15.1 to 15.1.10*	**6,804,886**	5,783,296
Depreciation	*9.1*	**88,358**	95,036
		6,893,244	5,878,332
		13,980,071	12,091,341

15.1 Staff retirement benefits

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

		2014	2013
-	Discount rate for year end obligation	13.25% - 13.50% p.a.*	11.5% p.a.
-	Salary increase rate	13.25% p.a	11.5% p.a.
-	Pension indexation rate	10.75% p.a.	9% p.a.
-	Medical cost increase rate	13% p.a.	8% p.a.
-	Personnel turnover	2.1% p.a.	3% p.a.
-	Normal retirement age	60 Years	60 Years

* 13.50% has been used for post retirement medical benefits. For all other benefits rate of 13.25% is used.

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

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

Discount rate risks

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

Salary increase / inflation risks

The risk that the actual salary increases are higher than the expected salary increase, where benefits are linked with final salary at the time of cessation of service.

Mortality risks

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

Withdrawal risks

The risk of actual withdrawals experience is different from the assumed.

Medical inflation risks

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

15.1.3 Change in present value of defined benefit obligation

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

	2013					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	----------Rupees in '000----------					
Present value of defined benefit obligation as on July 1, 2012	23,560	21,976,728	1,619,375	4,483,395	-	28,103,058
Current service cost	648	821,951	81,000	138,868	-	1,042,467
Past service cost	-	-	-	-	59,263	59,263
Interest cost on defined benefit obligation	2,042	2,747,091	207,000	627,675	-	3,583,808
Benefits paid	(7,221)	(4,605,170)	(124,836)	(330,222)	-	(5,067,449)
Remeasurements:						-
Actuarial (gains)/losses from changes in financial assumptions	-	-	-	-	-	-
Experience adjustments	(22)	4,177,466	6,063	(145,326)	-	4,038,181
Present value of defined benefit obligation as on June 30, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328

15.1.4 Amount recognised in the profit and loss account

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

	2013					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	----------Rupees in '000----------					
Current service cost	648	821,951	81,000	138,868	-	1,042,467
Past service cost	-	-	-	-	59,263	59,263
Interest cost on defined benefit obligation	2,042	2,747,091	207,000	627,675	-	3,583,808
Contribution made by employees	-	-	-	-	-	-
	2,690	3,569,042	288,000	766,543	59,263	4,685,538

15.1.5 Movement of present value of defined benefit obligation

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

	2013					
	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	----------Rupees in '000----------					
Net recognised liabilities at July 1, 2012	23,560	21,976,728	1,619,375	4,483,395	-	28,103,058
Amount recognised in the profit and loss account	2,690	3,569,042	288,000	766,543	59,263	4,685,538
Remeasurements	(22)	4,177,466	6,063	(145,326)	-	4,038,181
Benefits paid during the year	(7,221)	(4,605,170)	(124,836)	(330,222)	-	(5,067,449)
Employees contribution / amount transferred	-	-	-	-	-	-
Net recognised liabilities at June 30, 2013	19,007	25,118,066	1,788,602	4,774,390	59,263	31,759,328

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

	Impact on defined benefit obligation - Increase / (Decrease)		
	Change in Assumption	Increase in assumption	Decrease in assumption
		---------(Rupees in '000)---------	
Gratuity			
Discount rate	1%	(100)	110
Future salary increase	1%	109	(101)
Pension			
Discount rate	1%	(2,361,960)	3,105,525
Future salary increase	1%	1,412,811	(1,315,807)
Future pension increase	1%	1,672,461	(1,419,319)
Expected mortality rates	1 Year	(314,533)	308,585
Benevolent fund scheme			
Discount rate	1%	(51,222)	55,972
Grant increase	1%	61,976	-
Expected mortality rates	1 Year	(1,611)	1,493
Post retirement medical benefits			
Discount rate	1%	(1,396,775)	1,767,722
Future medical cost increase	1%	1,763,326	(1,417,170)
Expected mortality rates	1 Year	(214,351)	216,628
Six months post retirement benefits			
Discount rate	1%	(4,425)	4,921
Salary increase	1%	4,875	(4,462)

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

15.1.7 Duration of defined benefit obligation

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits
The weighted average duration of the defined benefit obligation is	8 Years	9 Years	5 Years	16 Years	6 Years

15.1.8 Estimated expenses to be charged to profit and loss account for the year ending June 30, 2015

Based on the actuarial advice, the management estimates that charge / (reversal) in respect of defined benefit plans for the year ending June 30, 2015 would be as follows:

	Gratuity	Pension	Benevolent fund scheme	Post retirement medical benefits	Six months post retirement benefits	Total
	-----Rupees in '000-----					
Current service cost	226	955,681	49,896	245,213	4,669	1,255,685
Interest cost on defined benefit obligation	169	4,065,000	134,755	1,334,000	10,160	5,544,084
Amount chargeable to profit and loss account	395	5,020,681	184,651	1,579,213	14,829	6,799,769

15.1.9 Employees' compensated absences

The Corporation's liability for employees' compensated absences determined through an actuarial valuation carried out under the Projected Unit Credit Method amounted to Rs. 5,402.674 million (2013: Rs. 3,842.893 million). An amount of Rs. 2,614.851 million (2013: Rs. 986.755 million) has been charged to the profit and loss account in the current period based on the actuarial advice. Expected charge in respect of the scheme for the year ending June 30, 2015 would be Rs. 939.673 million. The benefits paid during the year amounted to Rs. 1,055.070 million (2013: Rs. 729.659 million)

15.1.10 Charge for the year in respect of defined contribution plan amounted to Rs. 62.901 million (2013: Rs. 56.589 million)

15.2 Auditors' remuneration

	2014			2013		
	KPMG Taseer Hadi & Co.	**A.F. Ferguson & Co.**	**Total**	KPMG Taseer Hadi & Co.	A.F. Ferguson & Co.	Total
	(Rupees in '000)					
Audit fee	**2,090**	**2,090**	**4,180**	2,090	2,090	4,180
Out of pocket expenses	**885**	**885**	**1,770**	885	885	1,770
	2,975	**2,975**	**5,950**	2,975	2,975	5,950

16. PROFIT / (LOSS) AFTER ADJUSTMENT OF NON-CASH ITEMS

	2014	2013
	(Rupees in '000)	
Profit for the year	**50,109**	59,166
Adjustments for:		
Amortisation of discount on Government securities	**(13,839)**	(23,594)
Amortisation of premium on Government securities	**7,436**	4,282
(Gain) / loss on disposal of property and equipment	**(121)**	776
	(6,524)	(18,536)
	43,585	**40,630**

17. RELATED PARTY TRANSACTIONS

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

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

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 18.4 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. The remaining balances are recorded as recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

18.2 Concentrations of risk

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

18.2.1 Geographical analysis

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

18.2.2 Industrial analysis

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

	2013			
	Sovereign	Banks & Financial Institutions	Others	Grand Total
	------------------------ (Rupees in '000)	---------------------		
Financial assets				
Current account with the State Bank of Pakistan	-	25,984,493	-	25,984,493
Investments	926,641	-	-	926,641
Employee loans	-	-	11,024,650	11,024,650
Advances and deposits	-	-	9,013	9,013
	926,641	25,984,493	11,033,663	37,944,797

18.2.3 Credit exposure by credit rating:

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

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

	2013		
	Sovereign (18.2.3.1)	Unrated	Grand Total
	---------------- **(Rupees in '000)**	-------------	
Financial Assets			
Current account with the State Bank of Pakistan	-	25,984,493	25,984,493
Investments	926,641	-	926,641
Employee loans	-	11,024,650	11,024,650
Advances and deposits	-	9,013	9,013
	926,641	37,018,156	37,944,797

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

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

	Gross amount 2014	Gross amount 2013	Impairment / Provision 2014	Impairment / Provision 2013
	---------- (Rupees in '000) ----------			
Employee loans	10,586,937	11,034,356	9,021	9,706

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.

2014

	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
	---------- (Rupees in '000) ----------						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	37,876,846	-	37,876,846	37,876,846
Investments	508,998	46,087	555,085	14,364	-	14,364	569,449
Employee loans	12,960	57,040	70,000	1,493,916	9,014,000	10,507,916	10,577,916
Advances and deposits	-	-	-	1,932	5,811	7,743	7,743
	521,958	103,127	625,085	39,387,058	9,019,811	48,406,869	49,031,954
Financial liabilities							
Deposits and other liabilities	-	-	-	497,897	-	497,897	497,897
On balance sheet gap	521,958	103,127	625,085	38,889,161	9,019,811	47,908,972	48,534,057

2013

	Interest / mark-up bearing			Non interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
	---------- (Rupees in '000) ----------						
Financial assets							
Current account with the State Bank of Pakistan*	-	-	-	25,984,493	-	25,984,493	25,984,493
Investments	850,193	45,921	896,114	30,527	-	30,527	926,641
Employee loans	16,134	94,656	110,790	1,485,434	9,428,426	10,913,860	11,024,650
Advances and deposits	-	-	-	3,266	5,747	9,013	9,013
	866,327	140,577	1,006,904	27,503,720	9,434,173	36,937,893	37,944,797
Financial liabilities							
Deposits and other liabilities	-	-	-	697,247	-	697,247	697,247
On balance sheet gap	866,327	140,577	1,006,904	26,806,473	9,434,173	36,240,646	37,247,550

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

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

18.6 Currency risk management

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

18.7 Liquidity risk management

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

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

	Carrying value		Fair value	
	2014	2013	**2014**	2013
	(Rupees in '000)			
Financial assets				
Current account with the State Bank of Pakistan	**37,876,846**	25,984,493	**37,876,846**	25,984,493
Investments	**569,449**	926,641	**569,449**	926,641
Employee loans	**10,577,916**	11,024,650	**10,577,916**	11,024,650
Advances and deposits	**7,743**	9,013	**7,743**	9,013
Financial Liability				
Deposits and other liabilities	**497,897**	697,247	**497,897**	697,247

20. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	2014				
	Loans and receivables	**At fair value through profit or loss**	**Held to maturity**	**Available for sale**	**Total**
	(Rupees in '000)				
Financial assets					
Current account with the State Bank of Pakistan	37,876,846	-	-	-	**37,876,846**
Investments	-	-	569,449	-	**569,449**
Employee loans	10,577,916	-	-	-	**10,577,916**
Advances and deposits	7,743	-	-	-	**7,743**

	2013				
	Loans and receivables	At fair value through profit or loss	Held to maturity	Available for sale	Total
	(Rupees in '000)				
Financial assets					
Current account with the State Bank of Pakistan	25,984,493	-	-	-	25,984,493
Investments	-	-	926,641	-	926,641
Employee loans	11,024,650	-	-	-	11,024,650
Advances and deposits	9,013	-	-	-	9,013

	2014		
	Carried at amortised cost	**At fair value through profit or loss**	**Total**
	(Rupees in '000)		
Financial liabilities			
Deposits and other liabilities	497,897	-	**497,897**

	2013		
	Carried at amortised cost	At fair value through profit or loss	Total
	(Rupees in '000)		
Financial liabilities			
Deposits and other liabilities	697,247	-	697,247

21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 25, 2014 by the Board of Directors of the Corporation.

22. CORRESPONDING FIGURES

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

23 GENERAL

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

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