

B-1 Central Board Decisions and Deliberations during 2007-08

The key matters where decisions were taken by the members of the Central Board of Directors are given as under:

Corporate Governance

1. Appointment of Mr. Ahmad Waqar, Secretary Finance as member on the Central Board of Directors for State Bank of Pakistan
2. Revision of Compensation Package of the Governor, SBP
3. Amendment in State Bank of Pakistan (Conduct of Central Board Meetings) Regulations, 1993
4. Conversion of NIBAF into a single member company – 100% Shareholding by SBP
5. Nominations on Board Committees and amendment in the Terms of Reference (TORs) of Audit Committee
6. Annual Performance Review of SBP 2006-07 (Volume-II)
7. Appointment of Dr. Waqar Masood Khan, Finance Secretary, as member on the Central Board of Directors of State Bank of Pakistan
8. Re-nomination of Mr. Kamran Y. Mirza, as Director on the Central Board of Directors of the State Bank of Pakistan
9. Appointment of Mr. Farrakh Qayyum, Finance Secretary, as Director on the Board of Directors of State Bank of Pakistan.

Monetary policy & Research

1. Monetary Policy Statement (July-December, 2007)
2. Financial Stability Review 2006-07
3. Review of Economy - Annual Report of SBP 2006-07 (Volume-I)
4. The State of Pakistan's Economy First Quarterly Report (July-September, 2007)
5. Monetary Policy Statement (Jan – June, 2008)
6. The State of Pakistan's Economy – Second Quarterly Report (October – December, 2007)
7. The State of Pakistan's Economy-Third Quarterly Report (January-March, 2008)
8. Interim Monetary Policy Measure (May 2008)
9. Limits on Government Budgetary Borrowing from SBP during FY09

Banking

1. Approval of Rules for \$20m – Improving access to Financial Service Fund (ISAF) under \$ 320 – Improving access to Financial Services Program (ISAF)
2. Banking System Review for the year ended December 31, 2006
3. Quarterly Performance Review of the Banking System for the period ended March, 2007
4. Impact of interest Rates on the Textiles Sector against Debt Swap Option under LTF-EOP
5. Quarterly Performance Review of the Banking System for the period ended June, 2007
6. Reappointment of Members of State Bank Sharia Board
7. Quarterly Performance Review of the Banking System for the period ending September 30, 2007
8. Re-capitalization of First Women Bank Limited
9. Scheme for Liquidation of Khushhali Bank (KB) through Transfer of its Assets and Liabilities to Khushhali Bank Limited (KBL).
10. Incentive allowed to the Textile Sector vis-à-vis growth in exports of the Sector

Financial Markets and Reserve Management

Presentation on an Overview of Reserve Management-Changes in the maintenance and investment parameters for external Fund Managers

Corporate Services

1. Revenue Expenditure Budget and Capital & Expenditure Budget of SBP and its Subsidiaries for FY 2007-08
2. Grant of Pension increase to the pensioners of the Bank
3. To allow AMI, increase in Salary & Pension
4. Reimbursement of Pay & Allowances of SBP Officers on Deputation with NAB
5. Renewal of Contract of Ms. Sara Bakhtiar as Special Counsel
6. SBP Scholarships – Revision of the Financing Arrangement
7. Financial Statements of the Bank for the year ended June 30, 2007
8. Funds for Reconstruction and Beautification of I.I. Chundrigar Road Rules, 2007
9. Subscription of Right Shares for Rs.1,500 million in Saudi Pak Industrial and Agricultural Investment Company Ltd.
10. Review of Budget vis-à-vis Actual expenditure from July 01, 2007 to Sept. 30, 2007
11. Renewal of Contract of Mr. Suleman Chhagla – Chief Risk Officer
12. Exemption from Applicability of Removal from Services (Special Powers) Ordinance 2000 – Revival of Regulation 34 of SBP Staff Regulation

13. Grant of Pension increase to the pensioners of the Bank
14. Profit and Loss for period ended Sept. 30, 2007 and Estimates for the period October, 2007 to June, 2008
15. Enhancement of Maximum Limits of the old & new salary scales in SBP
16. Appointment of Auditors and Fixation of Audit Fee – FY 2007-08
17. Rate of Return on Management of Retired Employees' Fund
18. Profit & Loss and Review of Expenditure Budget for the Period ended December 31, 2007 and Estimates for the period January to June, 2008
19. Appoint of Comptroller -Finance
20. On Account Payment to the Federal Government Against Surplus Profit for the FY 2007-08
21. Profit and Loss and Review of Expenditure for the period ended March 31, 2008 and Estimates for the period April-June, 2008
22. Nomination of two Directors of the Central Board as Administrator of the SBP's Employees' Provident Fund
23. Enhancing the capitalization limits of fixed assets
24. Insurance of SBP Buildings for the year 2008-09
25. Amendment in the Rule of Business of Fund for Funding Reconstruction & Beautification of I. I. Chundrigar Road, Karachi
26. Opening a Participant Account with Central Depository Company Ltd.(CDC)
27. Maintenance & Support Services of Unix Based Servers

B-2 Business Continuation Management

In critical times a central bank will need to lead, consult and participate in an appropriate response to crises. Therefore, Business Continuity is an ongoing process for central bank. Pro-active Business Continuity Management (BCM) plays a significant role in ensuring that the central bank can continue its critical and time sensitive operations even during a disaster. Effective Business Continuity Management concentrates on the impact, as opposed to the source of the disruption, which enables financial industry participants and central bank greater flexibility to address a broad range of disruptions. Possibility of natural disasters, acts of terrorism, and other severe operational disruptions require State Bank of Pakistan (SBP) to focus on the Business Continuity Planning (BCP). Effective Business Continuity Management involves business impact analysis, recovery strategies and business continuity plans as well as testing & rehearsal, training and awareness programs. To further improve the Business Continuity Program of SBP, following significant initiatives have been taken in the field of Business Continuity during the last year.

Workshops on Business Continuity Management:

An extensive training program was initiated in which three workshops were organized. Around 150 officers from State Bank of Pakistan and its subsidiary SBP Banking Services Corporation participated. The objectives of the workshops were to:

- Promote Business Continuity Culture and Create awareness about BCP.
- Equip Departmental/Office BCP coordinators with the knowledge of business continuity planning and the relevant processes, procedures and policies.
- Develop comprehensive understanding for the need and importance of maintaining high level of readiness under BCP.

Updation of BCP Books:

In addition to version up-gradation implemented in August 2007, nine updates were issued during the year. BCP Books are kept as a live document, changes have been therefore incorporated in the BCP document on immediate basis as and when necessary, based on the feedback received from critical departments of SBP and SBP-BSC field offices.

BCP Committee and Emergency Support Group Meetings:

BCP Committee comprises of senior management drawn from the critical areas of SBP, coordinates all aspects of BCP. The Committee is responsible for the oversight, initiation, planning, approval, testing & audit of the BCP. In this regard, four BCP Committee meetings were held during the year to oversee the BCP activities and review the results of quality assurance activities.

The Emergency Support Group consists of Heads of the Critical Support Services Departments. The Group is responsible for all the activities and tasks that support the recovery and continuity of the critical processes and functions in the event of a disaster at any SBP location. Three Emergency Support Group meetings were also conducted at the BCP Backup site to discuss and review the preparedness.

Testing and Rehearsal:

Rigorous testing & exercising the Business Continuity Plan enhance readiness of employees to cope with a disaster. Therefore, guidelines on testing & rehearsal were issued. To streamline the testing

procedure at SBP and to facilitate the departments to conduct their tests and rehearsals smoothly, an annual test and rehearsal plan was consolidated and monitored with surprise element to check the readiness of critical departments and field offices of SBP and to ensure the continued effectiveness of the Business Continuity Plan in an ever-changing environment. In this regard, 57 table top tests, 23 mock exercises and 11 rehearsals were conducted by departments and SBP field offices. In addition to that evacuation drills were held at field offices and every floor of SBP main building.

Establishment of BCP Crisis Centre:

In light of the importance of testing and exercising BCP, a dedicated BCP Crisis Centre was established at SBP Backup Site, to be used by critical departments to carry out their tests and rehearsals. In order to allow smooth conduct of exercises, fully connected and networked computers with required office machines have been made available. The lockers for each critical department have been also made available inside the BCP Crisis Centre for placing their important manuals, data and required stationery items.

BCP for Commercial Banks:

To increase the level of preparedness and effective communication with commercial banks during the time of disaster, a BCP Coordinators Directory of commercial banks was prepared, comprising name and contact information of senior management staff involved in the BCP. Further to increase the level of coordination, a comprehensive study was also conducted to identify the BCP Backup site location of commercial banks, comprising the detailed information of the BCP Backup site location and its distance from their primary site.

Establishment of IT Disaster Recovery Site:

To ensure the continuity of SBP business operations in case of any disruption to the IT systems, SBP is establishing a DR Centre, which would provide replicated backups at the Disaster Recovery Site for critical banking and other in-house developed applications and email/files which have been identified as critical systems to be recovered under DR Planning. In this regard, selection of DR consultant was initiated as per the Guidelines Selection and Employment of Consultants by WB Borrowers and a consultant was engaged on April 1, 2008 for setting up the IT DR Site. The consultant has completed the major work and that resulted in shape of technical, electrical and civil design documents according to which RFPs have been prepared and procurement is being initiated.

B-3 Risk Based Audit Approach

The Internal Audit & Compliance Department (IA&CD) at State Bank of Pakistan conducts financial, operational and information systems audits of SBP operations. IA&CD performs independent checks for compliance with policies, guidelines, laws & regulations, evaluates the reliability of financial records and the security of information systems in SBP. In addition to recommending improvements in internal efficiencies, IA&CD also works with other departments to review the controls in new systems and business processes.

The objectives of audit department include among others, advising and recommending senior management improvements in internal control and risk management systems. IA&CD reviews the effectiveness of internal controls employed by each department once in a year in order to reduce noncompliance and provides independent appraisal on the activities of SBP aiming to add value, improve operational efficiency, risk management and internal control systems. All this contributes towards minimizing all types of Risks and generally contributes towards efficiency improvement.

The Risk based internal audit approach is followed in accordance with the Internal Audit Charter. Additionally, the department has different operational Manuals which help in conducting annual internal audits of SBP departments. In order to streamline the departmental functions and to achieve the objectives on time, separate divisions for financial/operational Audit, IT audit and Compliance have been created with clearly defined roles and responsibilities. An Audit sub-committee of the Board is also carrying out oversight of Financial Statements and Internal Audit functions.